



I CAN PLAY

2012 

Interim Report 中期報告

Peak Sport Products Co., Limited

匹克體育用品有限公司

Mission 使命

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

積極促進全球體育事業發展，為人類健康生活
提供優質體育用品及服務

Vision 願景

**To become an internationally renowned sportswear brand
that can be sustainable for centuries**

成為國際知名體育用品品牌，打造百年卓越企業

Core Value 核心價值

United, practical and effective

Pragmatic, conscientious and diligent

People-oriented, creating value for customers and society

Making dreams come true through team work

團結、求實、高效

實事求是、盡心盡職、用心做好每件事

以人為本，為顧客及社會創造價值

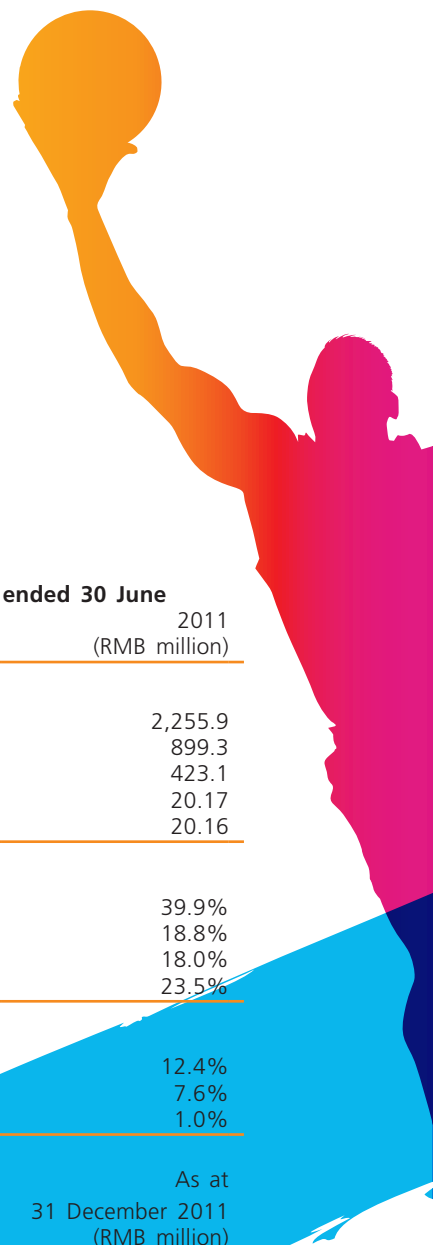
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Financial Summary



	Six months ended 30 June	
	2012 (RMB million)	2011 (RMB million)
<i>Profitability data</i>		
Turnover	1,612.9	2,255.9
Gross profit	608.6	899.3
Net profit for the period	239.7	423.1
Basic earnings per share (RMB cents)	11.42	20.17
Diluted earnings per share (RMB cents)	11.42	20.16
<i>Profitability ratios</i>		
Gross profit margin	37.7%	39.9%
Net profit margin	14.9%	18.8%
Effective tax rate	20.9%	18.0%
Return on equity (annualised) (Note 1)	11.8%	23.5%
<i>Operating ratios (as a percentage of turnover)</i>		
Advertising and promotion expenses	12.2%	12.4%
Staff costs	11.3%	7.6%
Research and development expenses	6.9%	1.0%
<i>Assets and liabilities data</i>		
	As at 30 June 2012 (RMB million)	As at 31 December 2011 (RMB million)
Non-current assets	742.2	672.3
Current assets	4,365.4	4,207.5
Current liabilities	949.8	777.3
Non-current liabilities	62.9	59.0
Shareholders' equity	4,094.9	4,043.5
Current ratio	4.6	5.4
Gearing ratio (Note 2)	10.6%	4.0%
Net asset value per share (RMB yuan)	1.95	1.93
<i>Working capital data</i>		
	Six months ended 30 June 2012 (days)	Year ended 31 December 2011 (days)
Average inventory turnover days (Note 3)	86	49
Average trade receivables and bills receivable turnover days (Note 4)	121	66
Average trade payables and bills payable turnover days (Note 5)	48	48

Note 1 Return on equity is equal to the net profit for the period divided by the average of the opening and closing equity.

Note 2 The calculation of gearing ratio is based on the total bank loans divided by the equity.

Note 3 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.

Note 4 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.

Note 5 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.



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Financial Highlights for the First Half of 2012

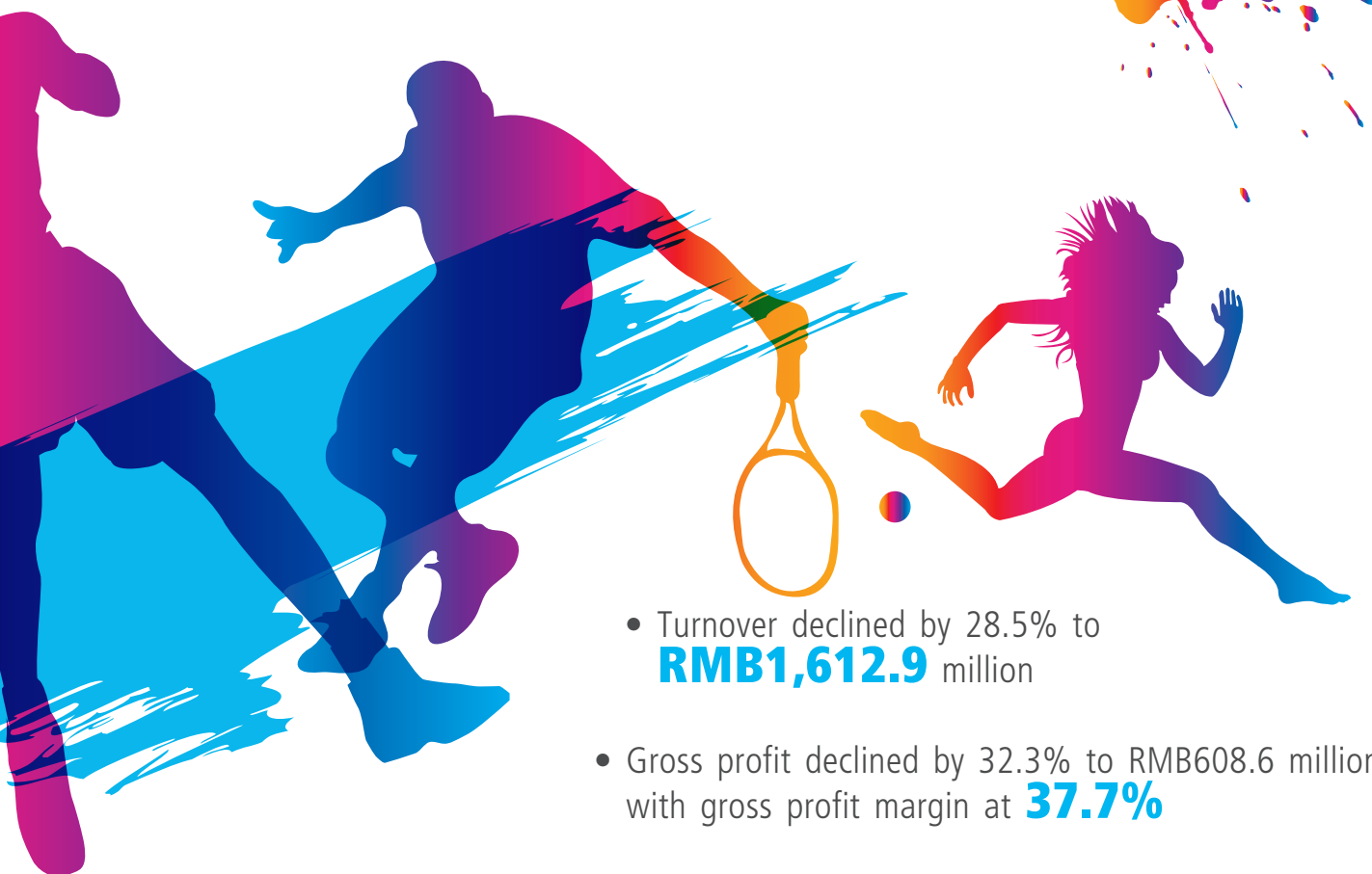


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Peak Sport Products Co., Limited



