

Peak Sport Products Co., Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1968



2011

Interim Report

 **NBA Star :
Jason Kidd**





Mission

To facilitate the development of global sports business and to provide quality sports products and services for the betterment of human health

Vision

To become an internationally renowned brand of sports products that can be sustainable for centuries

Core Value

United, practical and effective
Pragmatic, conscientious and diligent
People-oriented, creating value for customers and society
Making dreams come true through team work

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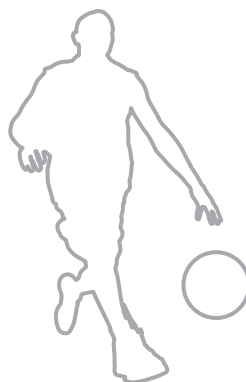
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FINANCIAL SUMMARY



	Six months ended 30 June	
	2011	2010
	(RMB million)	(RMB million)
<i>Profitability data</i>		
Turnover	2,255.9	1,808.6
Gross profit	899.3	681.2
Net profit for the period	423.1	346.6
Basic earnings per share (RMB cents)	20.17	16.52
Diluted earnings per share (RMB cents)	20.16	16.51
<i>Profitability ratios</i>		
Gross profit margin	39.9%	37.7%
Net profit margin	18.8%	19.2%
Effective tax rate	18.0%	17.7%
Return on equity (annualised) (Note 1)	23.5%	22.6%
<i>Operating ratios (as a percentage of turnover)</i>		
Advertising and promotion expenses	12.4%	11.3%
Staff costs	7.6%	6.0%
Research and development expenses	1.0%	0.5%
	As at	As at
	30 June 2011	31 December 2010
	(RMB million)	(RMB million)
<i>Assets and liabilities data</i>		
Non-current assets	471.8	438.0
Current assets	3,952.5	3,762.2
Current liabilities	637.2	671.4
Non-current liabilities	53.4	47.0
Shareholders' equity	3,733.7	3,481.8
Current ratio	6.2	5.6
Gearing ratio (Note 2)	2.0%	0.0%
Net asset value per share (RMB yuan)	1.78	1.66
	Six months ended	Year ended
	30 June 2011	31 December 2010
	(days)	(days)
<i>Working capital data</i>		
Average inventory turnover days (Note 3)	50	38
Average trade receivables and bills receivable turnover days (Note 4)	60	63
Average trade payables and bills payable turnover days (Note 5)	53	46

Notes:

- Return on equity is equal to the net profit for the period divided by the average of the opening and closing equity.
- The calculation of gearing ratio is based on the total bank loans divided by the equity.
- Average inventory turnover days is equal to the average of the opening and closing inventory divided by the costs of sales and multiplied by the number of days for the period/year.
- Average trade receivables and bills receivable turnover days is equal to the average of the opening and closing trade receivables and bills receivable divided by the turnover and multiplied by the number of days for the period/year.
- Average trade payables and bills payable turnover days is equal to the average of the opening and closing trade payables and bills payable divided by the cost of sales and multiplied by the number of days for the period/year.



FINANCIAL HIGHLIGHTS FOR THE FIRST HALF OF 2011

Turnover grew by **24.7%** to RMB2,255.9 million

Gross profit grew by **32.0%** to RMB899.3 million with gross profit margin rising to **39.9%**

Profit for the period attributable to equity shareholders grew by **22.1%** to RMB423.1 million with net profit margin at **18.8%**

Basic and diluted earnings per share amounted to RMB20.17 cents and RMB20.16 cents respectively

Interim dividend of HK3 cents (equivalent to approximately RMB2.47 cents) per ordinary share was declared

Number of authorized Peak retail outlets reached **7,619**, representing a net increase of 395 outlets from the end of 2010



CORPORATE INFORMATION



Board of Directors

Executive Directors

Mr. Xu Jingnan (許景南) (*Chairman*)
Mr. Xu Zhihua (許志華)
Mr. Xu Zhida (許志達)

Non-executive Directors

Ms. Wu Tigao (吳提高)
Mr. Shen Nanpeng (沈南鵬)
Mr. Zhu Linan (朱立南)

Independent Non-executive Directors

Dr. Xiang Bing (項兵)
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Board Committees

Audit Committee

Dr. Xiang Bing (項兵) (*Chairman*)
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Remuneration Committee

Dr. Xiang Bing (項兵) (*Chairman*)
Mr. Wang Mingquan (王明權)
Dr. Ouyang Zhonghui (歐陽鐘輝)
Mr. Shen Nanpeng (沈南鵬)
Mr. Xu Jingnan (許景南)

Nomination Committee

Mr. Wang Mingquan (王明權)
(*Chairman*)
Dr. Xiang Bing (項兵)
Dr. Ouyang Zhonghui (歐陽鐘輝)

Company Secretary

Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

Authorized Representatives

Mr. Xu Zhihua (許志華)
Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

Registered Office

Cricket Square, Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in the PRC

Peak Building
Dongbao Industrial Area
Donghai, Fengze District
Quanzhou
Fujian Province, the PRC

Principal Place of Business in Hong Kong

Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway, Hong Kong

Auditor

KPMG

Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China (Quanzhou Branch)
China CITIC Bank (Quanzhou Branch)
China Construction Bank
(Quanzhou Bincheng Branch)
The Hongkong and Shanghai
Banking Corporation Limited

Company Website

www.peaksport.com



MANAGEMENT DISCUSSION AND ANALYSIS



Market Overview

Global economic conditions

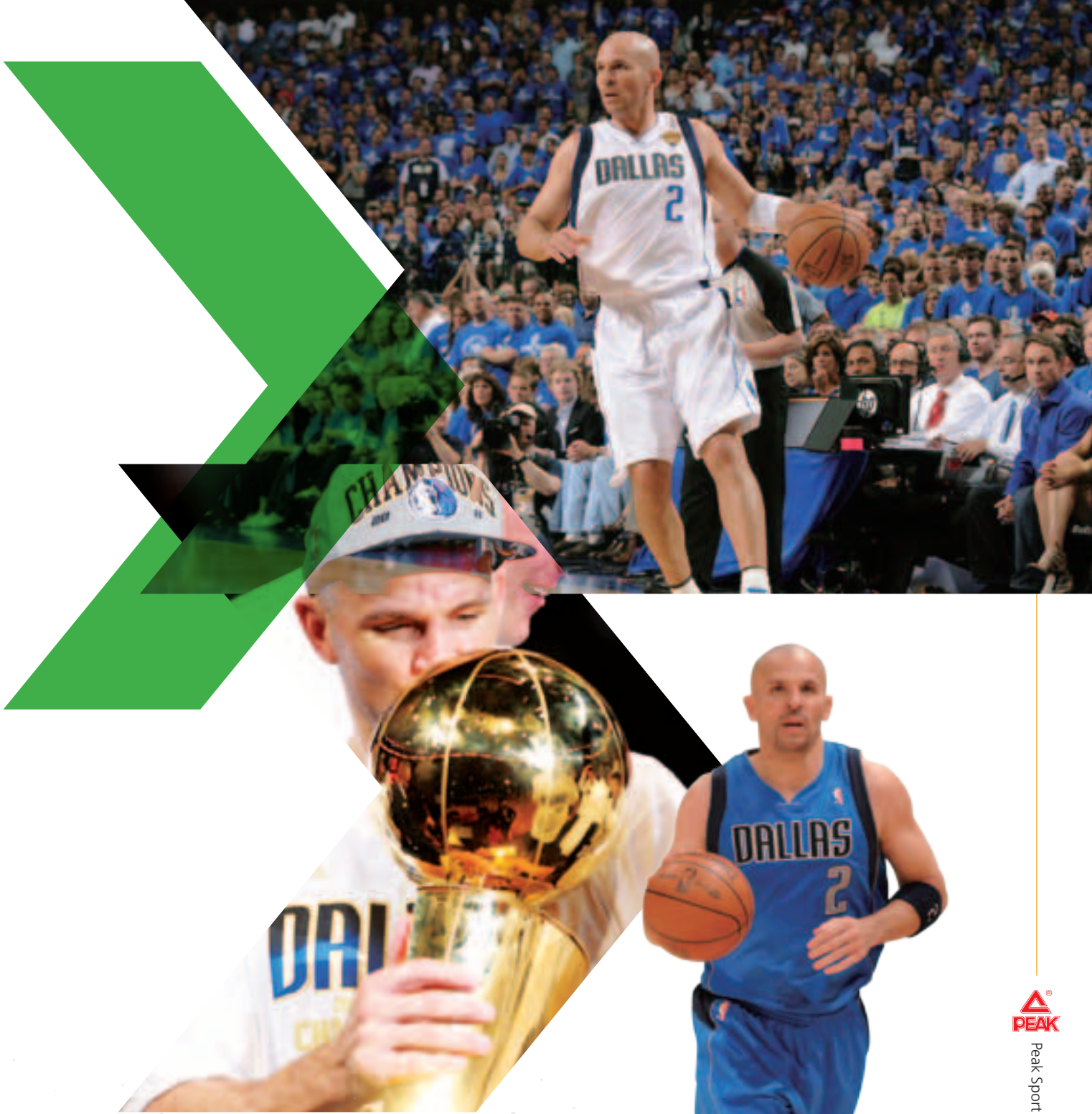
During the first half of 2011, China's GDP grew by 9.6% when compared to the same period in 2010 and China also experienced high inflation with the customer price index reaching a high level of 6.4% in June 2011. To curb further increase in inflation, the Chinese authorities adopted a series of monetary policies during the first half of 2011. These measures include increasing the deposit-reserve ratio and the interest rate. As a result, the economic growth of China has slowed down in the second quarter. The economic conditions in western countries were no better than those in China. The US market has started to lose its momentum since the announcement of the end of the second round of quantitative easing monetary policy (i.e. QE2) at the end of June 2011. The unemployment rate in the US reversed its downward trend achieved in the early months of 2011 and the property market remained sluggish. European countries were still struggling with debt crisis of certain countries while economic conditions in Asia and Africa were less rosy than those in 2010 partly because of high inflation and political disturbances in several countries in the Middle East and Africa during the first half of 2011.

Sports products industry in China

The sports products industry continued to achieve steady growth during the first half of 2011 although the growth rate was lower than before due to the weakening economic conditions mentioned above. The performance of different sports brands in China during the first half of 2011 varies, with those brands focusing on the lower-tier cities having better performance. Being one of such brands focusing on the lower-tier cities in China, Peak achieved satisfactory growth during the first half of 2011 through its clear positioning and effective marketing strategy. We note that some peers did not perform well during the first half of 2011, which created negative sentiment for the whole industry. We consider that the poor performance of these peers was caused by their own problems and was not a reflection of the sports products industry as a whole.

