

OUR BUSINESS

OVERVIEW

Peak is among the top three most recognized sports footwear and basketball footwear brands in China based on a market survey conducted by Frost & Sullivan in November 2008. We are a rapidly growing sportswear company in China with a distribution network of 5,667 authorized Peak retail outlets in China as of 30 June 2009, which are operated either by our distributors or by their third party retail outlet operators. We employ a vertically integrated business model where we design, develop, manufacture, distribute and market our sportswear products under the Peak brand.

We place a strong emphasis on building and marketing our Peak brand and products, in particular, basketball footwear, both domestically and internationally through media campaigns, league and home stadium sponsorships, in-store branding and other promotional activities. In recent years, we have placed a particular emphasis on developing our NBA-related and CBA-related relationships through (i) marketing arrangements with NBA China, (ii) home stadium sponsorships with the NBA’s Houston Rockets and New Jersey Nets, and (iii) endorsement arrangements with seven NBA players including Shane Battier of the Houston Rockets, Jason Kidd of the Dallas Mavericks, and Ron Artest of the Los Angeles Lakers and CBA player Liu Yudong, who was recognized in 2005 by the CBA as the best player in their ten year history to that point. These players appear in our advertisements and wear our basketball shoes when playing in professional basketball games. In addition, we have entered into an agreement to sponsor certain Australian national basketball teams including the Australian Boomers (Senior Men) and the Australian Opals (Senior Women) for three years starting from 1 January 2009. Since April 2008, we also have entered into arrangements with FIBA to sponsor certain FIBA sports competitions, such as the 2008 FIBA Diamond Ball for Men and Women, the 2009 FIBA Under 19 World Championship for Women and the 2009 and 2011 FIBA Asia Championships for Men and Women.

Our Peak brand is well-recognized among consumers in China. According to a market survey conducted by Frost & Sullivan of over 4,000 respondents in November 2008 in 28 major cities across China including, among others, all first-tier cities and 12 second-tier cities, Peak is among the top three most recognized domestic or international sports footwear and basketball footwear brands in China. Our footwear has also been recognized as a “State-Designated Product Exempted from Quality Inspection” (國家免檢產品) as well as a “China’s Famous Branded Product” (中國名牌產品). In addition, our Peak brand has been recognized as one of “China’s Well-Known Trademarks” (中國馳名商標) and one of the “Famous Brands from Fujian” (福建省著名商標).

Our chairman, Mr. Xu Jingnan, became involved in the OEM business of manufacturing sports footwear products for various international brands in 1988. Under Mr. Xu Jingnan’s direction, the Peak brand was created and used to promote sports footwear products beginning in 1991. As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM services for sportswear products, we revised our business model by focusing on the development of our own international brand in China and abroad in 2005. At the same time, we also began to expand Peak’s sales network by increasing the number of authorized Peak retail outlets with a view towards growing Peak’s market share in the sportswear industry.

We sell substantially all of our products in China on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. Substantially all of these authorized Peak retail outlets are located in second-tier and third-tier cities throughout

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China. We do not own or operate any of these authorized Peak retail outlets. As of 30 June 2009, the number of authorized Peak retail outlets located in first, second and third-tier cities in China were 273, 1,212 and 4,182, respectively. Such total of 5,667 authorized Peak retail outlets represents an increase of 329.3% from 1,320 authorized Peak retail outlets as of 1 January 2006.

We also sell our products on a wholesale basis to overseas customers, as well as to overseas distributors who then sell our products to consumers, retailers or sports teams and clubs. During the Track Record Period, we exported our products to over 70 countries in total.

Our products are manufactured at our own production facilities as well as selectively outsourced to Contract Manufacturers. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, we outsourced to Contract Manufacturers by volume approximately 68.5%, 69.3%, 60.1%, 71.3% and 61.6% of our footwear production, 69.9%, 83.3%, 89.4%, 92.8% and 82.9% of our apparel production and all of our accessories production. Our new footwear production facility in Shang’gao, Jiangxi province launched production in June 2008. Our new apparel production facility in Hui’an, Fujian province launched trial production and production in March and September 2008, respectively. We expect that our footwear production capacity and our apparel production capacity will increase upon commencement of full production at these two new facilities.

We aim to consistently produce high-quality products with innovative designs and regularly conduct research and development activities to further enhance the technological features of our products. To supplement our in-house design function and give us an additional source of expertise and market intelligence, we maintain close working relationships with two external design studios: Beijing Jiuru Tianbao Design Studio (北京九如天保藝術設計工作室) which helps design our footwear products, and Beijing Bingdian Design Studio (北京冰點設計中心) which helps design our apparel products. We and these external design studios combine sports functionality, fashion and comfort in our product designs. Our ODMs also help design a portion of our accessory products. In 2008, we introduced approximately 340 new footwear products, 540 new apparel products and 600 new accessory products into the market.

Our turnover increased from RMB623.9 million for the year ended 31 December 2006 to RMB1,014.6 million for the year ended 31 December 2007 and to RMB2,042.0 million for the year ended 31 December 2008, and from RMB846.7 million for the six months ended 30 June 2008 to RMB1,357.3 million for the six months ended 30 June 2009. Our net profit grew from RMB85.9 million for the year ended 31 December 2006 to RMB166.0 million for the year ended 31 December 2007, and to RMB376.0 million for the year ended 31 December 2008, and from RMB164.5 million for the six months ended 30 June 2008 to RMB267.4 million for the six months ended 30 June 2009. We attribute such growth to our successful brand promotion, Peak’s extensive sales network, a broadening range of high quality products, our strong and growing production capabilities, our focused marketing strategy and our experienced management.

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OUR COMPETITIVE STRENGTHS

We believe that our success to date may be attributed to a combination of our competitive strengths. We further believe that these competitive strengths provide us with a strong position within the market to capitalize on increasing consumer spending in China.

A well-recognized sportswear brand in China

We are a rapidly growing, China-based sportswear company with well-recognized, sports footwear and basketball footwear brands in China. Our Peak brand is well-recognized among consumers in China. For example, according to a market survey conducted by Frost & Sullivan of over 4,000 respondents in November 2008 in 28 major cities across China including all first-tier cities and 12 second-tier cities, Peak is among the top three most recognized sports footwear and basketball footwear brands as compared to other domestic and international brands. Our footwear has also been recognized as a “State-Designated Product Exempted from Quality Inspection” (國家免檢產品) as well as a “China’s Famous Branded Product” (中國名牌產品). In addition, our Peak brand has been recognized as one of “China’s Well-Known Trademarks” (中國馳名商標) and one of the “Famous Brands from Fujian” (福建省著名商標). We specialize in the design, development, production and marketing of sports footwear. We believe that our innovative and unique designs of our footwear, and in particular our series of Warrior professional basketball footwear (戰神系列), have allowed us to differentiate our Peak brand from those of our competitors and have helped increase our brand recognition. Through various sponsorship, endorsement and other marketing arrangements, we have consolidated our brand exposure particularly in the basketball footwear market in China.

Effective and focused marketing and promotional capabilities

We believe that effective marketing and promotions are crucial to success in the sporting goods industry. We employ a focused marketing strategy where we promote PEAK as a professional basketball brand. Our marketing arrangements include partnerships with NBA China and the WNBA, sponsorships of certain FIBA sports competitions, home stadium sponsorships with the NBA’s Houston Rockets and New Jersey Nets and endorsement arrangements with seven NBA players including Shane Battier, Jason Kidd and Ron Artest, and CBA player Liu Yudong, who was recognized in 2005 by the CBA as the best player in their ten year history to that point. In addition to our NBA-related, WNBA-related, FIBA-related and CBA-related sponsorships, we also sponsor the Stankovic Continental Champion Cup, certain Australian national basketball teams and other professional basketball teams. We have also expanded our marketing arrangements into other sports fields, such as a two-year sponsorship of the National Olympic Committee of Iraq and a two-year sponsorship of Cyprus National Olympic Committee, which included the sponsorships of the Iraqi and Cyprus national teams, respectively, in the 2008 Olympic Games in Beijing. We also employ various means of advertising such as national television commercials, online promotions and publications to promote our Peak brand generally. We believe that these marketing and promotional activities have effectively raised awareness and recognition of our Peak brand among our target consumers.

Extensive nationwide sales network

In China, we sell substantially all of our products on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. As of 30 June 2009, we had 37 distributors in China who operated, either directly or through third party retail outlet

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operators, a total of 5,667 authorized Peak retail outlets across four municipalities and 27 provinces. Of these authorized Peak retail outlets, substantially all are located in second-tier and third-tier cities. We do not own or operate any of these authorized Peak retail outlets. As of 30 June 2009, the number of authorized Peak retail outlets located in first, second and third-tier cities in China were 273, 1,212 and 4,182, respectively. We believe that our extensive sales network throughout China provides us with strong coverage of our Peak brand in China, particularly in third-tier cities where there has been significant economic growth due to population increases and rising household income, as well as a strong position to capitalize on increasing consumer spending in China.

Vertically integrated business model with strong production capabilities

One of our core competitive strengths is our vertically integrated business model, whereby we control each stage of a product’s lifecycle, from product design and development to manufacturing to sales and marketing. We initially develop our products through our in-house design teams as well as external design studios. We then manufacture our products at our own production facilities as well as through selective outsourcing to Contract Manufacturers under the supervision and coordination of our production department. Our quality control department monitors the quality of our finished products and our sales department handles orders placed by our distributors. We believe that this vertically integrated business model has enabled us to maintain a competitive cost structure, increase our management efficiency and allowed us to produce large quantities of high quality goods at competitive prices.

We have strong and growing production capabilities. We currently have four production lines at our Quanzhou plant producing Peak footwear products. Our annual footwear production for 2008 was approximately 11.7 million pairs, of which approximately 4.8 million pairs were produced by us and the remaining approximately 6.9 million pairs processed through selective outsourcing to Contract Manufacturers. Recently, we launched production at our new footwear production facility in Shang’gao, Jiangxi province. The facility currently has six footwear production lines and we plan to gradually increase our production lines at that facility to 16 by the end of 2013. In 2009, we expect our annual footwear production to be approximately 17.3 million pairs, of which approximately 7.0 million pairs would be produced by us at our Quanzhou and Shang’gao plants and approximately 10.3 million pairs would be processed through selective outsourcing to Contract Manufacturers. We expect our annual production for the Shang’gao plant alone to reach approximately 12.0 million pairs upon launching of all 16 production lines which is expected to be in 2013.

We currently outsource most of our Peak apparel production to selective Contract Manufacturers. Upon achieving full-scale production at our new production facility in Hui’an, Fujian province, which we anticipate to be in 2012, we estimate that our annual production capacity of Peak apparel will reach approximately 16.4 million pieces and plan to produce most of these items at our new facility.

Strong market research and product design and development capabilities

Our strong market research capabilities have enabled us to successfully anticipate market developments and trends in China. We believe Peak brand’s recognition and position in the sportswear industry in China is partly due to our ability to continuously introduce innovative product designs. By utilizing our knowledge of market trends and the expertise of our product design and development teams, we have been able to transform product concepts into commercially viable products for sale in China efficiently and effectively. We have our own market research team that collects feedback from users of our products and gauges market acceptance of our designs. As of 30 June 2009, our product

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design and development teams were located in Quanzhou, Guangzhou and Hui'an and consisted of 229 design professionals responsible for designing and developing our new products. A large percentage of these professionals have extensive experience in the footwear and apparel design business. We also maintain close working relationships with external design studios. We believe that the strength and depth of our market research and product design and development functions have been and will continue to be critical to the success of our business.

Our design capabilities also enable us to bring new products with a high level of functionality to the market. In 2008, we introduced approximately 340 new footwear products, 540 new apparel products and 600 new accessory products into the market. In order to enhance the quality and functionality of our products, we have applied new technologies to our designs and production, such as advanced vamp packaging technology, netted TPU air circulation technology and unique arch shaped shock absorption technology. In June 2008, we also acquired from Fujian Peak a design patent for our basketball footwear and a utility model patent for the PK Rocket technology which is a new design of sports footwear soles with a shock absorbing function. The expiry dates for the design patent and the utility model patent are 6 December 2016 and 4 February 2017, respectively.

Experienced management team with a proven track record

Our executive Directors and senior management team have extensive experience and professional knowledge in the Chinese sportswear industry. Our chairman, Mr. Xu Jingnan, is the creator and founder of the Peak brand and has approximately 20 years of experience in the sportswear industry. Our chief executive officer, Mr. Xu Zhihua, has extensive experience in marketing and promotion, and our vice-president, Mr. Xu Zhida, has more than seven years of experience in developing our products and managing our production. Both Mr. Xu Zhihua and Mr. Xu Zhida also bring a youthful and energetic influence to our Company which is representative of our target market. We also have an experienced management team with broad and solid experience in sales and marketing, manufacturing, quality control and financial management and members who share the Peak spirit. We have implemented performance based incentive programs aimed at motivating our management to create value for our business.