Interim Report 2012



- Turnover declined by 28.5% to **RMB1,612.9** million
- Gross profit declined by 32.3% to RMB608.6 million with gross profit margin at **37.7%**
- Profit for the period attributable to equity shareholders declined by 43.3% to RMB239.7 million with net profit margin at 14.9%
- Basic and diluted earnings per share amounted to RMB11.42 cents
- **Interim dividend of HK5 cents** (equivalent to RMB4.1 cents) per ordinary share was declared
- Number of authorized Peak retail outlets was **7,059**, representing a net decrease of 747 outlets from the end of 2011

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)

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*

BOARD COMMITTEES

Audit Committee

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

AUTHORIZED REPRESENTATIVES

Mr. Xu Zhihua (許志華)
Mr. Tsoi Ka Ho (蔡家豪)





REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
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

COMPANY WEBSITE

www.peaksport.com



Management Discussion and Analysis

Market Overview

Global economic conditions

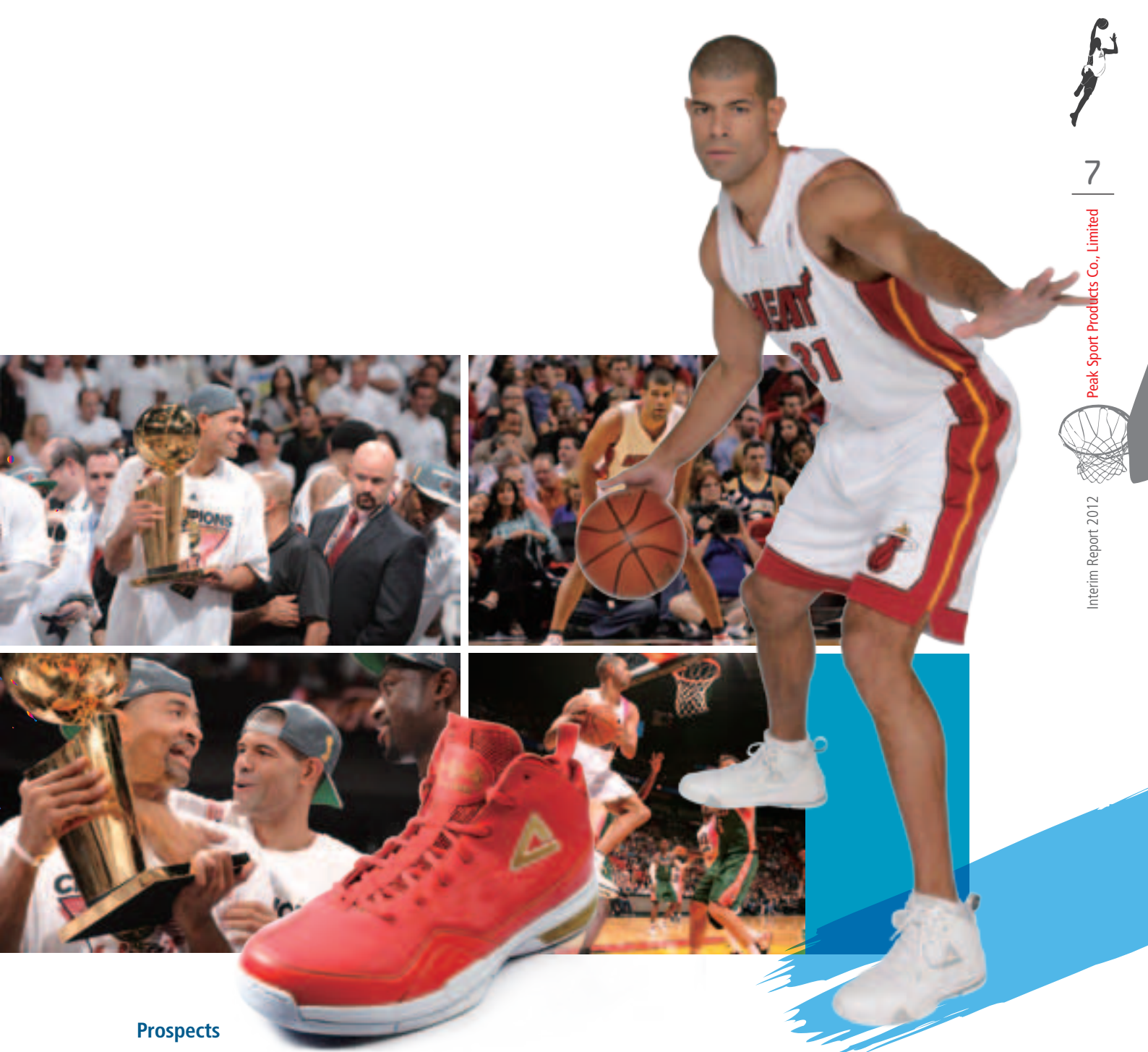
China has been experiencing a further slowing down of its economy with its GDP growth rate declining to 7.8% during the first half of 2012. Although the PRC government has been adopting policies to bolster growth starting from the beginning of this year, it appears that these policies may need more time to take effect in the real economy. In addition, China is preparing for a once-every-five-year leadership changeover later this year. This has created uncertainties in its long-term policies regarding economic development and development in different sectors and further hurt confidence in both consumption and investment expenditure during the first half of 2012. On the other hand, governments of developed countries have also been fighting against the faltering world economy for quite a while. European countries were still troubled by the debt crisis during the first half of 2012 while the latest figures from the labour and property markets in the US were yet to confirm a solid recovery. The economies of emerging markets have also been slowing down since last year mainly because of weakened demand from developed countries.

Sportswear industry in China

Last year's over-expectation of demand for sports products by sportswear companies has been plaguing the sportswear industry during the first half of 2012. Most sportswear brands have been aggressively clearing their excessive inventory during the period and it is expected that the industry-wide inventory correction will take some time to complete.

Depending on the amount of inventory held by different sportswear brands, the time required for the inventory returning to a normal level may vary among different brands. Despite such negative conditions, the correction has brought about some positive developments for the industry which include lower rentals, cessations of business of some small players, decreased cost of raw materials and stabilized cost of direct labour. We believe that these developments are not only fostering a recovery but also preparing for sustainable growth of the sportswear industry in near future.





Prospects

It is expected that the sportswear industry may experience a setback in current year but we are still optimistic about the long-term development of the industry because those fundamental factors such as urbanization of rural areas in China and change in the life-style of the Chinese people to participate in more sports activities have not changed. Regarding the short-term prospects, governments of major countries around the world have already taken measures to spur growth. The PRC government has lowered the interest rate two times while many developed countries also decreased the interest rate and continued to adopt monetary quantitative easing policy during the first half of 2012. The economy of China is expected to regain its momentum at a later time this year, most probably after the changeover of its leaders. It is also expected that the economies of emerging markets will recover faster than those of developed countries because most developed countries were burdened by high fiscal deficits and heavy public debts. We anticipate that after the current rationalization, the sportswear industry will achieve sustainable growth with an annual growth rate slightly more than the GDP growth rate of China in coming years. Through the continuous enhancement of our brand, optimization of our distribution channels, and increased investment in research and development of new products, we have confidence to become a member of the first batch of companies to recover from the current rationalization of the sportswear industry.



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Management Discussion and Analysis (continued)

Financial Review

Turnover

The Group's turnover for the first half of 2012 amounted to RMB1,612.9 million (First half of 2011: RMB2,255.9 million), representing a decline of 28.5% when compared to that for the same period in 2011. The decrease was mainly attributable to an industry-wide inventory correction and sluggish economic conditions which adversely affected the demand for sports products during the first half of 2012.

Analysis of turnover by product category:

	Six months ended 30 June 2012		2011		Change (%)
	RMB (million)	% of turnover	RMB (million)	% of turnover	
Footwear	753.3	46.7	1,018.7	45.2	(26.1)
Apparel	811.8	50.3	1,193.6	52.9	(32.0)
Accessories	47.8	3.0	43.6	1.9	9.6
Total	1,612.9	100.0	2,255.9	100.0	(28.5)

There have not been any material changes in the ratios of turnover contributed by various kinds of product category during the first half of 2012.

