RISKS RELATING TO OUR BUSINESS

We rely on our "Peak" brand.

We believe that brand image is a key factor in consumers' purchasing decisions for sportswear products. Our Peak brand is therefore critical to the success of our business in the sportswear market in China and worldwide. We seek to position our Peak brand as a high quality and professional sportswear brand targeting active young people. We market our Peak brand through media commercials, league sponsorships and athlete endorsements in different sporting sectors in China and elsewhere in the world. If we fail to successfully promote our Peak brand (including failure to renew certain of our sponsorship and marketing contracts that are strategically important to the promotion of our Peak brand), the goodwill attached to our Peak brand may decrease, and the market recognition of the Peak brand may suffer. As a result, consumer confidence in our Peak brand may be eroded and our business, profitability and results of operations may be materially and adversely affected.

We may have difficulty managing and financing future growth and our growth in percentage terms may slow in the future.

We have grown rapidly over the last few years. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, we recorded turnover of RMB623.9 million, RMB1,014.6 million, RMB2,042.0 million, RMB846.7 million and RMB1,357.3 million, respectively, and net profit of RMB85.9 million, RMB166.0 million, RMB376.0 million, RMB164.5 million and RMB267.4 million, respectively. As part of our business strategy to continue to grow our business, we intend to continue to expand the volume and variety of products we offer as well as further expand into other product lines in the sportswear industry. We also intend to continue to increase our marketing activities, expand our Peak brand internationally, expand Peak's sales network and expand our production capacity. We may also engage in strategic acquisitions to expand our business, including the acquisition of other brands.

While we intend to continue to grow our business, our ability to obtain adequate funds to finance our growth and expansion plans depends on, among other things, our cash flow, our ability to obtain financing through banks and/or the capital markets, and regulatory limitations in China. We also cannot assure you that we will be successful in obtaining any such financing in amounts or on terms acceptable to us or at all. If additional financing is not available, we may be forced to abandon some or all of our expansion plans, as a result of which our business, financial condition and results of operations could be materially and adversely affected.

In addition, we cannot assure you that our growth will result in enhanced profitability or that it will continue in the future years at the same rate it has grown in the past years. Our future growth prospects will depend on a number of factors, including:

- continued consumer demand for our products, as well as market acceptance of new product lines, at levels which can support acceptable profit margins;
- competition from international and domestic brands;
- availability of marketing and sponsorship opportunities that support our Peak brand;

- regulatory risks, currency fluctuations, language and other cultural barriers, trade barriers, foreign taxation, and political and economic instability related to new markets;
- the hiring, training and retention of skilled personnel, including personnel with the necessary experience to operate our two new manufacturing plants;
- the existence and availability of suitable locations for Peak's retail outlets and favorable rental terms for these locations where we provide subsidized rent; and
- the existence and availability of adequate managerial, operational and financial resources to support our growth.

We also cannot assure you that our personnel, procedures and controls will be effectively managed to support our future growth and that our expansion strategies will be successful. Moreover, if we are unable to manage our growth effectively, our business, financial condition and results of operations may be materially and adversely affected.

We cannot assure you that we will continue to be successful in developing our Peak branded products and expanding our product lines and offerings.

As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM sportswear products, we revised our business model by focusing on the development of our own international brand in China and abroad in 2005. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, sales of our Peak branded products accounted for approximately 79.1%, 97.9%, 99.1%, 99.0% and 100% of our total turnover, respectively, while our sales of OEM products accounted for approximately 20.9%, 2.1%, 0.9%, 1.0% and 0% of our total turnover, respectively. The success and popularity of our Peak branded products depend, in large part, upon our ability to identify fashion trends and design products that appeal to the mass market. You should therefore consider our business and prospects in light of the risks and difficulties we face with the shift in focus towards the development and sales of Peak branded products and should not rely on our past results as an indication of our future performance.

In addition, as part of our business strategy to continue to grow our business, we plan to broaden our product lines and offerings. The rapid expansion of our product lines and the related development of new production capabilities, along with the integration of these operations into our existing system, may result in increased operating costs, including increased research and development costs. Our new product lines are also subject to the risks of market reception and competition from the products of our competitors. Therefore, we might not be successful in these lines and our turnover from these lines may not grow at the rate we anticipate or at all. In addition, there may be inherent risks and uncertainties in these new product lines of which we may not be aware.

We may not be able to accurately anticipate or respond in a timely manner to changes in continually evolving consumer tastes and preferences for sportswear products.

The success and popularity of our sportswear products depend, in part, upon our ability to identify consumer preferences and design products that appeal to the mass market. Fashion trends and consumer preferences, however, change frequently. There is no assurance that we can anticipate and respond in a timely manner to changes in fashion trends and consumer tastes and preferences. Our failure to anticipate, identify or react swiftly to changes in such trends and preferences could result in lower sales, higher markdowns to reduce excess inventories and lower operating profits. Conversely, if we fail to anticipate increased consumer demand for our products, we may experience inventory shortages, which would result in foregone sales, and could negatively impact our customer goodwill, brand image and profitability.

Our sales may be affected by seasonality and a number of other factors.

Our results of operations have fluctuated from season to season in the past and are likely to continue to fluctuate due to seasonality. During the Track Record Period, we generally recorded higher sales in the second half than in the first half of a year. The seasonality of our results of operations is primarily attributable to the seasonal nature of some of our products, particularly our footwear and apparel products, and the fact that our autumn and winter footwear and apparel products generally have higher selling prices than our spring and summer products. In addition, there are other factors relevant to seasonality which may affect our sales, including, without limitation, weather conditions, holiday seasons, the timing of the launch of our new products and the timing of delivery of products. Accordingly, any comparison of our results of operations between our interim and annual results in a calendar year is not necessarily meaningful. As a result, our interim results should not be referred to as an indicator of our performance for the year.