Prospects

There are many uncertainties over the world economic conditions in the second half of 2011, which include whether the Chinese government can successfully curb the inflation and whether the economies of the US and European countries can recover or at least be stabilized. It is expected that the inflation in China will be stabilized in the second half of 2011 as the costs of certain raw materials have been decreasing and labour cost has been stabilized in recent months. The liquidity-tightening measures adopted by the Chinese government are also expected



to take effect in the coming months. We are still optimistic about the future development of the sports products industry because there have not been any changes in those factors supporting the continuous growth of the industry, such as urbanization of rural areas and change in the life-style of the Chinese people with greater participation in sports activities. We consider that the sports products industry is going through a transitional period from a period of abnormal growth in preceding years. Once the government policies have taken effect and economic conditions have stabilized, the sports products industry will move into another period of healthy growth. We are confident that Peak will continue to outperform the industry average and further extend our brand reach in China and overseas in coming years.



Management Discussion and Analysis continued



Financial Review

Turnover

The Group's turnover for the first half of 2011 amounted to RMB2,255.9 million (First half of 2010: RMB1,808.6 million), representing an increase of 24.7% when compared to that for the same period in 2010. The increase was mainly due to increased demand for our products and continuous expansion of our distribution network in China during the first half of 2011. The increase in the demand for our products was attributable to our successful brand promotion and marketing strategies, as well as the organic growth of the Chinese sports products market. The number of authorized Peak retail outlets increased by 5.5% to 7,619 as at 30 June 2011 from 7,224 as at 31 December 2010.



The ratio of turnover contributed by apparel products increased to 52.9% for the first half of 2011 from 52.1% for the same period in 2010 because of increased demand for apparel products during the first half of 2011. As the Group increased the depth of our apparel product lines during the first half of 2011 and the display areas for apparel products were generally larger than those for footwear products in our new or newly furnished retail outlets, customers purchased more apparel products than before during the period.

Analysis of turnover by product category:

	Six months ended 30 June					
	2011		2010		Change (%)	
	RMB (million)	% of turnover	RMB (million)	% of turnover		
Footwear	1,018.7	45.2	828.7	45.8	22.9	
Apparel	1,193.6	52.9	941.5	52.1	26.8	
Accessories	43.6	1.9	38.4	2.1	13.5	
Total	2,255.9	100.0	1,808.6	100.0	24.7	

Management Discussion and Analysis continued

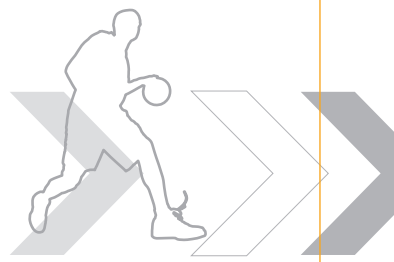
Analysis of turnover by geographical location:

	Six months ended 30 June				
	2011		2010		Change (%)
	RMB (million)	% of turnover	RMB (million)	% of turnover	
Northern region (Note 1)	474.9	21.1	394.0	21.8	20.5
Eastern region (Note 2)	854.5	37.9	654.5	36.2	30.6
Southern region (Note 3)	693.2	30.7	566.0	31.3	22.5
China market	2,022.6	89.7	1,614.5	89.3	25.3
Asia	79.6	3.5	70.9	3.9	12.3
Africa	54.9	2.4	13.8	0.7	297.8
Europe	52.2	2.3	61.6	3.4	(15.3)
South America	34.0	1.5	31.9	1.8	6.6
Australia	6.6	0.3	7.4	0.4	(10.8)
North America	6.0	0.3	8.5	0.5	(29.4)
Overseas markets	233.3	10.3	194.1	10.7	20.2
Total	2,255.9	100.0	1,808.6	100.0	24.7

Notes: Geographical locations (i.e. provinces or cities) in China are classified into three regions as follows:

- 1 Northern region includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Hebei, Beijing, Tianjin, Shanxi, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.
- 2 Eastern region includes Shandong, Jiangsu, Shanghai, Zhejiang, Henan, Anhui, Hubei, Hunan and Jiangxi.
- 3 Southern region includes Fujian, Guangdong, Hainan, Guangxi, Guizhou, Chongqing, Sichuan, Yunnan and Tibet.

The China market contributed 89.7% of the total turnover while the overseas markets contributed 10.3% of the total turnover during the first half of 2011. The turnover derived from the China market and the overseas markets grew by 25.3% and 20.2% respectively in the first half of 2011 when compared to those for the same period in 2010. The increase in turnover derived from the China market was primarily attributable to increased demand for our products and further expansion of the Group's distribution network during the first half of 2011. The increase in turnover derived from the overseas markets was mainly due to increased demand from emerging markets in Asia and Africa during the first half of 2011.



Gross profit by product

Analysis of contribution to gross profit by product category:

	Six months ended 30 June				
	2011		2010		Change in gross profit margin (% point)
	Gross profit RMB (million)	Gross profit margin (%)	Gross profit RMB (million)	Gross profit margin (%)	
Footwear	403.2	39.6	313.2	37.8	1.8
Apparel	479.6	40.2	354.0	37.6	2.6
Accessories	16.5	37.8	14.0	36.5	1.3
Total	899.3	39.9	681.2	37.7	2.2

The gross profit margins for footwear and apparel products increased by 1.8% points and 2.6% points respectively during the first half of 2011 when compared to those for the same period in 2010. Such increases were in line with the Group's strategy of increasing gradually the gross profit margins of our products in response to our enhanced brand image in recent years.

Management Discussion and Analysis continued

Selling price and volume

Analysis of average unit selling price and sales volume by product category:

	2011		2010		Change	
	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (million)	Average unit selling price (RMB)	Quantity sold (%)	Average unit selling price (%)
Footwear (pairs)	11.8	86.3	10.3	80.5	14.6	7.2
Apparel (pieces)	24.1	49.5	21.7	43.4	11.1	14.1

Notes:

1. We have not included the respective information of our accessory products because we have a broad range of accessory products that vary significantly in terms of unit selling price. We believe that a unit-based analysis of this product category would not be meaningful.
2. The average unit selling price of each product category represents the turnover of that product category for the period divided by its quantity sold for the period.

The average unit selling price for footwear products increased by 7.2% to RMB86.3 for the first half of 2011 from RMB80.5 for the same period in 2010. The average unit selling price for apparel products increased by 14.1% to RMB49.5 for the first half of 2011 from RMB43.4 for the same period in 2010. Such increases were mainly caused by upward adjustments to the selling prices of our footwear and apparel products in response to increases in the costs of production and the Group's strategy of raising the gross profit margin of our products during the first half of 2011.





Turnover per retail outlet and per unit retail floor area

Analysis of turnover (at wholesale level) by number of retail outlets and floor area in China:

	As at 30 June			Six months ended 30 June			
	No. of retail outlets	Total retail floor area (sq. m.)	Average floor area per retail outlet (sq. m.)	Average no. of retail outlets (Note 1)	Average total retail floor area (sq. m.) (Note 2)	Average turnover per retail outlet (RMB'000) (Note 1)	Average turnover per unit retail floor area (RMB'000) (Note 2)
2011	7,619	595,517	78.2	7,422	574,304	273	3.5
2010	6,796	503,098	74.0	6,501	478,068	248	3.4
Change (%)	12.1	18.4	5.7	14.2	20.1	10.1	2.9

Notes:

1. Average turnover per retail outlet is equal to the total turnover in the China market divided by the average number of retail outlets, which is equal to the average of the opening and closing numbers of the retail outlets for the period.
2. Average turnover per unit retail floor area is equal to the total turnover in the China market divided by the average total retail floor area, which is equal to the average of the opening and closing total retail floor areas for the period.

The average floor area per authorized Peak retail outlet in China increased to 78.2 square metres as at 30 June 2011 from 74.0 square metres as at 30 June 2010, which was in line with the Group's strategy to increase gradually the size of our new outlets to accommodate our increasing product offerings and to match our enhanced brand image. The average turnover per authorized Peak retail outlet in China and the average turnover per unit retail floor area in China during the first half of 2011 increased by 10.1% and 2.9% respectively when compared to those for the same period in 2010. The increases in these two ratios were attributable to the increases in the average size of our retail outlets and popularity of the Peak products during the first half of 2011.

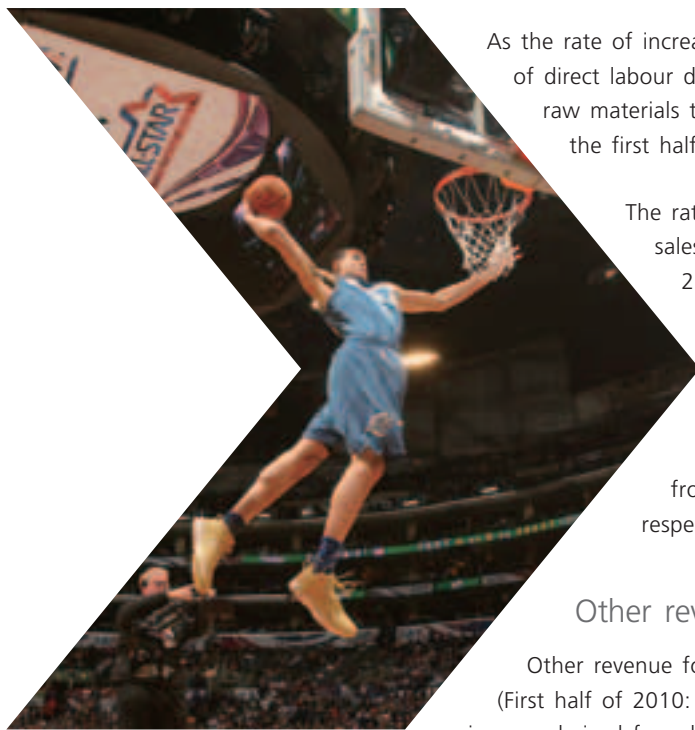
Management Discussion and Analysis continued



Cost of sales

Analysis of cost of sales by production method:

	2011		2010		Change (%)
	RMB (million)	% of total	RMB (million)	% of total	
Six months ended 30 June					
Self-production					
Raw materials	317.8	68.3	198.7	65.4	59.9
Direct labour	85.7	18.4	58.5	19.3	46.5
Overhead	62.0	13.3	46.6	15.3	33.0
Total	465.5	100.0	303.8	100.0	53.2
Costs of sales					
Self-production	465.5	34.3	303.8	26.9	53.2
Original equipment manufacturer	302.8	22.3	428.0	38.0	(29.3)
Subcontracting arrangements	588.3	43.4	395.6	35.1	48.7
Total	1,356.6	100.0	1,127.4	100.0	20.3



As the rate of increase in the cost of raw materials was higher than that of direct labour during the first half of 2011, the ratio of the cost of raw materials to total self-production cost increased to 68.3% for the first half of 2011 from 65.4% for the same period in 2010.

The ratio of the total cost of self-production to total cost of sales increased to 34.3% in the first half of 2011 from 26.9% in the first half of 2010. Such increase was primarily due to the increases in the self-production ratios for both footwear and apparel products during the period. The self-production ratios by volume for footwear and apparel products for the first half of 2011 increased to 48.0% and 24.7% from 35.4% and 22.6% for the same period in 2010 respectively.