Analysis of turnover by geographical location:

	Six months ended 30 June 2012		2011		Change (%)
	RMB (million)	% of turnover	RMB (million)	% of turnover	
Northern region (Note 1)	347.3	21.5	474.9	21.1	(26.9)
Eastern region (Note 2)	521.6	32.3	854.5	37.9	(39.0)
Southern region (Note 3)	547.6	34.0	693.2	30.7	(21.0)
China market	1,416.5	87.8	2,022.6	89.7	(30.0)
Africa	68.6	4.3	54.9	2.4	25.0
Asia	64.1	4.0	79.6	3.5	(19.5)
Europe	39.6	2.4	52.2	2.3	(24.1)
South America	22.0	1.4	34.0	1.5	(35.3)
Australia	1.5	0.1	6.6	0.3	(77.3)
North America	0.6	0.0	6.0	0.3	(90.0)
Overseas markets	196.4	12.2	233.3	10.3	(15.8)
Total	1,612.9	100.0	2,255.9	100.0	(28.5)

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 87.8% of the total turnover while the overseas markets contributed 12.2% of the total turnover during the first half of 2012. The turnover derived from the China market and the overseas markets declined by 30.0% and 15.8% respectively in the first half of 2012 when compared to those for the same period in 2011. The decrease in turnover derived from the China market was primarily attributable to the industry-wide inventory correction and sluggish economic conditions prevailing in the first half of 2012. The decrease in turnover derived from the overseas markets was mainly due to the slowdown in economic growth and hence decreased demand for sports products in markets such as Asia, Europe and South America during the first half of 2012.



Management Discussion and Analysis (continued)



Gross profit by product

Analysis of contribution to gross profit by product category:

	Six months ended 30 June		2011		Change in gross profit margin (% points)
	2012			2011	
	Gross profit RMB (million)	Gross profit margin (%)	Gross profit RMB (million)	Gross profit margin (%)	
Footwear	282.2	37.5	403.2	39.6	(2.1)
Apparel	310.3	38.2	479.6	40.2	(2.0)
Accessories	16.1	33.7	16.5	37.8	(4.1)
Total	608.6	37.7	899.3	39.9	(2.2)

The gross profit margins for footwear and apparel products decreased by 2.1% points and 2.0% points respectively during the first half of 2012 when compared to those for the same period in 2011. Such decreases were mainly due to an increase in the amount of various rebates that the Group offered to distributors so as to support them to withstand the rationalization of the sportswear industry during the first half of 2012. These rebates included performance bonus, rental subsidy, incentives for early settlement of debts and special discount on selected products.





Selling price and volume

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

	Six months ended 30 June				Change	
	2012		2011			
	Quantity sold (million pairs/pieces)	Average unit selling price (RMB)	Quantity sold (million pairs/pieces)	Average unit selling price (RMB)	Quantity sold (%)	Average unit selling price (%)
Footwear	8.6	87.6	11.8	86.3	(27.1)	1.5
Apparel	15.9	51.1	24.1	49.5	(34.0)	3.2

Notes:

1. We have not included the respective information of our accessory products. We believe that a unit-based analysis of this product category would not be meaningful because we have a broad range of accessory products that vary significantly in terms of unit price.
2. 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.

Management Discussion and Analysis (continued)

The average unit selling price for footwear products increased by 1.5% to RMB87.6 for the first half of 2012 from RMB86.3 for the same period in 2011. The average unit selling price for apparel products increased by 3.2% to RMB51.1 for the first half of 2012 from RMB49.5 for the same period in 2011. Such increases were mainly caused by a reduction in the wholesale discount that the Group offered to our distributors starting from 2012. However, the increases were more than offset by the increase in the amount of rebates and an increase in the cost of sales resulting in decreased gross profit margins during the first half of 2012.

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			Average turnover per unit retail floor area (RMB'000) (Note 2)
	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)	
2012	7,059	589,046	83.4	7,433	603,254	191	2.3
2011	7,619	595,517	78.2	7,422	574,304	273	3.5
Change (%)	(7.4)	(1.1)	6.6	0.1	5.0	(30.0)	(34.3)

Notes:

1. Average turnover per retail outlet is equal to the total turnover (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 (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 83.4 square metres as at 30 June 2012 from 78.2 square metres as at 30 June 2011, 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 2012 decreased by 30.0% and 34.3% respectively when compared to those for the same period in 2011. Such decreases were in line with the decline in turnover derived from the China market. The decline in turnover was in turn due to the decrease in the demand for sports products caused by the industry-wide inventory correction and sluggish economic conditions during the first half of 2012.

Cost of sales

Analysis of cost of sales by nature and by production method:

	2012		2011		Change (%)
	RMB (million)	% of total	RMB (million)	% of total	
Self-production					
Raw materials	256.8	65.7	317.8	68.3	(19.2)
Direct labour	78.0	20.0	85.7	18.4	(9.0)
Overhead	55.8	14.3	62.0	13.3	(10.0)
Total	390.6	100.0	465.5	100.0	(16.1)
Cost of sales					
Self-production	390.6	38.9	465.5	34.3	(16.1)
OEM	329.9	32.8	302.8	22.3	8.9
Subcontracting arrangements	283.8	28.3	588.3	43.4	(51.8)
Total	1,004.3	100.0	1,356.6	100.0	(26.0)



Management Discussion and Analysis (continued)



The decrease in the costs of certain raw materials during the first half of 2012 caused a decrease in the ratio of the cost of raw materials to total cost of self-production to 65.7% from 68.3% for the same period in 2011.

The ratio of the total cost of self-production to total cost of sales increased to 38.9% in the first half of 2012 from 34.3% in the first half of 2011. 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 2012 increased to 58.3% and 32.2% from 48.0% and 24.7% for the same period in 2011 respectively.

Other revenue and net income

Other revenue for the first half of 2012 increased to RMB15.4 million (First half of 2011: RMB13.9 million) mainly because interest income derived from bank deposits increased as a result of higher interest rates compared to the same period in 2011. Other net income increased to RMB5.7 million (First half of 2011: RMB0.4 million) mainly due to exchange gains arising from settlement of trade transactions by overseas customers and a gain on disposal of excessive intermediate products during the period.

Selling and distribution expenses

Total selling and distribution expenses for the first half of 2012 amounted to RMB226.6 million (First half of 2011: RMB305.3 million), representing a decrease of 25.8% when compared to those for the same period in 2011. The decrease was mainly attributable to decreased advertising and promotion activities during the period.

Administrative expenses

Total administrative expenses for the first half of 2012 amounted to RMB97.7 million (First half of 2011: RMB92.1 million), representing an increase of 6.1% when compared to those for the same period in 2011. The increase during the first half of 2012 was primarily due to: (i) increased bank charges regarding arrangements for bank loans; (ii) increased staff costs as a result of the recruitment of additional staff to expand the management team of the Group; (iii) increased depreciation charges for new office building and staff quarter; and (iv) decreased research and development expenses as a result of the cessation of using outsourced research and development services, which only partially offset the impact of items (i) to (iii).





Finance expenses

The increase in the finance expenses was caused by increases in both the short-term bank loans and relevant interest rates during the first half of 2012. These short-term bank loans were primarily used for settlement of advertising and promotion expenses denominated in foreign currencies and payment of dividends.

Income tax

Income tax expenses decreased by 31.8% to RMB63.4 million for the first half of 2012 from RMB93.0 million for the same period in 2011. The decrease was in line with the decrease in operating profits during the period.

Net profit and net profit margin

Net profit decreased by 43.3% to RMB239.7 million for the first half of 2012 from RMB423.1 million for the same period in 2011 while net profit margin decreased to 14.9% for the first half of 2012 from 18.8% for the same period in 2011. The decreases in net profit and net profit margin during the year were primarily a result of: (i) the decrease in gross profit; (ii) the increase in administrative expenses; (iii) the decrease in selling and distribution expenses; and (iv) the decrease in income tax, which together with item (iii) only partially offset the impact of items (i) and (ii).

Working capital ratios

The average inventory turnover days for the six months ended 30 June 2012 increased to 86 days from 49 days for the year ended 31 December 2011 mainly because the Group, which had ample production capacity due to weakened demand during the first half of 2012, had already manufactured ordered products for the autumn season much earlier than before at the end of June in this year.

As our distributors have been experiencing a rationalization of the sportswear industry and sluggish demand during the first half of 2012, the Group allowed them to settle their debts later than before. As a result, the average trade receivables and bills receivable turnover days increased to 121 days for the six months ended 30 June 2012 from 66 days for the year ended 31 December 2011.

The average trade payables and bills payable turnover days for the six months ended 30 June 2012 remained unchanged at 48 days when compared to that for the year ended 31 December 2011.