OUR BUSINESS STRATEGY

Our principal goal is to maintain and strengthen our Peak brand's recognition and position in the sportswear industry in China and to become one of the leading players in the sporting goods and sportswear industry domestically and internationally. Specifically, we aim to increase our share in the basketball footwear market to eventually become the number one player in the basketball footwear market in China. We aim to achieve this goal through the following strategies:

Further enhance brand image and recognition

We have developed a brand image focused on authentic sports participation and functionality. We believe our successful brand image provides us with a competitive advantage in marketing our products to our distributors. Accordingly, we intend to invest additional resources in marketing campaigns and activities to support and expand the positive reputation of the Peak brand. Subject to mutual agreement of the parties, we will:

- Continue our marketing arrangements with NBA China and the WNBA for the rights and licenses to use the licensed NBA and WNBA logos in connection with the advertising and promotion of the Peak brand;

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- Continue home stadium sponsorships of selected NBA teams and our endorsement arrangements with selected NBA, WNBA and CBA players for the rights to utilize their names, endorsements and/or images in connection with the advertisement and promotion of Peak products;
- Continue our arrangements with FIBA to sponsor certain FIBA sports events and to acquire the right to be designated as an “Official Apparel and Footwear Partner of FIBA (Asia)” as well as the right to use the logos and mascots of FIBA when advertising and promoting our co-branded products; and
- Increase spending on national television commercials, among other marketing activities.

We believe that sponsorships of major sports leagues and sporting events and endorsement arrangements with professional athletes are crucial to promoting our brand image and heightening general awareness of PEAK among consumers. As such, we will avidly explore further opportunities to pursue similar arrangements in other parts of the world and with other famous sports personalities.

We plan to allocate more resources to international marketing and promotions in order to increase our market share in selected overseas markets and to further enhance Peak brand’s popularity and awareness in China. We intend to sponsor more international and professional sports stars, not only in the field of basketball but also in other sports. We also plan to sponsor more international championships and develop further collaboration with our existing marketing partners such as NBA China, the WNBA and FIBA.

Continue to increase our market share in the Chinese sportswear industry

We intend to continue to increase our market share in the Chinese sportswear industry by expanding Peak’s sales network and increasing our product variety. We will continue to offer products that are designed to complement each other, to encourage multiple purchases and to increase brand loyalty. We also plan to leverage on our success in building a recognized basketball footwear brand to further expand our other sportswear product lines such as our running, tennis and outdoor sportswear lines. We also intend to leverage on the increased focus on health and sport as promoted by the Chinese government and media to enhance our position in the sportswear industry.

Expand and optimize Peak’s sales network in China and internationally

We plan to continue to optimize our distributors’ resources by working closely with those distributors who have strong marketing capabilities, solid financial resources and similar management styles. At the same time, we intend to reduce the geographic coverage of, and/or terminate distribution agreements with, non-performing distributors. We are committed to improving the overall capability of our distributors and to developing and growing Peak’s sales network. Where necessary, we are ready to introduce new distributors or replace existing distributors in order to strengthen Peak’s sales network.

We intend to maintain our significant presence in prime locations in third-tier cities where there has been significant economic growth and to expand our presence in first and second-tier cities in China. As of 30 June 2009, our distributors and their third party retail outlet operators have established 95 new flagship stores in prime locations in first and second-tier cities in China.

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Continue to improve product research, design and development capabilities

We believe that having a skilled and committed labor force is important to the success of our business and will continue to recruit qualified and talented personnel in the sportswear industry with a special emphasis on our research and development resources, which are crucial to the ever-changing sportswear market. We have established several internal design teams for our footwear, apparel and accessory products. We will continue to provide comprehensive training and education programs to facilitate the professional development of our staff as well as to promote our corporate culture, which emphasizes team spirit and efficiency.

In addition to our own capabilities, to supplement our in-house design function and to give us an additional source of expertise and market intelligence, we also maintain close working relationships with Beijing Jiuru Tianbao Design Studio (北京九如天保藝術設計工作室), which helps design our footwear products and Beijing Bingdian Design Studio (北京冰點設計中心), which helps design our apparel products. Our combined research and development teams are committed to improving our products’ functionality, style and quality. Our ODMs also help design a portion of our accessory products. We intend to continue to participate in joint design initiatives with our external design studios and continue our relationships with our ODMs. We may also collaborate with selected overseas research and development entities.

Increase our production capacity to benefit from greater economies of scale

We believe that increasing our own production capabilities will enable us to have better control of our production process and provide us with the flexibility and ability to quickly respond to market changes. We launched production at our new footwear production facility in Shang’gao, Jiangxi province in June 2008. This production facility currently has six footwear production lines and we plan to gradually increase our production lines at this facility to 16 by the end of 2013. The expected annual production capacity of our Shang’gao plant upon the launching of all 16 footwear production lines (which is expected to be in 2013) will be approximately 12.0 million pairs. We have also launched trial production and production at our new apparel production facilities in Hui’an, Fujian province in March and September 2008, respectively. We expect the annual production of Peak apparel at the Hui’an facility to reach approximately 16.4 million pieces once full-scale production takes place in 2012. Through increasing production capacity, we expect to be able to produce more Peak footwear and apparel products at our own facilities to meet the growing demand for our products and continue to benefit from economies of scale. We will also continue to selectively outsource the production of certain products and components of our products to Contract Manufacturers to optimize our profit margin and efficiency.

Expand strategically through mergers and acquisitions

We may strategically expand our business through mergers and acquisitions. In this regard, we may strategically acquire selected small- to medium-sized sportswear and sporting goods brands in China and abroad to gain direct access to their markets. We may channel our products via resources and sales networks already established by those brands, as well as introduce those brands into China through the existing Peak sales platform and networks.

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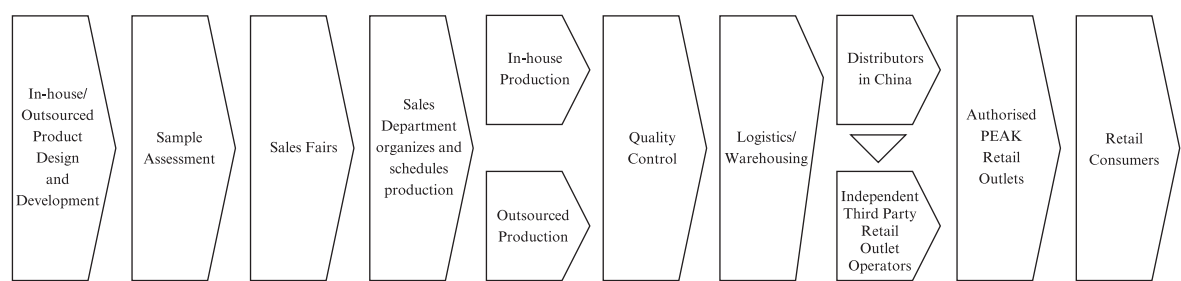
OUR BUSINESS MODEL

We employ a vertically integrated business model where we design, develop, manufacture, distribute and market our sportswear products under the Peak brand. We initially develop our products through our in-house design teams as well as external design studios. We then manufacture our products at our own production facilities. To satisfy the growing demand of our products, optimize our profit margin and efficiency with limited in-house production capacity and in order to concentrate our resources on enhancing our brand and expanding Peak’s sales network, we also selectively outsource a portion of our product designs to external design studios and product manufacturing to Contract Manufacturers under our supervision and coordination. Our quality control department monitors the quality of our finished products and our sales department handles orders placed by our distributors. Our marketing department is responsible for organizing marketing activities, creating a strong brand image and increasing our overall brand recognition. While we have historically outsourced a substantial portion of our production, we are currently moving toward a more vertically integrated business model with the recent launch of our new footwear production facility in Shang’gao, Jiangxi province and our new apparel production facility in Hui’an, Fujian province. However, given the expected growth of our business, our outsourcing arrangements with Contract Manufacturers will continue to be important to us.

Please refer to the sections headed “Our Business — Product Design, Research and Development”, “Our Business — Production” and “Our Business — Sales and Distribution” for details of our in-house design, research and development, production capabilities and sales and marketing capabilities. We expect to reduce our outsourcing arrangements with the improvement of our product research, design and development capabilities and the launch of our new production facilities.

In China, we sell substantially all of our products on a wholesale basis to distributors who, either directly or through third party retail outlet operators, operate authorized Peak retail outlets. We also sell our products on a wholesale basis to overseas customers, as well as to overseas distributors who then sell the products to consumers, retailers or sports teams and clubs.


Our vertically integrated business model is illustrated by way of domestic sales in the following diagram:



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PEAK BRAND AND PRODUCTS

The Peak brand

We market our products under the PEAK (匹克) brand name which means the top of a mountain and symbolizes the self-challenging spirit and reaching the top. Our Peak logo “” is designed in the shape of a red mountain and is designed to represent youth and energy. Both our Chinese slogan “我能，無限可能!” and English slogan “I can play!” symbolize independence and determination.

We have received a number of awards and recognition in China for our products, including:

- Recognition of our footwear by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量檢驗檢疫總局) (“GAQSIQ”) as “State-designated Products Exempted from Quality Inspection” (國家免檢產品) since December 2003;
- Recognition of the Peak brand as one of “China’s Well-Known Trademarks” (中國馳名商標) by the State Administration of Industry and Commerce of the PRC (中國國家工商行政管理總局) (since April 2009) and the Quanzhou Intermediate Court of Fujian Province (福建省泉州市中級人民法院) (since April 2005);
- Recognition of the Peak brand as one of the “Famous Brands from Fujian” (福建省著名商標) by Fujian’s Famous Trademark Cognizance Committee (福建省著名商標認定委員會) in August 2005; and
- Recognition of our footwear as one of “China’s Famous Branded Product” (中國名牌產品) by GAQSIQ in September 2005.

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Our products

We offer a wide range of products in three broad categories: footwear, apparel and accessories. The following is a list of our primary product types offered under each of these categories:

Footwear

		
Basketball Footwear	Running Shoes	Casual Footwear
		
Tennis Footwear	Soccer Footwear	Outdoor Sports Footwear
		
Cross Trainer	Canvas Shoes	Skateboarding Footwear

Apparel

			
Soccer Series	Basketball Series	Running Series	
			
Lifestyle Series	Badminton Series	Table Tennis Series	Outdoor Sports Series
			
Fashion Series	Cross Training Series	Tennis Series	

Accessories

		
Bags	Hats	
		
Socks	Protective Gear	Ball
		
Equipment	Knitwear	

The following table sets forth the breakdown of our turnover by product category during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB	% of	RMB	% of	RMB	% of	RMB	% of	RMB	% of
	(million)	total turnover	(million)	total turnover	(million)	total turnover	(million)	total turnover	(million)	total turnover
Turnover										
Footwear . . .	366.5	58.8	570.5	56.2	1,028.9	50.4	439.4	51.9	624.6	46.0
Apparel	255.4	40.9	386.4	38.1	961.5	47.1	381.2	45.0	701.4	51.7
Accessories .	2.0	0.3	57.7	5.7	51.6	2.5	26.1	3.1	31.3	2.3
Total	<u>623.9</u>	<u>100.0</u>	<u>1,014.6</u>	<u>100.0</u>	<u>2,042.0</u>	<u>100.0</u>	<u>846.7</u>	<u>100.0</u>	<u>1,357.3</u>	<u>100.0</u>

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We generally offer four seasonal collections of products each year. Historically we introduce these collections at our three sales fairs in the summer, autumn/winter and spring. Starting in the second half of 2009, we shifted to a model of four sales fairs to be held each year. Many of our product offerings are designed to complement one another, to encourage purchases of related products and to increase brand awareness and loyalty.

MARKETING AND PROMOTION

Brand promotion

We value the Peak brand and take a number of measures to promote it. We also employ various marketing and promotional strategies to further enhance, reinforce and expand our brand awareness.

Since its launch, we have undertaken a series of activities to promote the Peak brand. We started sponsoring local professional basketball teams as early as 1990s. Set out below is a brief overview of the major marketing arrangements that we have made:

Agreements with NBA, NBA China and WNBA

October 2007	NBA (up to September 2009) and NBA China (subsequent to September 2009)	We entered into a marketing, sponsorship and advertising agreement with the NBA China and became an official marketing partner of the NBA in China. We have the rights and license to use the NBA logo and other licensed marks solely in connection with the advertising and promotion of our Peak brand and to use NBA players, who have entered into endorsement agreements with us, for the endorsement of our Peak brand and/or our Peak athletic footwear, in their team uniforms and in NBA photos and footage solely in connection with advertising to promote our Peak brand and/or our Peak athletic footwear in China. We are also entitled to certain advertising time and space in NBA telecasts, online and print productions, and are required to sponsor a grassroots basketball-themed event controlled by NBA China and are entitled to certain related sponsorship benefits. The agreement will expire in September 2014.
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December 2007 WNBA

We entered into a marketing, sponsorship and advertising agreement with the WNBA and became an official marketing partner of the WNBA in China. Pursuant to the terms of the agreement, we entered into endorsement arrangements with WNBA players Janel McCarville of the New York Liberty, Erin Buescher of the San Antonio Silver Stars and Matee Ajavon of the Houston Comets which endorsement arrangements expired in September 2008. We also have the rights and license to use the WNBA logo and other licensed marks solely in connection with the advertising and promotion of our Peak brand, to use a WNBA player selected by the WNBA for the endorsement of our Peak athletic footwear, in her team uniforms and in WNBA photos and footage solely in connection with the advertising and promotion of our Peak brand and/or our Peak athletic footwear, and to execute promotional activities for our Peak brand, that are identified or associated with the WNBA and/or WNBA logo or other licensed marks in the PRC. We also receive WNBA media in telecast and online forms. The agreement will expire in September 2009. We do not intend to renew the agreement.

Agreements with FIBA

April 2008 FIBA

We entered into an agreement with FIBA to acquire certain exclusive promotional, advertising and marketing rights within Asia in connection with the following FIBA sports competitions: the 2008 FIBA Diamond Ball for men and women. Pursuant to the agreement, we had (i) the right to be designated as the “Main Sponsor” of the above FIBA sports competitions, (ii) the right to use the official logos and/or mascots identifying the above FIBA sports competitions in our promotion and communication activities, and (iii) certain on-site signage, printed-material and online promotional rights in connection with the above FIBA sports competitions. The agreement expired in August 2008.