Other revenue and net income

Other revenue for the first half of 2011 increased to RMB13.9 million (First half of 2010: RMB9.6 million) mainly due to increased interest income derived from bank deposits during the period. Other net income decreased to RMB0.4 million (First half of 2010: RMB2.6 million) mainly because the Group incurred exchange losses from bank deposits denominated in US dollars during the first half of 2011.

Selling and distribution expenses

Total selling and distribution expenses for the first half of 2011 amounted to RMB305.3 million (First half of 2010: RMB221.9 million), representing an increase of 37.6% when compared to those for the same period in 2010. The increase was mainly attributable to increased advertising and promotion expenses to further promote the Peak brand and our products as well as increased cost for sales fairs during the first half of 2011. The Group held three sales fairs during the first half of 2011 while it only held two sales fairs during the same period in 2010.

Administrative expenses

Total administrative expenses for the first half of 2011 amounted to RMB92.1 million (First half of 2010: RMB50.6 million), representing an increase of 82.1% when compared to those for the same period in 2010. The increase was in line with the expansion of the Group's business activities during the first half of 2011 and was primarily due to: (i) increased staff costs for our management and administrative personnel; (ii) increased research and development expenses; and (iii) increased education surcharge and the new city construction tax.

Finance expenses

The finance expenses represented the interest expenses arising from short-term borrowings from a bank during the first half of 2011 while the Group did not have any bank borrowings for the same period in 2010.

Management Discussion and Analysis continued



Income tax

Income tax expenses increased by 25.0% to RMB93.0 million for the first half of 2011 from RMB74.4 million for the same period in 2010. This increase was mainly due to the increase in the Group's turnover and operating profits during the first half of 2011.

Net profit and net profit margin

Net profit increased by 22.1% to RMB423.1 million for the first half of 2011 from RMB346.6 million for the same period in 2010 while net profit margin decreased to 18.8% for the first half of 2011 from 19.2% for the same period in 2010. The increase in net profit was mainly attributable to the increase in turnover and operating profits during the first half of 2011 while the decrease in net profit margin was primarily a result of: (i) the increase in advertising and promotion expenses; (ii) the increase in research and development expenses; (iii) the increase in the education surcharge and the new city construction tax; and (iv) the increase in the gross profit margin, which only partially offset the impact of items (i) to (iii).

Working capital ratios

The average inventory turnover days for the period ended 30 June 2011 increased to 50 days from 38 days for the year ended 31 December 2010. Such increase was mainly due to delayed delivery of our products at the requests of certain distributors in June because the weather in some regions deviated considerably from the distributors' initial expectations. The average trade receivables and bills receivable ("T&BR") turnover days decreased to 60 days for the period ended 30 June 2011 from 63 days for the year ended 31 December 2010. The decrease was in line with the Group's policy to gradually shorten the T&BR turnover days in coming years. The average trade payables and bills payable turnover days increased to 53 days for the period ended 30 June 2011 from 46 days for the year ended 31 December 2010.

Liquidity and capital resources

The net cash inflow from operating activities of the Group for the six months ended 30 June 2011 amounted to RMB130.3 million (First half of 2010: RMB470.6 million). The decrease in the net cash inflow from operating activities was mainly due to increases in the balances of inventories and trade receivables and a decrease in the balance of bills payable as at 30 June 2011 when compared to those as at 31 December 2010. As at 30 June 2011, our Group's cash





and bank deposits (including cash at bank and on hand, fixed deposits held at bank and pledged deposits at bank) amounted to RMB2,629.6 million, representing a net decrease of RMB32.9 million when compared to the position as at 31 December 2010.

The decrease in the Group's cash and cash deposits is analyzed below:

	Six months ended 30 June 2011 RMB'000
Net cash inflow from operating activities	130,262
Net capital expenditure	(69,750)
Dividends paid	(175,004)
Proceeds from new bank loans	73,939
Other net cash inflow	7,689
Net decrease in cash and bank deposits	(32,864)

The Group has been adopting a prudent treasury management policy and has strong liquidity position with sufficient standby banking facilities to cope with funding needs arising from daily operations and future developments.

Foreign exchange risk

The Group's operating activities were principally carried out in China with most of our transactions denominated and settled in Renminbi, and therefore the overall foreign currency risk was not considered to be significant. The Group's foreign exchange exposure mainly arose from our revenue derived from our export sales that were denominated predominantly in United States dollars. If Renminbi appreciates against a foreign currency, the value of the foreign currency denominated assets (e.g. trade receivables) will decline accordingly. The Group has not used any forward contracts, currency borrowings or other means to hedge our foreign exchange exposure. Nevertheless, the management will continue to monitor the foreign exchange exposure and adopt prudent measures as appropriate.

Pledge of assets

The following assets were pledged to banks as security for bills payable and certain banking facilities as at 30 June 2011:

	Carrying amount as at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Buildings	152,529	156,036
Bank deposits	35,515	53,963
Lease prepayments	12,016	14,534

Management Discussion and Analysis continued

Operations Review

Expansion in distribution network

The network of authorized Peak retail outlets across China, which is owned and operated either by our distributors or by retail outlet operators, has been providing an effective retail channel for our products. With increasing demand for sports products in China and the enhanced image and popularity of the Peak brand, the Group was able to expand our retail network steadily into all provinces and major cities in China in the first half of 2011. As at 30 June 2011, the total number of authorized Peak retail outlets was 7,619 (31 December 2010: 7,224), representing a net increase of 395 outlets.

Analysis of authorized Peak retail outlets in China by geographical region:

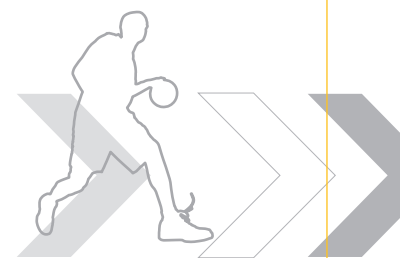
	Number of retail outlets as at		
	30 June 2011	31 December 2010	Change (%)
Northern region	1,986	1,884	5
Eastern region	3,164	3,025	5
Southern region	2,469	2,315	7
Total	7,619	7,224	5

Note: Please refer to page 10 for details of classification of geographical regions.

Analysis of authorized Peak retail outlets by type of city:

	Number of retail outlets as at		
	30 June 2011	31 December 2010	Change (%)
First-tier city	426	398	7
Second-tier city	1,607	1,523	6
Third-tier city	5,586	5,303	5
Total	7,619	7,224	5

The second-tier and third-tier cities in China have been the Group's focused markets in recent years because of their faster economic growth and less intense competition when compared to the first-tier cities. Accordingly, the new authorized Peak retail outlets opened during the first half of 2011 are mainly located in the second-tier and third-tier cities. At the same time, with the increasing popularity of the Peak brand among consumers throughout China, we also expanded our network in the first-tier cities strategically to further enhance our brand image.



Analysis of authorized Peak retail outlets by store category:

	Number of retail outlets as at		
	30 June 2011	31 December 2010	Change (%)
Flagship Store	25	19	32
Basic Store	4,838	4,549	6
Department Store or Shopping Mall Outlet	2,700	2,622	3
Basketball Specialty Outlet	56	34	65
Total	7,619	7,224	5

The authorized Peak retail outlets are classified into the above 4 categories. Flagship stores are street-level outlets situated in prime locations in major cities and each flagship store has a floor area of at least 200 square metres and a monthly turnover (at retail price) of not less than RMB500,000. Basic stores are also street-level outlets but do not satisfy the above criteria for flagship stores. Basketball specialty outlets are either street-level outlets or shopping mall outlets and offer mainly premium basketball sports products to basketball enthusiasts.

Management of distributors and retail outlets

Our strict policies in managing our distributors and the operations of the authorized Peak retail outlets have been crucial to the success of our distribution network.

China market

Starting from 2011, we organize and host four sales fairs a year to introduce our new product collections for each season. Our domestic distributors and retail outlet operators attend the sales fairs and place orders which are generally six months in advance of the delivery of the ordered products. During the first half of 2011, the Group held three such sales fairs for our Autumn 2011, Winter 2011 and Spring 2012 collections at Xiamen International Conference and Exhibition Center on 8 January, 28 March and 15 June respectively.

We select our distributors according to a range of factors such as retail experience in sports products, ability to expand and operate a network of retail outlets, and adequacy of financial resources. We enter into an agreement with each distributor, whereby we grant them the exclusive right to distribute our products in specified areas for a specified period of time, which is generally one year. Our distribution agreement contains principal terms such as geographical exclusivity, sales and expansion targets, payment terms, and discounts and rewards. Subject to our approval and written consent, we allow our distributors to appoint retail outlet operators. However, we do not enter into agreements with such retail outlet operators other than the licensing of our trademarks to them.

Our distributors are responsible for supervising and managing the operations of the authorized Peak retail outlets according to our policies and guidelines regarding the layout of outlets, sales and expansion targets, pricing, customer and after-sale services, etc.

We invite representatives of our distributors and retail outlet operators to attend training sessions to familiarize themselves with Peak policies and procedures. The training sessions take the form of in-house training as well as external training conducted by experienced retail management consultants.

Management Discussion and Analysis *continued*

On-site inspections of authorized Peak retail outlets are regularly carried out by our marketing teams to identify and inform distributors of any non-performing or non-compliant retail outlets. We coordinate with distributors to monitor the performance of these retail outlets and any recurring non-performance or non-compliance may cause a distributor to lose its distributorship.

The performance of each distributor is reviewed annually prior to the renewal of its distribution agreement. Key elements that form part of such review include whether the distributor has achieved the sales and expansion targets and complied with the credit terms.

During the first half of 2011, the Group continued to expand the coverage of our computerized management information system (“MIS”), which collects real-time operational data and feedback from connected authorized Peak retail outlets. As at 30 June 2011, 1,755 retail outlets were connected to our MIS.

As an incentive for our distributors to expand the network of retail outlets and to maintain consistency of store image and layout, we provide certain renovation work to authorized Peak retail outlets and rental subsidies to retail outlet operators for opening authorized Peak retail outlets with high rentals in prime locations. We also offer performance bonuses to our distributors who meet or exceed annual sales targets.

Overseas markets

We sell our Peak branded products overseas on a wholesale basis to: (i) overseas customers who learn about our products from our website or at international exhibitions or trade fairs; and (ii) overseas distributors who then sell our products to consumers, retailers, sports teams or clubs.

During the first half of 2011, we participated in the following international exhibitions and trade fairs:

- China Import and Export Fair in Guangzhou, China; and
- China Sourcing Fair in Dubai, the United Arab Emirates.