We rely on our distributors who, either directly or through third party retail outlet operators, operate authorized Peak retail outlets for the sales of our products in China.

We sell a substantial portion of our products in China to third party distributors, which in turn sell our products to consumers in China through authorized Peak retail outlets operated by these distributors or third party retail outlet operators appointed by these distributors. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, sales to our third party distributors in China accounted for approximately 98.9%, 96.7%, 95.6%, 99.5% and 99.0% of our domestic sales, respectively, and 50.6%, 73.9%, 83.6%, 85.2% and 89.7% of our overall sales, respectively. We do not own or operate any retail outlets. We currently expect to continue to rely on these distributors for a substantial portion of our sales. As such, the sales performance of our distributors and the ability of our distributors to expand their business and sales networks are crucial to the future growth of our business. Furthermore, we do not have long-term agreements with these distributors, but generally enter into distribution agreements with them for a term of one year, renewable annually upon mutual agreement. There is no assurance that we will be able to renew the distribution agreements with these distributors on mutually acceptable terms or at all. If we fail to renew our distribution agreements with any of them or to attract new distributors, Peak's sales network and our business, results of operations and financial condition may be materially and adversely affected.

We have limited control over the ultimate retail sales by our distributors. Our brand image and business may be adversely affected if our distributors fail to adhere to, or fail to cause the third party retail outlet operators to adhere to, our retail policies and standards.

We rely on the contractual obligations set forth in the distribution agreements we entered into with our distributors, as well as policies and standards we formulate from time to time, to impose our retail policies on these distributors in respect of the authorized Peak retail outlets. In addition, as we do not enter into any agreements with the third party retail outlet operators, we rely on our distributors to ensure that these authorized Peak retail outlets operate in accordance with our retail policies. As such, our control over the ultimate retail sales by our distributors and the authorized Peak retail outlet operators is limited. There is no assurance that our distributors or the third party authorized Peak retail outlet operators will comply with, or that the distributors will enforce, our retail policies. As a result, we may not be able to effectively manage the Peak's sales network or maintain a uniform brand image, and cannot assure you that authorized Peak retail outlets would continue to offer quality services to consumers. In addition, if any of the distributors or third party authorized Peak retail outlet operators experiences difficulties in selling our products in the retail market, they may attempt to disregard our pricing policies and liquidate their excessive inventory build-up through aggressive discounts, which may damage the image and the value of our Peak brand. There is no assurance that we will be able to, in a timely manner, impose penalties on or replace any distributors who consistently fail to comply with, or fail to cause the third party authorized Peak retail outlet operators appointed by them to comply with, our retail policies in their operation of authorized Peak retail outlets. In such event, our business, results of operations and financial condition may be materially and adversely affected.

We may not be able to accurately monitor the inventory levels at our distributors and third party authorized Peak retail outlet operators, and we cannot determine the proportion of products sold to end-users.

Our control over the ultimate retail sales by our distributors, either by them directly or through third party authorized Peak retail outlet operators, is limited. We have implemented a computerized management information system, Lijing system, to monitor allocation and movement of products at, and sales and inventory data of, authorized Peak retail outlets connected to such system. Due to certain technical difficulties such as the unavailability of broadband network in certain rural areas and the resources required for technical support and training, as of 30 June 2009, we had only linked 510 of our 5,667 authorized Peak retail outlets to our Lijing system. 178 out of these 510 linked outlets were operated directly or indirectly by our top five distributors as of 30 June 2009. Tracking inventory also requires the cooperation of distributors and those authorized Peak retail outlets connected to such Lijing system to accurately and timely report and submit the relevant data to us, and we may not be able to fully ensure the accuracy of the data provided by our distributors. Any shutdown of our Lijing system due to maintenance, system errors or otherwise could also have an adverse impact on the accuracy and timeliness of the data generated. Failure of our distributors to adequately gauge consumer tastes and preferences when placing orders with us may also result in excessive inventory build-up. Due to the above reasons, we may not be able to accurately monitor the inventory levels at authorized Peak retail outlets or to identify or prevent any excessive inventory build-up at these retail outlets. Excessive inventory build-up at our distributors could curtail future orders thereby having a material adverse impact on our business, particularly if our expansion outpaces orders.

Since we have limited control over the ultimate retail sales of our Group's products by our distributors, either by them directly or through third party authorized Peak retail outlets operators, and we have limited information about the sale figures and inventory level at the authorized Peak retail outlets, we cannot determine the proportion of our products sold to the end users. There is no assurance that our sales to the distributors correlate directly to the sales of our products to the end users.

We cannot assure the accuracy of the sales and inventory data collected from the Lijing system.

We maintain the Lijing system through which we collect sales and inventory data of authorized Peak retail outlets that are connected to the system. During the Track Record Period, our information technology department upgraded the relevant software and tested the Lijing system approximately once a year. We cannot assure the integrity of the data collected from such Lijing system. We also cannot assure the accuracy and completeness of the sales and inventory data collected from the Lijing system since such data is dependent on the cooperation of distributors and those authorized Peak retail outlets connected to such Lijing system to accurately and timely report and submit the relevant data to us. If these authorized Peak retail outlets do not collect and report sales and inventory data to us in a timely manner, or at all, or if such collected data is not accurate nor relevant, we may not be able to accurately monitor and evaluate the sales performance and inventory levels of these authorized Peak retail outlets. Inaccuracy of such data may adversely affect our operating plans, such as sales and marketing, to the extent we consider such data in our planning. Please refer to the sections headed "Our Business — Inventory Control" and "Our Business — Management Information System" for further details regarding the Lijing system.

We face possible infringement of our trademarks and other intellectual property rights and counterfeiting of our products.