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In January 2009, we entered into an agreement with FIBA to acquire certain promotional, advertising and marketing rights in connection with FIBA and the following FIBA sports competitions: the 2009 and 2011 FIBA Asia Championships for men and women and the 2009 FIBA Under 19 World Championship for women. Pursuant to the agreement, we have (i) the right to be designated as an “Official Apparel and Footwear Partner of FIBA (Asia)” and an “Official Sponsor/Partner” of the above FIBA sports competitions, (ii) the right to use the logos, mascots, word marks, taglines or other marks related to FIBA and/or the above FIBA sports competitions in connection with the advertising and promotion of our products, (iii) the right to develop and use a composite logo featuring both our logos or trademarks and the logos of FIBA or the above FIBA sports competitions in connection with the advertising and promotion of our products, and (iv) certain on-site promotional rights in connection with the above FIBA sports competitions. These rights are limited to our sports apparel, headwear and footwear co-branded with the logos and/or mascots approved to identify the above FIBA sports competitions. These rights granted to us are exclusive to the extent as FIBA has not and will not grant any third party any of these rights or any similar rights in respect of any sports apparel, headwear and footwear and the above FIBA sports competitions during the term of the agreement. The agreement will expire in December 2012.

In conjunction with the above agreement, we also entered into a licensed product agreement with FIBA. Pursuant to the agreement, we have an exclusive license within Asia to use the logos and/or mascots approved to identify the above FIBA sports competitions on our sports apparel, headwear, sports footwear and sports bags co-branded with the FIBA sports competition logos and/or mascots, and any advertising, promotional and marketing materials we use in connection with the sale, advertisement or promotion of our co-branded products. This agreement will expire in December 2012.

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Agreements with NBA players and CBA player

April 2002	CBA player Liu Yudong	We entered into an endorsement arrangement with CBA player Liu Yudong, who was awarded the best player in the CBA’s ten year history. We have the rights to use Liu Yudong’s image (including photos and signatures) in the design, packaging, manufacturing and marketing and promotion of our Peak products. Liu Yudong is generally obligated to (i) participate in our advertisement filming, (ii) wear our Peak products in sports events and trainings, and (iii) participate in our promotional events. The arrangement will expire in April 2011.
September 2006	NBA player Shane Battier	We entered into an endorsement arrangement with NBA player Shane Battier of the Houston Rockets. We have the rights to use various means of endorsement of Shane Battier (in person, film, tape, print, electronic or other media) in connection with the advertising and promotion of our Peak products. Shane Battier is generally obligated to wear our Peak footwear while participating in athletic activities, inter alia, NBA basketball practices and games. He also has appearance obligations for advertising and promotion of our Peak products. The arrangement will expire in August 2011 and is renewable for two years at one year intervals at the option of the Company.

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July 2008	NBA player Jason Kidd	<p>We entered into an endorsement arrangement with NBA player Jason Kidd of the Dallas Mavericks, which endorsement commenced from October 2008. We have the exclusive right and license to use Jason Kidd’s endorsement in connection with the production, distribution, marketing, advertising, promotion and sale of our products, the design, development, creation, manufacture, production, distribution, marketing, advertising, promotion and sale of our products to which Jason Kidd’s endorsement is permanently affixed, and the production, development, creation, promotion, and marketing of any investor communication materials. Jason Kidd is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also act as a consultant in connection with the design, development and marketing of our products and have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2011 and is renewable for another two years at the sole discretion of the Company.</p>
September 2008	NBA player Dikembe Mutombo	<p>We enter into an endorsement arrangement with NBA player Dikembe Mutombo of Houston Rockets. We have the exclusive right and license to use Dikembe Mutombo’s endorsement in connection with the production, marketing, advertising, promotion and sale of our products. Dikembe Mutombo is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also act as a consultant in connection with the design, development and marketing of our products and have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2011.</p>

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October 2008	NBA player Sasha Vujacic	We entered into an endorsement arrangement with NBA player Sasha Vujacic of the Los Angeles Lakers. We have the exclusive right and license to use Sasha Vujacic’s endorsement in connection with the production, distribution, marketing, advertising, promotion and sale of our products and the design, development, creation, manufacture, production, distribution, marketing, advertising, promotion and sale of our products to which Sasha Vujacic’s endorsement is permanently affixed. We also have the non-exclusive right and license to use Sasha Vujacic’s endorsement in connection with the production, development, creation, promotion, and marketing of any communication materials. Sasha Vujacic is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also act as a consultant in connection with the design, development and marketing of our products and have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2010.
October 2008	NBA player Clarence “Sonny” Weems	We entered into an endorsement arrangement with NBA player Clarence “Sonny” Weems of the Denver Nuggets. We have the exclusive right and license to use Clarence “Sonny” Weems’ endorsement in connection with the production, distribution, marketing, advertising, promotion and sale of our products, the design, development, creation, manufacture, production, distribution, marketing, advertising, promotion and sale of our products to which Clarence “Sonny” Weems’ endorsement is permanently affixed, and the production, development, creation, promotion, and marketing of any investor communication materials. Clarence “Sonny” Weems is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also act as a consultant in connection with the design, development and marketing of our products and have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2010.

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October 2008	NBA player Darnell Jackson	We entered into an endorsement arrangement with NBA player Darnell Jackson of the Cleveland Cavaliers. We have the exclusive right and license to use Darnell Jackson’s endorsement in connection with the production, distribution, marketing, advertising, promotion and sale of our products, the design, development, creation, manufacture, production, distribution, marketing, advertising, promotion and sale of our products to which Darnell Jackson’s endorsement is permanently affixed, and the production, development, creation, promotion, and marketing of any investor communication materials. Darnell Jackson is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also act as a consultant in connection with the design, development and marketing of our products and have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2010.
October 2008	NBA player Ron Artest	We entered into an endorsement arrangement with NBA player Ron Artest of the Los Angeles Lakers. We have the exclusive right and license to use Ron Artest’s endorsement in connection with the production, distribution, marketing, advertising, promotion and sale of our products, the design, development, creation, manufacture, production, distribution, marketing, advertising, promotion and sale of our products to which Ron Artest’s endorsement is affixed, and company annual reports (or similar documents) produced, developed or promoted by the Company. Ron Artest is obligated to use our products exclusively during athletic workouts, practices, tournaments, games, events and media events, and exhibitions. He will also have appearance obligations for the advertising and promotion of our products. The arrangement will expire in September 2010.

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Agreements with NBA home stadiums

December 2005	NBA’s Houston Rockets	We first entered into an advertising arrangement with the NBA’s Houston Rockets pursuant to which we receive certain rights to display signage in the team’s home stadium. The arrangement will expire in June 2011.
November 2007	NBA’s Milwaukee Bucks	We entered into a sponsorship agreement with the NBA’s Milwaukee Bucks pursuant to which we received certain rights to display signage in the team’s home stadium. This agreement was terminated in August 2008 following the trading of Yi Jianlian from Milwaukee Bucks to New Jersey Nets.
September 2008	NBA’s New Jersey Nets	We entered into a sponsorship arrangement with the NBA’s New Jersey Nets pursuant to which we received certain rights to display signage in the team’s home stadium. The arrangement will expire in June 2011.

Agreements with National Olympic Committee of Iraq and Cyprus National Olympic Committee

July 2007	National Olympic Committee of Iraq	We entered into a sponsorship arrangement with the National Olympic Committee of Iraq, which included the sponsorship of the Iraqi national team in the 2008 Olympic Games in Beijing. The arrangement expired in July 2009.
December 2007	Cyprus National Olympic Committee	We entered into a sponsorship agreement with the Cyprus National Olympic Committee, which included the sponsorship of the Cyprus national team in the 2008 Olympic Games in Beijing. The arrangement will expire in December 2009.

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Agreement with Australian Basketball Federation Inc.

February 2006	Australian Basketball Federation Inc.	We entered into a sponsorship agreement with the Australian Basketball Federation Inc. pursuant to which we became the exclusive sponsor to certain Australian national teams including Australian Boomers (Senior Men) and Australian Opals (Senior Women). We have the rights to use the logos of the men’s and women’s national basketball teams and mention our sponsorship in connection with the promotion and marketing activities of our products. The men’s national team players are obliged to use our apparel products in basketball matches (except for the Olympic Games). The arrangement will expire in December 2012.
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Our planning department is responsible for creating a strong brand image and increasing our overall brand recognition. The department evaluates market information and trends, coordinates unified brand marketing strategies, generates and carries out advertising and promotional activities, coordinates marketing surveys and manages our athletic sponsorship and endorsement programs as well as our relations with the media and relevant Chinese authorities. The planning department is further divided into a media group, league group, promotional activities group, image group, internet group and public relations and sales promotion group. At times, we also engage external advertising consultants to advise us on our marketing activities.

Considering the characteristics of the Chinese consumer market, we have spent a substantial amount of our selling and distribution expenses on media advertising and sports sponsorships.

We primarily use television networks, the internet, newspapers, magazines, billboards and outdoor displays in our media advertising campaigns. Our advertisements are regularly aired on CCTV-1 and CCTV-5 television channels throughout the year on a nationwide basis. We also air our advertisements on local TV stations in key regions where we target expansion. We publish our advertisements in professional sports publications and industry publications throughout the year and increase our advertisements at times to correspond with our promotional and sales activities.

We organize public relations events to promote our products. In August 2005, we became a partner with China’s Space Project and the exclusive brand that the Chinese space authority uses for its sporting goods. We were granted the honorary title of “中國航天事業合作夥伴” (Partner of China’s Aerospace Industry) and “中國航天事業贊助商” (Sponsor of China’s Aerospace Industry) and were granted the right to use “中國航天選用運動鞋” (Selected Sports Footwear for China Aerospace), “匹克 — ‘中國航天事業合作夥伴’或‘中國航天事業贊助商’” (Peak — Partner of China’s Aerospace Industry or Sponsor of China’s Aerospace Industry) and “中國航天選用運動鞋、運動服” (Selected Sports Footwear and Apparels for China Aerospace) on our branded products along with the China Space Foundation’s business logo from January 2008 to August 2013 for a fixed fee to be paid in five instalments. We have also organized tours for NBA players, including Shane Battier’s China tours in 2006, 2007 and 2008 and

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2009 and the China tour of Jason Kidd and Ron Artest in 2009 with a view toward increasing our Peak brand recognition nationwide. In addition, we sponsor certain professional soccer teams in China and have sponsored certain international soccer matches which took place in China.

Other activities to promote the Peak brand include nationwide promotional activities during key Chinese festivals and sales events targeting students prior to their school terms. We also sponsor Peak design competitions and Peak photography competitions as well as encourage our distributors and their third party retail outlet operators to organize promotional activities subject to our oversight.

We believe that the retail outlet layout plays an important role in marketing as well. Accordingly, we require our distributors to change layouts for authorized Peak retail outlets three to four times a year in accordance with our layout guidelines to coincide with the introduction of our new products.

PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

We believe innovative designs are important to the success of our business and have invested considerable resources in this area. As of 30 June 2009, we had a team of 192 full time footwear, apparel and accessory designers at our Quanzhou headquarters, 19 full time apparel designers in our Guangzhou studio and 18 full time apparel designers at our Hui'an production facility. The aim of our product design, research and development department is to improve our products' functionality, style and quality. To supplement our in-house design function and give us an additional source of expertise and market intelligence, we also maintain close working relationships with two external design studios: Beijing Jiuru Tianbao Design Studio (北京九如天保藝術設計工作室) which helps design our footwear products and Beijing Bingdian Design Studio (北京冰點設計室), which helps design our apparel products. Under the terms of the agreements with these external design studios, we agree to pay a fixed fee for a specified number of designs during a fixed period. Intellectual property rights for such designs are transferred to us. We do not have any profit sharing arrangements with the external design studios. These agreements were negotiated on an arm's length basis. Our ODMs help design a portion of our accessory products. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our expenses in respect of product design, research and development amounted to RMB936,000, RMB1,558,000, RMB6,136,000, RMB1,976,000 and RMB3,796,000, respectively, of which RMB333,000, RMB667,000, RMB929,000, RMB199,000 and RMB475,000 were paid to external designers as design fees, respectively.

At times, our Contract Manufacturers also provide us with designs that our product design, research and development department reviews and approves. If the designs provided by these Contract Manufacturers are approved, selected for showing and ordered at our sales fairs, we then appoint these Contract Manufacturers to produce the products on our behalf.

We regularly collect product feedback from, and conduct surveys with, consumers and distributors and their third party retail outlet operators. Our internal designers analyze market trends in terms of design, color, material and functionality and work closely with our sales department and marketing department to formulate marketing/product positioning strategy for new collections. In order to enhance the quality and functionality of our products, we have applied new technologies to our designs and production, such as advanced vamp packaging technology, netted TPU air circulation technology and unique arch shaped shock absorption technology. In June 2008, we also acquired from Fujian Peak a design patent for our basketball footwear and a utility model patent for the PK Rocket technology which is a new design of sports footwear soles with a shock absorbing function at a consideration of

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RMB1,000 for each of these patents. The unique designs of our footwear, and in particular our series of Warrior professional basketball footwear (戰神系列) which incorporate our PK Rocket technology, provide abrasion proof and antiskid abilities while at the same time provide comfort and have an appealing style.