Brand promotion and marketing

Strategy

We believe that marketing and promotion of our brand are crucial to success in the sports products industry. To create a simple and powerful brand message to our consumers, the Group has been employing a focused marketing strategy by focusing on basketball in marketing and promoting the Peak brand since our inception in 1991 although we offer products in almost every sports category. The Group promotes Peak as an international and professional brand through association with internationally renowned tournament organizers and provision of products with premium functionality and performance. Our promotion partners are therefore not restricted to domestic partners and include sports associations, leagues, federations, events, and individual athletes throughout the world. The Group also employs various means of promotion such as national and local television commercials, outdoor media, online advertising, newspapers and magazines.

Leveraging our success in focusing on basketball, the Group rolled out our new marketing strategy focusing on three other sports categories (i.e. running, tennis and football) in addition to basketball, starting from 2010. The Group believes that the new strategy will further enhance our brand image and positioning and ensure sustained growth in popularity of the Peak brand.



Basketball promotion partners

The utilization of basketball promotion partners such as federations, leagues, teams, events and individual athletes is an integral part of the Group’s brand promotion and marketing strategy to differentiate us from our peers. Such focused strategy also disseminates a clear profile to consumers. The Group has association with most of the top renowned basketball promotion partners around the world and this enables the Group to build up successfully the most international brand image in the basketball sector among our Chinese peers. By requiring our endorsed basketball athletes to wear our basketball footwear during all tournaments, we demonstrate that our products can withstand the severest tests of functionality and performance and this further enhances our professional brand image. Although the Group has started focusing on the other sports categories in addition to basketball under the new marketing strategy, we will continue to dedicate the most significant portion of our resources to basketball so as to maintain our leading position in the basketball sector in coming years.

NBA league, teams and players

The Group has been an official marketing partner of NBA in China since 2007. The association with NBA includes, among other things, the right to use the NBA logo and other licensed marks in connection with the advertising and promotion of the Peak brand and our products in China.

The Group has also entered into sponsorship agreement with the NBA’s Houston Rockets under which the Group can, among other things, display the Peak signage at the home stadium of the team.

As at 30 June 2011, the Group endorsed a total of 12 NBA players. With these players, we had presence in 11 teams out of the 30 NBA teams as follows (by alphabetical order):

NBA players	NBA teams
Beno Udrih	Sacramento Kings
Carl Landry	New Orleans Hornets
Dorell Wright	Golden State Warriors
Gordon Hayward	Utah Jazz
Jason Kidd	Dallas Mavericks
Jason Richardson	Orlando Magic
JaVale McGee	Washington Wizards
Kevin Love	Minnesota Timberwolves
Kyle Lowry	Houston Rockets
Patrick Patterson	Houston Rockets
Rasual Butler	Chicago Bulls
Shane Battier	Memphis Grizzlies

FIBA

The Group has had an association with FIBA since 2008. Under the relevant sponsorship and licensing agreement, the Group is the “Official Apparel and Footwear Partner of FIBA (Asia)” and “Official Sponsor/Partner” of “2011 FIBA Asia Championship for Men” and “2011 FIBA Asia Championship for Women”, and among other things, has an exclusive license within Asia to use specified logos and/or mascots associated with certain FIBA sports competitions on some of our products.



Management Discussion and Analysis continued

Stanković Continental Champions' Cup

The Stanković Continental Champions' Cup ("Stanković Cup") is an international basketball tournament for men's national teams of a number of countries. It is also the most well-known international basketball game and one of the highest ranking international basketball tournaments in China. The Group has been sponsoring the Stanković Cup since 2005. Under the relevant sponsorship agreement, the Group is required, among other things, to supply sports apparel to all officials and staff of the tournaments.

Basketball Australia

The Group has had an association with Basketball Australia since 2006. Under the relevant sponsorship agreement, the Group is a sponsor to certain Australian national basketball teams. The national basketball teams are required to use our apparel products in all matches except for the Olympic Games.

Basketball Federation of Serbia

The Group entered into a cooperation agreement with the Basketball Federation of Serbia in 2010 as its official strategic partner and the sponsor of its ten national basketball teams. Under the agreement, the Group is required, among other things, to supply the above national teams with sportswear and sports gears in all international tournaments such as the 2012 Olympic Games.

Lebanese Basketball Federation

The Group entered into a cooperation agreement with Lebanese Basketball Federation in 2010 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sports products for five Lebanese national teams.

Peak Team China Tour

The "Peak Team China Tour" is one of the most important events among all our marketing activities. The tour is held once a year in China with an aim to promote the NBA spirit and increase the popularity of basketball in China. The 2011 Peak Team China Tour was officially kicked off in Beijing on 2 August 2011. The Group invited seven of our NBA spokespersons to participate in the tour. These spokespersons came to China and interacted with Chinese basketball fans at nearly 20 cities, including Beijing, Guangzhou, Nanjing and Shenzhen, in early August 2011. Both the Peak brand and NBA players obtained intense media exposure throughout the tour.

NBA Jam Van

NBA Jam Van is a basketball carnival presented in a caravan that travels around a number of cities in China for several months every year. In this year, the event has been held across over 20 cities including Beijing, Shanghai, Harbin and Qingdao from May to September. The Group organized the event and sponsored all sports products. The event has provided a great opportunity to further promote both NBA and the Peak brand.

2011 Peak ABA Championship ("PAC")

PAC will be hosted by the Asian Basketball Association in September 2011. Being a title sponsor and official sports apparel supplier of the tournament, the Group, among other things, supplies sports apparel to all officials and staff of the tournament.



Other basketball sponsorships

The Group also sponsored the following basketball events in 2011:

- Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) held from July to August; and
- Peak-Xiamen Basketball Camp (匹克廈門籃球夏令營) held from July to August.

Tennis promotion partners

With a view to attracting more female customers and boosting the female sportswear sales, the Group strengthened our promotion in the tennis sector starting from 2010. Leveraging the success in the basketball sector, the Group has adopted the same marketing strategy of building up an international and professional brand image for its tennis sports products. Accordingly, the Group utilizes promotion partners which can manifest the internationalism and professionalism of the Peak brand to promote its tennis sports products.

Women's Tennis Association ("WTA") Tour

The Group entered into a product sponsorship and promotion agreement in 2010 with WTA, which is the worldwide circuit of women's professional tennis. Pursuant to the agreement, the Group is the official footwear and apparel partner for the following tournaments, which make up the WTA Tour (currently known as "The Sony Ericsson WTA Tour"):

- ASB Classic (Auckland, Australia);
- PTT Pattaya Women's Open (Pattaya, Thailand);
- Guangzhou International Women's Open (Guangzhou, China);
- Commonwealth Bank Tournament of Champions (Bali, Indonesia); and
- Malaysian Open (Kuala Lumpur, Malaysia).

The Group, among other things, obtained a licence to develop, manufacture, market and sell the WTA-PEAK co-branded products in the Asia Pacific region. In addition, the Group is the official cooperative partner of the WTA Carnival, in which interactive games and tennis-related activities will be organized for tennis fans in certain cities in China.

Endorsed tennis athlete

To increase our brand awareness in the tennis sector, the Group endorsed in 2010 our first tennis spokesperson, Olga Govortsova, who is a Belarusian professional tennis player. Ms Olga won the Championship of Women's Doubles at Memphis 2011 and Birmingham 2011.

Management Discussion and Analysis continued

Running promotion partners

In line with the new marketing strategy, the Group embarked on the promotion of our running footwear in 2010. The Group's new series of running shoes, Yi Pao (逸跑), successfully boosted the recognition of the Peak brand in the running sector. The latest product of the series, Yi Pao III (逸跑3代), was launched in 2011 and continued to receive positive responses from the market. The promotion partners of Yi Pao included CCTV, Guangdong Sports TV, Jiangsu Sports TV and a number of sports magazines.

Football promotion partners

The Group adopts the same strategy of building up an international and professional brand image to promote its football sports products. A number of promotion activities for football carried out during the first half of 2011 were targeted not only at the domestic market but also specific overseas markets including the Middle East and Central Asia.

Iraq Football Association

The Group entered into a sponsorship agreement with the Iraq Football Association in 2010 and became the official and sole sponsor for the Iraq Football Association. Under the agreement, all the Iraqi national football teams are, among other things, required to wear Peak's sportswear and sports bags in all matches and training sessions.

Chinese Football Teams

As at 30 June 2011, the Group sponsored four Chinese football league teams, including Shenyang Dongjin and Hubei Luyin, in preparation for the revival of the football sector in China.

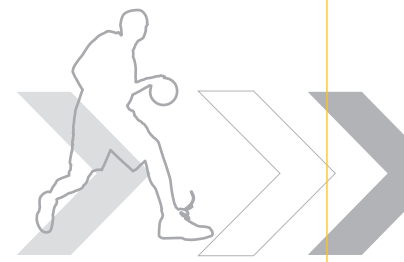
Other promotion partners

New Zealand Olympic Committee

The Group entered into a sponsorship agreement with the New Zealand Olympic Committee in 2009. Under the agreement, the Group, among other things, supplies sports apparel and footwear for the New Zealand teams in the 2012 Olympic Games.

The National Olympic Committee of Iraq

The Group entered into a sponsorship agreement with the National Olympic Committee of Iraq in 2010. Under the agreement, the Group, among other things, supplies sportswear for all Iraqi teams in all training, games and sports events.



2011 Tour of Qinghai Lake International Cycling Race (“QLCR”)

QLCR is a top-tier international highway cycling competition held at a racing track with the highest altitude above sea-level which is approved by the International Cycling Association. The competition is held from July to August in Qinghai Lake every year with top cyclists from the five continents of the world participating in the competition. The Group has become the collaborative partner of the competition and the sole supplier of sports products for the officials of the event organizer for six consecutive years since 2006.

The 7th City Games of the PRC (第七屆全國城市運動會)

The 7th City Games of the PRC is a national sports event with teams representing different cities in China and will be held in mid-October in Nanchang, China. Under the relevant sponsorship agreement, the Group is the official partner of the event and, among other things, supplies sportswear and gears for all the athletes and staff during the event.

Production capacity

Our products are manufactured either by the Group’s own production facilities or through our outsourcing arrangements with contract manufacturers. As we believe that maintaining our own production capabilities will enable us to have better control over our production process and to have the flexibility and ability to respond promptly to market changes, the Group will continue to invest in new production facilities.

Footwear production facilities

The Group currently has two footwear production facilities at Quanzhou, Fujian Province and Shang’gao, Jiangxi Province. We, however, outsourced a major portion of our footwear production to contract manufacturers. The total footwear production volume for the first half of 2011 was approximately 12.3 million pairs, of which approximately 48.0% were produced in-house and approximately 52.0% were produced through selective outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for our footwear products to approximately 15.7 million pairs when our plant in Shang’gao, Jiangxi Province attains full production capacity by the end of 2012.