We believe our trademarks and other intellectual property rights are important to our success and competitive position. However, there is no absolute guarantee that third parties will not attempt to infringe our intellectual property rights. In addition, our business is subject to the risk of third parties counterfeiting our products or otherwise infringing our intellectual property rights. We may not always be successful in securing protection for our intellectual property rights, in preventing the production and sale of counterfeit products and preventing other infringements of our intellectual property rights. Protections offered by the intellectual property laws in China and other jurisdictions where we have registered our trademarks and the enforcement of these protections may not be effective. We may need to resort to litigation in the future to enforce our intellectual property rights. Any such litigation could result in substantial costs and a diversion of our resources, and any judgments we receive in such litigation may not cover the losses we sustain. Our failure to protect adequately and enforce our intellectual property rights could have a material adverse effect on our business, results of operations and financial condition.

We may be involved in intellectual property infringement litigation initiated by others.

During the course of our operations, third parties may in the future attempt to challenge the ownership and/or validity of our intellectual property rights, or assert claims that we have violated their intellectual property rights. As a part of our strategy to enhance the brand image and recognition of our Peak brand, we have in recent years begun to enter into contractual and other relationships with organizations such as NBA China, the WNBA, FIBA and others in order to promote our Peak brand and raise our profile with our target consumers. The terms of these contracts place restrictions on our ability to use the copyrights or intellectual property owned or licensed by these organizations. As a PRC-based company, we are relatively new to understanding and applying intellectual property rights, and may inadvertently design products that include elements that may be alleged by third parties as infringing upon their copyright and/or other intellectual property rights. As a result, these parties or other parties may choose to discontinue their cooperation with us in the development and promotion of our Peak brand, or initiate litigation or other proceedings against us alleging breach of contract. Loss of our relationships with NBA China, the WNBA, FIBA or other important organizations may limit our ability to grow and promote our Peak brand in the manner we intend, and limit our turnover and profitability. Responding to and defending these proceedings may require substantial costs and diversion of resources, and the result of these proceedings may be uncertain. As a result, our business, results of operations, financial condition and reputation may be materially and adversely affected.

Registration by other parties of trademarks similar to ours or the same as ours but in different categories under China's trademark classification system may have a negative impact on the market perception of our Peak brand and may adversely affect our sales.

We have currently registered our trademarks under 42 categories out of a total of 45 categories under China's trademark classification system. We may not be able to prevent the registration by other parties of similar trademarks, or the registration by other parties of the same trademarks in categories other than those in which we have registered. For example, we have registered our trademarks under category No. 25 of China's trademark classification system which applies generally to clothing, footwear and headgear. We have not registered our trademarks under category No. 32 of China's trademark classification system which applies generally to non-alcoholic drinks. In the event that another party registers trademarks similar to ours or the same as ours under category No. 32, we cannot stop such registration. Should any registered owners of trademarks that are the same as or similar to ours decide to carry on any production or sales under their registered trademarks, the resemblance or similarity between these trademarks and our trademarks may cause confusion among our consumers, which may have a negative impact on the market perception of our Peak brand and could adversely affect our sales.

Expansion of our production capacity may not be successful.

A portion of our Peak footwear and apparel production, and all of our accessory production, are currently produced externally by Contract Manufacturers. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, we outsourced 68.5%, 69.3%, 60.1%, 71.3% and 61.6%, respectively, of our footwear production (by volume) to Contract Manufacturers and outsourced 69.9%, 83.3%, 89.4%, 92.8% and 82.9%, respectively, of our apparel production (by volume) to Contract Manufacturers.

We launched production at our new footwear production facility in Shang'gao, Jiangxi province in June 2008. The facility currently has six footwear production lines and we plan to gradually increase our production lines at that facility to 16 footwear production lines by the end of 2013. The annual footwear production by our Shang'gao plant upon the launching of all 16 production lines (which is expected to be in 2013) is expected to be approximately 12.0 million pairs. We also launched trial production and production at our new apparel production facility in Hui'an, Fujian province in March 2008 and September 2008, respectively. Our new apparel production facility in Hui'an has an expected annual apparel production capacity of 16.4 million pieces by 2012. Through our increased production capacity, we expect to gradually be able to produce more Peak footwear and apparel at our own facilities to meet the growing demand for our products and to benefit from related economies of scale. However, our new footwear and apparel production facilities in Shang'gao and Hui'an are not likely to operate at full capacity immediately and will probably only produce a portion of our footwear and apparel products in the short term, and as such, we are likely to continue to rely on Contract Manufacturers for the production of a portion of our footwear and apparel products. In addition, annual production capacity is an estimate based on a number of factors and assumptions, including factors that we may be unable to control, such as average productivity rates of our workers. There can be no assurance that such estimates will not be higher or lower than the amounts we actually are able to produce. As a result of the foregoing factors, if we are unable to continue to successfully increase our production capacity due to, among other things, insufficient financial resources, any shortage of labor, or the inability to engage suitable Contract Manufacturers to supplement our production capacity, our production estimates may turn out to be incorrect. Our future business and results of operations may be materially and adversely affected.

We rely on a limited number of suppliers for our primary raw materials and failure to obtain sufficient quantities of quality raw materials in a timely manner or at acceptable prices may delay our production schedules.

We rely on a limited number of suppliers for our raw material. Our primary raw materials for the production of footwear are artificial leather, soft and flexible polymers and rubber, and our primary raw materials for our apparel production are terylene, nylon and cotton. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our five largest suppliers accounted for approximately 27.5%, 59.0%, 31.6%, 36.9% and 33.8% of our total purchases, respectively. Our largest supplier accounted for approximately 7.3%, 26.4%, 7.6%, 10.0% and 8.2% of our total purchases for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively. There is no assurance that our suppliers will continue to be able to deliver sufficient quantities of raw materials to us in a timely manner or at prices and quality acceptable to us. Further, we have not entered into any long-term agreements with any of our five largest suppliers. As such, we cannot assure you that there will be no interruption in the supply of raw materials from our suppliers. Any disruption in supply of raw materials from our suppliers may materially and adversely affect our business, results of operations and financial condition.

