
OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

ORIGIN AND HISTORY

Early Development

Our chairman, Mr. Xu Jingnan, has approximately 20 years of experience in the Chinese sportswear industry. In July 1988, Mr. Xu Jingnan became the chairman, general manager and legal representative of Feng Deng, a sino-foreign joint venture enterprise established by Quanzhou City Dengzhou Fuel and Refuse Processing Plant (泉州市燈洲燃料利廢加工廠), a collectively-owned enterprise and an Independent Third Party (“**Dengzhou Fuel**”), and Hong Kong Fung Wah Company (香港豐華行), a partnership formed by Mr. Yau Fong Wai and Mr. Tsang Pui Wah, both of whom are Independent Third Parties (“**Fung Wah**”). Feng Deng was formed to primarily provide OEM service for sports footwear in China. The respective shareholdings of Dengzhou Fuel and Fung Wah in Feng Deng were 40% and 60%. While at Feng Deng, Mr. Xu Jingnan oversaw the development of Feng Deng and gained a strong understanding of the sportswear industry and consumer market in China. While Feng Deng primarily manufactured OEM sports footwear products as authorised under its business license, the Peak brand was created at Feng Deng under Mr. Xu Jingnan’s direction. Feng Deng began to promote Peak sports footwear in 1991 with the goal of creating a well-known international sportswear brand with significant market share in China and abroad. Around the same time, Feng Deng began to establish representative offices in cities across China to promote and sell Peak sports footwear at retail counters situated within major shopping malls and department stores.

In December 1992, Feng Deng, Dengzhou Fuel and five other unaffiliated entities^{Note (1)} formed Fujian Peak, a collectively-owned enterprise, to establish a corporate structure to enhance the Peak brand for future development. Mr. Xu Jingnan was appointed as the chairman, general manager and legal representative of Fujian Peak and was responsible for its daily management.

As the production capabilities increased through the establishment of Feng Deng, securing sufficient supply of raw materials for footwear soles became an important issue to sustain growth. In March 1993, Fujian Peak and Korea Busan City Sun-Mountain Trading Company (韓國釜山市日山交易株式會社) (“**Korea Busan**”), an Independent Third Party, established Peak Material, a sino-foreign joint venture enterprise owned as to 51% by Fujian Peak and 49% by Korea Busan, to primarily engage in the manufacture of polymer raw materials for footwear soles. Mr. Xu Jingnan was appointed as the chairman, general manager and legal representative of Peak Material and was responsible for its daily management.

The increasing popularity of the Peak brand led Fujian Peak to further expand its production of sports footwear and footwear parts. In July 1994, Peak Shoes was established as a sino-foreign joint venture to produce sports footwear and footwear parts. Peak Shoes was owned as to 60% by Fujian Peak and 40% by Toko Maju Vella (印度尼西亞菲拉服裝公司) (“**Toko Maju**”), an Independent Third Party. Mr. Xu Jingnan was appointed as the chairman, general manager and the legal representative of Peak Shoes and was responsible for its daily management. The majority of the products produced by Peak

Note:

- (1) The five unaffiliated entities are Quanzhou Donghai Rubber and Plastic Processing Factory (泉州市東海橡塑加工廠), Quanzhou Licheng Donghai Footwear Factory (泉州市鯉城東海製鞋廠), Quanzhou Chenzhou Plastic Crafts Factory (泉州市區沉州塑料工藝廠), Quanzhou Kaidi Footwear and Clothes Factory (泉州市凱迪鞋業服裝廠) and Huian Dongyuan Fengshan Brick Factory (惠安縣東園風山機磚廠), all of which are Independent Third Parties.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Material was supplied to Feng Deng and Peak Shoes, with the remainder supplied to other third parties. By the end of 1996, a number of representative offices were established across China to expand its domestic sales network.

In 1996, Fujian Peak began replacing its representative offices with exclusive distribution arrangements with certain distributors in order to more efficiently manage and implement its sales strategy. These exclusive distribution arrangements, which required the distributors to invest in their own distribution networks, reduced the burden on Fujian Peak to provide capital and resources to develop the distribution network, and were more flexible and cost effective. Such strategy enabled Fujian Peak to significantly expand its distribution network, increase its brand awareness and further penetrate into the sports footwear market in China.

In 1999, in view of the then market conditions and popularity of the Peak brand, Peak Shoes began to expand its product offerings by producing and selling sports apparel and accessories under the Peak brand.

Development of our Group

With a view toward enhancing the management of the Xu Family’s business, the following transactions were entered into in 2003 and 2004 with respect to Feng Deng, Fujian Peak, Peak Material and Peak Shoes:

- In January 2003, Mr. Xu Jingnan and his spouse Ms. Wu Tigao established Peak Hong Kong to facilitate the acquisition of all the equity interests in Feng Deng, Peak Material and Peak Shoes so as to obtain absolute control over them;
- In August 2003, Fujian Peak and Korea Busan transferred all of their respective equity interests in Peak Material to Peak Hong Kong at a consideration of US\$1,000,000 by reference to the registered capital of Peak Material;
- In August 2003, Fung Wah and Dengzhou Fuel transferred all of their respective equity interests in Feng Deng to Peak Hong Kong at a consideration of RMB11,000,000 by reference to the registered capital of Feng Deng;
- In September 2003, Fujian Peak and Toko Maju transferred all of their respective equity interests in Peak Shoes to Peak Hong Kong at a consideration of RMB20,880,000 by reference to the registered capital of Peak Shoes;
- In November 2004, the shareholders of Fujian Peak transferred all of their respective equity interests in Fujian Peak to Mr. Xu Jingnan and his sons Mr. Xu Zhihua and Mr. Xu Zhida at a consideration of RMB11,200,000 by reference to the registered capital of Fujian Peak. As a result of the transfer, Fujian Peak became wholly owned by the Xu family, whereby Mr. Xu Jingnan owned 60% of its equity interests and Mr. Xu Zhihua and Mr. Xu Zhida each owned 20% of the remaining 40% equity interests. After the transfer, Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida transformed Fujian Peak from a collectively-owned enterprise into a limited liability company; and

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- In August 2004, Peak Hong Kong transferred a 51% equity interest in each of Feng Deng and Peak Material, respectively, to Fujian Peak at a consideration of RMB5,610,000 and US\$510,000 by reference to the equivalent percentage of the respective registered capitals of Feng Deng and Peak Material, following which Feng Deng and Peak Material both became sino-foreign joint venture enterprises.