Apparel production facilities

The Group currently has two apparel production facilities at Fengze and Hui’an in Quanzhou, Fujian Province. We, however, outsourced a major portion of our apparel production to contract manufacturers. The total apparel production volume for the first half of 2011 was approximately 24.7 million pieces, of which approximately 24.7% were produced in-house and approximately 75.3% were produced through selective outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for our apparel products to approximately 18.7 million pieces when our plant in Hui’an, Fujian Province attains full production capacity by the end of 2013.

Management Discussion and Analysis continued

Analysis of production capacity by location and product category:

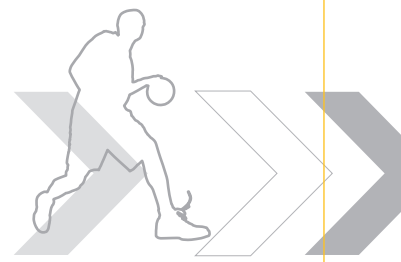
Location	Footwear production facilities		Apparel production facilities		
	Fengze Quanzhou Fujian Province (full production)	Shang'gao Yichun Jiangxi Province	Fengze Quanzhou Fujian Province (full production)	Hui'an Quanzhou Fujian Province	
Commencement date of production	August 1994	June 2008	February 2004	September 2008	
Number of production lines as at 30 June 2011	6	12	26	65	
Estimated annual production capacity ^(Note) (pairs/pieces)	2010 2011	3.7 million 4.5 million	5.0 million 8.5 million	2.3 million 2.7 million	7.3 million 9.0 million
Actual production volume (pairs/pieces)	2010 (Jan–Dec) 2011 (Jan–Jun)	3.8 million 2.0 million	4.7 million 3.9 million	2.1 million 1.4 million	7.2 million 4.7 million
Expected time of full production	N/A	2012	N/A	2013	
Expected number of production lines upon full production	N/A	16	N/A	140	
Expected production capacity upon full production (pairs/pieces)	N/A	12.0 million	N/A	16.4 million	

Note: Estimated annual production capacity is an estimate we make with regard to each year taking into account a number of factors and assumptions, including, among others, number of production lines, amount of equipment and personnel, estimated rate of production per worker per hour, number of hours and days our workers work per month, and seasonal impact on production selection. As a result, there can be no assurance that total amounts we would have been able to produce in any year would have been higher or lower than the actual amount we produce for that year.

Research & development (“R&D”)

Being a professional sports products manufacturer, we endeavour to introduce high quality products with innovative designs and functionality to our customers. To this end, the Group continues to invest in R&D of new products. As at 30 June 2011, the Group operated four R&D workshops located in Beijing, Guangzhou, Quanzhou and Los Angeles. These workshops altogether employed approximately 250 research and design professionals. Through the interactions of the design teams in different workshops, we are capable of producing more innovative and stylish products to satisfy the needs of different consumer segments all over the world. During the first half of 2011, the Group introduced 381 new footwear products, 644 new apparel products and 399 new accessory products to the market.

In addition to product functionality and style, the R&D workshops take account of environmental protection issues when selecting raw materials and designing new products. The Group will continue to introduce more environmentally friendly or recycled materials and to adopt energy-saving processes to manufacture its products.



Supply chain management

A significant portion of the Group's total production of footwear and apparel was outsourced to contract manufacturers. We have two types of outsource arrangements with our contract manufacturers: (i) subcontract arrangements; and (ii) arrangements with original equipment manufacturers ("OEM"). Under the subcontract arrangements, we provide subcontractors with raw materials and pay them processing fees for manufacturing finished products for us. Under the OEM arrangements, we provide OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. The OEM arrangements allow us to devote less of our management time on monitoring the whole production process so as to divert our resources to other areas such as monitoring Peak's sales network and enhancement of our brand image while the subcontract arrangements enable us to obtain more control over the production process.

The Group carefully selects and evaluates our contract manufacturers. Each of our contract manufacturers is subject to an annual evaluation and assessment of product quality and timeliness of product delivery. We monitor the operation and performance of our contract manufacturers by checking each batch of products delivered to us so as to report in a timely manner to relevant contract manufacturers any failure to meet our product quality requirements or incidents of late delivery.

In addition to the above procedures, the Group also adopts the following measures to ensure an efficient and effective supply of raw materials and finished goods:

- We source our raw materials from suppliers located in nearby regions such as Fujian Province, Guangdong Province and Jiangxi Province. The proximity of these suppliers to our production facilities helps reduce our procurement costs.
- We do not enter into any long-term agreements with any of our suppliers. This gives us flexibility to switch to other suppliers for lower raw material costs with better quality and delivery schedules that best suit our production needs.
- We organize four sales fairs each year to allow our distributors and retail outlet operators to review our new product collections and place pre-season orders generally six months in advance of the delivery of the ordered products. With this practice, production can be better planned in advance to ensure smooth supply of products to the market.

The Group endeavours to continuously improve our procurement and production processes by frequently communicating with our suppliers and closely monitoring changes in the market environment. With these measures, any disruption to our supply chain can be resolved in a timely manner.

Management Discussion and Analysis continued

Human resources

We consider our people to be the most valuable asset to the Group and will continue to allocate sufficient resources to recruiting, training and rewarding our staff. During the first half of 2011, over 2,000 new production staff were recruited for the new production facilities at Hui'an, Fujian Province and Shang'gao, Jiangxi Province. We also recruited new staff for a number of departments including sales and marketing, logistics and R&D to cope with the expansion of our business. As at 30 June 2011, the Group's total headcount was close to 13,000.

We care for the career development of our staff and provide various kinds of training courses and guidance to enhance their technical and product knowledge as well as knowledge of industry quality standards and workplace safety standards. We launched pre-job training programmes for new staff and other training programmes related to management skills, professional role, etc.

Our "Peak Business School", which is established to provide systematic training to our front-line sales staff, also provides training to our distributors and retail outlet operators regarding Peak product knowledge and selling and promotion skills. During the first half of 2011, the school held seven training camps for store managers and other training courses on topics such as regional training policy set-up, standard display set-up, project marketing and knowledge of current offerings to support our front-line operations.

We determine the remuneration of our employees based on factors such as qualifications, performance and years of experience. We generally distribute bonuses to our employees at each year end to reward their contribution to the Group. As an additional incentive to our employees, the Company grants share options to those employees that have demonstrated exceptional performance.



Prospects

We are very optimistic about the future development of the sports products industry. To capture the growth of the domestic and emerging markets and to ensure sustained growth of our business, the Group will use our best endeavours to accomplish the following tasks in the coming years.

Enhancement of the Peak brand

The Group strives to enhance our international and professional image as we acknowledge our brand image is crucial to our development and success in future. Accordingly, we will continue to allocate a significant portion of our resources to brand building and maintenance. While we will still focus on basketball to promote our brand, we will also increase the marketing and promotion activities for other sports categories such as running, tennis and football. In coming years, the Group will continue to utilize all kinds of promotion partners such as federations, teams, leagues, events and individual athletes to extend our brand reach and recognition in the market.

Expansion of retail network

As we believe that there will still be significant economic growth in the second-tier and third-tier cities due to rapid urbanization and encouragement of domestic consumption by the Chinese government, The Group will continue to expand its retail network through its distributors or retail outlet operators and most of these new retail outlets will be located in the second-tier and third-tier cities. In addition, the Group will continue to increase the size (in terms of average area per outlet) of authorized Peak retail outlets in coming years.

Expansion of production capacity

As mentioned above, maintaining our own production capabilities will enable us to have better control of our production process and the flexibility and ability to respond promptly to market changes. Accordingly, the Group will invest approximately RMB80 million to continue the construction and purchase of new machinery and equipment in our two existing production facilities in Hui'an, Fujian Province and Shang'gao, Jiangxi Province in the second half of 2011. To alleviate the impact of the shortage of labour around the coastal regions of China, the Group is planning to build another apparel plant in Heze, Shandong Province ("Shandong Project"). The estimated total capital expenditure for the Shandong Project amounts to about RMB1 billion. It is expected that construction work of the Shandong Project will commence in 2012 and will take at least 3 years to complete.



REVIEW REPORT ON THE INTERIM FINANCIAL REPORT



Review report to the Board of Directors of Peak Sport Products Co., Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 31 to 51 which comprises the consolidated statement of financial position of Peak Sport Products Co., Limited (the "Company") as of 30 June 2011, and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "Interim Financial Reporting", issued by the International Accounting Standards Board. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
17 August 2011



INTERIM FINANCIAL REPORT

Consolidated statement of comprehensive income

For the six months ended 30 June 2011 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
Turnover	4	2,255,923	1,808,625
Cost of sales		(1,356,578)	(1,127,407)
Gross profit		899,345	681,218
Other revenue	5	13,939	9,630
Other net income	5	406	2,628
Selling and distribution expenses		(305,314)	(221,918)
Administrative expenses		(92,142)	(50,591)
Profit from operations		516,234	420,967
Finance expenses	6(a)	(133)	—
Profit before income tax	6	516,101	420,967
Income tax	7	(93,037)	(74,394)
Profit for the period attributable to equity shareholders of the Company		423,064	346,573
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of foreign operations		1,121	(8,427)
Total comprehensive income for the period attributable to equity shareholders of the Company		424,185	338,146
Earnings per share (RMB cents)			
— Basic	9(a)	20.17	16.52
— Diluted	9(b)	20.16	16.51

The notes on pages 35 to 51 form part of this interim financial report. Details of dividends declared after the period end and paid during the period to equity shareholders of the Company are set out in note 8.



Consolidated statement of financial position

At 30 June 2011 – unaudited
(Expressed in Renminbi)

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment	10	406,838	341,866
Construction in progress	11	24,394	54,174
Lease prepayments	12	15,743	15,914
Intangible assets	13	14,867	13,674
Deferred tax assets	21(b)	9,923	12,391
		471,765	438,019
Current assets			
Inventories	14	408,751	335,016
Trade and other receivables	15	914,125	764,683
Pledged deposits	16	35,515	53,963
Deposits with banks with more than three months to maturity when placed		74,450	42,716
Cash and cash equivalents	17	2,519,677	2,565,827
		3,952,518	3,762,205
Current liabilities			
Bank loans	18	73,939	—
Trade and other payables	19	511,378	608,324
Current tax liabilities	21(a)	51,857	63,077
		637,174	671,401
Net current assets		3,315,344	3,090,804
Total assets less current liabilities		3,787,109	3,528,823
Non-current liabilities			
Deferred tax liabilities	21(b)	53,386	47,034
Net assets		3,733,723	3,481,789
Equity			
Share capital	22	18,460	18,459
Reserves	23	3,715,263	3,463,330
Total equity		3,733,723	3,481,789

Approved and authorized for issue by the Board of Directors on 17 August 2011.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 35 to 51 form part of this interim financial report.

