OVERVIEW

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.

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.

Our products are manufactured at our own production facilities as well as selectively outsourced to Contract Manufacturers. 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. 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 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.

BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully described in the section headed "Our History, Reorganization and Corporate Structure" in this document and in Appendix VI "Statutory and General Information" to this document, the Company became the holding company of the companies now comprising the Group. Our financial information presents our results of operations, financial position and cash flows of the companies now comprising the Group and have been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies' respective dates of incorporation or establishment, where there is a shorter period.

FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE GROUP

The Group's financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

Ability to maintain brand image and recognition

We believe brand image is important to customers' purchasing decisions. Our Peak brand is therefore critical to the success of our business in the sportswear market in China and worldwide. We place a strong emphasis on brand building and promote our products through media campaigns, sports league and home stadium sponsorships, in-store branding and other promotional activities. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our advertising and promotion expenses accounted for approximately 64.3%, 75.2%, 85.1%, 84.7% and 93.0% of our total selling and distribution expenses, respectively. We intend to continue our brand promotion and marketing activities as well as explore further opportunities to expand these arrangements. Our ability to maintain the position of our Peak brand in the market through our marketing efforts may significantly impact our market share and sales growth.

Pricing

Our results of operations are also affected by our pricing. Our profitability, among other things, depends on the price competitiveness of our products. We generally apply standard pricing policies to our distributors. Our products are sold to our distributors at a discount to the suggested retail price. The level of the discount depends largely on the type of products ordered as well as the nature of the orders. In determining the suggested retail prices of our products, we take into account market supply and demand, production costs and competitors' prices. We expect the sales prices of our products will continue to be driven by these factors.

Our product mix

We offer a wide range of products in three broad categories for both men and women: footwear, apparel and accessories. During the Track Record Period, we broadened our footwear and apparel categories and the proportion of revenue derived from apparel increased from approximately 40.9% of our total turnover for the year ended 31 December 2006 to approximately 47.1% of our total turnover for the year ended 31 December 2008 and to approximately 51.7% of our total turnover for the six months ended 30 June 2009. We will continue to monitor and adjust our product mix as we deem necessary in an effort to increase our turnover and gross margin. As we adjust our product mix, our combined gross profit will be affected both by any change in revenue attributable to, and any change in the gross profit margin of, each product category.

The business performance of our distributors and our ability to supervise and manage them

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. We also sell our products to overseas customers directly, as well as to overseas distributors, who then sell the products to consumers, retailers and sports teams and clubs. Our growth is affected by the business performance of our distributors and how quickly they expand the network of authorized Peak retail outlets. If our distributors do not continue to add new authorized Peak retail outlets, our growth in turnover could be materially and adversely affected. We believe that our ability to effectively supervise and manage our distributors will affect their performance, which will in turn significantly affect our results of operations and financial performance.

The table below sets forth the number of our distributors and authorized Peak retail outlets at the dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
Number of distributors	31	35	34	37
Number of retail outlets	2,340	3,661	5,179	5,667

Changes in consumption patterns and consumer demand for sportswear in China

Consumer demand for sportswear in China is one of the key drivers of our turnover. The success of our business depends in large part on the condition of, and growth in, China's consumer market. As general living standards in China continue to improve, we expect consumer demand in China to be increasingly directed towards lifestyle-enhancing products, such as sportswear, which we believe may positively impact our product sales. For example, China's branded sportswear market has experienced double-digit growth since 2000 and ZOU Marketing Limited forecasts the Chinese sportswear market to more than double in size from 2007 to 2011. Changes in China's consumer market and spending patterns for sportswear could materially affect our results of operations.

Continued growth of China's economy and higher disposable income and spending levels for consumers in China

Our financial condition and results of operations are significantly affected by the macro-economic conditions and their impact on levels of consumer spending. See "Risk Factors — Our future performance is dependent on China's economy and in particular, the level of growth of the consumer market in China". According to the National Bureau of Statistics of China, China's economy experienced rapid growth from 2001 to 2008 and achieved a CAGR of approximately 14.8% in nominal GDP growth. From 2001 to 2008, the per capita annual disposable income of urban households in China grew at a CAGR of approximately 12.6% and consumer spending as measured by total consumer goods retail sales value grew at a CAGR of approximately 14.1%. Statistics published by the National General Administration of Sport (中國國家體育總局) in China suggest that there is a positive correlation between disposable income and sports participation rate in China. We expect that our financial condition and results of operations will continue to be significantly affected by changes in the growth of China's economy and the levels of disposable income and consumer spending in China, particularly in urban areas.