After the above-mentioned transfers, each of Fujian Peak, Peak Hong Kong, Peak Shoes, Peak Material and Feng Deng was directly or indirectly wholly owned by Mr. Xu Jingnan and his family.

In August 2004, Peak Hong Kong and Fujian Peak formed Peak Sports, a sino-foreign joint venture enterprise focused on the production of sports apparel and accessories. Peak Sports was created to further expand into the sports apparel and accessories business. Peak Sports was owned as to 51% by Fujian Peak and 49% by Peak Hong Kong.

As we believe that branded sportswear products offer greater business potential and higher profit margin than OEM services for sports footwear products, we revised our business model by focusing on the development of our international brand in China and abroad in 2005. We also began to expand Peak’s sales network by increasing the number of authorized Peak retail outlets with a view toward growing Peak’s market share in the sportswear industry.

To meet the increasing demand for our products and to decrease our reliance on our Contract Manufacturers, we started to expand our own production capacity. In April 2006, with the support of the Jiangxi provincial government, Peak Hong Kong established Peak Jiangxi, a wholly foreign-owned enterprise to increase our footwear production capacity and to take advantage of less expensive land and labour costs to reduce our production costs.

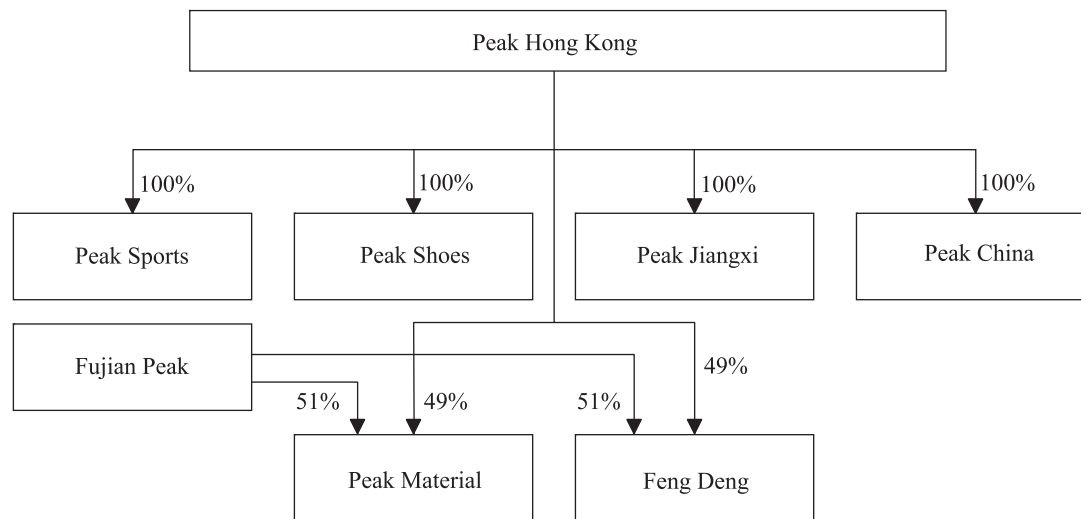
In August 2006, Peak Hong Kong issued to each of Mr. Xu Zhihua and Mr. Xu Zhida a 20% interest in the enlarged issued share capital of Peak Hong Kong at par value. Following such issuance, the shareholding of Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua and Mr. Xu Zhida in Peak Hong Kong were 40%, 20%, 20% and 20%, respectively.

In preparation for the [●], Fujian Peak transferred its 51% shareholding interest in Peak Sports to Peak Hong Kong in accordance with the PRC laws and regulations in September 2006 at a consideration of US\$1,530,000 (in the form of cash consideration of US\$240,963.86 and assumption of the capital injection obligation of Fujian Peak amounting to US\$1,289,036.14) by reference to the equivalent percentage of the registered capital of Peak Sports. Following this transfer, Peak Sports, Peak Shoes and Peak Jiangxi became wholly-owned subsidiaries of Peak Hong Kong, which was then owned by the Xu Family.

In January 2007, Peak Hong Kong established Peak China, a WFOE, in Hui’an, Fujian province to increase our apparel production capacity and to take advantage of less expensive land and labour costs to reduce our production costs.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out the structure of the Group in April 2007:



Streamlining the corporate structure

As the production lines in Feng Deng and Peak Material became obsolete and the production sites were required to be redeveloped by the local government, and after taking into account the diminishing contributions made by Feng Deng and Peak Material to the Group, Peak Hong Kong and Fujian Peak disposed of all their respective shareholding interests in Feng Deng and Peak Material in April 2007 to C&D Int'l Investment Co., Limited (建發國際投資有限公司), an Independent Third Party and a company incorporated in Hong Kong, at a consideration of RMB11,000,000 (as to RMB5,610,000 being paid to Fujian Peak and as to RMB5,390,000 being paid to Peak Hong Kong) and US\$1,000,000 (as to US\$510,000 being paid to Fujian Peak and as to US\$490,000 being paid to Peak Hong Kong), respectively. The considerations were determined after arms' length negotiations and with reference to independent valuations and the amounts of the respective registered capitals of the two companies. The considerations for the sale of Peak Hong Kong's interests in Feng Deng and Peak Material were received by the Group in August 2008 because the purchaser experienced financial difficulty in 2007.