Consolidated statement of changes in equity

For the six months ended 30 June 2011 – unaudited
(Expressed in Renminbi)

	Share capital	Share premium	Statutory reserve	Other reserve	Exchange reserve	Share-based payment reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 22)	(Note 23(a))	(Note 23(b))	(Note 23(c))	(Note 23(d))	(Note 23(e))		
At 1 January 2010	18,459	1,596,200	96,029	81,354	(1,619)	—	1,211,744	3,002,167
Equity-settled share-based payment	—	—	—	—	—	3,514	—	3,514
Dividends approved and declared	—	(220,650)	—	—	—	—	—	(220,650)
Total comprehensive income for the period	—	—	—	—	(8,427)	—	346,573	338,146
At 30 June 2010	18,459	1,375,550	96,029	81,354	(10,046)	3,514	1,558,317	3,123,177
At 1 January 2011	18,459	1,246,950	190,894	81,354	(3,722)	8,707	1,939,147	3,481,789
Share issued pursuant to share option scheme	1	687	—	—	—	(137)	—	551
Equity-settled share-based payment	—	—	—	—	—	2,755	—	2,755
Transfer between reserves in respect of share options forfeited after vesting date	—	—	—	—	—	(124)	124	—
Dividends approved and declared	—	(175,557)	—	—	—	—	—	(175,557)
Total comprehensive income for the period	—	—	—	—	1,121	—	423,064	424,185
At 30 June 2011	18,460	1,072,080	190,894	81,354	(2,601)	11,201	2,362,335	3,733,723

The notes on pages 35 to 51 form part of this interim financial report.



Condensed consolidated cash flow statement

For the six months ended 30 June 2011 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
Cash generated from operations		225,700	523,713
Income tax paid		(95,438)	(53,115)
Net cash generated from operating activities		130,262	470,598
Net cash (used in)/generated from investing activities		(75,210)	326,726
Net cash used in financing activities		(101,197)	(220,647)
Net (decrease)/increase in cash and cash equivalents		(46,145)	576,677
Cash and cash equivalents at 1 January	17	2,565,827	1,413,325
Effect of foreign exchange rate changes		(5)	(10,762)
Cash and cash equivalents at 30 June	17	2,519,677	1,979,240

The notes on pages 35 to 51 form part of this interim financial report.

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”, issued by the International Accounting Standard Board (“IASB”). This interim financial report was authorized for issue on 17 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the changes in accounting policies that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Peak Sport Products Co., Limited (the “Company”) and its subsidiaries (collectively refer to as the “Group”) since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, “*Review of interim financial information performed by the independent auditor of the entity*”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 30.

The financial information relating to the year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 March 2011.



Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the amendments titled "IAS 24 (revised 2009), Related party disclosures" and "Improvements to IFRSs (2010)" are relevant to the Group's financial statements.

"IAS 24 (revised 2009), Related party disclosures" and "The improvements to IFRSs (2010)" have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group.

3 Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's most senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented for the Group's business segment as the Group is principally engaged in manufacture and sale of sports products in the People's Republic of China (the "PRC").

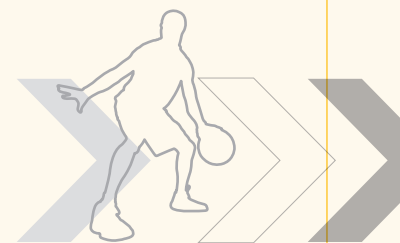
4 Turnover

The principal activities of the Group are manufacturing and trading of sports products, including footwear, apparel and accessories. Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes, and is analysed as follows:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Footwear	1,018,671	828,742
Apparel	1,193,632	941,478
Accessories	43,620	38,405
	2,255,923	1,808,625

The Group's revenue by geographical locations is determined by the destinations where the goods are delivered.

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
The PRC	2,022,645	1,614,542
Overseas	233,278	194,083
	2,255,923	1,808,625



5 Other revenue and net income

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Other revenue		
Interest income	8,051	4,310
Government grants	5,856	5,252
Others	32	68
	13,939	9,630
Other net income		
Exchange (loss)/gain	(2,521)	2,628
Gain on sales of materials	2,109	—
Others	818	—
	406	2,628

Government grants were received from local authorities for the Group's contributions to local communities and its achievement in export sales. The grants, which also included refunds of value added tax from local governments, were unconditional.

6 Profit before income tax

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
(a) Finance expenses:		
Interest on bank borrowings	133	—
(b) Staff costs:		
Contributions to defined contribution retirement plans	4,661	2,271
Equity-settled share-based payment expenses (note 20)	2,755	3,514
Salaries, wages and other benefits	165,117	101,740
	172,533	107,525
(c) Other items:		
Amortization of lease prepayments	171	171
Auditors' remuneration	933	882
Depreciation	14,514	9,982
Operating lease charges in respect of properties	2,134	1,452
Cost of inventories [#]	1,356,578	1,127,407
Loss on disposal of property, plant and equipment	599	408

[#] Cost of inventories for the six months ended 30 June 2011 includes RMB126,960,000 (six months ended 30 June 2010: RMB80,216,000) relating to staff costs, depreciation and amortization expenses and operating lease charges, which amount is included in the respective total amounts disclosed separately above in notes 6(b) and (c) for each of these types of expenses.

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

7 Income tax in the consolidated statement of comprehensive income

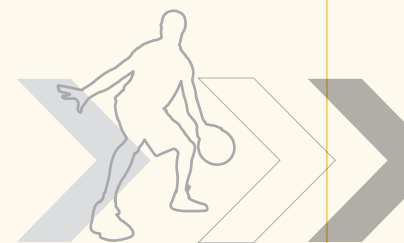
	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Current tax — PRC income tax		
Provision for the period	84,218	71,684
Under-provision in respect of prior years	—	90
Deferred tax		
Origination and reversal of temporary differences	8,819	2,620
	93,037	74,394

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands or BVI.

No provision has been made for Hong Kong Profits Tax as the Group did not earn any income that was subject to Hong Kong Profits Tax for the six months ended 30 June 2011.

Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries comprising the Group. During the period, three PRC subsidiaries are entitled to tax concessions and subject to the tax at 50% of the statutory rate under the relevant tax rules and regulations.

In addition, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As all of the Group’s foreign-invested enterprises are directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the mainland of the PRC.



8 Dividends

- (a) Dividends attributable to equity shareholders of the Company in respect of the current period

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Interim dividend in respect of the current period, declared after the interim period, of HK3 cents per ordinary share (2010: HK7 cents)	51,849	128,282

The interim dividend has not been recognized as a liability as at 30 June 2011.

- (b) Dividends attributable to equity shareholders of the Company in respect of the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK10 cents per ordinary share (2010: HK12 cents)	175,557	220,650

9 Earnings per share

- (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB423,064,000 (six months ended 30 June 2010: RMB346,573,000) and the weighted average number of issued ordinary shares of 2,097,966,000 (six months ended 30 June 2010: 2,097,903,000 shares) during the interim period.

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB423,064,000 (six months ended 30 June 2010: RMB346,573,000) and the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the Company's share option scheme (see note 20) assuming they were exercised during the interim period.

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

9 Earnings per share (continued)

(b) Diluted earnings per share (continued)

Weighted average number of ordinary shares (diluted)

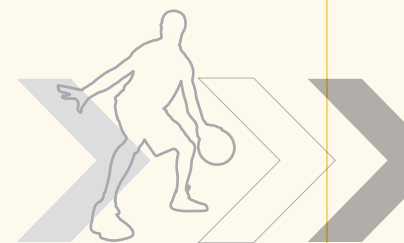
	Six months ended 30 June	
	2011 '000 shares	2010 '000 shares
Weighted average number of ordinary shares	2,097,966	2,097,903
Effect of deemed issue of shares under the Company's share option scheme	387	912
Weighted average number of ordinary shares (diluted)	2,098,353	2,098,815

10 Property, plant and equipment

		30 June 2011 RMB'000	31 December 2010 RMB'000
Net book value, as at 1 January		341,866	244,287
Additions		36,225	61,823
Transfer from construction in progress	11	43,945	61,116
Disposals (net carrying amount)		(684)	(3,762)
Depreciation charge for the period/year		(14,514)	(21,598)
Net book value, as at 30 June/31 December		406,838	341,866

11 Construction in progress

		30 June 2011 RMB'000	31 December 2010 RMB'000
As at 1 January		54,174	61,266
Additions		14,165	54,024
Transfer to property, plant and equipment	10	(43,945)	(61,116)
As at 30 June/31 December		24,394	54,174



12 Lease prepayments

Lease prepayments represent the prepayments of premiums for land use rights to the PRC authorities. The relevant leasehold lands are located in the PRC. The Group is granted land use rights for a period of 50 to 70 years.

13 Intangible assets

	30 June 2011 RMB'000	31 December 2010 RMB'000
Net book value as at 1 January	13,674	9,842
Additions	1,372	4,134
Amortization for the period/year	(179)	(302)
Net book value as at 30 June/31 December	14,867	13,674

14 Inventories

	30 June 2011 RMB'000	31 December 2010 RMB'000
Raw materials	60,290	52,267
Work in progress	147,514	104,106
Finished goods	200,947	178,643
	408,751	335,016

15 Trade and other receivables

	30 June 2011 RMB'000	31 December 2010 RMB'000
Bills receivable	3,000	—
Trade receivables	790,209	695,638
Deposits and prepayments	110,182	51,676
Others	10,734	17,369
	914,125	764,683

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

15 Trade and other receivables (continued)

All of the trade and other receivables are expected to be recovered within one year.

Set out below is the aging analysis of the total balance of the trade receivables and bills receivable at the end of the reporting period based on the invoice date:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 3 months	775,178	695,638
3 to 6 months	18,031	—
	793,209	695,638

The Group offers revolving credit to domestic distributors. This revolving credit provides a maximum limit for the amount that may be outstanding at any time. The limit is determined based on credit history, market conditions, prior year's purchases, estimated purchases for the current year, etc. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding the sales network. The Group generally evaluates the credit limits granted to domestic distributors annually upon renewal of relevant distribution agreements.

There were no trade debts that were considered past due.

16 Pledged deposits

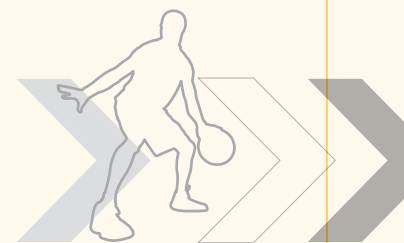
Bank deposits have been pledged to banks as security for bills payable and certain bank facilities.

17 Cash and cash equivalents

	30 June 2011 RMB'000	31 December 2010 RMB'000
Cash at bank and in hand	2,519,677	2,565,827

18 Bank loans

As at 30 June 2011, all the bank loans were unsecured and repayable within one year.



19 Trade and other payables

	30 June 2011 RMB'000	31 December 2010 RMB'000
Bills payable	172,300	251,780
Trade payables	187,941	182,533
Other payables and accruals	151,137	174,011
	511,378	608,324

All of the trade and other payables are expected to be settled within one year.