SALES AND DISTRIBUTION

General

We sell substantially all of our products on a wholesale basis to distributors. In China, our distributors either operate authorized Peak retail outlets themselves or through third party retail outlet operators. We do not own or operate any of these authorized Peak retail outlets and do not enter into any contractual relationship with the third party retail outlet operators other than licensing our trademarks to them. We set out retail policies and guidelines in respect of the operation of authorized Peak retail outlets which include outlet layout, inventory management, product pricing, customer service standards, marketing activities and after-sale services. We rely on the distributors to ensure that each authorized Peak retail outlet under its operation or management operates in line with our policies and guidelines. We therefore have limited control over the operation of Peak’s sales network. From time to time, we also sell our products on a wholesale basis to other customers or directly to consumers. During the Track Record Period, the amount of such sales was immaterial. In order to maintain our brand awareness and customer loyalty, we require our distributors to supervise and manage the authorized Peak retail outlets to make sure that all authorized Peak retail outlets observe our pre-set retail procedures and policies in respect of outlet layout, marketing activities and customer services. Our distributors are allowed to appoint third party retail outlet operators subject to our approval. However these third party retail outlet operators are not allowed to appoint any additional third party retail outlet operators. During the Track Record Period, substantially all of our sales were made through our distributors on a credit basis. Our distributors subsequently settle their purchases with us through various means, including bank transfer and issuance of bank acceptance bills.

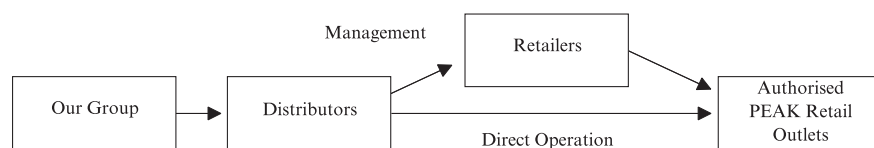
As of 31 December 2006, 2007 and 2008 and 30 June 2009, we had engaged 31, 35, 34 and 37 distributors within China, respectively. The number of authorized Peak retail outlets operated directly by our distributors or by their third party retail outlet operators were 2,340, 3,661, 5,179 and 5,667, respectively, as of 31 December 2006, 2007 and 2008 and 30 June 2009. For each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, 1,068, 1,373, 1,566, 747 and 518 new authorized Peak retail outlets were opened, and 48, 52, 48, 28 and 30 authorized Peak retail outlets were closed during the respective years or period for various reasons including unsatisfactory sales performance by such retail outlets, replacement of such retail outlets by new retail outlets of improved locations, and poor management or continuous non-compliance by such retail outlets with our retail policies. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the number of authorized Peak retail outlets increased by 77.3%, 56.5%, 41.5%, 19.6% and 9.4%, respectively. We maintain stable relationships with our distributors and most of our distributors had business relationships with us throughout the Track Record Period. We believe that our distributors have extensive local experience, know-how and contacts in their respective territories. As of the Latest Practicable Date, all our distributors were Independent Third Parties. Our distributors have also confirmed that, to their best knowledge and belief, their third party retail outlet operations were also Independent Third Parties.

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We believe that our wholesale business model has enabled us to achieve rapid growth in sales by leveraging our distributors’ sales networks. By selling directly to our distributors, we can earn revenue on a wholesale basis and leave the responsibility of distributing our products to our distributors and their third party retail outlet operators, allowing our products to be distributed to a wide geographical region. Our distributors are also able to enter markets by leveraging their local market knowledge as well as the market knowledge of their third party retail outlet operators. This business model allows us to focus on the core competitive strengths of brand management and product development.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, we had turnover of approximately RMB623.9 million, RMB1,014.6 million, RMB2,042.0 million, RMB846.7 million and RMB1,357.3 million, of which 58.8%, 56.2%, 50.4%, 51.9% and 46.0% of such turnover of the respective year or period were generated through the sale of our footwear products. We have observed an overall increasing trend in the proportion of sales generated by our apparel products. In 2008 and the first half of 2009, our apparel products accounted for 47.1% and 51.7%, respectively, of our total turnover compared with 40.9% in 2006.

The following chart illustrates the structure of Peak’s sales network:



As of 30 June 2009, there were 5,667 authorized Peak retail outlets throughout four municipalities and 27 provinces in China, of which 3,405 were street level outlets, 989 were department store outlets and 1,273 were sporting goods counters.

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Peak’s sales network

Peak’s sales network is broadly divided into the greater northern China region and the greater southern China region. The following map shows the geographical distribution of the 5,667 authorized Peak retail outlets operated directly by our distributors or by their third party retail outlet operators across China as of 30 June 2009.



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The table below provides a breakdown of the authorized Peak retail outlets operated directly by our distributors or by their third party retail outlet operators in China by region and category of outlet as of 30 June 2009:

Regions		Authorized Peak Retail Outlet — Street Level outlet			Authorized Peak Retail Outlet		
Greater Region	Province	Total	Flagship Store	Image Store	Basic Store	Department Store Outlet	Sporting Goods Counter
Greater Southern China Region .	Jiangxi	160	11	48	53	18	30
	Zhejiang	355	10	94	97	41	113
	Shanghai	54	2	10	12	16	14
	Guangdong	460	51	181	72	82	74
	Guangxi	248	16	65	85	45	37
	Hainan	63	3	29	15	8	8
	Hunan	296	15	81	99	30	71
	Hubei	279	14	61	81	33	90
	Sichuan	189	15	60	63	22	29
	Chongqing	164	11	33	42	40	38
	Yunnan	233	18	55	71	19	70
	Guizhou	72	3	17	19	7	26
	Henan	320	22	89	59	85	65
	Fujian	422	35	82	96	150	59
Greater Northern China Region .	Shanxi	169	11	35	33	37	53
	Hebei	225	14	61	41	42	67
	Beijing/Inner Mongolia	150	9	31	41	30	39
	Shandong	402	50	111	99	91	51
	Ningxia	30	4	7	6	10	3
	Anhui	212	15	71	71	18	37
	Jiangsu	341	19	97	104	46	75
	Tianjin	27	3	10	2	7	5
	Xinjiang	95	5	25	23	15	27
	Shaanxi	157	12	25	49	19	52
	Gansu	89	10	17	19	10	33
	Qinghai	12	0	4	7	0	1
	Tibet	2	2	0	0	0	0
	Heilongjiang	137	15	28	25	29	40
	Liaoning	161	9	29	63	12	48
	Jilin	143	19	46	33	27	18
Total		5,667	423	1,502	1,480	989	1,273

Retail outlet format

We sell our products in China on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. We categorize these authorized Peak retail outlets into street level outlets, department store outlets and sporting goods counters.

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Street level retail outlets are further categorized into flagship stores, image stores and basic stores. Flagship stores are situated in prime locations in major cities, with floor area of at least 150 square meters and an expected minimum monthly turnover of RMB300,000. Image stores are situated in prime locations in second and third-tier cities with floor area of at least 80 square meters. Stores that do not satisfy the foregoing criteria are classified as basic stores.

Department store outlets are further categorized into first-tier department store outlets and second-tier department store outlets. First-tier department store outlets have floor area of at least 100 square meters and an expected minimum monthly turnover of RMB200,000.

Apart from a small number of street level retail outlets in towns or smaller markets and second-tier department store outlets where we have given prior approvals to our distributors or their third party retail outlet operators to sell other sportswear brands alongside our products, our distributors and their third party retail outlet operators are required to exclusively sell our products at their outlets.

Store locations

As part of our sales policy and strategic planning and management of our brand, we set guidelines and expansion targets for our distributors in respect of the location of authorized Peak retail outlets within their designated sales regions. We require our distributors to obtain our approval for the location of each authorized Peak retail outlet. Before opening new retail outlets, our distributors are required to conduct research on the market potential of the proposed retail sites. Our sales department and marketing department also assess the location of proposed retail sites before they grant approvals for the opening of such outlets.

Substantially all of the authorized Peak retail outlets are located in second-tier and third-tier cities throughout China. As of 30 June 2009, the number of authorized Peak retail outlets located in first, second and third-tier cities in China were 273, 1,212 and 4,182, respectively. We regularly identify regions for expansion of the Peak sales network. Since 2008, we have identified Guangdong, Guangxi, Zhejiang, Jiangsu, Shandong, Liaoning, Fujian, Henan, Hubei and Hunan as key regions for such expansion.

Selection of distributors

We select our distributors according to a range of factors which we consider important for the operation of the sales network. Only candidates meeting our selection criteria are awarded distributorships. We generally select our distributors based on the following criteria:

- experience in the retailing of sportswear;
- ability to develop and operate a network of retail outlets in a designated sales region;
- experience in the management and/or operation of retail outlets; and
- sufficient financial resources.

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Each of our distributors typically has its own marketing department, sales department, strategy and planning department, finance department and retail department to communicate and liaise with our corresponding departments.

We generally have close relationships with our distributors. Most of our distributors have been with us for the entire Track Record Period and have been an important part in the development of Peak’s sales network.

Distribution agreements

We enter into agreements with each of our distributors whereby we grant them the exclusive right to distribute our products for a specified period of time, which is generally one year. Such distribution agreements are normally entered into or renewed in or around October or November of each year and contain substantially the same terms for each distributor except for the sales and expansion targets and payment and credit terms.

Our distribution agreements contain the following principal terms:

- *Term* — one year subject to mutual agreement on renewal.
- *Geographic exclusivity* — distributors are authorized to sell our products on an exclusive basis within a defined geographical area.
- *Sales and expansion targets* — prior to the execution of a distribution agreement, we seek feedback from our regional marketing managers and set reasonable sales and expansion targets for the number of new authorized Peak retail outlets the distributor is required to open during the year. All of our distributors are required to meet such individual sales and expansion targets. The sales target is translated into minimum purchase orders in the distribution agreement and the expansion target is also included in the distribution agreement. Our sales and marketing departments work closely with our distributors and helps them breakdown their targets into monthly goals.
- *Payment terms* — prior to 2009, each distribution agreement included a monthly repayment schedule agreed with the distributor. Starting in 2009, each of our distributors is required to settle the amounts it owes to us in accordance with our request. In practice, we inform our distributors the amounts they must pay on a monthly basis. Please refer to the section headed “Our Business — Credit Control” below.
- *Undertakings* — each distribution agreement contains undertakings by the distributor to comply with our sales policies, adhere to our pricing policies, and refrain from selling competing brands of sportswear, including footwear, apparel and accessories. Each of our distributors also undertakes not to conduct parallel importing of our products to distort our market price or our brand image.
- *Return of products* — we prohibit distributors from returning products to us other than for quality reasons, which are assessed by our quality control department.

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- *Discounts* — each distribution agreement sets out the amount of discount of our products for our distributors. We generally apply the same discount across our distributors for the same product category and the same ordering time.
- *Rewards* — our distributors may receive incentive rewards for meeting sales targets. If our distributors are unable to meet such targets, they may be penalized according to the distribution agreements.

We sell our products to our distributors at a wholesale price, which represents a discount to the suggested retail price of our products. Except for such discount, subsidies, rewards and training mentioned below, no fees are payable by us to our distributors under the terms of the distribution agreements. We also allow our distributors to appoint third party retail outlet operators to sell our products, subject to our approval and written consent. However, we do not enter into agreements with such third party retail outlet operators other than the licensing of our trademarks to them.

Management of distributors

In formulating our marketing strategy, which we update on a regular basis, we collect, review and analyze data on the sales performance of our distributors as well as their general feedback on the market perception of our products. As our domestic sales increased and expanded during the Track Record Period, in 2008, we began to focus on managing our distributors by requiring our regional marketing managers to provide monthly reports on the number of retail outlets opened during the period, on-site inspection reports and general feedback on our products from the market. Our sales department monitors the payment terms and credit limit of our distributors and the delivery of our products as well as compares our sales volumes against our sales targets. Members of our sales team also work closely with our distributors to provide guidance and training on retail management and customer service. We have implemented our Lijing system to communicate with and collect data and feedback from the authorised Peak retail outlets connected to our computerized management information system, Lijing system, electronically.

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

Our distributors must strictly comply with our pricing policy. Prior written consent must be obtained from us before a distributor may conduct any promotional events or sell any of our products to consumers at a discount to our suggested retail price. Discounts given at promotional events conducted by our distributors and third party retail outlet operators are generally only permitted for end of season sales. The amount of any such discount is decided and approved by us on a case-by-case basis.

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

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We do not have any obsolete stock arrangements with our distributors except in the event of the termination of a distribution agreement or out-of-season stock arrangements. If a distribution agreement is terminated (either by us or by a distributor), we may offer to repurchase our Peak branded products held by the departing distributor at discounts (ranging from nil to 100%) to our selling price based on our assessment of the conditions of the products, or we may facilitate the sale of inventories (including obsolete inventories) from the departing distributor to its successor or replacement on terms determined between them. For out-of-season stock, we will coordinate with our distributors to conduct promotional activities. The distributors are not allowed to return any goods (including the excessive stocks purchased) to us other than for quality reasons if they fail to sell them.

Renewal and termination of distribution agreements

If a distributor fails to adhere to the terms of its distribution agreement or is unable to meet our sales target, we have the right to introduce new distributor(s) into the relevant sales region, reduce the size of the designated sales region of such distributor or terminate the distribution agreement. We may also terminate a distribution agreement if the distributor sells our products outside of its designated sales region. During the Track Record Period, we terminated six distributorships due to various reasons including the failure by those distributors to meet our sales and expansion targets, poor management of their sales network, and consistent non-adherence to our policies. We are committed to our overall growth and may terminate distributorships or reduce the geographic coverage of certain distributors so as to introduce new distributors whom we believe would successfully develop and grow Peak’s sales network into such regions. We will consider the renewal of the distribution agreements with our distributors based on their success in meeting our sales and expansion targets and compliance with the other terms of the agreement. Renewal of our distribution agreements is subject to mutual agreement.