FINANCIAL INVESTMENTS AND REORGANIZATION

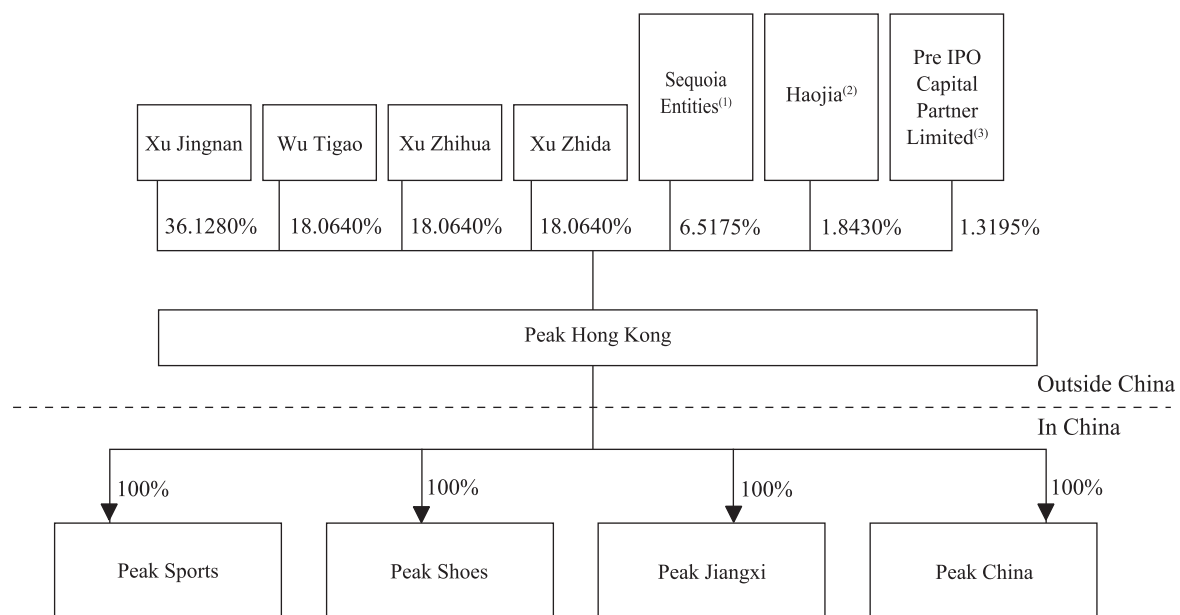
Investment made by Haojia and the First Round Financial Investment

In late December 2005, Haojia expressed its interest to acquire shares in Peak Hong Kong and commenced negotiations with the Xu Family regarding the purchase of 3,686 old shares of Peak Hong Kong (representing 1.843% interest of the share capital of Peak Hong Kong) from the Xu Family. During the negotiation process, the purchase price was agreed at HK\$5,000,000, or HK\$1,356.48 per share. The Xu Family considered that the purchase price agreed was reasonable by reference to the number of shares involved and the financial performance of Peak Hong Kong in the financial year of 2005. Haojia paid the consideration in January 2007 and the share transfer took place in July 2007.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

After the disposal of Feng Deng and Peak Material, Peak Hong Kong completed a round of fund raising activities in July 2007 raising approximately HK\$46.8 million through the sale of equity for the purpose of strengthening the capital base of Peak Hong Kong and financing the Group’s business expansion, including investment in the production facilities in Shang’gao, Jiangxi province and brand promotion and marketing activities. Peak Hong Kong issued 15,674 new shares (representing 7.837% interest in the then issued share capital of Peak Hong Kong) to the First Round Financial Investors for a total consideration of US\$6,000,000 (approximately HK\$46.8 million) which was received by Peak Hong Kong. Under the original investment agreement entered into in July 2007, the subscription price paid by First Round Financial Investors would be adjusted if the revenue and profits of Peak Hong Kong of 2006 exceed certain amounts. Accordingly, the First Round Financial Investors paid an additional sum of approximately HK\$13.6 million (which is determined with reference to the audited results of Peak Hong Kong in the financial year of 2006) to the Xu Family pursuant to a supplemental investment agreement signed on 6 August 2008. The investment cost of approximately HK\$3,853.52 per share (taking into account the additional sum paid to the Xu Family in August 2008) was determined on an arm’s length basis and with reference to the financial performance of Peak Hong Kong in 2006. After the transfer of shares from the Xu Family to Haojia and the investment made by the First Round Financial Investors, the First Round Financial Investors and Haojia acquired an aggregate of 9.68% of the issued shares of Peak Hong Kong through the subscription of new shares and transfer of old shares from the Xu Family respectively. Please refer to the paragraph headed “Details of the First Round Financial Investors and Haojia” in Appendix VI to this document for details of the First Round Financial Investors and Haojia.

The following chart sets out the shareholding structure of Peak Hong Kong immediately after the transfer of shares of Peak Hong Kong to Haojia and the investments by the First Round Financial Investors in July 2007:



Notes:

(1) The breakdown of the shareholding interests of the Sequoia Entities 1 is as follows:

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (a) Sequoia Capital China I, L.P.: 5.1330%
 - (b) Sequoia Capital China Principals Fund I, L.P.: 0.7945%
 - (c) Sequoia Capital China Partners Fund I, L.P.: 0.5900%
- (2) Based upon information provided to the Company, Haojia is an investment holding company incorporated in the British Virgin Islands.
- (3) Based upon information provided to the Company, Pre IPO Capital Partners Limited is a private limited company incorporated in the British Virgin Islands focusing on private equity investments.