Set out below is the aging analysis of the total balance of the trade payables and bills payable at the end of the reporting period based on the invoice date:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 3 months	261,003	288,143
3 to 6 months	99,103	146,070
6 months to 1 year	135	100
	360,241	434,313

20 Share-based payments

Pursuant to the shareholders' written resolution passed on 8 September 2009, the Company adopted a share option scheme ("the Scheme") whereby the Directors of the Company are authorized, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for the shares of the Company.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

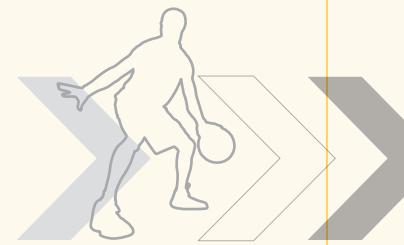
Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

20 Share-based payments (continued)

(a) The terms and conditions of the grants are as follows:

Date of grant		Number of Instruments	Vesting conditions	Contractual life of options
Options granted to Directors:				
1 June 2010	Batch 4	180,000	1 year after the date of grant	5 years
	Batch 5	180,000	2 years after the date of grant	5 years
	Batch 6	240,000	3 years after the date of grant	5 years
Options granted to employees:				
9 February 2010	Batch 1	3,919,500	1 year after the date of grant	5 years
	Batch 2	3,919,500	2 years after the date of grant	5 years
	Batch 3	5,226,000	3 years after the date of grant	5 years
1 June 2010	Batch 4	639,000	1 year after the date of grant	5 years
	Batch 5	639,000	2 years after the date of grant	5 years
	Batch 6	852,000	3 years after the date of grant	5 years
		15,795,000		



20 Share-based payments (continued)

(b) The number and weighted average exercise price of share options are as follows:

	Six months ended 30 June 2011		Year ended 31 December 2010	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period/year	HK\$5.2729	14,331	—	—
Granted during the period/year				
on 9 February 2010	—	—	HK\$5.1960	13,065
on 1 June 2010	—	—	HK\$5.6040	2,730
Exercised during the period/year	HK\$5.1960	(126)	—	—
Forfeited during the period/year	HK\$5.1960	(753)	HK\$5.1960	(1,434)
	HK\$5.6040	(300)	HK\$5.6040	(30)
Outstanding at the end of the period/year	HK\$5.2705	13,152	HK\$5.2729	14,331
Exercisable at the end of the period/year	HK\$5.2700	3,970	—	—

The weighted average closing price of the Company's shares at the date of exercise for share options exercised during the period was HK\$5.9469 (2010: not applicable).

The share options outstanding as at 30 June 2011 had an exercise price of HK\$5.1960 or HK\$5.6040 (31 December 2010: HK\$5.1960 or HK\$5.6040) and a weighted average remaining contractual life of 3.7 years (31 December 2010: 4.2 years).

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

20 Share-based payments (continued)

(c) Fair value of share options and assumptions

The fair value of services received from the grantees in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes-Merton Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes-Merton Option Pricing Model.

Fair value of share options and assumptions

	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5	Batch 6
Fair value at measurement date (HK\$)	1.2920	1.3850	1.4684	1.7189	1.8213	1.9123
Share price (HK\$)	4.6900	4.6900	4.6900	5.7900	5.7900	5.7900
Exercise price (HK\$)	5.1960	5.1960	5.1960	5.6040	5.6040	5.6040
Expected volatility	54.16%	54.16%	54.16%	48.99%	48.99%	48.99%
Expected option life	3 years	3.5 years	4 years	3 years	3.5 years	4 years
Expected dividends	3.326%	3.326%	3.326%	2.694%	2.694%	2.694%
Risk-free rate	0.930%	1.179%	1.427%	0.983%	1.134%	1.284%

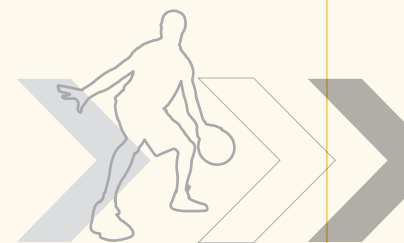
The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the grants of the share option.

21 Income tax in the consolidated statement of financial position

(a) Current tax liabilities in the consolidated statement of financial position represent:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Provision for PRC income tax	51,857	63,077



21 Income tax in the consolidated statement of financial position (continued)

(b) Recognized deferred tax assets and liabilities

	30 June 2011 RMB'000	31 December 2010 RMB'000
Deferred tax assets/(liabilities) arising from:		
Provision of incentive rewards and renovation	7,830	4,964
Pre-operating expenses, accruals and others	2,093	7,427
Total of deferred tax assets	9,923	12,391
Undistributed profits of subsidiaries in the PRC since 1 January 2008	(53,386)	(47,034)

(c) Deferred tax liabilities not recognized

At 30 June 2011, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,288,636,000 (31 December 2010: RMB992,221,000). Deferred tax liabilities of RMB64,432,000 (31 December 2010: RMB49,611,000) have not been recognized in respect of the tax that would be payable upon distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

22 Share capital

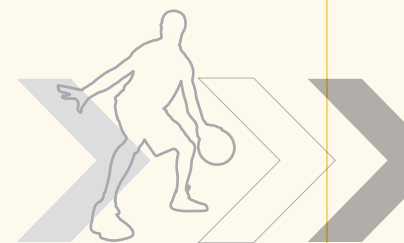
(a) Authorized and issued share capital

	30 June 2011		31 December 2010			
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000		
Authorized:						
Ordinary shares of HK\$0.1 each	5,000,000	50,000	5,000,000	50,000		
	Six months ended 30 June 2011			Year ended 31 December 2010		
	No. of shares '000	Amount		No. of shares '000	Amount	
		HK\$'000	RMB'000		HK\$'000	RMB'000
Issued and fully paid:						
Ordinary shares of HK\$0.1 each						
At 1 January	2,097,903	20,979	18,459	2,097,903	20,979	18,459
Share issued pursuant to share option scheme	126	1	1	—	—	—
At 30 June 2011/ 31 December 2010	2,098,029	20,980	18,460	2,097,903	20,979	18,459

(b) Share issued pursuant to share option scheme

During the six months ended 30 June 2011, options were exercised to subscribe for 126,000 ordinary shares in the Company at a consideration of HK\$654,696 of which HK\$1,260 was credited to share capital account and the balance of HK\$653,436 was credited to the share premium account.

HK\$162,793 has been transferred from the share-based payment reserve to the share premium upon exercises of these options.



23 Reserves

(a) Share premium

The application of the share premium of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiaries of the Group are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders. The statutory reserve can be used upon approval by the relevant authorities to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

(c) Other reserve

The other reserve of the Group represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak (Hong Kong) International Company Limited and the historical carrying value of Peak Hong Kong's share capital and share premium.

(d) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) Share-based payment reserve

The share-based payment reserve represents the fair value of services provided by the Group's Directors and employees to whom the Company has granted share options and is recognized in accordance with IFRS 2, "*Share-based payment*".

Notes to the unaudited interim financial report continued

(Expressed in Renminbi unless otherwise indicated)

24 Commitments

(a) Capital commitments

Capital commitments for the acquisition of property, plant and equipment and lease prepayments outstanding at the end of the reporting period are set out as follows:

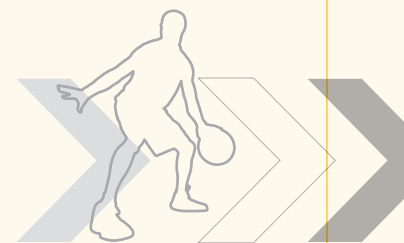
	30 June 2011 RMB'000	31 December 2010 RMB'000
Contracted for	254,566	16,769
Authorized but not contracted for	43,514	29,821
	298,080	46,590

(b) Operating leases

The total future minimum lease payments under non-cancellable operating leases at the end of the reporting period are payable as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	5,180	5,333
After 1 year but within 5 years	15,431	15,874
After 5 years	5,647	6,776
	26,258	27,983

The Group leases a number of properties under operating leases. The leases run for an initial period of one to more than ten years with an option to renew upon expiry. None of the leases includes contingent rentals.



25 Material related party transactions

(a) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors, is as follows:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Short-term employee benefits	3,331	2,903
Contributions to defined contribution retirement plans	23	23
Equity-settled share-based payments	354	85
	3,708	3,011

The above remuneration is included in "staff costs" (note 6(b)).

(b) Lease of land and properties

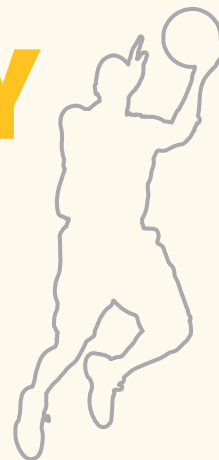
During the six months ended 30 June 2011, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by a controlling shareholder of the Company. The rental expenses for the six months ended 30 June 2011 were RMB1,129,000 (six months ended 30 June 2010: RMB1,129,000).

The Directors of the Company are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

26 Pledge of assets

At 30 June 2011, the bills payable of the Group was secured by certain bank deposits, lease prepayments and certain fixed assets. The aggregate net book value of assets pledged amounted to approximately RMB200,060,000 (31 December 2010: RMB224,533,000).

SUPPLEMENTARY INFORMATION



Interim Dividend

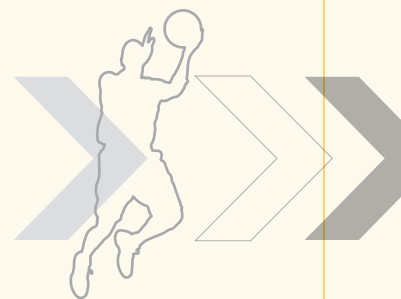
The Board has resolved to declare an interim dividend of HK3 cents (equivalent to approximately RMB2.47 cents) per ordinary share for the six months ended 30 June 2011. The interim dividend, amounting to RMB51.8 million and representing 12.3% of the profit for the period attributable to equity shareholders, is expected to be paid to the Company's shareholders on or about 23 September 2011.

Closure of Register of Members

The register of members of the Company will be closed from 14 September 2011 to 16 September 2011 (both days inclusive) for the purpose of determining the entitlement to the interim dividend. In order to qualify for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's share registrar and transfer office (i.e. Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration not later than 4:30 p.m. on 12 September 2011.

Review of Interim Results

The Audit Committee of the Company, consisting of the Company's three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group and the Group's results for the six months ended 30 June 2011. The Audit Committee has also met and discussed with the Group's external auditor, KPMG, regarding the Group's internal control system and financial reporting matters. The interim financial report has been approved for issue by the Board on 17 August 2011.



Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions in the Company. All the Directors, except for Mr. Xu Zhida, have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011. Mr. Xu Zhida informed the Company that he inadvertently purchased 1,000,000 shares of the Company on 19 January 2011, which was shortly after the commencement of the black-out period for Directors' dealings in shares of the Company on 14 January 2011. Mr. Xu Zhida advised that his purchase of the shares during the black-out period was a complete oversight on his part. He confirmed to the Company that at the time he made the purchase, he was not in possession of any insider or price sensitive information. With a view to demonstrating that he had no intention to make any short term profit from the purchase, he disposed of all the shares purchased on 19 January 2011 on the following day at a loss.