Liquidity and capital resources

The net cash outflow from operating activities of the Group for the six months ended 30 June 2012 amounted to RMB113.4 million (First half of 2011: net cash inflow of RMB130.3 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 trade payables as at 30 June 2012 when compared to those as at 31 December 2011. As at 30 June 2012, 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 RMB2,619.2 million, representing a net decrease of RMB77.7 million when compared to the position as at 31 December 2011.

Management Discussion and Analysis (continued)

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

	Six months ended 30 June 2012 RMB'000
Net cash outflow from operating activities	(113,376)
Net capital expenditure	(97,143)
Dividends paid	(186,433)
Proceeds from bank loans	304,892
Other net cash inflow	14,386
Net decrease in cash and bank deposits	(77,674)

The Group borrowed bank loans during the six months ended 30 June 2012. All these bank loans were repayable within one year and primarily used for the settlement of advertising and promotion expenses denominated in foreign currencies and payment of dividends of the Company.

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.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans less cash and capital is defined as the total equity. As at 30 June 2012, the Group had cash in excess of interest-bearing loans. It is the management's intention to restrict the ratio below 50% in the long run. To achieve this end, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or raise new debts.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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 and bank loans which were denominated in Hong Kong dollars or 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.





Management Discussion and Analysis (continued)

Pledge of assets

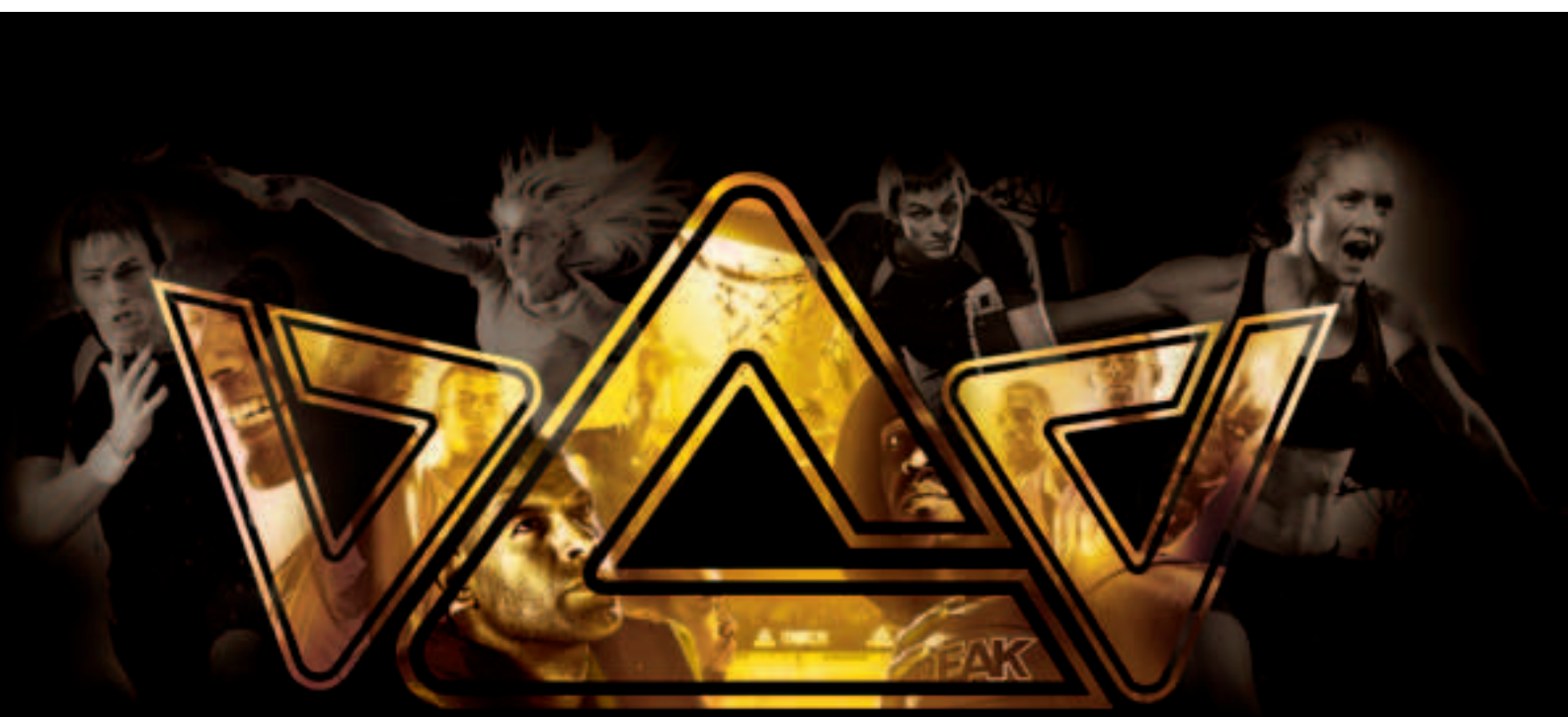
The following assets were pledged to banks as security for bills payable and certain banking facilities:

	Carrying amount as at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Buildings	113,260	148,749
Bank deposits	219,756	82,259
Lease prepayments	10,422	11,887

Operations Review

Distribution network

The network of authorized Peak retail outlets, which components are owned and operated either by our distributors or by retail outlet operators, has been providing an effective retail channel for our products throughout China. To prepare for our future growth and further enhance our brand image, the Group is optimizing our distribution network by closing down small and less efficient retail outlets while opening larger retail outlets in the first half of 2012. As at 30 June 2012, the total number of authorized Peak retail outlets was 7,059 (31 December 2011: 7,806), representing a net decrease of 747 outlets.





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

	Number of retail outlets as at		
	30 June 2012	31 December 2011	Change (%)
Northern region	1,953	2,065	(5.4)
Eastern region	2,735	3,199	(14.5)
Southern region	2,371	2,542	(6.7)
Total	7,059	7,806	(9.6)

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 2012	31 December 2011	Change (%)
First-tier city	370	437	(15.3)
Second-tier city	1,279	1,578	(18.9)
Third-tier city	5,410	5,791	(6.6)
Total	7,059	7,806	(9.6)

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, most of authorized Peak retail outlets are located in the second-tier and third-tier cities. During the first half of 2012, the Group has been optimizing our distribution channel by closing down less efficient retail outlets. Many of these retail outlets were located in the first-tier and second-tier cities with high rental.

Analysis of authorized Peak retail outlets by store category:

	Number of retail outlets as at		
	30 June 2012	31 December 2011	Change (%)
Flagship Store	25	25	0.0
Basic Store	4,350	4,969	(12.5)
Department Store or Shopping Mall Outlet	2,615	2,745	(4.7)
Basketball Specialty Outlet	69	67	3.0
Total	7,059	7,806	(9.6)



Management Discussion and Analysis (continued)

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 are crucial to the success of our distribution network.

China market

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 2012, the Group held two such sales fairs for our autumn and winter collections of 2012 on 3 January and 15 April 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 the distributor an exclusive right to distribute our products in a specified area 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, credit terms, discounts offered and rewards. Subject to our written approval, our distributors may appoint retail outlet operators. However, we do not enter into agreements with such retail outlet operators except for licensing 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.

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 noncompliant 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 2012, the Group continued to expand the coverage of our computerized management information system ("MIS"), which collected real-time operational data and feedback from authorized Peak retail outlets connected to the system. As at 30 June 2012, 2,081 retail outlets were connected to our MIS.





As an incentive for our distributors to expand the network of authorized Peak retail outlets and to maintain consistency of store image and layout, we provide certain renovation work to retail outlets and rental subsidies to retail outlet operators for opening retail outlets with high rentals in prime locations. We also offer performance bonuses (or rewards) 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 2012, we participated in the following international exhibitions and trade fairs:

- International Trade Fair for Sports Equipments and Fashion in Munich, Germany;
- 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 sportswear industry. To create a simple and powerful brand message to our consumers, the Group has been employing a focused marketing strategy by focusing on the basketball sports category 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 the basketball sports category, 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 had an 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 promoting 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 the basketball sports category so as to maintain our leading position in the basketball sector in coming years.

Management Discussion and Analysis (continued)

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 also entered into sponsorship agreements with the NBA's Houston Rockets and Miami Heat under which the Group can, among other things, display the Peak signage at the home stadiums of the two teams.