Incorporation of the Company

In January 2008, Peak Investment was incorporated in the British Virgin Islands as a shelf company. In February 2008, Mr. Xu Jingnan incorporated the Company in the Cayman Islands as a holding company for the purposes of the [●]. On 15 February 2008, the Company became the sole shareholder of Peak Investment, which is the intermediate investment holding company for the Group.

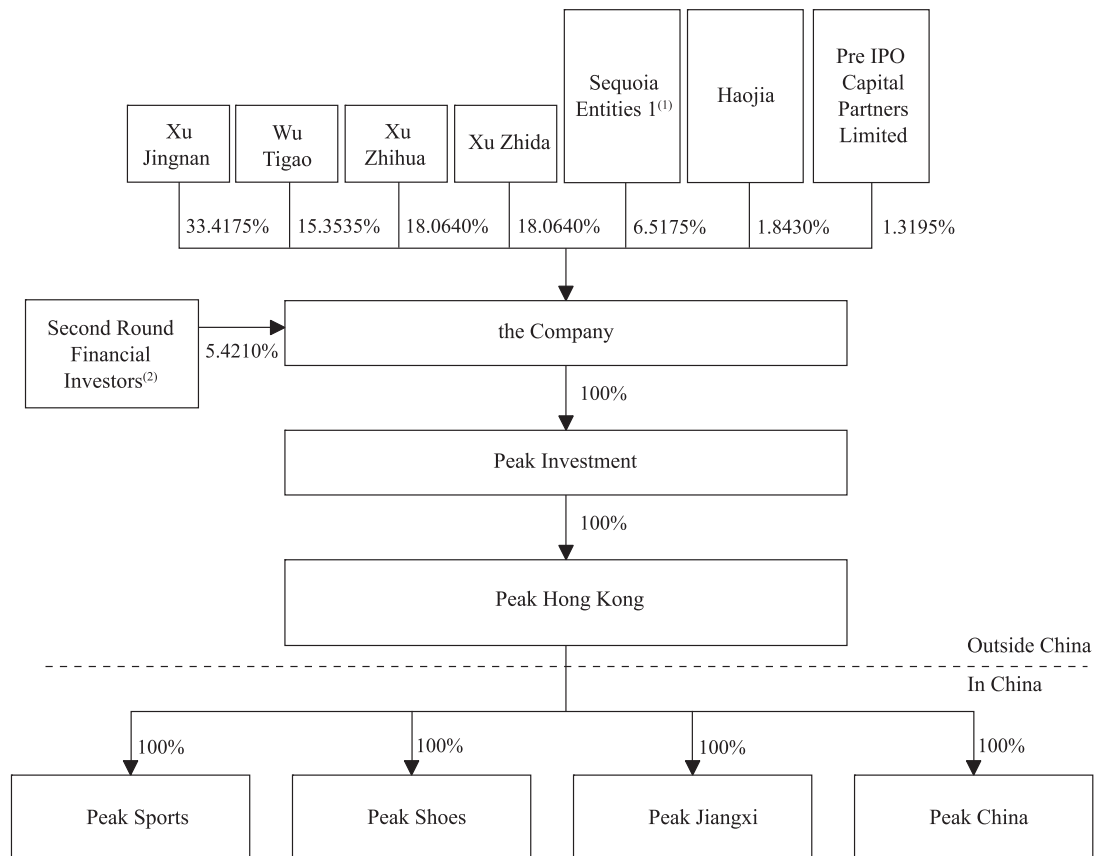
As part of the Reorganization, on 30 June 2008, Peak Hong Kong entered into a share transfer agreement with the Xu Family, Haojia, the First Round Financial Investors and Peak Investment. Pursuant to the share transfer agreement, the Xu Family, Haojia, and the First Round Financial Investors transferred all of their respective shareholdings in Peak Hong Kong to Peak Investment in exchange for an aggregate of 1,499,999,999 Shares. The Shares were allotted to them pro rata to their respective shareholdings in Peak Hong Kong. After the transfer, Peak Hong Kong and its subsidiaries became wholly-owned subsidiaries of the Company through Peak Investment. Details of the share swap arrangement are set out in the paragraph headed “Reorganization” in Appendix VI to this document.

Second Round Financial Investment

To further finance the Group’s operations such as brand promotion and marketing activities, and in particular to fund the Group’s investment in the facilities at its two new production sites in Hui’an, Fujian province and Shang’gao, Jiangxi province, in late October and November 2007, Mr. Xu Jingnan and Ms. Wu Tigao entered into share transfer agreements with the Second Round Financial Investors for the transfer of 81,315,804 shares of Peak Hong Kong for a total consideration of approximately HK\$304.9 million, or HK\$3.75 per share and the Second Round Financial Investors paid the purchase price to Mr. Xu Jingnan and Ms. Wu Tigao within one month of the respective dates of the transfer agreements in late October and November 2007. The transfer of the shares of Peak Hong Kong did not take place as the Xu Family made the decision to change the [●] plan and set up the Company for [●] purposes instead of [●]. The Second Round Financial Investors then agreed with Mr. Xu Jingnan and Ms. Wu Tigao that the Second Round Financial Investors would accept Shares rather than shares of Peak Hong Kong pending the completion of the Reorganization. On 30 June 2008, the Reorganization was completed and on the same date Mr. Xu Jingnan and Ms. Wu Tigao transferred 81,315,804 Shares, representing 5.4210% of the issued share capital of the Company (before the completion of the [●]), to the Second Round Financial Investors. The proceeds of the sale of the Shares were advanced by Mr. Xu Jingnan to our Group in the form of short term advances. Such advances were repaid in April 2009. Please refer to the paragraph headed “Details of the Second Round Financial Investors” in Appendix VI to this document for the details of the Second Round Financial Investors.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding structure of the Group immediately after the transfer of Shares to the Second Round Financial Investors in June 2008.