The Directors believe that as of the Latest Practicable Date, the Group's assets, operations, business, profits and cash flow have not been materially and adversely affected by the recent economic slowdown and other economic developments. In addition, the Directors believe that the Group has not experienced any withdrawal of banking facilities, demand for early repayment of outstanding loans from any banks, demand to increase the amount of pledges for secured borrowings from any banks, cancellation of orders, bankruptcy or default on the part of any customers and/or suppliers.

However, there can be no assurance that financial difficulties and economic conditions in the PRC and elsewhere will not in the future materially and adversely affect our business financial condition and results of operations. See "Risk Factors — Our future performance is dependent on China's economy and in particular, the level of growth of the consumer market in China" and "Risk Factors — Our business may be materially and adversely impacted by recent financial difficulties and economic conditions in the United States, Europe and elsewhere".

Competition

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

Production arrangements and production capacity

During the Track Record Period, a substantial portion of our footwear and apparel production, and all of our accessory production, was outsourced to Contract Manufacturers. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, 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, respectively. We plan to continue to outsource a portion of our sales orders to Contract Manufacturers in order to give us the flexibility to adjust our production schedules and to meet seasonal fluctuations in demand. Our reliance on outsourced production may expose us to risks relating to the disruption of outsourced products manufactured by these Contract Manufacturers, and if we are unable to maintain sufficient external production capacity, our business and results of operations may be materially and adversely affected.

We currently manufacture a portion of our footwear and apparel products at our own production facilities and intend to increase our internal production capacity with the launch of new production facilities. Our existing two footwear production facilities are located in Quanzhou, Fujian province, China, and Shang'gao, Jiangxi province, China, which have four and six production lines respectively. Annual production volume at such two production facilities equaled approximately 3.3 million and 1.5 million pairs of footwear, respectively, in 2008. We plan to gradually increase the production lines at our new footwear production facility in Shang'gao, Jiangxi province, China to 16 by the end of 2013. The expected annual footwear production by our Shang'gao plant upon the full launch of the 16 production lines (which is expected to be in 2013) will be approximately 12.0 million pairs. Our current two apparel production facilities are located in Quanzhou, Fujian province, China, and Hui'an, Fujian province, China, and have 16 and 39 production lines, respectively. Annual production volume at these two production facilities equaled approximately 1.0 million and 0.9 million pieces of sportswear, respectively, in 2008. We expect our new apparel production facility in Hui'an, Fujian province, China, when completed in 2012, to have 140 production lines, with an expected annual production capacity of 16.4 million pieces. Through our increased production capacity, we expect to be able to produce more Peak footwear and apparel at our own facilities to meet the growing demand for our products and to benefit from related economies of scale and improved margins. However, our planned expansion of production capacity as described above may not be successful and we may continue to rely on Contract Manufacturers for the production of a significant portion of our footwear, apparel and accessory products. See "Risk Factors — Our expansion of our production capacity may not be successful".

Cost of raw materials for our footwear and apparel productions

The primary raw materials used in our footwear production are artificial leather, soft and flexible polymer and rubber. The primary raw materials for our apparel production are terylene, nylon and cotton. We obtain raw materials from suppliers located in Fujian province. To remain competitive, we must obtain from our suppliers sufficient quantities of good quality materials in a timely manner and at acceptable prices for our internal production. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the cost of raw materials incurred by us in our own production accounted for approximately 23.1%, 18.8%, 18.3%, 21.4% and 16.4%, respectively, of the total cost of our own production and external processing operations. While we use a cost-plus method to determine the selling prices of our products, fluctuations in the costs of our raw materials and any limitations on our ability to pass on increases in raw material costs to our customers may materially and adversely impact our total cost of sales and our gross profit margins.

Seasonality

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

Level of income tax and preferential tax treatment

Our profit attributable to equity shareholders is affected by the level of income tax that we pay and the preferential tax treatment to which we are entitled. On 16 March 2007, the National People's Congress of China promulgated the New Tax Law, which came into effect on 1 January 2008.

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

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

Under the New Tax Law, Peak China and Peak Jiangxi are entitled to the two year exemption and three year 50% tax deduction commencing from 1 January 2008. Peak Sports will continue to enjoy its two year tax exemption and three year 50% tax deduction before 2012. Peak Shoes has been taxed at 25% from 1 January 2008.