As at 30 June 2012, the Group endorsed a total of 15 NBA players. With these players, we had presence in 12 teams out of the 30 NBA teams as follows (by alphabetical order):

NBA player	NBA team
Andrew Goudelock	Los Angeles Lakers
Anthony Morrow	New Jersey Nets
Beno Udrih	Milwaukee Bucks
Carl Landry	New Orleans Hornets
C. J. Watson	Chicago Bulls
Dorell Wright	Golden State Warriors
Gordon Hayward	Utah Jazz
Jason Richardson	Orlando Magic
JaVale McGee	Washington Wizards
Jeremy Tyler	Golden State Warriors
Kyle Lowry	Houston Rockets
Marqus Blakely	Houston Rockets
Patrick Patterson	Houston Rockets
Sam Young	Philadelphia 76ers
Shane Battier	Miami Heat

FIBA

The Group has had an association with FIBA since 2008 and became the official and exclusive footwear partner of FIBA worldwide and the exclusive sportswear (apparel and headwear) partner of FIBA in Asia in August 2011. Under relevant sponsorship and licensing agreements, the Group is required, among other things, to supply footwear to all staff, referees and volunteers at all FIBA and FIBA Zones Championships, and has an exclusive right to use globally specified logos and mascots associated with certain FIBA sports competitions on some of our products.





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 sportswear 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 of 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 New Zealand

The Group has had an association with Basketball New Zealand since 2009. Under the relevant sponsorship agreement, the Group is a sponsor of certain New Zealand national basketball teams which are required to use our apparel products in all matches except for the Olympic Games and Commonwealth 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 sports products in all international tournaments, including 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 basketball teams.



Management Discussion and Analysis (continued)

Cote d'Ivoire Basketball Federation

The Group entered into a cooperation agreement with Cote d'Ivoire Basketball Federation in February 2011 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sports products for the Cote d'Ivoire national basketball team.

Cameroon Basketball Federation

The Group entered into a cooperation agreement with Cameroon Basketball Federation in April 2011 and became its official sponsor and strategic partner. Under the agreement, the Group is required, among other things, to supply sports products for all Cameroon national basketball teams in all matches, including the Olympic Games in 2012 and the World Championship for Men in 2014.

Montenegro Basketball Federation

The Group entered into a cooperation agreement with Montenegro Basketball Federation in September 2011 and became its official sponsor and strategic partner. Under the agreement, all teams under Montenegro Basketball Federation are required to wear Peak's sportswear in all matches, including the World Championship for Men in 2014 and the Olympic Games in 2016.

Iceland Basketball Federation

The Group entered into a cooperation agreement with Iceland Basketball Federation in July 2011 and became its official sponsor and supplier. Under the agreement, the Group is required, among other things, to supply sports products for Iceland Basketball Federation, and the Group can display advertisements at specified training venues.

Women's Chinese Basketball Association

The Group entered into a cooperation agreement with Women's Chinese Basketball Association ("WCBA") in December 2011 and became its marketing partner. Under the agreement, all the athletes, referees and staff are required to wear Peak's sportswear in all matches, trips, commercial and charitable events under WCBA during the 2011–2012 season.

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 2012 Peak Team China Tour was officially kicked off in Beijing on 14 August 2012. The Group invited several of our NBA spokespersons to participate in the tour. These spokespersons came to China and interacted with Chinese basketball fans in nearly 20 cities, including Beijing, Guangzhou, Nanjing and Shenzhen, from August to September of 2012. Both the Peak brand and NBA players will be gaining intense media exposure throughout the tour.





NBA Nation

NBA Nation is an interactive basketball event officially launched by NBA. The event, which involves basketball as well as elements of entertainment, provides an excellent platform to deliver the best of the NBA experience to basketball fans. This is the first year that the event is held in China and the event has been taking place across 20 cities including Changsha, Shanghai and Guangzhou starting from June 2012. As the official marketing partner of the NBA Nation, the Group supplies all sports products for the event and the event has provided a great opportunity to further promote both NBA and the Peak brand.

2012 ABA Championship

2012 ABA Championship is expected to be held in September 2012. Being a sponsor and official sports apparel supplier of the tournament, the Group will, among other things, supply sports apparel to all officials and staff of the tournament.

Other basketball sponsorships

The Group also sponsored the following basketball events in 2012:

- The 17th Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) held from July to August; and
- The 13th Xiamen-Peak 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 has gradually been strengthening our promotion in the tennis sector. 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 our tennis sports products. Accordingly, the Group utilizes promotion partners which can manifest the internationalism and professionalism of the Peak brand to promote our 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:

- ASB Classic (Auckland, New Zealand);
- Brisbane International (Brisbane, Australia);
- Apia International Sydney (Sydney, Australia);
- Moorilla Hobart International (Hobart, Australia);
- PTT Pattaya Women's Open (Pattaya, Thailand);
- Guangzhou International Women's Open (Guangzhou, China); and
- BMW Malaysian Open (Kuala Lumpur, Malaysia).



Management Discussion and Analysis (continued)

The Group, among other things, obtained a licence to develop, manufacture, market and sell the WTA-PEAK cobranded products in the Asia Pacific region. In addition, the Group is the official cooperative partner of the WTA Carnival and organized interactive games and tennis-related activities for tennis fans in summer 2012 in Shanghai, Chengdu, Guangzhou and Beijing.

Endorsed tennis athlete

To increase our brand awareness in the tennis sector, after our signing of the endorsement contract with Ms. Olga Govortsova from Belarusian in 2010, the Group signed endorsement contracts with Galina Voskoboeva from Kazakhstan and Klaudia Jans-Ignacik from Poland in April 2012 as our spokespersons, bringing the Group's total number of tennis spokespersons to three. This further enhanced the influence of Peak in the women's tennis sector.

Running promotion partners

In line with the new marketing strategy, the Group has been strengthening the promotion of our running footwear. 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 IV (逸跑4代), was launched in the first half of 2012 and continued to receive positive response from the market. The promotion partners of Yi Pao included CCTV, Guangdong Sports TV, Anhui Satellite TV and a number of sports magazines.

Football promotion partners

The Group also adopts the strategy of building up an international and professional brand image to promote our football sports products. A number of promotion activities for football carried out during the first half of 2012 were targeted not only at the domestic market but also specific overseas markets including the Middle East.

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 2012, the Group sponsored five Chinese football league teams, including Shenyang Dongjin and Beijing Baxishengshi, in preparing for the revival of the football sector in China.

Other promotion partners and events

The National Olympic Committee of New Zealand

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

The National Olympic Committee of Iraq

The Group has had an association with the National Olympic Committee of Iraq since 2007. Under relevant agreements, the Group is the official and sole sponsor of the National Olympic Committee of Iraq and, among other things, supplies sports products for all Iraqi teams in all training, games and sports events.

The National Olympic Committee of Cyprus

The Group entered into a sponsorship agreement with the National Olympic Committee of Cyprus in 2010. Under the agreement, the Group, among other things, supplies sports products for the Cypriot teams participating in all sports games, including the Olympic Games in 2012.





The National Olympic Committee of Slovenia

The Group entered into a cooperative agreement with the National Olympic Committee of Slovenia in April 2011. Under the agreement, the Group, among other things, supplied sports products for the Slovene teams during the Olympic Games in 2012.

The National Olympic Committee of Algeria

The Group entered into a sponsorship agreement with the National Olympic Committee of Algeria in July 2011. Under the agreement, the Group, among other things, supplied sports products for the Algerian teams during the Olympic Games in 2012.

The National Olympic Committee of Lebanon

The Group entered into a sponsorship agreement with the National Olympic Committee of Lebanon in September 2011. Under the agreement, the Group, among other things, supplies sports products for the Lebanon teams participating in all sports games including the Olympic Games in 2012.

2012 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 and 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 competition for seven consecutive years since 2006.

Production capacity

Our products are manufactured either by the Group’s own production facilities or through outsourcing arrangements with contract manufacturers. We believe that maintaining our own production capabilities has several advantages including better control over the production process, having the flexibility and ability to respond promptly to market changes, and better bargaining power over contract manufacturers.

Footwear production facilities

The Group currently has three footwear production facilities at Fengze in Fujian Province, Hui’an in Fujian Province and Shang’gao in Jiangxi Province. We also outsource a portion of our footwear production to contract manufacturers. The total footwear production volume for the first half of 2012 was approximately 8.6 million pairs, of which approximately 58.3% were produced in-house and approximately 41.7% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for footwear products to approximately 17.0 million pairs when our plant at Shang’gao attains full production capacity by the end of 2014.