Notes:

- (1) The breakdown of the shareholding interests of the Sequoia Entities 1 is as follows:
 - (a) Sequoia Capital China I, L.P.: 5.1330%
 - (b) Sequoia Capital China Principals Fund I, L.P.: 0.7945%
 - (c) Sequoia Capital China Partners Fund I, L.P.: 0.5900%
- (2) The Second Round Financial Investors include 21 individual investors and six institutional investors, details of which are set out in the paragraph headed “Details of the Second Round Financial Investors” in Appendix VI to this document.

All of the Second Round Financial Investors are Independent Third Parties and are independent from Haojia, each of the First Round Financial Investors and each other.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Repurchase of Shares from Second Round Financial Investors

Pursuant to the share transfer agreements and supplemental agreements entered into with the Second Round Financial Investors, the Second Round Financial Investors may request Mr. Xu Jingnan and Ms. Wu Tigao to repurchase Shares from them at 115% of the investment cost paid by the Second Round Financial Investors if the Company did not list its securities on the Stock Exchange on or before 30 June 2009. During the period from January 2009 to June 2009, Mr. Xu Jingnan and Ms. Wu Tigao repurchased the Shares held by Sparkle Day Investments, Superb Great Technology, World Fund Pte Limited, Shiny Fly Limited and the 21 individual investors upon request of these investors. Pursuant to the Amended and Restated Shareholders Agreement and the Investment Agreement, if the [●] cannot take place on or before 30 June 2011, each of SCGC and CCBIAM has the rights to request repurchase of Shares by the Controlling Shareholders.

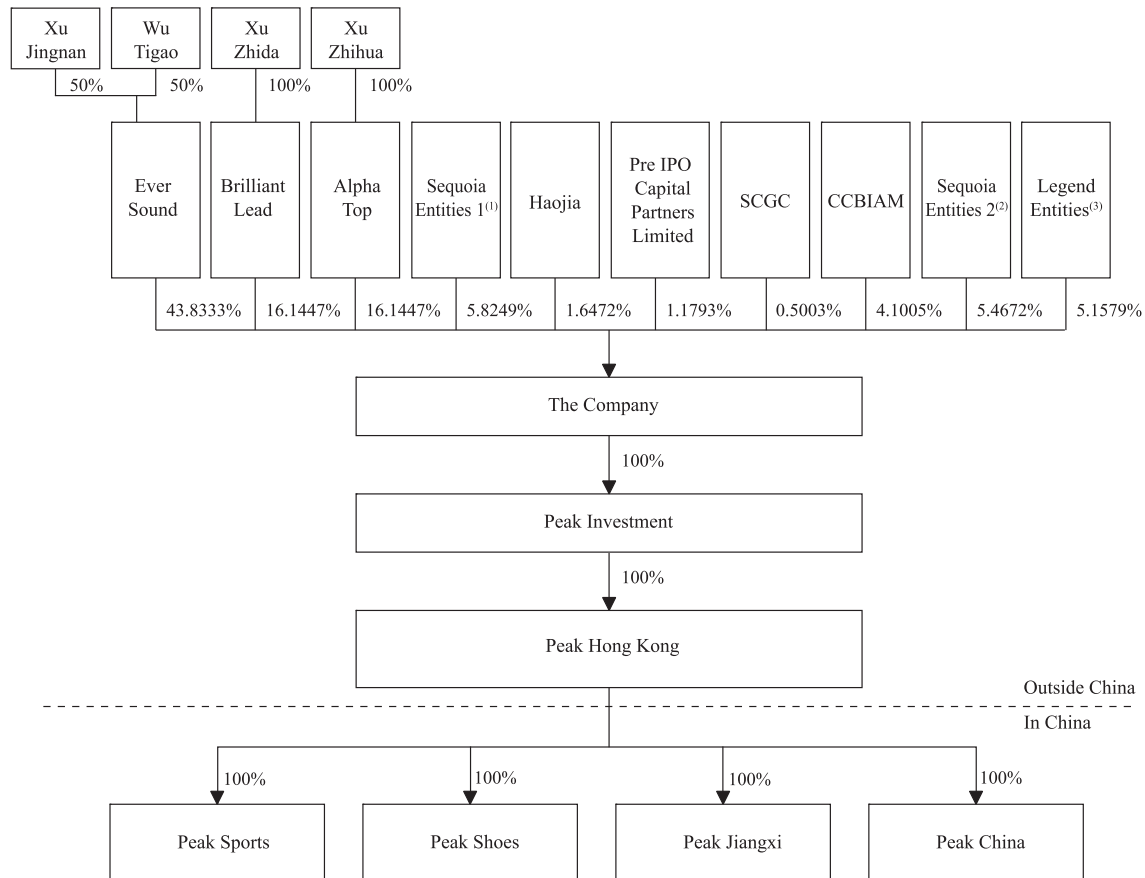
Reorganization, further acquisition by CCBIAM and SCGC and investments by the Third Round Financial Investors

In April 2009, Mr. Xu Jingnan and Ms. Wu Tigao transferred all of their Shares to Ever Sound, a company owned as to 50% by Mr. Xu Jingnan and 50% by Ms. Wu Tigao. In April 2009, Mr. Xu Zhihua transferred all of his Shares to Alpha Top, a company wholly owned by Mr. Xu Zhihua and Mr. Xu Zhida transferred all of his Shares to Brilliant Lead, a company wholly owned by Mr. Xu Zhida.