We rely on certain major customers for a significant portion of our business. The loss of any of such customers may materially and adversely affect our business, results of operations and financial position.

A significant portion of our sales is derived from a small number of customers, who are the distributors of our products. Our five largest customers accounted for approximately 20.9%, 19.6%, 26.1%, 20.7% and 33.4% of our total turnover for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively. Our largest customer accounted for approximately 6.5%, 5.1%, 9.7%, 5.1% and 18.0% of our total turnover for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 with our distributors for a term of one year. There is no assurance that any of our five largest customers will satisfy the sales targets set forth in such distribution agreements and we or they may not wish to renew the distribution agreements in future years. Further, our five largest customers are not obliged to continue to place orders with us at the same level as before or at all. There is no assurance that we would be able to obtain orders from other customers to replace any such lost sales on terms satisfactory to us or all. If any of our five largest customers substantially reduces its purchases from us, or otherwise fails to renew its distribution agreement with us, we may suffer a significant loss of sales and our business, results of operations and financial condition may be materially and adversely affected.

If our distributors do not pay us for their purchases in a timely manner or at all, our results of operations and financial condition may be materially and adversely affected.

We sell a substantial portion of our products in China to our distributors, who are required to make monthly payments to us to pay down the amounts they owe us. The payment amount for each month is determined at the end of the previous month based on the accounts receivable owed by such distributor and outstanding orders from such distributor at that time, taking into account our revolving credit policy, as discussed below. Prior to 2009, monthly payment amounts were set out in a monthly payment schedule included in the annual distribution agreements signed with each distributor, subject, in many cases to adjustments made in light of the actual sales orders placed by such distributors, market conditions or other individual circumstances.

As part of our credit policy, we also offer revolving credit to our distributors in China. This revolving credit provides for a maximum credit limit that may be outstanding at any one time. This percentage limit is determined on a distributor by distributor basis, based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In determining the amount of revolving credit, we also take into account on a case-by-case basis the funding needs of the distributor in expanding the sales network. As of 31 December 2006, 2007 and 2008 and 30 June 2009, the average of the credit limits granted to our distributors, stated as a percentage of the actual aggregate purchase amounts of our distributors in China during the relevant financial year or annualized aggregate purchase amount for the six months ended 30 June 2009 (not taking into account any adjustments to credit amount limits made during the year due to market conditions or circumstances of any individual distributors) was 9.7%, 9.6%, 17.3% and 18.5%. Significantly higher revolving credit limits were granted in certain cases over the course of the relevant year or period after considering the expansion plans and circumstances of such distributors. In addition, as we implement our expansion plans and require our distributors in China to expand Peak's sales network, we may increase the amount of revolving credit we grant to our distributors in China. If our distributors do not pay us for their purchases in a timely manner or at all, our results of operations and financial condition may be materially and adversely affected.

We rely on our Contract Manufacturers for the production of a significant portion of our products and any material disruption to the supply of products from our Contract Manufacturers would materially and adversely affect our results of operations.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our cost of outsourced production as a percentage of our cost of sales were approximately 70.0%, 74.5%, 73.9%, 70.8% and 75.5%, respectively. These outsourced products comprise certain of our footwear and apparel products as well as all of our accessories. We do not maintain long-term contracts with our Contract Manufacturers, and prices that we pay for such outsourced products may increase due to greater industry demand or a shortage of supplies. Further, labor costs in China have been increasing and may continue to increase in the future. Our Contract Manufacturers may also experience a shortage of labor and may not be able to maintain their production volumes. We also cannot assure you that we will not face material disruptions to the supply of products from our Contract Manufacturers in the future. In the event of such disruption, we may not be able to find suitable alternative contract manufacturers on a timely basis or offset such disruptions by increasing production at our own production facilities. Any material disruption in the supply of products from our Contract Manufacturers would materially and adversely affect our results of operations.

Our results of operations may be adversely affected by increases in the market prices of raw materials if we are unable to pass the increased cost of raw materials to our customers through higher prices for our products.

Our manufacturing operations depend on obtaining adequate supplies of raw materials. We purchase all of our materials on an order-by-order basis and do not have any long-term contracts with any suppliers. The prices of certain of our key raw materials, such as polymers and rubbers, may be subject to fluctuation in crude oil prices. For example, synthetic rubber, which is a crude oil derivative, directly correlates to crude oil prices. Crude oil prices have been as high as US$147.7 per barrel and as low as US$35.4 per barrel between the period from 1 January 2006 and 31 December 2008 and have been subject to volatility, particularly during the recent global financial crisis. We may also experience difficulty in obtaining other materials with acceptable quality on a timely basis and the prices that we pay for such materials may increase due to, among other things, increased industry demand. If we are unable to pass the increased raw material cost to our customers, our business, results of operations and financial condition may be materially and adversely affected.

We may experience a shortage of labor and our labor costs may increase.

Footwear and apparel manufacturing is labor intensive. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the costs of direct labor accounted for approximately 13.4%, 14.8%, 17.3%, 15.6% and 19.3%, respectively, of our costs of internal production. Labor costs in China also have been increasing and may continue to increase in the future. We cannot assure you that we will not experience any shortage of labor or that the cost of labor in China will not increase in the future. If we experience a shortage of labor, we may not be able to maintain our production volume. If labor costs increase in China, through regulatory changes, market pressures or otherwise, our production costs will increase and we may not be able to pass such increase to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labor or our labor costs increase, our business, results of operations and financial condition could be materially and adversely affected.

Our sales and operations may be affected by any prolonged business interruption at our production facilities.

A proportion of the products we sell is manufactured at our production facilities located in China. As such, any material interruption at our production facilities could reduce our sales and earnings for the affected period. There is no assurance that we will always have access to sufficient supply of electricity in the future to accommodate our production requirements and planned growth at our production facilities. Power interruptions, electricity shortages, weather conditions or government intervention, particularly in the form of power rationing, are factors that could affect our daily operations and production. If there is an insufficient supply of power or electricity to satisfy our production requirements, we may need to limit or delay our production, which could materially and adversely affect our business and results of operations.