All of our distributors are required to ensure that each authorized Peak retail outlet under its operation or management operates in line with our policies governing sales and expansion targets, product pricing, inventory management, promotion, consumer service standards, outlet layout, after-sale services and all our other sales policies formulated from time to time. It is our policy that if any of our distributors consistently fails to cause its third party retail outlet operators to comply with our policies and guidelines, or fails to take necessary steps to cause such third party retail outlet operators to remedy any breach or to terminate its contract with such third party retail outlet operators, we may choose not to renew our distribution agreement with that distributor.

Training

In order to build a consistent brand image, we invite representatives of our distributors and third party retail outlet operators to attend training sessions to familiarize themselves with our Peak policies and procedures. Training sessions take the form of in-house training as well as external training conducted by independent retail management consultants. Our regional sales teams also provide on-site training to authorized Peak retail outlet operators on a regular basis when they conduct site visits.

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Subsidies and rewards

As an incentive to our distributors to expand the number of authorized Peak retail outlets and to maintain a consistent high-quality store image nationwide, we provide certain renovation subsidies to qualified authorized Peak retail outlets. Depending on the category of the authorized Peak retail outlets, we have different sets of renovation criteria and standards which include location, size of and rent for the authorized Peak retail outlets as well as compliance with our renovation standards. Satisfaction of these criteria and standards may result in the Group providing subsidies for part of the renovation costs. Renovation subsidies are provided to our distributors who have qualified authorized Peak retail outlets within their designated sales regions. Where a particular authorized Peak retail outlet is operated by a third party retail outlet operator, renovation subsidies are provided to such operator through our distributor.

In addition to renovation subsidies, we may also offer incentives to our distributors to open authorized Peak retail flagship outlets and image outlets in prime locations in first and second-tier cities. Depending on the location, size of and rental for the authorized Peak retail flagship outlets and image outlets as well as compliance with our renovation standards, we may subsidize part of the annual rental cost to qualified distributors in the form of a deduction from the subsequent purchases of our products by these distributors. Where a particular authorized Peak retail outlet is operated by a third party retail outlet operator, such subsidies are provided to such operator through our distributor.

We also believe that effective marketing and promotion are crucial to success in the sporting goods industry and encourage our distributors to actively market our products. We conduct nationwide marketing campaigns and promotions regularly in which our distributors are required to participate. We generally bear the costs of such nationwide marketing activities. Our distributors are also encouraged to actively market our products in their respective designated sales regions, and depending on the performance and growth of each distributor and the type of marketing activities, we may decide at our discretion to provide certain marketing subsidies to assist in the promotion of our Peak brand on a case-by-case basis.

In addition to the foregoing subsidies, we also reward our distributors who meet or exceed our annual sales target with a certain percentage of their annual purchase amount in the form of a deduction from the subsequent purchases of our products.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, we have provided subsidies and rewards of approximately RMB15.8 million, RMB19.0 million, RMB71.9 million, RMB27.7 million and RMB20.8 million, respectively, to our performing and qualified distributors.

Apart from the above renovation, rental and marketing subsidies and rewards, we do not provide any financial assistance or pay any money to our distributors or their third party retail outlet operators.

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Top five 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 top five distributors accounted for approximately 20.9%, 19.6%, 26.1%, 20.7% and 33.4%, respectively, of our total turnover. Sales to our largest distributor accounted for approximately 6.5%, 5.1%, 9.7%, 5.1% and 18.0%, respectively, of our total turnover for the same periods. None of our Directors, or any of their respective associates, or any person who, to the knowledge of our Directors owns any of our issued share capital, had any interest in any of our top five distributors during the Track Record Period.

Selection of authorized Peak retail outlet operators

We sometimes receive telephone inquiries at our headquarters where people express an interest to operate authorized Peak retail outlets. We generally refer these inquiries to our China-based distributors depending on the location of such inquiries. Other than the provision of training and guidance and liaising for the purpose of the use of our Peak trademarks, we generally do not liaise directly with third party retail outlet operators and all applications, feedback and orders are channeled through our distributors.

The criteria we consider when approving third party retail outlet operators proposed by our distributors to operate authorized Peak retail outlets include whether such third party retail outlet operators have:

- strong and a minimum of two years of experience in retailing sportswear;
- the ability to meet our sales targets;
- adequate capital to operate authorized Peak retail outlets; and
- suitable store locations and store sizes.

Most of the third party retail outlet operators who operate street level retail outlets and department store outlets enter into annual sub-distribution contracts with our distributors. Our distributors are responsible for supervising and managing the retailing activities of the third party retail outlet operators and to ensure that the third party retail outlet operators operate their authorized Peak retail outlets according to our retail policies and guidelines.

Both our distributors and the third party retail outlet operators are required to comply with our policies governing sales and expansion targets, product pricing, stock management, outlet layout, promotion, customer service and after-sale service standards. Pursuant to such policies, they are prohibited (unless they operate street level retail outlets in town or smaller markets and second-tier department store outlets and subject to our prior approval) from selling any products other than our Peak-branded products. They are also required to adhere to our guidelines on the use of brand materials, outlet layout and product display. If we discover any non-compliance with such policies by any authorized Peak retail outlets, we will suggest corrective measures to the third party retail outlet operators through the relevant distributors and rely on the distributors to implement and enforce such retail policies. We do not have any direct redress against third party retail outlet operators in the event that they breach such policies or their agreement with a distributor. However, it is our policy that if any

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of our distributors consistently fails to ensure that the third party retail outlet operators comply with our policies and guidelines, or fails to take necessary steps to ensure such third party retail outlet operators to remedy any breach or terminate their contracts with such third party retail outlet operators, we may choose not to renew our distribution agreement with that distributor. During the Track Record Period, we did not experience any major disputes or material non-adherence to our retail policies by our distributors and their third party retail outlet operators.

As of 30 June 2009, Peak’s sales network consisted of a total of 5,667 authorized Peak retail outlets, 1,486 of which were operated directly by such distributors and 4,181 of which were operated through third party retail outlet operators, compared to 1,285 authorized Peak retail outlets operated directly by distributors and 3,894 authorized Peak retail outlets operated through third party retail outlet operators as of 31 December 2008.

Online platform

We believe that having easy access to our products both domestically and internationally will help increase our brand awareness, improve penetration of the Peak brand in target markets and increase overall sales. In that regard, we began cooperating with an appropriately licensed Chinese entity, an Independent Third Party, to operate a platform for internet purchases through website www.epeaksport.com for a period of one year starting from 1 January 2009.

Sales network management

Sales management

We coordinate our sales efforts from our headquarters in Quanzhou. Our strategic planning department is responsible for the promotion of the Peak brand and our new products. The sales department creates the overall sales policy, conducts strategic planning and manages overall sales operations. The marketing department formulates the overall marketing strategy and monitors the performance of authorized Peak retail outlets. Together, our sales department and marketing department work closely with our distributors in target setting and performance evaluation. Our interior decoration department designs outlet layouts for authorized Peak retail outlets. Our information technology department monitors our enterprise resource planning system and office automation systems as well as the Lijing system, a computerized management information system which enables the Group to obtain information relating to the inventory levels and sales of the authorized Peak retail outlets connected to our Lijing system. We have a license from an Independent Third Party for a one-off fixed fee to use our Lijing system for an indefinite period.

To effectively manage Peak’s sales network, we divide China into two main regions, the greater northern China region and the greater southern China region. Each region has a sales director who is responsible for the formulation of sales policy, strategic planning and management of the operations within that region.

Regional marketing management teams are responsible for monitoring the performance of distributors and authorized Peak retail outlets within their regions, inspecting authorized Peak retail outlets, and supervising distributors’ and their third party retail outlet operators’ compliance with our pricing, advertising, promotion and other policies and guidelines. As of the Latest Practicable Date, we employed 18 regional marketing managers and 30 marketing representatives. Each of them carries out

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on-site inspections of 10 to 15 authorized Peak retail outlets every month. We have implemented internal procedures to ensure that every authorized Peak retail outlet is inspected by these marketing managers and representatives at least once every year. Our regional marketing managers regularly evaluate the sales performance of the distributors within their regions, including their ability to meet our sales and expansion targets and report their evaluations and assessments to the sales directors.

Retail operations

To ensure a consistent brand image, we set operational guidelines for authorized Peak retail outlets operated directly or managed indirectly by our distributors. These guidelines set out the criteria for establishing an authorized Peak retail outlet and suggested business operating procedures for authorized Peak retail outlets, such as inventory control procedures, product display requirements and customer service standards. Authorized Peak retail outlet operators are required to adhere to our policies and procedures in their daily operations, including suggested retail price and discount guidelines. They are also required to participate in promotional campaigns and activities initiated by us and to adhere to our guidelines in the use of brand materials, outlet layout and product display. We provide uniform promotional materials to our distributors for distribution by them to the authorized Peak retail outlets. Other than our nationwide marketing campaigns where we bear the marketing costs and marketing subsidies provided to qualified distributors on a case-by-case basis at our discretion, the operating costs and marketing costs of the retail outlets are borne by the distributors and their third party retail outlet operators.

We rely on our distributors to implement and enforce such retail policies and guidelines. Please refer to the section headed “Our Business — Sales and Distribution — Peak’s sales network — Selection of authorized Peak retail outlet operators” above. Certain of our distributors have already implemented our Lijing system for some of the authorized Peak retail outlets. We intend to have 800, 1,200 and 2,000 authorized Peak retail outlets linked up to our management information system by the end of 2009, 2010 and 2011, respectively.

Pricing and discounts

We generally apply standard pricing principles to our distributors. Our products are sold to our distributors at a discount to the suggested retail price. The level of discount to the suggested retail price depends largely on the type of products ordered as well as the nature of the orders. We offer bigger discounts to our distributors if they place pre-season orders at our sales fairs or within a prescribed period after the sales fairs. We offer relatively smaller discounts if our distributors place intra-season orders.

We set wholesale price guidelines for our products which must be complied with by all distributors when they sell our products to third party retail outlet operators. Prior to 2007, we suspended sales to some distributors for several months due to their non-adherence to our wholesale price guidelines. Such distributors were however allowed to purchase our products through other distributors during the suspension period. We have ceased using this approach and now assess the performance of our distributors and their compliance with our policies annually prior to the renewal of the distribution agreements.

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Authorized Peak retail outlets are required to follow our pricing policies. We set retail price guidelines for our products which must be complied with by all distributors and their third party retail outlet operators. As of the Latest Practicable Date, a majority of our footwear products have a suggested retail price ranging from RMB200 to RMB400, and a majority of our apparel products have a suggested retail price ranging from RMB80 to RMB400. In determining the suggested retail prices of our products, we take into account market supply and demand, production costs and competitors’ prices.

To protect our Peak brand image and ensure consistency of our pricing, all authorized Peak retail outlets are required to sell our products at a price that is not lower than our suggested retail price. As such, our distributors must obtain our consent before selling any of our products to consumers at a discount to the suggested retail price. Such discounts are generally only permitted for end of season sales or for outdated stock.

Sales fairs

Historically, we organized and hosted three major sales fairs for our domestic and international distributors each year, usually in March, July and October, to introduce our new product collections for the autumn/winter, spring and summer seasons, respectively. Starting in the second half of 2009, we shifted to a model of four sales fairs to be held each year. We expect such sales fairs will be held in March, June, September and December, to introduce our new product collections for the winter, spring, summer and autumn seasons, respectively.

During these sales fairs, our distributors and their third party retail outlet operators review the sample product collections and place pre-season orders for the upcoming seasons. Third party retail outlet operators place their pre-season orders with the distributors and the distributors consolidate the orders in their respective regions and place pre-season orders on their own behalf as well as on behalf of such third party retail outlet operators. Pre-season orders are placed at the sales fairs and representatives from our sales department and marketing department review such pre-season orders, and if approved, execute supply contracts with the distributors. Such orders indicate volumes of products required in relation to delivery time schedule and form the basis of our merchandising and production schedule. This advanced ordering program helps us budget accordingly and reduces any unnecessary use of resources. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, a majority of our sales was derived from our advance ordering program.

In 2008, we introduced approximately 340 new footwear products, 540 new apparel products and 600 new accessory products into the market.

Credit control

We require each of our distributors in China 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.

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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 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. When a distributor is required to make payment in any month, such distributor may decide to use part or all of the revolving credit granted to it and delay such payment provided that prior oral notice and the reasons for such use is given to our sales department, and that such credit, together with any outstanding credit, does not exceed the maximum credit limit granted. Subsequent payment by that distributor will be applied by us first as repayment for any credit used previously by the distributor to meet its previous monthly payment obligations and the remainder, if any, will be applied as payment for the current month. We generally evaluate the credit limits granted to our distributors in China annually upon renewal of the relevant distribution agreements although adjustments may be made during the year in light of market conditions and circumstances of the individual distributor. 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. All of our existing distributors are now granted the revolving credit.

We have also been increasingly allowing our distributors in China to use bank acceptance bills (which typically have longer credit terms of six months) to settle their purchases and trade receivables with us. These bills, once received by us, may be converted into cash prior to their maturity dates, subject to the payment of discount interest, or endorsed by us to settle our payables. These bills are issued by licensed banks registered in the PRC thereby substituting such banks' credit standing for that of the relevant distributors. However, in light of the recent credit crisis, the availability of these bills may become limited for our smaller distributors.