To further finance the Group’s operations such as brand promotion and marketing activities and to support the construction of the Group’s new production lines, the Company and the Controlling Shareholders entered into the Share Purchase Agreements with CCBIAM and the Third Round Financial Investors, pursuant to which Sequoia Capital China Growth Fund I, L.P. subscribed for 80,031,885 Shares from the Company at a consideration of US\$17,444,000 (approximately HK\$136,063,200), Sequoia Capital China Growth Partners Fund I, L.P. subscribed for 1,908,580 Shares from the Company at a consideration of US\$416,000 (approximately HK\$3,244,800), Sequoia Capital China GF Principals Fund I, L.P. subscribed for 9,818,174 Shares from the Company at a consideration of US\$2,140,000 (approximately HK\$16,692,000), LC Fund IV, L.P. subscribed for 64,923,566 Shares from the Company at a consideration of US\$15,000,000 (approximately HK\$117,000,000), and Right Lane Limited subscribed for 21,641,189 Shares from the Company at a consideration of US\$5,000,000 (approximately HK\$39,000,000). The investment made by the Third Round Financial Investors was completed on 7 April 2009. See “Statutory and General Information — 6. Details of the Third Round Financial Investors” for details of the shareholding by the Third Round Financial Investors. In addition, pursuant to the Share Purchase Agreements and the Investment Agreement, two of the Second Round Financial Investors, CCBIAM acquired another 48,018,979 Shares from Ever Sound at a consideration of US\$5,000,000 (approximately HK\$39,000,000) and SCGC acquired another 5,197,001 shares from Ever Sound at a consideration of approximately HK\$2,190,000. The transfers of Shares from Ever Sound to CCBIAM and SCGC were completed on 7 April 2009. See “Statutory and General Information — 5. Details of the Remaining Second Round Financial Investors” for details of the shareholdings of CCBIAM and SCGC.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding structure of the Group immediately after further transfer of Shares to CCBIAM and SCGC and the investments by the Third Round Financial Investors in June 2009.



Notes:

- (1) The breakdown of the shareholding interests of the Sequoia Entities 1 is as follows:
 - (a) Sequoia Capital China I, L.P.: 4.5876%
 - (b) Sequoia Capital China Principals Fund I, L.P.: 0.7100%
 - (c) Sequoia Capital China Partners Fund I, L.P.: 0.5273%
- (2) The breakdown of the shareholding interests of the Sequoia Entities 2 is as follows:
 - (a) Sequoia Capital China Growth Fund I, L.P.: 4.7685%
 - (b) Sequoia Capital China GF Principals Fund I, L.P.: 0.5850%
 - (c) Sequoia Capital China Growth Partners Fund I, L.P.: 0.1137%
- (3) The breakdown of the shareholding interests of the Legend Entities is as follows:
 - (a) LC Fund IV, L.P.: 3.8684%
 - (b) Right Lane Limited: 1.2895%

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Other than the investment in the Company disclosed in this document, each of Haojia, the First Round Financial Investors, the Second Round Financial Investors and the Third Round Financial Investors are independent from the Group and each other, except for (i) Sequoia Entities 1 and Sequoia Entities 2 which are partnerships managed by Sequoia Capital China Advisors Limited and (ii) Right Lane Limited and LC Fund IV, L.P., whereby Right Lane Limited is one of the limited partners of LC Fund IV, L.P. committing less than 30% of total commitment capital of LC Fund IV, L.P.. In addition, Right Lane Limited also holds 30% equity interest of LC Fund IV GP Limited which is the sole general partner of LC Fund IV, L.P..

Comparison among Haojia, the First Round Financial Investors, the remaining Second Round Financial Investors and the Third Round Financial Investors

The table below sets out the investment cost per Share for, the basis of valuation and the maximum discount/premium enjoyed/paid by Haojia, the First Round Financial Investors and the Second Round Financial Investors:

	Haojia	First Round Financial Investors	Remaining Second Round Financial Investors		Third Round Financial Investors	
			CCBIAM	SCGC	Sequoia Entities 2	Legend Entities
Date of entry as an investor (regardless whether as a shareholder of Peak Hong Kong or as a Shareholder)	13 July 2007	13 July 2007	30 June 2008	30 June 2008	7 April 2009	7 April 2009
Investment cost per Share	HK\$0.1809	HK\$0.5141 ⁽¹⁾	US\$0.2180 (approximately HK\$1.7004 ⁽²⁾)	US\$0.2180 (approximately HK\$1.7004 ⁽³⁾)	US\$0.2180 (approximately HK\$1.7004 ⁽⁴⁾)	US\$0.2310 (approximately HK\$1.8018 ⁽⁵⁾)
Basis of valuation	Determined on an arm's length basis and by reference to the estimated financial performance of Peak Hong Kong for the financial year of 2005	Determined on an arm's length basis and by reference to the estimated financial performance of Peak Hong Kong for the financial year of 2006	Determined on an arm's length basis with reference to (i) the estimated financial performance of the Group of 2009 and (ii) the equity capital market condition around March and April 2009	Determined on an arm's length basis with reference to (i) the estimated financial performance of the Group of 2009 and (ii) the equity capital market condition around March and April 2009	Determined on an arm's length basis with reference to (i) the estimated financial performance of the Group of 2009, (ii) the equity capital market condition around March and April 2009 and (iii) taking into account previous investment relationships already established with Sequoia Entities 1	Determined on an arm's length basis with reference to (i) the estimated financial performance of the Group of 2009, (ii) the equity capital market condition around March and April 2009 and (iii) taking into account they are entirely new investors to the Group
Discount to the [●] if the [●] is fixed at HK\$[●]	[●]%	[●]%	[●]%	[●]%	[●]%	[●]%

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	Haojia	First Round Financial Investors	Remaining Second Round Financial Investors		Third Round Financial Investors	
			CCBIAM	SCGC	Sequoia Entities 2	Legend Entities
Discount to the [●] if the [●] is fixed at HK\$[●]	[●]%	[●]%	[●]%	[●]%	[●]%	[●]%

Notes:

- (1) This is calculated by the aggregate of the subscription price paid to Peak Hong Kong and the additional sum paid to the Xu Family divided by the total number of Shares held by the First Round Financial Investors.
- (2) CCBIAM acquired a total of 68,818,979 Shares in June 2008 and April 2009 at a total consideration of US\$15,000,000. This investment cost does not take into account the adjustment to be made, details of which are set out in the paragraph headed “Rights and Obligations of Haojia, the First Round Financial Investors, remaining Second Round Financial Investors and the Third Round Financial Investors”.
- (3) SCGC acquired a total of 8,397,001 Shares in June 2008 and April 2009 at a total consideration of approximately US\$1,830,000. This investment cost does not take into account the adjustment to be made, details of which are set out in the paragraph headed “Rights and Obligations of Haojia, the First Round Financial Investors, remaining Second Round Financial Investors and the Third Round Financial Investors”.
- (4) Sequoia Entities 2 has a lower investment cost than Legend Entities because the Directors consider that Sequoia Entities 1 have already established relationships with the Company. The investment cost does not take into account the adjustment to be made, details of which are set out in the paragraph headed “Rights and Obligations of Haojia, the First Round Financial Investors, remaining Second Round Financial Investors and the Third Round Financial Investors”.
- (5) Although Legend Entities is one of the Third Round Financial Investors, its investment cost is higher than Sequoia Entities 2 because they are entirely new investors to the Company and the Directors are of the view that they should pay higher investment cost than the other investors which have already established relationships with the Company. This investment cost does not take into account the adjustment to be made, details of which are set out in the paragraph headed “Rights and Obligations of Haojia, the First Round Financial Investors, remaining Second Round Financial Investors and the Third Round Financial Investors”. After the adjustment, the minimum investment cost per Share for Legend Entities will be US\$0.2241.

The difference in the investment cost per Share between Haojia and the First Round Financial Investors was due to the fact that the consideration for the purchase by Haojia was set by reference to the financial performance of Peak Hong Kong in the financial year of 2005 and the then market expectation whilst the consideration for the purchase by the First Round Financial Investors was set by reference to the financial performance of Peak Hong Kong for the financial year of 2006 and the then market expectation.

The difference in the investment cost per Share between the First Round Financial Investors and the Second Round Financial Investors was due to the difference in the valuation basis as described above. The investment cost for the Second Round Financial Investors is more than that of the First Round Financial Investors because the net profit of Peak Hong Kong in the financial year of 2007 was more than that of 2006.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Rights and Obligations of Haojia, the First Round Financial Investors, remaining Second Round Financial Investors and the Third Round Financial Investors

- (A) The rights of the First Round Financial Investors under the subscription agreement entered into between the Xu Family, the First Round Financial Investors, and Peak Hong Kong dated 7 July 2007 (the “**Subscription Agreement**”) and the Amended and Restated Shareholders Agreement include certain information rights, board representation rights, right of first refusal, tag along right, anti-dilution right, other minority protection rights and conditional right to dividend and a put option exercisable by the First Round Financial Investors to require the Controlling Shareholders to repurchase Shares held by the First Round Financial Investors at the investment cost plus an interest of 12% per annum on the earlier of (i) the net profit of the Company’s for the financial year ended 31 December 2006 as contained in the Company’s audited consolidated financial statements being less than RMB50,000,000, and (ii) 30 June 2011. The event prescribed by condition (i) above did not happen because the Company’s net profit for the financial year ended 31 December 2006 was more than RMB50,000,000. In order for the First Round Financial Investors to exercise the put option, they must give a 6-month prior notice to the Controlling Shareholders. All these special rights will lapse upon the [●]. Sequoia Entities 1 exercised the board representation rights and appointed Mr. Shen Nanpeng, a non-executive Director, to represent them in the Board. Mr. Shen Nanpeng will be eligible for re-election in the next annual general meeting of the Company and his appointment is subject to Shareholders’ approval in accordance with the Articles of Association. Haojia does not enjoy any special rights when compared with the Shareholders.
- (B) The principal rights of the remaining Second Round Financial Investors granted by the Controlling Shareholders pursuant to the Amended and Restated Shareholders Agreement (for CCBIAM) and the Investment Agreement (for SCGC) include a put option exercisable by the remaining Second Round Financial Investors to require the Controlling Shareholders to repurchase Shares held by the remaining Second Round Financial Investors at the investment cost plus an interest of 15% per annum if the [●] cannot take place on or before 30 June 2011. CCBIAM enjoys additional rights granted by the Controlling Shareholders which include board representation right, information rights, inspection right, right of first refusal, tag along right, anti-dilution right, other minority protection rights and conditional right to dividend. All these special rights will lapse upon [●]. CCBIAM exercised the board representation right and appointed Dr. Hu Zhanghong to represent it in the Board. Dr. Hu Zhanghong will be eligible for re-election in the next annual general meeting of the Company and his appointment is subject to Shareholders’ approval in accordance with the Articles of Association. In addition, pursuant to the Share Purchase Agreement (for CCBIAM) and the Investment Agreement (for SCGC), the Controlling Shareholders also agree with CCBIAM and

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SCGC to adjust the investment cost per Share downward if the Company's 2009 net profit is less than RMB500 million. The amount to be paid by the Controlling Shareholders to CCBIAM and SCGC is to be determined according to the formulae below:

- (i) for CCBIAM:

*Amount of payment to be made by the Controlling Shareholders = the aggregate subscription price paid by CCBIAM, ie. approximately US\$15,000,000 – (audited net profit for the financial year of 2009 * 5.0% the shareholding interest of CCBIAM immediately after the completion of the transfer of additional Shares from Ever Sound to them on 7 April 2009, ie. 4.1005%)*

- (ii) for SCGC:

*Amount of payment to be made by the Controlling Shareholders = the aggregate subscription price paid by SCGC, ie. approximately US\$1.83 million – (audited net profit for the financial year of 2009 * 5.0% the shareholding interest of SCGC immediately after the completion of the transfer of additional Shares from Ever Sound to them on 7 April 2009, ie. 0.5003%).*