Our business may be affected by any malfunction of our management information systems for extended period.

We cannot assure you that our information systems will always operate without interruption. We entered into an agreement to implement an enterprise resource planning system in June 2005 to monitor our inventory levels in terms of raw material and finished products within the Group. We also use our Lijing system to monitor allocation and movement of products between us and the authorized Peak retail outlets connected to such system. As of 30 June 2009, we had 510 of 5,667 authorized Peak retail outlets connected to our Lijing system. By the end of 2009, we intend to have a total of 800 authorized Peak retail outlets linked to our management information system. However, the majority of authorized Peak retail outlets will still not be connected, which increases the challenges we face in managing our products. For internal office communications, we rely on our office automation system. Any malfunction to a particular part of any of these systems for an extended period of time may result in a breakdown throughout our network as well as corruption to the data contained in and/or information generated from such network. As a result, our ability to continue our operations smoothly may be adversely affected, which in turn could have a material adverse impact on our results of operations.

Our brand image and business may be damaged if we or our Contract Manufacturers, suppliers or distributors violate any relevant laws, rules or regulations, particularly in respect of labor and environmental protection.

We place a great emphasis on brand building and product promotion. In order to protect the reputation of our Peak brand, we strive to adhere to all relevant laws, rules and regulations, particularly in respect of labor and environmental protection. However, we do not exercise any control over the operations of our Contract Manufacturers, suppliers, distributors and third party authorized Peak retail outlet operators and are therefore not able to ensure their compliance with applicable laws, rules and regulations. Accordingly, there is no assurance that our Contract Manufacturers, suppliers, distributors and third party authorized Peak retail outlet operators will fully comply with all applicable laws, rules and regulations, particularly in respect of labor and environmental protections. In the event that we or our Contract Manufacturers, suppliers, distributors or third party authorized Peak retail outlet operators violate any of the applicable laws, rules or regulations, any resulting negative publicity may damage our Peak brand and counter our brand building efforts. In addition, we may be subject to fines or other penalties for such violations. As a result, our business, results of operations and financial condition may be materially and adversely affected.

Our brand image and business may be adversely affected by any negative news on our spokespersons or on the teams for which we sponsor their home stadiums.

As part of our advertising and promotion activities, we have engaged such NBA players as Shane Battier, Ron Artest and Jason Kidd, and CBA player Liu Yudong as spokespersons for our Peak brand. Our branding and marketing efforts may be adversely affected by any negative publicity associated with any of these spokespersons. Such negative publicity about our spokespersons may result in negative publicity with respect to our Peak brand and may damage the image of our Peak brand. In such event, we may have to cease to engage these persons as our spokespersons and recall all advertising materials which feature any of them. In such circumstances, our business and results of operations may be materially and adversely affected.

We currently have home stadium sponsorships with the NBA's Houston Rockets and New Jersey Nets. These teams have been popular among Chinese fans as they have Chinese born players on their rosters. To the extent any such players are traded to another NBA team, these sponsorships may not to be helpful in promoting our brand. In such circumstances, our business and results of operation may be materially and adversely affected.

We may fail to integrate future acquired businesses successfully into our existing operations.

We may strategically expand our business through mergers and acquisitions, including through the acquisition of other brands. Our ability to grow through mergers and acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. Even if we successfully complete an acquisition, we may experience (i) difficulties in integrating the acquired business, its personnel or its products into our existing business, (ii) delays or failures in realizing the benefits of the acquired business or its products, (iii) diversion of our management's time and attention from other business concerns, (iv) higher costs of integration than we anticipated, or (v) difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business.

If we acquire businesses that operate outside China or offer products that are different from our existing products, our exposure to these risks may increase because of our limited experience in operating businesses in foreign jurisdictions or that are not within our existing operations. If we fail to identify suitable candidates for acquisition, fail to successfully negotiate transactions with them, or fail to integrate any acquired businesses successfully into our existing operations, our business, results of operations and financial condition could be materially and adversely affected.

We rely on our key executives and personnel.

The success of our business has relied, and will continue to rely, on the ongoing service of our key executives and employees. In particular, we rely on the expertise and experience of Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida. Mr. Xu Jingnan has been part of our senior management team since our inception, and Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida all have had a significant role in our daily operations and business strategy. If we lose the services of any of these key executives and cannot replace them in a timely manner, our business may be materially and adversely affected.

In addition, our success depends significantly on other experienced and talented personnel, and in particular, our team of designers. As sportswear design is a relatively new business sector in China compared to the overseas developed markets, there is a shortage of skilled personnel with adequate industry knowledge and experience in China. As a result, we have experienced, and expect to continue to experience, intense competition for highly competent design personnel. Other international and domestic sporting product companies that operate in China may be able to offer more favorable compensation packages to recruit personnel whom we consider desirable. As a result, we may not be able to attract and retain qualified personnel needed to sustain our business growth, or our staff expenses in relation thereto may increase significantly, both of which could have a material adverse effect on our business, results of operations and financial condition.

Our insurance coverage may not be sufficient to cover the risks related to our operations.

Our operations are subject to hazards and risks normally associated with manufacturing operations in China, which may cause damage to persons or property. Currently, we maintain insurance policies in respect of damage to real estate property, equipment and facilities, employer liability for personal injury of employees, and third-party liability for vehicle-related accidents. We do not maintain business interruption insurance or third-party liability insurance against claims for property damage and environmental liabilities. The occurrence of any of these events may result in interruption of our operations and subject us to significant losses or liabilities. In addition, any losses or liabilities that are not covered by our current insurance policies or are not insured at all may have a material adverse effect on our business, results of operations and financial condition.