For our overseas distributors, we require their payments to be made either by a letter of credit or by telegraphic transfer before the release of shipping documents to them or by delayed payment provided adequate bank guarantees are issued in advance.

We centralize our credit control and all payments are made to our headquarters in Quanzhou, Fujian Province.

Our trade payables are settled within 30 to 90 days and our bills payable are settled in up to 180 days.

Logistics

We have a logistics team of over 176 people working at our warehouses as of 30 June 2009. Our logistics team is responsible for dispatching finished products to our distributors. Our distributors located in Quanzhou, Fujian Province collect products from our warehouse on an ex factory basis according to our product launch schedule. We generally deliver our finished products to other

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distributors on a free on board basis, whereby we engage a third-party transportation company to deliver the products to the closest cargo terminal as previously agreed with the distributors. In such instance, we bear the cost of transportation and risks up to the agreed cargo terminal.

Our distributors are responsible for delivering our products to the authorized Peak retail outlets operated by them at their own cost and risk. Depending on the urgency of the order, transportation may take the form of road or air.

Raw materials from our suppliers and finished products supplied by our Contract Manufacturers are directly delivered to us, and upon satisfactory inspection by our quality control staff, are sent to one of our warehouses. All of our internally manufactured footwear products are delivered to our warehouses in Jiangxi Province and Quanzhou, Fujian Province and all of our internally manufactured apparel products are delivered to our warehouse in Hui'an, Fujian Province.

International sales

In addition to our domestic sales in China, we also sell our Peak products overseas on a wholesale basis (i) to overseas customers who are introduced to and learn about our products from our website or at international exhibitions such as the Canton Fairs in China, the Hong Kong Sports Goods Fair and the ISPO Fair in Germany as well as certain trade fairs in Las Vegas, USA that we participate in, or from other marketing activities, and (ii) through our overseas distributors who then sell the products to consumers, retailers or sports teams and clubs.

We have generated approximately RMB304.5 million, RMB239.7 million, RMB255.2 million, RMB121.8 million and RMB127.1 million from international sales for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively, which accounted for 48.8%, 23.6%, 12.5%, 14.4% and 9.4% of our total turnover during such periods. During the same periods, sales to our overseas distributors accounted for approximately 17.6%, 29.4%, 42.6%, 33.8% and 36.4% of our international sales, respectively. In 2008 and the first half of 2009, a majority of our international sales were to Europe and Asia, and our footwear, apparel and accessory products generated approximately 64.5%, 34.5% and 1.0% and 56.3%, 41.9% and 1.8%, respectively, of our international turnover. During the Track Record Period, we exported our products to over 70 countries in total.

As of the Latest Practicable Date, we had entered into distribution agreements with eight overseas distributors, three of which have regularly placed orders with us since 2005. Our distribution agreements with the overseas distributors generally define geographical areas over which our overseas distributors may distribute our products. These areas include portions of Europe, the Middle East, Africa, North America, Australia and Asia. These distributorships are for an indefinite period which can be terminated by either party by giving at least one month's prior written notice depending on the length of relationship between the Group and these distributors. The overseas distributors are authorized to sell our products within a defined geographical area and make use of our Peak trademarks for advertising the Peak products. Payment is made either by a letter of credit or telegraphic transfer before the release of shipping documents to overseas distributors or by delayed payment provided adequate bank guarantees are issued in advance. The overseas distributors are prohibited from distributing or manufacturing competing sports products without our prior written consent. They are also not permitted to act as distributors or agents, or in any other way, for the benefit of third parties who manufacture or market competing brands of sports products. We do not provide subsidies or rewards to the overseas

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distributors. We accept return of products for quality reasons, although during the Track Record Period, we recorded no such returns from any of our overseas distributors. For our Peak products to be exported overseas, we are required to pass inspections by the local administration of entry-exit inspection and quarantine and obtain clearance with the customs in China. The overseas distributors are responsible for carrying out necessary procedures to ensure our Peak products comply with the applicable licensing requirement, rules and regulations in the relevant overseas market. As of the Latest Practicable Date, all our overseas distributors were Independent Third Parties.

We work closely with our overseas distributors to promote the Peak brand internationally. We present collections of our new products to our overseas distributors at our sales fairs for them to place orders. We also present poster designs, product catalogs and promotional plans to our overseas distributors from time to time to enhance the overseas promotions and sales of our products by our overseas distributors. In addition, we believe that our sponsorships of various international sports events and professional sports players also help us in fostering closer working relationships with our existing overseas distributors and developing new overseas distribution arrangements. We do not currently set any sales or expansion targets for the overseas distributors nor require them to provide us with any sales reports or forecasts. We intend to gradually strengthen our relationship with our overseas distributors and introduce exclusivity to performing overseas distributors. We also intend to increase our sales to overseas markets, particularly to our targeted regions of Russia, Australia, New Zealand and South East Asia.

Our international sales are denominated in US dollars. In view of the currency fluctuation between Renminbi and US dollars, we take into account our estimated currency risk when pricing our products for export. We normally ship our products free on board. We usually receive our payments within 30 days after we dispatch our bill of lading or other timeframe as agreed between us and our overseas distributors.

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PRODUCTION

We employ a vertically integrated business model where we design, manufacture, distribute and market our products. The following table sets out the details of our footwear and apparel production facilities:

Location	Footwear production facilities		Apparel production facilities	
	Quanzhou, Fujian province	Shang’gao, Jiangxi province	Quanzhou, Fujian province	Hui’an, Fujian province
Commencement date of production	August 1994	June 2008	February 2004	September 2008
Number of production lines as of the Latest Practicable Date	4	6	16	39
Annual production capacity ⁽¹⁾ (pairs/pieces)	2006	1.6 million	—	1.4 million
	2007	2.5 million	—	1.3 million
	2008	3.3 million	2.5 million	1.0 million
	2009	3.7 million	3.5 million	1.2 million
Actual production volume (pairs/pieces)	2006	1.6 million	—	1.4 million
	2007	2.5 million	—	1.3 million
	2008	3.3 million	1.5 million	1.0 million
	2009 (1 January–30 June)	1.8 million	1.2 million	0.7 million
Expected time of full production	—	2013	—	2012
Expected number of production lines upon full production	—	16	—	140
Expected production capacity upon full production (pairs/pieces)	—	12.0 million	—	16.4 million

Note: Annual production capacity is an estimate we make with regard to each period taking into account a number of factors and assumptions, including, among others: number of production lines, amount of equipment and personnel, estimated rate of production per worker per hour, number of hours and days our workers work per month and seasonal impact on production selection. As a result, there can be no assurance that total amounts we would have been able to produce in any period would not have been higher or lower than the actual amount we produce for such period.

Through our increased production capacity, we expect to be able to produce more Peak footwear and apparel products at our own facilities to meet the growing demand for our products and continue to benefit from economies of scale as well as grow our turnover.

We have installed electricity generators at our production facilities in Quanzhou, Fujian province to provide us with a back-up source of electricity when required. However, see the section headed “Risk Factors — Our sales and operations may be affected by any prolonged business interruption at our production facilities” of this document.

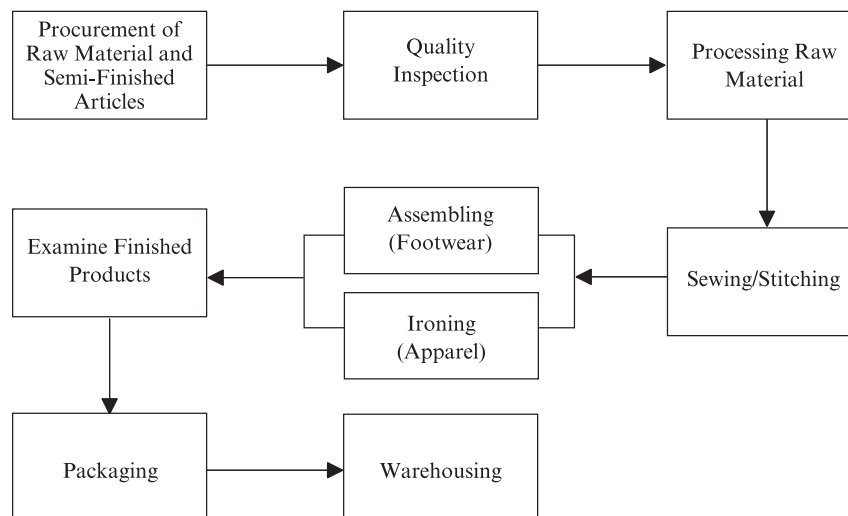
We do not have any production facility for our sports accessories as we outsource production for these items to selected Contract Manufacturers.

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For the year ended 31 December 2008 and the six months ended 30 June 2009, we outsourced approximately, 60.1% and 61.6% of our footwear production, 89.4% and 82.9% of our apparel production and all of our accessories production to Contract Manufacturers.

Production process

We standardize our production process with a view to achieving a high level of efficiency. The following flowchart outlines our production process:



Production and outsourcing

Our production department prepares production schedules and allocates production between internal production and outsourcing according to our production capacity and delivery requirements. The following table shows the proportion of internal production versus outsourcing by volume for our footwear and apparel products during the Track Record Period.

Footwear Production

Year/period ended	Internal Production	Outsource
31 December 2006.	31.5%	68.5%
31 December 2007.	30.7%	69.3%
31 December 2008.	39.9%	60.1%
30 June 2008	28.7%	71.3%
30 June 2009	38.4%	61.6%

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Apparel Production

Year/period ended	Internal Production	Outsource
31 December 2006.	30.1%	69.9%
31 December 2007.	16.7%	83.3%
31 December 2008.	10.6%	89.4%
30 June 2008	7.2%	92.8%
30 June 2009	17.1%	82.9%

A substantial portion of our annual production of footwear and apparel is outsourced to Contract Manufacturers. We have three types of outsource arrangements with our Contract Manufacturers: (1) subcontract arrangements, (2) OEM and (3) ODM. Most of our outsource arrangements with our Contract Manufacturers in 2005 and 2006 were in the form of subcontract arrangements whereby we provided subcontractors with raw materials and paid them a processing fee for manufacturing the finished products for us. In 2007, most of our outsource arrangements with our Contract Manufacturers were in the form of OEM. We provided OEMs with the designs and specifications of our products and recommended suppliers for them to procure raw materials for their production. The shift from subcontracting arrangements to OEM in 2007 allowed us to devote less of our management time on monitoring the whole production process and focus our resources on the expansion of Peak’s sales network and enhancement of our brand image. The OEM arrangement also enabled us to further expand our production volume to meet the increasing demands of our products. Although we continued to have most of our outsource arrangements in the form of OEM, we revised our outsource arrangements in 2008 and had more subcontracting arrangements with our subcontractors in order to obtain more control over the production process. As we use a cost-plus method to determine the selling prices of our products, such changes in outsource arrangements did not have a material impact on our cost structure or financial performance. During the Track Record Period, we also had outsource arrangements with ODMs whereby our ODMs designed and produced products on our behalf.

We engage the services of our Contract Manufacturers on a contract basis after confirming sales orders during our sales fairs and taking into account the demand for our products and our internal production schedule and capacity. We have separate purchase orders for different products which set out the agreed price, purchase quantity and terms of delivery. These purchase contracts do not contain any terms that restrict our ability to engage other Contract Manufacturers. We are also not bound to purchase any minimum quantity of products from our Contract Manufacturers.

We carefully select and evaluate our Contract Manufacturers. Each of our Contract Manufacturers is subject to an annual evaluation and assessment of product quality and timeliness of product delivery. We monitor the operation and performance of our Contract Manufacturers by checking each batch of products delivered to us and timely reporting to the relevant Contract Manufacturers any failure to meet our product quality requirements or incidents of late delivery. As of 31 December 2006, 2007 and 2008 and 30 June 2009, we engaged approximately 18, 15, 37 and 22 Contract Manufacturers, respectively, all of which were principally located in southeastern China. All of the Contract Manufacturers were Independent Third Parties and did not provide exclusive services to us.

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From time to time, we also engage the services of other subcontractors to perform minor production processes (such as printing and embroidery) for us. During the Track Record Period, processing fees paid for such services were insignificant.

We plan to continue to outsource a portion of our sales orders to our Contract Manufacturers in order to give us the flexibility to adjust our production schedules and to meet seasonal fluctuations in demand. However, we intend to increase our internal production capacity with the launch of our new production facilities in Shang’gao, Jiangxi province and Hui’an, Fujian province. The cost of outsourced production amounted to approximately 70.0%, 74.5%, 73.9%, 70.8% and 75.5% of our total cost of sales for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively.

Raw materials and suppliers

Our primary raw materials for the production of sports footwear are artificial leather, soft and flexible polymers and rubber. Our primary raw materials for our apparel production are terylene, nylon and cotton. We source our raw materials from suppliers located in Fujian province. The proximity of these suppliers to our production facilities is logistically convenient and it helps to reduce our procurement costs.

Our five largest suppliers during the Track Record Period included suppliers of raw materials and Contract Manufacturers from whom we purchased footwear and apparel products. 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%, respectively, of our total purchases and our largest supplier accounted for approximately 7.3%, 26.4%, 7.6%, 10.0% and 8.2%, respectively, of our total purchases. Our suppliers generally grant us credit terms of 30 to 90 days. None of our Directors, Directors of our subsidiaries or any of their respective associates, or any person who, to the knowledge of our Directors owns any of our issued share capital, had any interest in any of our suppliers during the Track Record Period. Except for Peak Material which was our Company’s connected person up to 30 April 2007, all of our soles suppliers are Independent Third Parties.