- (C) The rights of the Third Round Financial Investors under the Amended and Restated Shareholders Agreement include certain information rights, inspection right, right of participation, right of first refusal, right of co-sale, right to dividends and board representation right and a put option exercisable by the Third Round Financial Investors to require the Controlling Shareholders to repurchase Shares held by the Third Round Financial Investors at the investment cost plus an interest of 15% per annum if the [●] cannot take place on or before 30 June 2011 (for Sequoia Entities 2) or on or before 31 December 2011 (for Legend Entities). All these special rights will lapse upon [●]. The Third Round Financial Investors exercised the board representation right and Sequoia Entities 2 appointed Mr. Shen Nanpeng, who is already a non-executive Director, to represent them in the Board whereas Legend Entities appointed Mr. Zhu Linan to represent them in the Board. Mr. Shen Nanpeng and Mr. Zhu Linan will be eligible for re-election in the next annual general meeting of the Company and their respective appointment is subject to Shareholders' approval in accordance with the Articles of Association. In addition, pursuant to the Share Purchase Agreement, the Controlling Shareholders also agree with the Third Round Financial Investors to adjust the investment cost per share downward if the Company's 2009 net profit is less than RMB500 million. The amount to be paid by the Controlling Shareholders to the Third Round Financial Investors is to be determined according to the formulae below:

- (i) for Sequoia Entities 2

*Amount of payment to be made by the Controlling Shareholders = the original subscription price paid by each member of Sequoia Entities 2 – (audited net profit for the financial year of 2009 * 5.0% the respective shareholding interest of each member of Sequoia Entities 2 immediately after the completion of the investment on 7 April 2009)*

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

(ii) for Legend Entities

*Amount of payment to be made by the Controlling Shareholders = the original subscription price paid by each member of Legend Entities – (audited net profit for the financial year of 2009⁽¹⁾ * 5.3 * the respective shareholding interest of each member of Legend Entities immediately after the completion of the investment on 7 April 2009)*

Note (1): if the amount of the audited net profit for the financial year of 2009 is less than the US dollar equivalent of RMB485,000,000, this figure shall be the US dollar equivalent of RMB485,000,000

Each of Haojia, the First Round Financial Investors, the remaining Second Round Financial Investors and the Third Round Financial Investors has undertaken with the Company that it shall not, and shall procure that its associates or companies controlled by it or nominees or trustees holding in trust for it shall not, sell, transfer or otherwise dispose of nor enter into any agreement to dispose of (including without limitation the creation of any option over or pledge or charge as security) any of the Shares or securities of the Company owned by it or the relevant company, nominee or trustee (including any interest on any shares in any company controlled by it which is directly or indirectly the beneficial owner of any of the Shares or securities of the Company) at any time after the issue of this document up to and including the date falling within six months after the [●]. Upon [●], the Shares held by each of Haojia, the First Round Financial Investors, the remaining Second Round Financial Investors and the Third Round Financial Investors will be counted towards the public float as required under [●].

Fujian Peak

As Fujian Peak is a PRC company owned 60%, 20% and 20% by Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida, respectively, it and its subsidiaries cannot be included in the Group without changing their corporate status from PRC companies owned by PRC individuals to foreign invested enterprises. The conversion of such corporate status requires Fujian Peak and its shareholders to meet certain regulatory requirements and such conversion also requires stringent government approvals under the current regulatory environment. According to King & Wood PRC Lawyers, our PRC legal advisers, the “regulatory requirements” refer to Article 11 of the *Regulations for Merger with and Acquisition of Domestic enterprises by Foreign Investors* (the “**Acquisition Regulations**”) which stipulates when any domestic companies, enterprises or natural persons merge with or acquire any domestic companies having connected relations with such acquirer(s) through an overseas company legally established or controlled by the acquirer(s), the acquirer(s) should obtain the Ministry of Commerce’s approval for such merger or acquisition. Since Fujian Peak and its subsidiaries are connected parties to the Group, King & Wood PRC Lawyers is of the view that approval of the Ministry of Commerce is required for the transfer of the equity interest in Fujian Peak from Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida to the Group. However, King & Wood PRC Lawyers is not aware of any approval of an acquisition between connected parties since implementation of the Acquisition Regulations on 8 September 2006. To avoid the complicated procedures of converting Fujian Peak and its subsidiaries into foreign invested enterprises, the Xu Family decided not to include Fujian Peak and its subsidiaries into the Group. In addition, other than holding some properties and patent rights, Fujian Peak and its subsidiaries are not engaged in any business similar to those carried on by the Group and are not major operational or business units of the Group. Accordingly, the Company decided not to include Fujian Peak and its subsidiaries in the Group. As Fujian Peak was not included in the Group, the Group acquired the research and development resources, the trademarks registered under the name of Fujian Peak in August

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2007, the patents registered under the name of Fujian Peak that were still valid and in use in June 2008 from Fujian Peak and leased and may continue to lease certain properties located in the Fujian province from Fujian Peak for use as workshops, offices and dormitories, details of which are set out in the section headed “Connected Transaction and Waiver” in this document.

The scope of business of Fujian Peak as stated in its current business license is the sale of shoe materials, shoes, apparel, leather and leather products, and sporting goods, which is similar to the businesses carried on by us. Fujian Peak has not carried out any active business activities other than holding the real estate property currently leased to the Group. According to King & Wood PRC Lawyers, the permitted scope of business in Fujian Peak’s business license does not limit Fujian Peak’s right to lease out such properties. To avoid any potential competition with our Group, Fujian Peak has entered into the Deed of Non-Competition with the Company. A summary of the key terms of the Deed of Non-Competition has been set out in the paragraphs under “Non-compete Undertaking” in the section headed “Substantial and Controlling Shareholders” in this document.