To avoid recurrence of any Director's dealing in shares of the Company during the black-out period in future, the Company has implemented new procedures which, among other things, include the requirement of the Directors to copy all notifications of intended dealing in the Company's securities to the Company Secretary in addition to the Chairman (or a specifically designated Director).

Compliance with the Written Guidelines for Securities Transactions by the Relevant Employees

The Company has established written guidelines for the relevant employees of the Group (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 June 2011.

Corporate Governance

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has complied with the code provisions contained in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011, except for code provision A.5.4 which stipulates that the Directors must comply with their obligations under the Model Code. Details of such deviation are set out in the section headed "Compliance with the model code for securities transactions by directors" above.

Supplementary Information continued

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

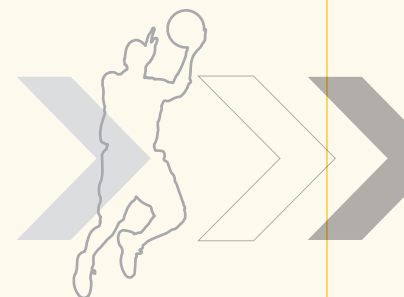
As at 30 June 2011, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, or as known by the Company, were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity	Note	Number of ordinary shares interested	Percentage* of the Company's issued share capital
Mr. Xu Jingnan	Interest held by controlled corporation	1	746,164,020	35.56%
Ms. Wu Tigao	Interest held by controlled corporation	1	746,164,020	35.56%
Mr. Xu Zhida	Interest held by controlled corporation	2	274,660,000	13.09%
Mr. Xu Zhihua	Interest held by controlled corporation	3	271,960,000	12.96%
Mr. Shen Nanpeng	Beneficial owner and interest held by controlled corporations	4	133,989,703	6.39%

Notes:

- These shares were held by Ever Sound Development Limited, the entire issued share capital of which was owned as to 70% by Mr. Xu Jingnan and 30% by Ms. Wu Tigao.
- These shares were held by Brilliant Lead Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhida.
- These shares were held by Alpha Top Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhihua.
- 3,468,564 of these shares were held by Mr. Shen Nanpeng while the remaining 130,521,139 shares were held by the following six investment funds managed by Sequoia Capital China Advisors Limited, a wholly owned subsidiary of Max Wealth Enterprises Limited: Sequoia Capital China I, L.P. (for 42,532,576 shares); Sequoia Capital China Partners Fund I, L.P. (for 4,888,802 shares); Sequoia Capital China Principals Fund I, L.P. (for 6,583,310 shares); Sequoia Capital China Growth Fund I, L.P. (for 66,737,649 shares); Sequoia Capital China Growth Partners Fund I, L.P. (for 1,591,542 shares); and Sequoia Capital China GF Principals Fund I, L.P. (for 8,187,260 shares). The general partners of the first three investment funds and the last three investment funds above were Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P., respectively. SC China Holding Limited, a wholly owned subsidiary of Max Wealth Enterprises Limited, was the general partner of both Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P. As Max Wealth Enterprises Limited was wholly owned by Mr. Shen Nanpeng, he was deemed to be interested in the 130,521,139 shares in which Max Wealth Enterprises Limited had deemed interest as mentioned above pursuant to the SFO.



Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(B) Long position in underlying shares of the Company — physically settled unlisted equity derivatives

Name of Director	Capacity	Note	Number of underlying shares in respect of the share options granted	Percentage ⁺ of underlying shares over the Company's issued share capital
Mr. Xu Zhida	Interest held by spouse	1&2	300,000	0.01%
Dr. Xiang Bing	Beneficial owner	2	200,000	0.01%
Mr. Wang Mingquan	Beneficial owner	2	200,000	0.01%

Notes:

1. Mr. Xu Zhida was deemed to be interested in these 300,000 share options of the Company owned by his spouse, Ms. Wu Bingrui, pursuant to the SFO.
2. Details of the above share options granted by the Company as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share option scheme" below.

⁺ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 June 2011.

Save as disclosed above and in the below section headed "Share option scheme", as at 30 June 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Supplementary Information continued

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2011, the following parties had interests of 5% or more in the issued share capital of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long position in ordinary shares of the Company

Name of substantial shareholder	Capacity	Note	Number of ordinary shares interested	Percentage* of the Company's issued share capital
Ever Sound Development Limited	Beneficial owner	1	746,164,020	35.56%
Brilliant Lead Group Limited	Beneficial owner	2	274,660,000	13.09%
Ms. Wu Bingrui	Interest held by spouse	3	274,660,000	13.09%
Alpha Top Group Limited	Beneficial owner	4	271,960,000	12.96%
FMR LLC	Investment manager		144,109,000	6.87%
Max Wealth Enterprises Limited	Interest held by controlled corporations	5	130,521,139	6.22%
SC China Holding Limited	Interest held by controlled corporations	5	130,521,139	6.22%
Sequoia Capital China Advisors Limited	Interest held by controlled corporations	5	130,521,139	6.22%

Notes:

- The above interest of Ever Sound Development Limited was also disclosed as the interest of each of Mr. Xu Jingnan and Ms. Wu Tigao in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".
- The above interest of Brilliant Lead Group Limited was also disclosed as the interest of Mr. Xu Zhida in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".
- Ms. Wu Bingrui was deemed to be interested in these shares of the Company through the interest of her spouse, Mr. Xu Zhida, an executive director of the Company. Such interest of Mr. Xu Zhida has been disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".
- The above interest of Alpha Top Group Limited was also disclosed as the interest of Mr. Xu Zhihua in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".
- The above interest was also included in the interest of Mr. Shen Nanpeng as disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".



Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(B) Long position in underlying shares of the Company - physically settled unlisted equity derivatives

Name of substantial shareholder	Capacity	Number of underlying shares in respect of the share options granted	Percentage⁺ of underlying shares over the Company's issued share capital
Ms. Wu Bingrui	Beneficial owner	300,000 (Note)	0.01%

Note: This interest was included in the interest of Mr. Xu Zhida as disclosed in the above section headed "Directors' interests and short positions in shares, underlying shares and debentures".

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 June 2011.

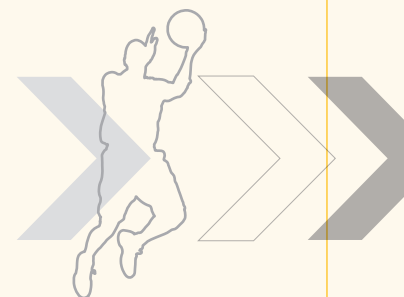
Save as disclosed above, as at 30 June 2011, no person, other than the Directors of the Company whose interests are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

Supplementary Information continued

Share Option Scheme

Details of the Company's share option scheme are set out in note 20 to the interim financial report. Details of movements of the options granted under the share option scheme for the six months ended 30 June 2011 are as follows:

Name or category of option holder	Date of grant	Exercise price per share	Number of options					Outstanding as at 30/06/2011	Exercise period
			Outstanding as at 01/01/2011	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period		
					(Note 1)			(Note 2)	
Independent Non-executive Directors									
Dr. Xiang Bing	1 June 2010	HK\$5.604	60,000	—	—	—	—	60,000	A
			60,000	—	—	—	—	60,000	B
			80,000	—	—	—	—	80,000	C
			200,000	—	—	—	—	200,000	
Dr. Rock Jin (Note 3)	1 June 2010	HK\$5.604	60,000	—	—	—	(60,000)	—	A
			60,000	—	—	—	(60,000)	—	B
			80,000	—	—	—	(80,000)	—	C
			200,000	—	—	—	(200,000)	—	
Mr. Wang Mingquan	1 June 2010	HK\$5.604	60,000	—	—	—	—	60,000	A
			60,000	—	—	—	—	60,000	B
			80,000	—	—	—	—	80,000	C
			200,000	—	—	—	—	200,000	
Substantial Shareholder									
Ms. Wu Bingrui (Sales Officer (International Sales))	1 June 2010	HK\$5.604	90,000	—	—	—	—	90,000	A
			90,000	—	—	—	—	90,000	B
			120,000	—	—	—	—	120,000	C
			300,000	—	—	—	—	300,000	
Employees of the Group									
In aggregate	9 February 2010	HK\$5.196	3,489,300	—	(126,000)	—	(113,700)	3,249,600	D
			3,489,300	—	—	—	(274,200)	3,215,100	E
			4,652,400	—	—	—	(365,600)	4,286,800	F
			11,631,000	—	(126,000)	—	(753,500)	10,751,500	
In aggregate	1 June 2010	HK\$5.604	540,000	—	—	—	(30,000)	510,000	A
			540,000	—	—	—	(30,000)	510,000	B
			720,000	—	—	—	(40,000)	680,000	C
			1,800,000	—	—	—	(100,000)	1,700,000	
			14,331,000	—	(126,000)	—	(1,053,500)	13,151,500	



Share Option Scheme (continued)

Notes:

1. The weighted average closing price of the Company's shares immediately before the dates on which options were exercised during the period was HK\$6.00.
2. The respective exercise periods of the share options granted are as follows:
 - A: From 1 June 2011 to 31 May 2015
 - B: From 1 June 2012 to 31 May 2015
 - C: From 1 June 2013 to 31 May 2015
 - D: From 9 February 2011 to 8 February 2015
 - E: From 9 February 2012 to 8 February 2015
 - F: From 9 February 2013 to 8 February 2015

The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. Dr. Rock Jin resigned as an independent non-executive director of the Company on 31 January 2011.
4. The number and/or exercise price of the options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2011.

Corporate Communications

In accordance with the Listing Rules, the Company has ascertained shareholders' wishes regarding their preferences on the language (i.e. English and/or Chinese) and means of receipt (i.e. in printed form or using electronic means) of the Company's corporate communications#. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications using electronic means, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communications will promptly upon request be sent the corporate communications in printed form free of charge. Shareholders have the right at any time to change their choice of language and means of receipt of the Company's corporate communications.

Shareholders may request for printed copy of the Company's corporate communications or change their choice of language and means of receipt of the Company's corporate communications by sending reasonable prior notice in writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders may also send such a notice by email to peak.ecom@computershare.com.hk.

The Company's corporate communications refer to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) annual report; (b) interim report; (c) notice of meeting; (d) listing document; (e) circular; and (f) form of proxy.

GLOSSARY



In this interim report, unless the context states otherwise, the following terms shall have the following meanings:

“Board”	The board of directors of the Company
“Company”	Peak Sport Products Co., Limited
“Director(s)”	Director(s) of the Company
“FIBA”	Fédération Internationale de Basketball
“Group” or “Peak”	The Company and its subsidiaries altogether
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NBA”	National Basketball Association
“PRC” or “China”	The People’s Republic of China
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time