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

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

According to the notice Caishui [2008] No. 1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Accordingly, the retained profits as of 31 December 2007 in the Group's foreign-invested enterprise's books and accounts will not be subject to 5% withholding tax on future profit distributions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements requires us to make judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our consolidated financial information. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on, among other things, our experience, our observance of trends in the industry, and information available from outside sources, as appropriate. There can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. Our critical accounting estimates and judgments are set out in detail in note 32 of the accountants' report in Appendix I to this document. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

We recognize revenue from the sale of goods when the customer has accepted the related risks and rewards of ownership, provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, which generally occurs when the product is sold and delivered to our customers.

We record returns and claims as a reduction to revenue in the period in which such returns and claims occur. We also assess the need to recognize a provision for sales return or claims at each year end based on historical rates of product returns and claims, and specific identification of outstanding returns and outstanding claims not yet received from customers for sales made during the year. Actual returns and claims received after the year end are inherently uncertain and thus may differ from our estimates. If actual returns and claims are greater or lower than the provision we may have established, we would record a reduction or increase to revenue in the period when the actual return or claim occurred. During the Track Record Period, we did not create any provision for product returns and claims from customers. Product returns during the Track Record Period were insignificant in amount.

Impairment of assets

We recognize an impairment loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

Impairment of receivables

Trade and other receivables that are carried at cost or amortized costs are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— lease prepayments (land use rights);

— intangible assets; and

— investments in associates.

If any such indication exists, the asset's recoverable amount is estimated.

Estimates in determining impairment of receivables and other assets

Our management's judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be collected or recoverable; (ii) whether the carrying value of an asset can be supported by the collectible or recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairments, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. If there is a significant adverse change in the projected performance and the resulting future cash flow projections and the discount rates, it will be necessary to take an impairment charge to the income statement, which will affect our financial condition and results of operations only when the resulting net present value used in the impairment test is lower than the book value of the assets.

Depreciation and amortization

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The useful lives are based on our experience with similar assets and taking into account anticipated technological changes. Both the useful life of an asset and its residual value, if any, are reviewed annually. Changes in circumstances, such as technological advances or changes to our business operations, can result in differences between the actual and estimated useful lives of an asset. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase the depreciation expense over the remaining useful life to depreciate the asset's net book value to its salvage value. We also amortize our lease prepayments (land use rights) using the straight-line method over the respective periods of the leases.

Inventories

Inventories are stated at the lower of cost and net realizable value.

The cost of inventories is computed using the weighted average cost method and includes expenditures incurred in acquiring the inventories to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes direct labor and an appropriate share of overhead based on normal operating capacity. Net realizable value is the estimated selling price in ordinary course of business less the estimated cost of completion and selling expenses.

We regularly review our inventories for slow moving inventory, obsolescence or declines in market value. These reviews are conducted with reference to projections of expected future saleability of goods and management experience and judgment. If our estimate of net realizable value is below the cost of inventory, we establish a provision against the inventories for the difference between cost and net realizable value, which will result in a corresponding increase in our cost of sales. If actual market conditions are less favorable than those projected by management and our inventories remain unsold longer than we anticipated, an additional inventory provision may be required. The Directors confirm that this policy has been applied consistently throughout the Track Record Period.

We did not make any provision for inventories during the Track Record Period.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes. Our turnover is derived from the sales of footwear, apparel and accessory products.

The following table sets out 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 (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of 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	623.9	100.0	1,014.6	100.0	2,042.0	100.0	846.7	100.0	1,357.3	100.0

The following table sets out the number of units of our footwear and apparel products sold during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	(million)	(million)	(million)	(million)	(million)
Total units sold[1]					
Footwear (number of pairs)	4.7	7.2	11.7	5.1	7.6
Apparel (number of pieces)	4.1	7.1	18.3	8.7	16.5

The following table sets out the average sales prices for our footwear and apparel products during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB	RMB
Average sales prices[1][2]					
Footwear (per pair)	78.0	79.2	87.9	86.2	82.2
Apparel (per piece)	62.3	54.4	52.5	43.8	42.5

Notes:

(1) We have not included details of the number of units sold and the average sales prices for our accessory products because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category would not be meaningful.

(2) Average sales prices represent the turnover for the year divided by the total units sold for the year.

The average sales price of our footwear products increased slightly from RMB78.0 for the financial year ended 31 December 2006 to RMB79.2 for the financial year ended 31 December 2007 primarily due to introduction of new Peak higher-priced footwear products to take advantage of an increase in the market acceptance of the Peak brand. This increase was partially offset as footwear products with lower average sales prices, such as casual footwear, comprised a larger portion of our revenues for the financial year ended 31 December 2007, as compared to the financial year ended 31 December 2006.