The operations of our distributors and third party authorized Peak retail outlet operators may be disrupted by earthquakes and other reasons beyond our control, which could materially and adversely affect our business, results of operations and financial condition.

The operations of our distributors and third party authorized Peak retail outlet operators may be disrupted by, among other things, extreme climatic and weather conditions, fires, and natural disasters, such as earthquakes. These disruptions may result in personal injuries, property damage and imposition of civil or criminal penalties. On 12 May 2008, an 8.0 magnitude earthquake took place in Wenchuan, Sichuan province. This earthquake has caused severe casualties and injuries and property damage. We have only one distributor located in Sichuan province who operates, either directly or through authorized Peak retail outlet operators, 183 authorized Peak retail outlets as of 30 June 2009. As a result of the earthquake, this distributor had an issue with its short-term cash flow. At the request of the distributor, we allowed it to defer part of its payments owed to us and re-adjusted downward its sales target for the year ending 31 December 2008. Our sales to that distributor in Sichuan province amounted to approximately 3.6% of the Group's total sales for the year ended 31 December 2008. As of 31 December 2008, our receivables from that distributor amounted to approximately RMB16.6 million, and such receivables had all been settled by March 2009. As of the Latest Practicable Date, we have not experienced any recoverability problem from that distributor and therefore have not made any provision in this regard. As of the Latest Practicable Date, we have not received any claims from our employees, suppliers or customers for a breach of contract or as a result of the loss of lives or injury related to the earthquake that took place in Sichuan province in May 2008. However, if earthquakes, aftershocks thereof or other natural disasters recur in Sichuan or occur in or affect any regions in which there are extensive authorized Peak retail outlets, our business, results of operations and financial condition may be materially and adversely affected. For more information regarding our distributors and third party authorized Peak retail outlet operators in Sichuan province, please refer to the section headed "Business — Peak's sales network" of this document.

We may be exposed to product liability claims which may adversely affect our reputation and business.

We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. We believe that it is normal industry practice in China not to have such insurance. In the event that we are found to be liable for a product liability claim, we could be required to pay substantial monetary damages. Furthermore, even if we successfully defend ourselves against a product liability claim, we could be forced to spend a substantial amount of money, time and resources on defending such a claim and our reputation could suffer as a result of the negative publicity associated with it.

We are a holding company that relies heavily on dividend payments from our subsidiaries for funding.

Our Company is a holding company incorporated in the Cayman Islands. We operate our business primarily through our subsidiaries in China. Therefore, the availability of funds to enable us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require enterprises incorporated in China to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities, convertible bonds instrument or other agreements that our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and hence, our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

Prior dividend distributions are not an indication of our future dividend policy.

Our Company declared a special dividend of HK$127,950,000 in July 2009. Such special dividend was paid to our Shareholders in July and August 2009. Save as above, no other dividends were paid by us or any of our subsidiaries during or in relation to the Track Record Period. Historical dividend distributions are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutive documents and the Companies Law, including (where required) the approval of Shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in the PRC, which are subject to aspects described in "Risk Factors — Government control in currency conversion and future movements in foreign exchange rates may materially and adversely affect our results of operations, financial condition and ability to remit dividends" and "Risk Factors — We are a holding company that relies heavily on dividend payments from our subsidiaries for funding" above. For further details of the dividend policy of our Company, please see the section headed "Financial Information — Dividend policy" of this document.

Any change in our tax treatment in China, including preferential enterprise income tax rates, may have a negative impact on our results of operations.

The National People's Congress of China promulgated the Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法) ("**New Tax Law**") on 16 March 2007, which came into effect on 1 January 2008. The New Tax Law superseded the PRC Foreign Invested Enterprise and Foreign Enterprise Income Tax Law (中華人民共和國外商投資企業和外國企業所得稅法) ("**FIE Tax Law**") and the Provisional Regulations on Enterprise Income Tax of the PRC (中華人民共和國企業所得稅暫行條例) consolidated the two separate tax regimes that applied to domestic enterprises and foreign invested enterprises previously and unified the enterprise income tax rate to 25% for both enterprises.

Under the New Tax Law, enterprises that enjoyed a preferential tax rate prior to the promulgation of the New Tax Law are given a five-year grace period from the effective date of the New Tax Law to gradually transition to the new tax rate. Enterprises which benefited from the fixed period tax exemption and tax reduction under previously applicable rules and regulations will continue to enjoy such preferential tax treatment until the expiration of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the New Tax Law.

Prior to the effective date of the New Tax Law, each of Peak China, Peak Jiangxi and Peak Sports was entitled to preferential enterprise income tax rates. Peak China and Peak Jiangxi were exempt from enterprise income tax until they made a profit, and thereafter, would be entitled to a two year tax exemption and three year 50% tax deduction. Peak Sports was entitled to the two year tax exemption period with a follow on three year 50% tax deduction commencing from 1 January 2007. Peak Shoes also enjoyed a preferential enterprise income tax rate of 12% for two years in 2005 and 2006 for being an export-oriented enterprise.

Under the New Tax Law, Peak China and Peak Jiangxi are entitled to the two year tax exemption and three year 50% tax deduction commencing from 1 January 2008. Peak Sports will continue to enjoy its two year tax exemption and three year 50% tax deduction until 31 December 2011. Peak Shoes has been taxed at 25% from 1 January 2008.

By no later than 2013, each of our four subsidiaries in China will be subject to the same corporate income tax rate of 25%. The New Tax Law and the change in the corporate income tax rate could have a negative impact on the amount of taxes we pay and consequently have a material adverse impact on our results of operations and financial condition.

We may be deemed a PRC tax resident under the New Tax Law and be subject to the PRC taxation on our worldwide income.

Under the New Tax Law that took effect on 1 January 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to a uniform 25% corporate income tax on their worldwide income. Under the implementation regulations of the New Tax Law, "de facto management bodies" are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China, and may remain in China. Therefore, we may be treated as a PRC resident enterprise for PRC corporate income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the New Tax Law and the implementation regulations. Our financial performance may be materially and adversely affected if we are subject to the PRC taxation on our worldwide income.