QUALITY CONTROL

We believe that our commitment to quality control is one of the principal factors contributing to our success. We have established a strict quality control system and quality standards. Since 1995, our products have been awarded with GB/T19002-92-ISO9002-87 quality control certification. In 1999, our products obtained an upgraded quality control certification of GB/T19002-94-ISO9002-94. The quality of our products were awarded with another upgrade in 2006 with GB/T19001-2000-ISO9001-2000 standards which evidenced that our quality control management system meets international standards of quality assurance and attests to the quality of our footwear products. Our sports footwear has been recognized as “State-designated Products Exempted from Quality Inspection” (國家免檢產品) by GAQSIQ since 2003.

We implement strict quality control processes at each stage of our production. Our strict supplier selection criteria is our first step to ensure high product quality. We conduct sampling tests of raw materials and those raw materials that fail to meet our standards are returned to the suppliers for replacement. Pilot production runs are carried out prior to mass production of new designs and our on-

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site quality control staff conducts inspections at each major stage of our production process. Before our products are delivered to our warehouses, we undertake a series of quality control sampling tests to ensure product functionalities have been met. We set higher quality standards than applicable national requirements as a way to continue to improve our quality.

The Directors confirm that, during the Track Record Period, products returned by distributors due to quality reasons amounted to less than 0.2% of our total sales in each of the relevant years or period during the Track Record Period.

INVENTORY CONTROL

A substantial portion of our production consists of pre-season orders placed by distributors at our sales fairs. We usually produce approximately 15% more than the amount ordered by our distributors at our sales fairs to maintain an effective level of inventory to satisfy any subsequent intra-season orders. We generally procure raw materials and commence production after having confirmed purchase orders with our distributors following our sales fairs. As a result, our raw materials are not generally susceptible to obsolescence by passage of time. We monitor our inventory age and sell outdated products at a lower price to our distributors. Since we sell substantially all of our products in China on a wholesale basis to our distributors, and the risks and rewards associated with the stocks are transferred to the distributors upon sale of our products to them, the inventories at the distributors are not sold on consignment. The inventories delivered to the distributors are not counted as part of our inventories.

Our distribution agreements do not require our distributors to provide information on their inventories, and therefore we have limited information about the inventory levels of our distributors and their third party retail outlets operators. After we sell our products to the distributors, the products become part of the inventory of the distributors, over whom we have no control. We use the Lijing system to track inventory levels at the authorized Peak retail outlets connected to such system and obtain information on the levels of market acceptance of our products. Please refer to the paragraph headed “Management Information System” in this section below for details relating to the Lijing system. The information that we collect from these sources assists us in monitoring the overall stock level in the market, and if necessary, we will coordinate with our distributors to reallocate products to regions with increased demand. Our distributors determine the level of inventory they would keep for third party retail outlet operators and will also reallocate inventory stock accordingly. Furthermore, our regional marketing teams regularly carry out on-site inspections to the authorized Peak retail outlets. Each of them carries out on-site inspections of 10 to 15 authorized Peak retail outlets every month and each retail outlet is inspected at least once every year. Our marketing department sets up a monthly internal meeting for the regional marketing teams to discuss the performance of the distributors, issues discovered from on-site inspections and market updates. We review and analyze data on the sales performance of our distributors as well as their assessment of market demands of Peak products. Based on the information obtained from the Lijing system, the results of the regular on-site inspections, the monthly internal meetings and the annual sales target of our Group, we adjust the sales target of our distributors in renewal of the distribution agreements. We believe that these measures help to reduce accumulation of inventories at the distributors’ level. The Directors further confirm that, to their best knowledge and belief, the significant increase in sales of our products during the Track Record Period was not as a result of the accumulation of inventories at the level of our distributors.

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We also believe that these measures help to reduce production inefficiencies and our own inventory build-up. As of 31 December 2006, 2007 and 2008 and 30 June 2009, the balance of our inventory accounted for approximately 30.7%, 18.0%, 11.8% and 10.3%, respectively, of our total assets.

MANAGEMENT INFORMATION SYSTEM

We invest and place considerable emphasis on our management information system to improve our efficiency in product design and development, quality and inventory control, logistics and sales.

We established our enterprise resource planning system in October 2005 to monitor our inventory levels in terms of raw material and finished products within our Group. We started using the Lijing system, a computerized management system, in mid-2007 to obtain information relating to the inventory levels and sales amount of the 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 510 of 5,667 authorized Peak retail outlets connected to our Lijing system. 178 out of these 510 linked outlets were operated directly by our top five distributors as of 30 June 2009. We intend to highlight the advantages of Lijing system to our distributors in order to encourage and speed up the connection of authorized Peak retail outlets to our Lijing system. Despite the technical difficulties and the concerns over disclosure of business information from some of our distributors, we are committed to connect all authorized Peak retail outlets to our Lijing system as soon as practicable and intend to have 800, 1,200 and 2,000 authorized Peak retail outlets linked up to our management information system by the end of 2009, 2010 and 2011, respectively. For internal office communications, we rely on our office automation system.

INSURANCE

We are not required under Chinese law to maintain, and we do not maintain, any product liability insurance. We believe that our practice is in line with the industry practice in China. We currently maintain insurance policies in respect of damage of real estate property, equipment and facilities, and employer liability for personal injury of employees.

During the Track Record Period, we have not received any material claim from customers and/or consumers relating to any liability arising from or relating to the use of our products which have resulted in significant negative implication to our brand image.

INTELLECTUAL PROPERTY RIGHTS

We currently market and sell our sportswear products using the Peak brand. Our trademarks 匹克 and PEAK have been registered with the Trademark Office of the State Administration of Industry and Commerce of the People’s Republic of China (中華人民共和國國家工商行政總局商標局) since 1991. We also have currently registered our Peak logo in 79 jurisdictions including the PRC and Hong Kong. Details of our intellectual property rights are more particularly set out under the paragraph headed “Intellectual Property Rights of Our Group” in Appendix VI to this document.

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We recognize the importance of protecting and enforcing our intellectual property rights. In addition to seeking and maintaining registration of intellectual property rights under appropriate categories and in appropriate jurisdictions, we also have a team of staff who make regular and ad-hoc visits to authorized Peak retail outlets and other shopping areas to identify any potential infringement of the Peak brand. We take active measures to protect our intellectual property rights by registering our trademarks with the PRC Custom Bureau since 2004. We take appropriate actions to defend our Peak brand if any infringement of our intellectual property rights is found.

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. We take active measures to minimize the risk of designing and manufacturing products that may be alleged by third parties as infringing upon their intellectual property rights. We provide training to our staff from time to time to strengthen their understanding in applying third parties’ intellectual property rights. For example, we have invited NBA China in June 2008 to conduct a training seminar for our staff regarding the use of NBA logos.

During the Track Record Period, no claim or dispute has been brought against us in relation to any infringement of the trademarks, copyrights, patents or other intellectual property rights of other third parties.

PROPERTIES AND FACILITIES

Land and buildings

As of 31 July 2009, we owned:

- two parcels of land located in Shang’gao, Jiangxi province with an aggregate site area of approximately 333,333 square meters and 11 buildings on such land, comprising of seven factory buildings, four staff quarters and ancillary buildings with an aggregate gross floor area of approximately 55,496 square meters. We have obtained legal title to these parcels of land and the buildings thereon. Further, there are buildings under construction having a total gross floor area of approximately 33,568.64 square meters; and
- four parcels of land located in Hui’an, Fujian province with an aggregate site area of approximately 71,935.8 square meters and ten buildings on such land, comprising of four workshop buildings, five staff quarters and one warehouse with an aggregate gross floor area of approximately 122,226.42 square meters. We have obtained legal title to these parcels of land and the buildings thereon.

Leased properties

As of 31 July 2009, we leased:

- four buildings with a total gross area of approximately 37,644 square meters; and

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- an office with an area of 318.54 square meters at Rooms 1009–1010, Block B, 242 Tianhe Road, Guangzhou, for the purpose of our Guangzhou design workshop.

For further information about our owned and leased properties, please refer to the property valuation report prepared by Vigers, an independent property valuation firm, as set out in Appendix IV to this document.

EMPLOYEES

As of 30 June 2009, we employed a total of 7,753 full-time employees. The following table shows a breakdown of our employees by department as of that date:

<u>Function</u>	<u>Quanzhou plants</u>	<u>Shang’gao plant</u>	<u>Hui’an plant</u>
Management	7	3	2
Administration	9	12	54
Finance	36	10	—
Marketing/Planning	95	40	64
Design/Development/Research	211	—	18
Production	2,824	2,135	1,380
Quality Control	39	107	90
Sales	150	—	—
Human Resources	18	—	—
Logistics/Back-office Support	383	66	—
Sub-total	<u>3,772</u>	<u>2,373</u>	<u>1,608</u>
Total			<u>7,753</u>

We provide training to our staff to enhance their technical and product knowledge as well as their knowledge of industry quality standards and work place safety standards. We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. We believe that we have a good working relationship with our employees.

DIRECTOR AND STAFF REMUNERATION

We determine the remuneration of our staff based on factors such as qualifications, performance and years of experience. Our staff costs (including Directors’ and senior management’s emoluments) in 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 were approximately RMB26.0 million, RMB42.8 million, RMB112.8 million, RMB44.7 million and RMB68.2 million, respectively. During the same periods, the aggregate of the remuneration paid and the benefits in kind granted to our Directors by us and our subsidiaries were approximately RMB210,000, RMB283,000, RMB404,000, RMB129,000 and RMB169,000, respectively, and our Directors consider that the remuneration paid reflected their contributions to the growth of our Group’s business during the same period.

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ENVIRONMENTAL AND SAFETY MATTERS

Environmental matters

We are subject to PRC national and local laws and regulations with respect to environmental protection, including the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法), the Law of Prevention and Control of Atmospheric Pollution of the PRC (中華人民共和國大氣污染防治法), the Law of the Prevention and Control of Noise Pollution of the PRC (中華人民共和國環境噪音污染防治法), the Law of the Prevention and Control of Solid Waste Pollution of the PRC (中華人民共和國固體廢物污染環境防治法), the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例), and the Administrative Regulations on Levy and Utilization of Sewage Charge (排污費徵收使用管理條例).

Under the current PRC environmental protection laws and regulations, any enterprise which discharges waste water, waste products and polluted air is required to seek approval from the relevant environmental protection authorities as part of the approval process for setting up such enterprise in the PRC. The relevant PRC laws and regulations also require any such enterprise to have waste water, waste products and polluted air treatment facilities that meet the relevant environmental standards and to have the pollutants treated before being discharged. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and fines for the discharge of pollutants which are insufficiently treated. The relevant laws and regulations also empower relevant governmental authorities to close down any enterprise that causes serious pollution.

According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water and solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Companies are also required to carry out an environment impact assessment before commencing construction of production facilities and install pollution treatment facilities which should meet the relevant environmental standards and to treat pollutants before discharge.

Our Directors consider that our production process does not involve substantial creation of pollutants and our operation is not subject to any future environmental risk. Our production process does not generate hazards that have any significant adverse effect on the environment as our production process is largely labor-intensive and does not require consumption of high levels of energy. As such, other than the expenses that are incurred for compliance with the current environmental laws and regulations, we have not allocated additional resources to new technology or conducting research and development on environment protection. In April 2008, we obtained an ISO14001:2004 environmental control certification showing that our environmental management system complies with international standards.

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For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our expenses in respect of environmental compliance matters amounted to RMB30,725, RMB55,224, RMB642,529, RMB139,912 and RMB200,223, respectively.

As of the Latest Practicable Date, no administrative sanctions, penalties or punishments have been imposed upon us for violation of any environmental laws or regulations. On the basis of confirmations by the local environmental protection authorities and appropriate inspections, King & Wood PRC Lawyers, our PRC legal adviser, is of the view that we have complied with the relevant environmental laws and regulations and met the national and local environmental standards, and have obtained all relevant permits and environmental approvals required for our current operations.

In order to ensure that we comply with relevant environmental laws and regulations, we have employed an officer who has over 10 years of related experience to be responsible for environmental compliance matters. We will continue to ensure compliance with applicable environmental laws and regulations by (i) providing relevant training to our staff (including but not limited to providing training to our Directors in respect of the compliance with PRC environmental laws and regulations); (ii) empowering our environmental protection staff to oversee and ensure our compliance with environmental protection policies; (iii) enforcing internal rules on environmental protection; and (iv) immediately reporting to and coordinating with competent authorities in the event that any incident or non-compliance arises.

Labor and safety matters

We are also subject to various labor and safety laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Production Safety Law of the PRC (中華人民共和國安全生產法), the Regulation of Insurance for Labor Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Levy of Social Insurance Premiums (社會保險費徵繳暫行條例), the Fire Control Law of the PRC (中華人民共和國消防法) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in China.

According to the PRC Labor Law (中華人民共和國勞動法) and the PRC Labor Contract Law (中華人民共和國勞動合同法), we must enter into labor contracts if labor relationships are to be established between our employees and members of our Group. We must provide wages that are not lower than the local minimum wage standards and provide severance payments if we terminate the labour contracts with our employees. We are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide relevant education and training to our employees. We are also required to provide our employees with a safe and clean working environment that meets the relevant State rules and standards. We are required to offer regular health examinations for our employees who are engaged in hazardous occupations.