Apparel production facilities

The Group currently has three apparel production facilities at Fengze in Fujian Province, Hui’an in Fujian Province and Shang’gao in Jiangxi Province. We also outsource a major portion of our apparel production to contract manufacturers. The total apparel production volume for the first half of 2012 was approximately 18.7 million pieces, of which approximately 32.2% were produced in-house and approximately 67.8% were produced through outsourcing to contract manufacturers. We have a plan to increase our annual production capacity for apparel products to approximately 19.8 million pieces when our plants at Hui’an and Shang’gao attain 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	Hui'an	Shang'gao	Fengze	Hui'an	Shang'gao	
	Quanzhou	Quanzhou	Yichun	Quanzhou	Quanzhou	Yichun	
	Fujian Province	Fujian Province	Jiangxi Province	Fujian Province	Fujian Province	Jiangxi Province	
	(full production)	(full production)		(full production)			
Commencement date of production	Aug 1994	Jul 2011	Jun 2008	Feb 2004	Sep 2008	Jan 2012	
Number of production lines as at 30 June 2012	4	3	13	26	67	5	
Estimated annual production volume (Note) (pairs/pieces)	2011 2012	3.0 million 3.0 million	1.5 million 2.0 million	8.5 million 6.0 million	2.7 million 3.0 million	9.0 million 10.5 million	N/A 0.4 million
Actual production volume (pairs/pieces)	2011 (Jan-Dec) 2012 (Jan-Jun)	3.0 million 1.2 million	1.6 million 0.8 million	8.6 million 3.0 million	2.4 million 1.4 million	7.7 million 4.4 million	N/A 0.2 million
Expected time of full production	N/A	N/A	2014	N/A	2013	2013	
Expected number of production lines upon full production	N/A	N/A	16	N/A	140	6	
Expected capacity upon full production (pairs/pieces)	N/A	N/A	12.0 million	N/A	16.4 million	0.4 million	

Note: Estimated annual production volume 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 these factors and assumptions may vary over time, there is no assurance that the actual production volume in a year would not differ materially from the estimated annual production volume for that year.

Research & development ("R&D")

Being a professional sportswear 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 2012, the Group operated four R&D workshops located in Beijing, Guangzhou, Quanzhou and Los Angeles. These workshops altogether employed approximately 240 research and design professionals. Through the interactions of the design teams in different workshops, we are capable of designing more innovative and stylish products to satisfy the needs of different consumer segments all over the world. During the first half of 2012, the Group introduced 300 new footwear products, 571 new apparel products and 282 new accessory products to consumers.

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 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.

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. As at 30 June 2012, the Group's total headcount was approximately 11,500.

We care for the career development of our staff and provide various kinds of training courses 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.

We provide systematic training to our front-line sales staff, distributors and retail outlet operators regarding Peak's product knowledge and selling and promotion skills. During the first half of 2012, we held 10 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.

Management Discussion and Analysis (continued)

Prospects

We are optimistic about the future development of the sportswear industry. 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 to be 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 still focus on the basketball sports category to maintain our leading position in the basketball sector in China, 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 renowned tournaments organizers such as NBA and FIBA and other promotion partners including teams, events and individual athletes to extend our brand reach throughout the world.

Optimization of distribution channels

To prepare for the future development of the sportswear industry, the Group has been optimizing our distribution channels since last year. Regarding our retail network, the Group will continue to open, through our distributors and retail outlet operators, larger retail outlets and close down more small and less efficient retail outlets in 2012. At the same time, the Group will encourage each retail outlet operator to open more retail outlets so as to increase its capability to withstand changes in market conditions. Regarding our distributors, the Group will continue to increase their number to enhance their competitiveness in 2012. The Group may introduce a new distributor by allocating part of a region previously managed by an underperforming distributor to the new distributor. When the area managed by the underperforming distributor has been reduced, the distributor can concentrate its resources to better manage the smaller region. The Group will also encourage our distributors to open more of their own retail outlets to further enhance their efficiency and responsiveness to market changes.

Expansion of production capacity

As mentioned above, maintaining our own production capabilities will enable us to have better control of our production process, better bargaining power over contract manufacturers, and the flexibility and ability to respond promptly to market changes. Accordingly, the Group will invest approximately RMB80 million to complete the construction of and to purchase new machinery and equipment for our two existing production facilities at Hui'an in Fujian Province and Shang'gao in Jiangxi Province in the second half of 2012. To alleviate the impact of rising labour cost around the coastal regions of China, the Group is going to build another apparel plant at Heze in Shandong Province ("Shandong Project"). The estimated annual production capacity for the new plant is about 30 million pieces of apparel with total capital expenditure amounting to about RMB1 billion. The construction work of the Shandong Project commenced in 2011 and will take at least 5 years for its completion.



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 35 to 52 which comprises the consolidated statement of financial position of Peak Sport Products Co., Limited (the "Company") as of 30 June 2012, 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.



Review Report on the Interim Financial Report *(continued)*

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 2012 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

21 August 2012



Interim Financial Report

Consolidated statement of comprehensive income

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Turnover	4	1,612,904	2,255,923
Cost of sales		(1,004,323)	(1,356,578)
Gross profit		608,581	899,345
Other revenue	5	15,448	13,939
Other net income	5	5,702	406
Selling and distribution expenses		(226,590)	(305,314)
Administrative expenses		(97,692)	(92,142)
Profit from operations		305,449	516,234
Finance expenses	6(a)	(2,369)	(133)
Profit before income tax	6	303,080	516,101
Income tax	7	(63,429)	(93,037)
Profit for the period attributable to equity shareholders of the Company		239,651	423,064
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of foreign operations		(2,926)	1,121
Total comprehensive income for the period attributable to equity shareholders of the Company		236,725	424,185
Earnings per share (RMB cents)			
— Basic	9(a)	11.42	20.17
— Diluted	9(b)	11.42	20.16

The notes on pages 39 to 52 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.



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Consolidated statement of financial position

At 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	10	430,796	439,141
Construction in progress	11	80,832	42,852
Lease prepayments	12	15,399	15,570
Deposits and prepayments for purchase of non-current assets	13	161,322	123,625
Intangible assets	14	18,909	16,265
Deferred tax assets	22(b)	34,945	34,893
		742,203	672,346
Current assets			
Inventories	15	528,901	421,227
Trade and other receivables	16	1,217,258	1,089,407
Pledged deposits	17	219,756	82,259
Deposits with banks with more than three months to maturity when placed		50,000	111,625
Cash and cash equivalents	18	2,349,463	2,503,009
		4,365,378	4,207,527
Current liabilities			
Bank loans	19	435,327	161,217
Trade and other payables	20	435,470	561,519
Amount due to related party	26(c)	42,026	—
Current tax liabilities	22(a)	36,978	54,533
		949,801	777,269
Net current assets			
		3,415,577	3,430,258
Total assets less current liabilities			
		4,157,780	4,102,604
Non-current liabilities			
Deferred tax liabilities	22(b)	62,921	59,058
Net assets			
		4,094,859	4,043,546
Equity			
Share capital	23	18,460	18,460
Reserves	24	4,076,399	4,025,086
Total equity			
		4,094,859	4,043,546



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Approved and authorized for issue by the Board of Directors on 21 August 2012.

Xu Jingnan
Director

Xu Zihua
Director

The notes on pages 39 to 52 form part of this interim financial report.

Consolidated statement of changes in equity

For the six months ended 30 June 2012 — 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 23)	(Note 24(a))	(Note 24(b))	(Note 24(c))	(Note 24(d))	(Note 24(e))		
At 1 January 2011	18,459	1,246,950	190,894	81,354	(3,722)	8,707	1,939,147	3,481,789
Shares 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	—	(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
At 1 January 2012	18,460	1,020,472	279,957	81,354	2,239	13,005	2,628,059	4,043,546
Equity-settled share-based payment	—	—	—	—	—	1,024	—	1,024
Transfer between reserves in respect of share options forfeited after vesting date	—	—	—	—	—	(420)	420	—
Dividends	—	(186,436)	—	—	—	—	—	(186,436)
Total comprehensive income for the period	—	—	—	—	(2,926)	—	239,651	236,725
At 30 June 2012	18,460	834,036	279,957	81,354	(687)	13,609	2,868,130	4,094,859

The notes on pages 39 to 52 form part of this interim financial report.