Recent changes in the laws and regulations applicable to the retail industry in China may intensify competition in China's retail industry, which may adversely affect our expansion into the sportswear retail business and our results of operations.

The Chinese Government has removed certain restrictions on foreign investment in China's retail sector in recent years. The Administration Measures on Foreign Investments in the Commercial Fields (外商投資商業領域管理辦法) (the "**Measures**") promulgated by the Ministry of Commerce came into effect on 1 June 2004 and permitted foreign investors to operate retail outlets in China on a wholly foreign-owned basis. The Notice of the Ministry of Commerce on Entrusting Local Departments to Examine and Approve Foreign Invested Commercial Enterprises (商務部委託地方部門審核外商投資商業企業的通知) (the "**Notice**") issued by the Ministry of Commerce came into effect on 1 March 2006 and simplified the approval procedures for setting up foreign invested commercial enterprises and opening retail outlets. Under the terms of the accession of China to the World Trade Organization, the Chinese Government agreed to remove geographical limitations for foreign invested enterprises to engage in the retail business in China. These liberalization measures may attract more international sportswear brands to enter the Chinese market and thereby intensify competition. This may in turn have a material adverse impact on our business, results of operations and financial condition.

Our labor costs may increase due to the implementation of the new PRC Labor Contract Law.

The PRC Labor Contract Law (中華人民共和國勞動合同法) was adopted by the Standing Committee of the National People's Congress of PRC on 29 June 2007 and became effective on 1 January 2008. The PRC Labor Contract Law Implementation Rules (中華人民共和國勞動合同法實施條例) was passed by PRC State Council on 3 September 2008 and effective as of 18 September 2008. The implementation of the new law and its Implementation Rules, particularly the following provisions, may increase our labor costs: (a) an employer shall make monetary compensation, which shall be based on the number of an employee's working years with the employer at the rate of one month's wage for each year, to the employee upon termination of an employment contract with certain exceptions (for example, in circumstances where the term of a fixed-term employment contract expires and the employee does not agree to renew the contract even though the conditions offered by the employer are the same as or better than those stipulated in the current contract); (b) the wages of an employee who is on probation may not be less than the lowest wage level for the same job with the employer or less than 80% of the wage agreed upon in the employment contract, and may not be less than the local minimum wage rate; (c) if an employee has been working for the employer for a consecutive period of not less than 10 years, or if a fixed-term employment contract with an employee was entered into on two consecutive occasions, generally the employer should enter into an open-ended employment with such employee, unless the employee requests for a fixed-term employment contract; (d) if an employer fails, in violation of the related provisions, to enter into an open-ended employment contract with an employee, it shall in each month pay to the employee twice his wage, starting from the date on which an open-ended employment contract should have been entered into; (e) if an employer fails to enter into a written employment contract with an employee more than one month but less than one year after the date on which it started employing him, it shall in each month pay to the employee twice his wage; and (f) if an employer hires an employee whose employment contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for the compensation for such loss. Our labor costs may increase due to the implementation of the new PRC Labor Contract Law (中華人民共和國勞動合同法) and the PRC Labor Contract Law Implementation Rules (中華人民共和國勞動合同法實施條例) and our business and results of operations may be materially and adversely affected.

We may be subject to penalties for our past loan advancing activities to related parties.

We have made unsecured and interest free advances to certain related parties in the past, namely, Fujian Peak, Feng Deng and Peak Material. Such advances were fully settled prior to the [●]. As confirmed by King & Wood PRC Lawyers, our PRC legal advisers, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the PBOC may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances. As such advances were interest-free, we did not generate any income from such advances. Although we are not aware of any plans of the PBOC to levy such a fine or other penalty on us, there is no assurance that the PBOC will not take such action. In addition, although our Controlling Shareholders have agreed to indemnify us for any such penalty, such indemnity may not be enforceable or the amount of the fine may exceed what our Controlling Shareholders are able to pay. In such event, our results of operations and financial condition may be adversely affected. Such a penalty may also adversely affect our reputation.

PRC Exchange Regulations on loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from the [●] to make loans or additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds we receive from the [●] in the manner described in the section headed "Future Plans" of this document, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any such loan or additional capital contribution to our PRC subsidiaries are subject to PRC regulations and approvals.

On 29 August 2008, the State Administration of Foreign Exchange promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its oversight over the flow and use of the Renminbi funds converted from the foreign currency capital of a foreign-invested company. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay or prepay Renminbi loans if such loans are outstanding. Violations of Circular 142 will result in severe penalties, such as heavy fines set forth in the relevant foreign exchange control regulations.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds received from the [●] and to fund our PRC operations may be negatively affected, which could materially adversely affect our liquidity and ability to expand our business.

RISKS RELATING TO OUR INDUSTRY

We face increasing competition from international and domestic brands.

The sportswear industry is highly competitive in China and worldwide. Industry players compete with one another based on, among other things, brand loyalty, product variety, product design, product quality and price. There is no assurance that we will be able to compete with others in the future in light of the changing and competitive market environment. In particular, our athletic footwear and apparel products compete with international and domestic sportswear brands such as Nike, Adidas, Li Ning and Anta. These and other competitors may also have greater financial resources, stronger distribution capabilities and greater brand recognition than we do. Increased competition in the industry may pose challenges to our market share and reduce our sales, prices and margins and materially and adversely affect our brand loyalty and results of operations.

Furthermore, with the accession of China to the World Trade Organization, changes and developments in the consumer and retail market may be volatile and unpredictable. For instance, further entry of international brands may intensify the competition in China. We expect increased participation by foreign competitors in the sportswear industry in China. This may have a material adverse impact on our business, results of operations and financial condition.