The Production Safety Law of the PRC (中華人民共和國安全生產法) requires us to maintain an appropriate working environment for the purpose of safe production. Any entity that is unable to offer safe working environment are not allowed to engage in production or conduct business operation activities. We are required to offer education and training programs to our employees regarding production safety. The design, manufacture, installation, use, checking and maintenance of our safety

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equipment must conform with applicable national or industrial standards. We are also required to provide safety equipment that meets the national or industrial standards to our employees and to supervise and educate them to wear or use such equipment according to the prescribed rules.

As required under the Regulation of Insurance for Labor Injury (工傷保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) and the Interim Regulation on the Levy of Social Insurance Premiums (社會保險費徵繳暫行條例), we are obliged to provide our employees with welfare schemes including pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

The Fire Control Law of the PRC (中華人民共和國消防法) was promulgated for the purpose of preventing and reducing fire damage, safeguarding citizens’ personal security, public property and civil assets, and ensuring public security. Before the commencement of any construction project, the design and drawings of the project must be submitted to the relevant fire control bureau for approval. Upon completion of a construction project, fire prevention mechanisms of the construction project should be evaluated and approved by the relevant fire control bureau before commencement of operation.

In order to ensure the safety of our employees, we implement operational procedures and safety standards for our production processes. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. We also carry out equipment maintenance on a regular basis to ensure their smooth and safety operation.

In order to ensure that we comply with labor and safety laws and regulations, we have appointed two officers who respectively have over 10 years of related experience to be responsible for labor and safety compliance matters. We will continue to ensure compliance with applicable labor and safety laws and regulations by (i) providing relevant training to our staff (including but not limited to providing training to our Directors in respect of the compliance with PRC labor and safety laws and regulations); (ii) maintaining and upgrading our equipment on a regular basis; and (iii) improving the pension, health and other employee benefit plans provided to our staff.

On the basis of confirmations by the relevant labor and social security authorities and the local administrations of work safety, and appropriate inspections, King & Wood PRC Lawyers, our PRC legal adviser, is of the view that we have complied with the relevant laws and regulations of labor, social insurance and work safety during the Track Record Period. As of the Latest Practicable Date, no administrative sanctions, penalties or punishments had been imposed upon us for violation of any labor or safety matters. None of our employees have been involved in any major accident in the course of their employment.

COMPETITION

The demand for mid to high-end sportswear products and accessories has been growing steadily in recent years in line with the economic growth in China. We compete with an increasing number of international and domestic sportswear companies in terms of brand recognition in the sportswear market, market share in China, product variety, product design, product quality, marketing and promotion, price, distribution and retail channels. We expect intense competition will continue in the future due to the entry of new foreign and domestic sportswear companies in the PRC. We believe that our vertically

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integrated business model, marketing and promotional strategy, nationwide retail network, penetration in second-tier and third-tier cities and knowledge of the PRC market provide us with significant advantages in this highly competitive environment.

Although we face competition from several international and domestic brands in our regional markets, we maintained Peak brand’s market recognition as a well-recognized sports footwear and basketball footwear brand in China. We believe that the prices of our products are competitive over those of the foreign sportswear brands. We also believe that our Peak brand is well recognized in the sportswear retail market in China and abroad, and our products are competitive in terms of brand recognition, product quality and design, location of retail outlets, sales network size and service quality.

LICENSES AND REGULATORY APPROVALS

PRC regulations relating to wholesale or retail business

Prior to China’s entry into the WTO, foreign investors were restricted from providing retail services in China whether through their own proprietary operations or through third-party operators.

To fulfill China’s WTO commitment to open up the commercial fields, the Ministry of Commerce issued the Administrative Measures on Foreign Investments in Commercial Fields (外商投資商業領域管理辦法) (the “Measures”) which was promulgated on 16 April 2004. Pursuant to the Measures, foreign investors are permitted to engage in the distribution services on a wholly owned basis as of 11 December 2004. Enterprises with foreign investment which undertake wholesale or retail business activities are foreign invested commercial enterprises subject to the Measures. Foreign investors are permitted to set up both commercial enterprises and stores in accordance with the procedures and guidelines under the Measures. There are no geographical limitations for foreign invested commercial enterprises that engage in the wholesale business.

To further simplify the approval procedures for foreign investment in the distribution services sector, the Ministry of Commerce issued the Notice of the Ministry of Commerce on Entrusting Local Departments to Examine and Approve Foreign Invested Commercial Enterprises (商務部關於委託地方部門審核外商投資商業企業的通知) (the “Notice”) on 9 December 2005 which entrusts the Administrative Departments of Commerce at the provincial level to examine and approve the foreign invested commercial enterprises. The Notice took effect from 1 March 2006.

In accordance with the Notice, the Administrative Department of Commerce at the provincial level is empowered to examine and approve an application by a foreign investor for the opening of stores within its provincial administrative region or national economic and development zone if any one of the following conditions is satisfied: (a) the area of a single store to be opened does not exceed 5,000 square meters and the total number of stores does not exceed three within that region or national economic and development zone and the total number of the same type of stores to be opened throughout China by the applicant does not exceed 30; or (b) the area of a single store does not exceed 3,000 square meters and the total number of stores does not exceed five within that region or national economic and development zone, and the total number of the same type of stores to be opened throughout China does not exceed 50; or (c) the area of each single store does not exceed 300 square meters. Approvals from the Ministry of Commerce should be obtained if the size and the number of stores to be opened by a foreign investor exceed the afore-mentioned threshold.

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In China, we sell substantially all of our products to distributors on a wholesale basis who operate authorized Peak retail outlets, either directly or through third party retail outlet operators. As of the Latest Practicable Date, we do not own or operate any authorized Peak retail outlets. King & Wood PRC Lawyers, our PRC legal adviser, has confirmed that we are not subject to any licensing or approval requirement in respect to such operations.

PRC laws on consumer protection and product quality

Our business operations and our products are subject to the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the “Consumer Law”) and the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “Quality Law”).

The Consumer Law was enacted on 31 October 1993 and came into effect on 1 January 1994. The Consumer Law entrenches the rights and interests of consumers who buy or use goods for the purpose of consumption or those who receive services. All manufacturers and distributors are required to ensure that their products and services will not cause personal or property damage. The Quality Law was promulgated on 22 February 1993 and amended on 8 July 2000. The Quality Law is applicable to the production and sale of any product in China. Producers and sellers who sale products in China are liable if their products fail to meet the quality standards set out in the Quality Law.

On the basis of confirmations by the local quality and technical supervision authorities and appropriate inspections, King & Wood PRC Lawyers, our PRC legal adviser, is of the view that we have complied with the relevant product quality supervision and examination laws and regulations during the Track Record Period.

LEGAL COMPLIANCE AND PROCEEDINGS

On 27 March 2008, we received a letter (the “Letter”) issued by the solicitors acting for Legacy China Limited (“Legacy China”). Legacy China is a limited liability company incorporated in Anguilla, British West Indies. According to our Directors’ understanding, Legacy China is a private equity fund engaged in the business of making pre-IPO investments and private investments. Our Directors also understand that it belongs to Legacy Capital Group which has offices in Singapore, Hong Kong, Shanghai and Beijing. In the Letter, Legacy China demanded the Company and the Xu Family for the issue of convertible bonds by the Company in its favours allegedly pursuant to the Convertible Bond Agreement, failing which it threatened that it would take legal action against the Company and the Xu Family. The actions that it threatened to take include order of specific performance (i.e. the issue of the convertible bonds to Legacy China in accordance with the Convertible Bond Agreement) of the Convertible Bond Agreement and injunctive relief restraining the Company from raising capital by different means.

Save for the negotiations with Legacy China which led to the entering into the Convertible Bond Agreement in about December 2006, we have no historical or present connection with Legacy China. In July 2006, the Xu Family were introduced to Legacy China which expressed its interest to invest in the Company and to become one of the Company’s strategic investors. After some negotiations, the Xu Family and Legacy China decided to enter into the Convertible Bond Agreement. Under the Convertible Bond Agreement, the total investment to be made by Legacy China shall be US\$10,000,000 (which has not been paid by Legacy China). The Convertible Bond Agreement provides that the percentage of ordinary shares to be converted shall be equal to US\$10 million divided by eight times the after-tax

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profit of the Company for the financial year of 2006. The percentage of the ordinary shares to be converted shall be 14.28%⁽¹⁾ assuming that the after-tax profit of the Company for the financial year of 2006 is RMB70.0 million and the percentage of ordinary shares to be converted shall be approximately 11.35% if it is calculated by reference to the actual after-tax profit of the Company for the financial year of 2006, which was RMB85.9 million⁽²⁾. Although the conversion can be made at anytime within three years from the date of completion of the investment or at the time when listing approval by the relevant regulatory body is obtained, it does not however state expressly whether the conversion percentage is to be based on the issued share capital of the Company before or after the completion of the [●]. It is possible that the conversion percentage is based on the issued share capital of the Company after the completion of the [●]. It is also stated in the Convertible Bond Agreement that if the Company cannot obtain listing status on the London Stock Exchange’s Alternative Investment Market (or other stock exchange as agreed by the parties) before a particular date or that the Company’s audited accounts show that the profit for the financial year of 2006 is less than RMB65.0 million or in the case that the Company or the Xu Family breaches the material terms of the Convertible Bond Agreement, Legacy China shall be entitled to exercise the redemption rights set out in the Convertible Bond Agreement and demand an annual interest of 12%. In addition, certain expenses incurred by Legacy China in relation to the execution of the Convertible Bond Agreement and certain expenses incurred by professional parties in relation to the investment made by Legacy China will be borne by the Company, the maximum amount of which shall be US\$100,000 and US\$1 million, respectively. However, the parties also agreed that the clauses regarding confidentiality, costs, jurisdiction, and governing laws are binding and have legal effect on the parties.

Subsequent to the signing of the Convertible Bond Agreement, the Xu Family engaged their solicitors to draft a formal investment agreement in January 2007. However, the parties could not reach any agreement after negotiation and did not enter into any further document or negotiation with Legacy China.

After receipt of the Letter, the Xu Family instructed their solicitors, DLA Piper Hong Kong, to reply to Legacy China’s solicitors on 15 April 2008 and maintained that the Convertible Bond Agreement is not legally binding save and except the clauses regarding confidentiality, costs, jurisdiction, and governing laws and requested Legacy China to withdraw the Letter.

We also obtained legal advice from Counsel in relation to Legacy China’s alleged claims as set out in the Letter. After considering all relevant facts available and reviewing the terms of the Convertible Bond Agreement, the Counsel formed the view that the Convertible Bond Agreement is not a binding agreement (save and except the clauses related to confidentiality, costs, jurisdiction and governing laws). As a precautionary measure, we filed a writ of summons with the High Court of Hong Kong on 11 September 2008 against Legacy China for (i) a declaration that the Convertible Bond Agreement is not legally binding upon the Company; (ii) a declaration that Convertible Bond Agreement, save and except the clauses on confidentiality, costs, jurisdiction and governing laws, is not legally binding upon the Xu Family and (iii) an injunction restraining Legacy China whether by itself, its directors or officers,

Notes:

(1) Assuming [●], the cost per Share for Legacy China, which Legacy China has not paid, should have been approximately HK\$1.64 per Share, representing a discount of [●]% to HK\$[●].

(2) Based on the exchange rate between US\$ and RMB of 1:7.805 as of 28 December 2006.

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servant or agent howsoever from publishing or alleging that the Company is liable to Legacy China under the Convertible Bond Agreement or that the Company is bound by the Convertible Bond Agreement.

As Legacy China failed to acknowledge the Writ of Summons and to file a defense within the prescribed time limit, on 3 February 2009, we successfully obtained judgment against Legacy China in respect of the said declarations and injunction (“the Judgment”). Up to the date of this Document, we are not aware of any application by Legacy China to set aside the judgment in respect of the action.

As of the Latest Practicable Date, we are not aware of any steps taken by Legacy China in respect of the Judgment. Our Counsel advised that (i) the Judgment was obtained by following the Rules of the High Court and Orders made by the Court, therefore is a regular judgment; (ii) for Legacy China to set aside such a judgment, it has to show to the Court that it has a real prospect of success in defending the claims brought by the Company; (iii) it must take action promptly and make the application as soon as possible, the longer the delay the smaller the chance of having the Judgment being set aside and (iv) our Counsel concluded that Legacy China does not have a meritorious defence to the Company’s claim, therefore its chance of setting aside the judgment is a remote one. Thus, based on our Counsel’s advice, we believe that it is unlikely for the Court to allow Legacy China to set aside the Judgment.

If in the event that the Court allows Legacy China to set aside the Judgment and if Legacy China is granted an injunction against any capital raising by the Company, we may need to suspend the [●] until such matter is fully resolved, in which case we would refund all subscription money received to all applicants. However, both we and our Counsel are of the view that we have a strong case against Legacy China, and thus we and our Counsel do not see that Legacy China will be able to obtain from the court any injunction order on the [●], nor an order for the Xu Family to transfer or the Company to issue the relevant Shares to Legacy China.

We and our Directors are of the view that the litigation does not have any material adverse impact on the financial performance and operations of the Company or the [●]. The Xu Family have agreed to indemnify the Company for any loss which may be suffered by the Company as a result of Legacy China’s claim which may arise from the Convertible Bond Agreement.

Save as disclosed above, as of the Latest Practicable Date, we were not engaged in any material litigation, arbitration or claim, and no material litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us or that would have a material adverse effect on our operating results or financial condition. King & Wood PRC Lawyers, our PRC legal adviser, has confirmed that we have obtained all licenses, permits and certificates necessary to conduct our operations and our operations comply with all the relevant rules and regulations of the relevant authorities where we operate.