Condensed consolidated cash flow statement

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Cash (used in)/generated from operations		(36,202)	225,700
Income tax paid		(77,174)	(95,438)
Net cash (used in)/generated from operating activities		(113,376)	130,262
Net cash used in investing activities		(162,859)	(75,210)
Net cash generated from/(used in) financing activities		127,335	(101,197)
Net decrease in cash and cash equivalents		(148,900)	(46,145)
Cash and cash equivalents at 1 January	18	2,503,009	2,565,827
Effect of foreign exchange rate changes		(4,646)	(5)
Cash and cash equivalents at 30 June	18	2,349,463	2,519,677

The notes on pages 39 to 52 form part of this interim financial report.

Notes to the unaudited interim financial report

(Expressed in Renminbi unless otherwise indicated)



39

Peak Sport Products Co., Limited



Interim Report 2012

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 21 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

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 2011 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 pages 33 and 34.

The financial information relating to the year ended 31 December 2011 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 2011 are available from the Company’s registered office. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 13 March 2012.

2 Changes in accounting policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group. None of these amendments are relevant to the Group’s current financial statements.

The Group has not adopted any new standard or interpretation that is not yet effective for current accounting period.

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

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, rebates, value added taxes and other sales taxes, and is analyzed as follows:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Footwear	753,359	1,018,671
Apparel	811,790	1,193,632
Accessories	47,755	43,620
	1,612,904	2,255,923

The Group has one customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The revenue derived from this customer amounted to approximately RMB243,237,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB249,908,000).

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
PRC	1,416,484	2,022,645
Overseas	196,420	233,278
	1,612,904	2,255,923



5 Other revenue and net income

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Other revenue		
Interest income	10,453	8,051
Government grants	4,946	5,856
Others	49	32
	15,448	13,939
Other net income		
Exchange gain/(loss)	2,002	(2,521)
Gain on sales of materials	3,678	2,109
Others	22	818
	5,702	406

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

6 Profit before income tax

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
(a) Finance expenses:		
Interest on bank borrowings	2,369	133
(b) Staff costs:		
Contributions to defined contribution retirement plans	4,236	4,661
Equity-settled share-based payment expenses (note 21)	1,024	2,755
Salaries, wages and other benefits	177,375	165,117
	182,635	172,533
(c) Other items:		
Amortization of lease prepayments	171	171
Auditors' remuneration	1,961	933
Depreciation	18,770	14,514
Operating lease charges in respect of properties	5,229	2,134
Cost of inventories [#]	1,004,323	1,356,578
Loss on disposal of property, plant and equipment	104	599

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

6 Profit before income tax (continued)

Cost of inventories for the six months ended 30 June 2012 includes RMB135,203,000 (six months ended 30 June 2011: RMB126,960,000) 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.

7 Income tax in the consolidated statement of comprehensive income

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Current tax — PRC income tax		
Provision for the period	59,618	84,218
Deferred tax		
Origination and reversal of temporary differences	3,811	8,819
	63,429	93,037

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 2012.

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, two PRC subsidiaries of the Group are entitled to tax concessions and subject to the corporate income tax at 50% of the statutory rate under the relevant tax rules and regulations.

In addition, from 1 January 2008, a non-resident enterprise without an establishment or place of business in the PRC or which has an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to a 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 the Group’s subsidiaries in the PRC are foreign-invested enterprises directly and wholly owned 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	
	2012 RMB'000	2011 RMB'000
Interim dividend declared after the interim period, of HK5 cents per ordinary share (2011: HK3 cents)	85,643	51,849

The interim dividend has not been recognized as a liability as at 30 June 2012.

(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	
	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK11 cents per ordinary share (2011: HK10 cents)	186,436	175,557

9 Earnings per share

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB239,651,000 (six months ended 30 June 2011: RMB423,064,000) and the weighted average number of issued ordinary shares of 2,098,029,000 (six months ended 30 June 2011: 2,097,966,000 shares) during the interim period.

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit for the period attributable to equity shareholders of the Company of RMB239,651,000 (six months ended 30 June 2011: RMB423,064,000) and the weighted average number of shares in issue 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	
	2012 '000 shares	2011 '000 shares
Weighted average number of ordinary shares	2,098,029	2,097,966
Effect of deemed issue of shares under the Company's share option scheme	—	387
Weighted average number of ordinary shares (diluted)	2,098,029	2,098,353

The diluted earnings per share for the six months ended 30 June 2012 is the same as the basic earnings per share for the same period as taking into account the deemed issue of ordinary shares under the share options scheme (see note 21) would have an anti-dilutive effect in calculating the diluted earnings per share.

10 Property, plant and equipment

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000
Net book value as at 1 January		439,141	341,866
Additions		10,548	68,386
Transfer from construction in progress	11	—	61,082
Disposals (net carrying amount)		(123)	(694)
Depreciation charge for the period/year		(18,770)	(31,499)
Net book value as at 30 June/31 December		430,796	439,141

11 Construction in progress

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000
As at 1 January		42,852	54,174
Additions		37,980	49,760
Transfer to property, plant and equipment	10	—	(61,082)
As at 30 June/31 December		80,832	42,852





12 Lease prepayments

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

13 Deposits and prepayments for purchase of non-current assets

	30 June 2012 RMB'000	31 December 2011 RMB'000
Prepayments for acquisition of land use rights	154,404	117,727
Prepayments for acquisition of software	5,918	4,898
Deposits and prepayments for acquisition of property	1,000	1,000
	161,322	123,625

14 Intangible assets

	30 June 2012 RMB'000	31 December 2011 RMB'000
Net book value as at 1 January	16,265	13,674
Additions	2,925	2,988
Amortization for the period/year	(281)	(397)
Net book value as at 30 June/31 December	18,909	16,265

15 Inventories

	30 June 2012 RMB'000	31 December 2011 RMB'000
Raw materials	56,116	59,509
Work in progress	145,388	130,193
Finished goods	327,397	231,525
	528,901	421,227

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

16 Trade and other receivables

	30 June 2012 RMB'000	31 December 2011 RMB'000
Bills receivable	600	20,130
Trade receivables	1,150,812	975,939
Deposits and prepayments	30,760	73,872
Others	35,086	19,466
	1,217,258	1,089,407

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

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 3 months	875,334	952,931
3 to 6 months	264,766	43,138
6 months to 1 year	11,312	—
	1,151,412	996,069

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 their retail 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.

17 Pledged deposits

Bank deposits have been pledged to banks as security for bills payable and bank loans (see notes 19 and 20).





18 Cash and cash equivalents

	30 June 2012 RMB'000	31 December 2011 RMB'000
Cash at bank and in hand	2,349,463	2,503,009

19 Bank loans

As at 30 June 2012, all the bank loans were repayable within one year and carried a weighted average interest of 2.40% per annum.

20 Trade and other payables

	30 June 2012 RMB'000	31 December 2011 RMB'000
Bills payable	41,900	227,272
Trade payables	179,012	80,113
Other payables and accruals	214,558	254,134
	435,470	561,519

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

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 3 months	200,551	191,369
3 to 6 months	20,361	116,016
	220,912	307,385

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

21 Share-based payments

Pursuant to the shareholders' resolutions passed on 8 September 2009 and 18 May 2011, the Company adopted a share option scheme ("the Scheme") whereby the Directors of the Company are authorized, at their discretion, to invite any persons (including Directors, employees, suppliers, customers and other business partners) who have made valuable contribution to 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.

Details of the movements of the options granted under the Scheme are as follows:

	Six months ended 30 June 2012		Year ended 31 December 2011	
	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	12,740	HK\$5.2729	14,331
Exercised during the period/year	—	—	HK\$5.1960	(126)
Forfeited during the period/year	HK\$5.1960	(692)	HK\$5.1960	(1,165)
	HK\$5.6040	(130)	HK\$5.6040	(300)
Outstanding at the end of the period/year	HK\$5.2737	11,918	HK\$5.2729	12,740
Exercisable at the end of the period/year	HK\$5.2738	7,144	HK\$5.2731	3,808

The share options outstanding as at 30 June 2012 had an exercise price of HK\$5.1960 or HK\$5.6040 (31 December 2011: HK\$5.1960 or HK\$5.6040) and a weighted average remaining contractual life of 2.7 years (31 December 2011: 3.2 years).