Changes in consumer spending patterns could materially affect our growth and profitability.

We operate in a cyclical industry in which changes in economic conditions affect the level of consumer spending on our products. Consumer spending patterns are affected by, among other factors, business conditions, interest rates, taxation, local economic conditions, uncertainties about future economic prospects and shifts in discretionary spending toward other goods and services. Consumer tastes and preferences and economic conditions may differ or change from time to time in each market in which we operate and may include shifts away from sportswear altogether. We cannot assure you that we will be able to maintain our historical rates of growth in net sales and net income, or remain profitable, particularly if the retail environment is stagnant or declines. Further, a recession in the general economy or uncertainties regarding future economic prospects could affect consumer spending habits and have a material adverse effect on our business and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Changes in the economic, political and social conditions in China and policies adopted by the Chinese Government may adversely affect our business, results of operations and financial condition.

China's economy differs from the economies of most developed countries in many respects, including, but not limited to, structure, level of government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position.

China's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the Chinese Government has implemented measures emphasizing market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a large portion of productive assets in

China are still owned by the Chinese Government. The Chinese Government continues to play a significant role in regulating industry development, the allocation of resources, production, pricing and management, and there can be no assurance that the Chinese Government will continue to pursue a policy of economic reform.

We may not in all cases be able to capitalize on the economic reform measures adopted by the Chinese Government. Our operations and financial results could be materially and adversely affected by changes in political, economic and social conditions or the relevant policies of the Chinese Government, such as changes in laws and regulations (or the interpretation thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

Our future performance is dependent on China's economy and in particular, the level of growth of the consumer market in China.

As we derive substantially all of our turnover from sales of our products in China, the success of our business depends on the condition and growth of the consumer market in China, which in turn depends on macro-economic conditions and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions and may remain depressed for the near future. There are many factors affecting the level of consumer spending, including but not limited to interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. We believe that consumer spending habits may be adversely affected during a period of recession in the economy or that uncertainties regarding future economic prospects could also affect consumer spending habits, all of which may have a material adverse effect on certain enterprises operating within the consumer sectors, including us.

There can be no assurance that projected growth rates of China's economy and the consumer market in China, including those described in the section headed "Industry Overview" of this document, will be realized. Any future slowdown or decline in China's economy or consumer spending may materially and adversely affect our business, financial condition and results of operations.

Our business may be materially and adversely impacted by recent financial difficulties and economic conditions in the United States, Europe and elsewhere.

Recent financial difficulties and economic conditions in the United States, Europe and other regions may adversely impact our business, results of operations and financial condition in a number of ways, including:

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;

- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession, may cause our customers to delay, defer or cancel their purchases, including decisions previously made;

- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of our sportswear products;

- financing and other sources of liquidity may not be available on reasonable terms or at all; and

- the trading price of our Shares may experience increased volatility.

These risks may be exacerbated in the event of a prolonged economic downturn or financial crisis.

The legal system in China is not fully developed and has inherent uncertainties which could limit the legal protection available to us and adversely affect our operations.

Although our Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands, substantially all of our operations are conducted through our subsidiaries which are organized under PRC laws in China. The legal system in China is based on written statutes. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade. However, many of these laws and regulations are relatively new and will continue to evolve, are subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to you and can adversely affect the value of your investment.

It may be difficult to effect service of process upon us or our Directors who reside in China or to enforce against them or us in China any judgments obtained from non-Chinese courts.

All of our executive Directors reside within China, and substantially all of our assets and substantially all of the assets of those persons are located within China. It may therefore be difficult for investors to effect service of process upon us or those persons in China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom or most other Western countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. Therefore, it may be difficult for investors to enforce any judgments obtained from non-Chinese courts against us or our Directors in China.

Government control in currency conversion and future movements in foreign exchange rates may materially and adversely affect our results of operations, financial condition and ability to remit dividends.

Most of our turnover and expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payments (if any) to our Shareholders. As a result, we will be exposed to foreign currency fluctuations.

In China, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People's Bank of China. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. However, the Chinese Government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the US dollar and Hong Kong dollar by approximately 2%. On 23 September 2005, the Chinese Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. A significant appreciation of Renminbi will have a material impact on our foreign currency denominated turnover from the exports of our Peak branded products. A significant depreciation of Renminbi will, on the other hand, affect our capability to remit dividends.

Since 1996, a number of rules, regulations and notices regarding foreign exchange control (the "**Exchange Regulations**") have been issued by the Chinese Government which are designed to allow a degree of convertibility of Renminbi. Under the Exchange Regulations, foreign-invested investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Under the current foreign exchange control system, there is no absolute assurance that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

Gain on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes.

Under the New Tax Law and its implementation rules, we may in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities, and capital gains realised by foreign Shareholders from sales of our Shares and dividends on our Shares payable to foreign Shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a withholding income tax of 10% (or lower if certain tax treaties apply). If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in our Shares may be materially and adversely affected.

An outbreak of the Avian Influenza or SARS or any other similar epidemic or an increase in the severity of H1N1 flu (swine flu) may, directly or indirectly, adversely affect our results of operations and the price of the Shares.

Certain Asian countries, including China, have previously encountered epidemics such as Severe Acute Respiratory Syndrome (SARS) or incidence of the Avian Flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in China. The Avian Flu disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. If any of our employees are suspected of being infected with the Avian Flu, H1N1 flu (swine flu) or any other similar epidemic, we may be required to quarantine those employees, as well as others who have come into contact with those employees. We may also be required to disinfect our affected premises, which could cause a temporary suspension of our manufacturing capacity, thus adversely affecting our operations. A recurrence of an outbreak of SARS, Avian Flu or any other similar epidemic or an increase in the severity of the H1N1 flu (swine flu) could restrict the level of economic activity generally and/or slow down or disrupt exporting activities which could in turn materially and adversely affect our results of operations and the price of the Shares.