22 Income tax in the consolidated statement of financial position

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Provision for PRC income tax	36,978	54,533





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

(b) Recognized deferred tax assets and liabilities

	30 June 2012 RMB'000	31 December 2011 RMB'000
Deferred tax assets/(liabilities) arising from:		
Provision of incentive rewards and subsidies	22,828	18,875
Pre-operating expenses, accruals and others	12,117	16,018
Total deferred tax assets	34,945	34,893
Withholding tax on dividends	(62,921)	(59,058)

(c) Deferred tax liabilities not recognized

At 30 June 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,733,589,000 (31 December 2011: RMB1,553,317,000). Deferred tax liabilities of RMB86,679,000 (31 December 2011: RMB77,666,000) 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.

23 Share capital

Authorized and issued share capital

	30 June 2012		31 December 2011			
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000		
Authorized:						
Ordinary shares of HK\$0.01 each	5,000,000	50,000	5,000,000	50,000		
	2012			2011		
	No. of shares '000	Amount HK\$'000	RMB'000	No. of shares '000	Amount HK\$'000	RMB'000
Issued and fully paid:						
Ordinary shares of HK\$0.01 each						
At 1 January	2,098,029	20,980	18,460	2,097,903	20,979	18,459
Share issued pursuant to share option scheme	—	—	—	126	1	1
At 30 June 2012/31 December 2011	2,098,029	20,980	18,460	2,098,029	20,980	18,460

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

24 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 a 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 ("Peak Hong Kong") 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 persons who have made valuable contribution to the Group and the Company has granted share options to those persons. The relevant services are recognized in accordance with IFRS 2, "Share-based payment".

25 Commitments

(a) Capital commitments

Capital commitments outstanding as at the end of the reporting period that were not provided for in the financial statements are as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Contracted for	278,052	290,223
Authorized but not contracted for	43,381	51,387
	321,433	341,610



25 Commitments (continued)

(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 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	7,496	9,449
After 1 year but within 5 years	19,214	21,132
After 5 years	5,097	6,741
	31,807	37,322

The Group leases a number of properties under operating leases. The lease periods range from one to more than ten years. Some of the leases have options to renew upon expiry. None of the leases includes contingent rentals.

26 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	
	2012 RMB'000	2011 RMB'000
Short-term employee benefits	2,760	3,331
Contributions to defined contribution retirement plans	29	23
Equity-settled share-based payments	367	354
	3,156	3,708

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

Notes to the unaudited interim financial report (continued)

(Expressed in Renminbi unless otherwise indicated)

26 Material related party transactions (continued)

(b) Lease of land and properties

During the six months ended 30 June 2012, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by controlling shareholders of the Company. The rental expenses for the six months ended 30 June 2012 were RMB1,129,000 (six months ended 30 June 2011: 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.

(c) Transactions and balances with related parties

During the six months ended 30 June 2012, the Group had amounts due to entities controlled by the Company's controlling shareholders, Mr. Xu Jingnan and Mr. Xu Zhihua, with a maximum balance of RMB52,385,000.

As at the end of reporting period, the Group had the following balance with the entity controlled by Mr. Xu Jingnan:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Amount due to related party	42,026	—

The amount due to the related party as at 30 June 2012 was unsecured, non-interest bearing and had no fixed term of repayment.

27 Pledge of assets

At 30 June 2012, the bills payable of the Group was secured by certain bank deposits, lease prepayments and buildings. The aggregate net book value of assets pledged amounted to approximately RMB343,438,000 (31 December 2011: RMB242,895,000).



Supplementary Information



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Peak Sport Products Co., Limited



Interim Report 2012

Interim Dividend

The Board has resolved to declare an interim dividend of HK5 cents (equivalent to approximately RMB4.1 cents) per ordinary share for the six months ended 30 June 2012. The interim dividend, amounting to RMB85.6 million and representing 35.7% of the profit for the period attributable to equity shareholders, is expected to be paid to the Company's shareholders on 26 September 2012.

Closure of Register of Members

The register of members of the Company will be closed from 17 September 2012 to 19 September 2012 (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 14 September 2012.

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 2012. 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 21 August 2012.

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 Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

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 standards 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 2012.

Supplementary Information (continued)

Corporate Governance

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Company has made continuous efforts to maintain and uplift the quality of corporate governance so as to ensure an effective Board, a sound internal control system, and transparency and accountability to its shareholders. The Board is of the view that the Company has complied with all the code provisions set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 30 June 2012 as contained in Appendix 14 of the Listing Rules, except for the deviation from the code provision A.6.7. The deviation arose as two non-executive Directors and one independent non-executive Director of the Company were unable to attend the annual general meeting of the Company held on 14 May 2012 due to their unavoidable business engagement.

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

As at 30 June 2012, 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	816,907,020	38.94%
Ms. Wu Tigao	Interest held by controlled corporation	1	816,907,020	38.94%
Mr. Xu Zhida	Interest held by controlled corporation	2	276,460,000	13.18%
Mr. Xu Zhihua	Interest held by controlled corporation	3	273,060,000	13.02%
Mr. Shen Nanpeng	Interest held by controlled corporations	4	130,521,139	6.22%

Notes:

1. 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.
2. These shares were held by Brilliant Lead Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhida.
3. These shares were held by Alpha Top Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhihua.





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

(A) Long position in ordinary shares of the Company (continued)

4. These shares were held by the following six investment funds managed by Sequoia Capital China Advisors Limited, a wholly owned subsidiary of SNP China 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 SNP China 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 SNP China Enterprises Limited was wholly owned by Mr. Shen Nanpeng, he was deemed to be interested in these shares in which SNP China Enterprises Limited had deemed interest as mentioned above pursuant to the SFO.

(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 2012.

Supplementary Information (continued)

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

Save as disclosed above and in the below section headed "Share Option Scheme", as at 30 June 2012, 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.

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

As at 30 June 2012, 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	816,907,020	38.94%
Brilliant Lead Group Limited	Beneficial owner	2	276,460,000	13.18%
Ms. Wu Bingrui	Interest held by spouse	3	276,460,000	13.18%
Alpha Top Group Limited	Beneficial owner	4	273,060,000	13.02%
SNP China 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%





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

(A) Long position in ordinary shares of the Company (continued)

Notes:

1. 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".
2. 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".
3. Ms. Wu Bingrui was deemed to be interested in these shares of the Company through the interest of her spouse, Mr. Xu Zhida. Such interest of Mr. Xu Zhida was disclosed in the above section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".
4. 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".
5. The interest of these three corporations was also disclosed as the interest of Mr. Shen Nanpeng in the above section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".

(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 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".

+ 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 2012.

Save as disclosed above, as at 30 June 2012, no person, other than the Directors 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

Pursuant to the Company's share option scheme which was adopted and amended by the resolutions of the shareholders of the Company passed on 8 September 2009 and 18 May 2011 respectively (the "Scheme"), the Company may grant share options to "Eligible Persons" (including Directors, employees, suppliers, customers or other business partners of any member of our Group) to subscribe for the Company's shares. The purpose of the Scheme is to provide incentive or reward to the Eligible Persons for their contribution to, and continuing efforts to promote the interests of, our Group and to enable our Group to attract and retain high-calibre employees and business partners. Details of the movements of the options granted under the Scheme for the six months ended 30 June 2012 are as follows:

Name or category of option holder	Date of grant	Exercise price per share	Number of options					Outstanding as at 30/06/2012	Exercise period (Note 1)
			Outstanding as at 1/1/2012	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period		
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	
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	3,088,000	—	—	—	(207,700)	2,880,300	D
			3,108,000	—	—	—	(206,700)	2,901,300	E
			4,144,000	—	—	—	(277,600)	3,866,400	F
			10,340,000	—	—	—	(692,000)	9,648,000	
In aggregate	1 June 2010	HK\$5.604	510,000	—	—	—	(39,000)	471,000	A
			510,000	—	—	—	(39,000)	471,000	B
			680,000	—	—	—	(52,000)	628,000	C
			1,700,000	—	—	—	(130,000)	1,570,000	
			12,740,000	—	—	—	(822,000)	11,918,000	

Notes:

1. 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.

2. 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 2012.

Investor Relations and Communications with Shareholders

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The shareholders' communication policy is available on the Company's website www.peaksport.com under the "Corporate Governance" section.

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner. Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong or via email to ir@peaksport.com.hk for any enquiries.

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 via the Company's website) of the Company's corporate communications[#]. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications via the Company's website, 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.

Shareholders who have chosen to receive the corporate communications in either English or Chinese version will receive both English and Chinese versions of this report since both languages are bound together into one booklet.

[#] 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



www.peaksport.com



Peak Sport Products Co., Limited
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：1968