The average sales price of our footwear products increased by 11.0% from RMB79.2 for the financial year ended 31 December 2007 to RMB87.9 for the financial year ended 31 December 2008 primarily due to increases in the suggested retail prices of our footwear products across product lines in the financial year ended 31 December 2008 made possible by greater brand recognition of the Peak brand.

The average sales price of our footwear products decreased from RMB86.2 for the six months ended 30 June 2008 to RMB82.2 for the six months ended 30 June 2009, primarily due to a proportionate increase in sales of lower-priced footwear products such as running shoes and casual footwear.

The average sales price of our apparel products decreased from RMB62.3 for the financial year ended 31 December 2006 to RMB54.4 for the financial year ended 31 December 2007 and to RMB52.5 for the financial year ended 31 December 2008. These decreases were primarily due to changes in our apparel product mix as sales of our apparel products with lower average sales prices, such as T-shirts, increased.

The average sales price of our apparel products decreased from RMB43.8 for the six months ended 30 June 2008 to RMB42.5 for the six months ended 30 June 2009, primarily due to changes in our apparel product mix as sales of our apparel products with lower average sales prices, such as T-shirts, increased.

The following table sets out our turnover by geographic location during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover	RMB (million)	% of total turnover
Geographic location										
Domestic	319.4	51.2	774.9	76.4	1,786.8	87.5	724.9	85.6	1,230.2	90.6
International										
— Europe	95.7	15.3	90.7	8.9	106.9	5.3	44.9	5.3	61.2	4.5
— Asia	94.7	15.2	67.0	6.6	77.9	3.8	37.0	4.4	35.3	2.6
— South America	49.2	7.9	51.7	5.1	39.6	1.9	21.9	2.6	18.9	1.4
— Africa	30.0	4.8	13.0	1.3	10.7	0.5	5.0	0.6	6.2	0.5
— North America	24.5	3.9	12.5	1.2	14.5	0.7	9.2	1.1	5.5	0.4
— Australia	10.4	1.7	4.8	0.5	5.6	0.3	3.8	0.4	—	—
— Subtotal	304.5	48.8	239.7	23.6	255.2	12.5	121.8	14.4	127.1	9.4
Total	623.9	100.0	1,014.6	100.0	2,042.0	100.0	846.7	100.0	1,357.3	100.0

The decrease in our international sales in comparison with our domestic sales during the Track Record Period was primarily due to our shift in strategy away from the export of OEM products to sales of Peak branded products in China and abroad.

For more information on the reasons for the fluctuation of turnover, please see "Turnover" for the relevant periods in the "Period to Period Comparison of Results of Operations" in this section of the Document.

Cost of sales

Our cost of sales primarily consists of raw materials, direct labor and overhead for our own production, and costs of outsourced production. Overhead costs represent water, electricity, depreciation of plant and machinery, and other miscellaneous production costs. The raw materials that we purchase and provide to Contract Manufacturers and the processing fees that we pay are accounted for as costs of outsourced production.

The following table sets out our cost of sales by product category during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales
Cost of sales										
Footwear	262.7	58.8	397.7	56.1	698.5	50.8	301.6	52.8	389.1	46.3
Apparel	182.5	40.9	270.5	38.2	643.8	46.9	253.9	44.4	431.8	51.4
Accessories	1.5	0.3	40.4	5.7	31.9	2.3	15.8	2.8	19.7	2.3
Total cost of sales	446.7	100.0	708.6	100.0	1,374.2	100.0	571.3	100.0	840.6	100.0

The following table sets out our cost of sales by production cost during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales	RMB (million)	% of total cost of sales
Cost of sales										
Our own production										
Raw materials	103.1	23.1	133.0	18.8	251.9	18.3	122.1	21.4	137.4	16.4
Direct labor	18.0	4.0	26.7	3.7	62.2	4.5	26.0	4.5	39.8	4.7
Overhead	13.0	2.9	21.3	3.0	44.8	3.3	18.8	3.3	28.6	3.4
Subtotal	134.1	30.0	181.0	25.5	358.9	26.1	166.9	29.2	205.8	24.5
Outsourced production										
OEM/ODM	94.3	21.1	444.7	62.8	508.7	37.0	241.0	42.2	347.6	41.3
Subcontracting arrangements	218.3	48.9	82.9	11.7	506.6	36.9	163.4	28.6	287.2	34.2
Subtotal	312.6	70.0	527.6	74.5	1,015.3	73.9	404.4	70.8	634.8	75.5
Total cost of sales	446.7	100.0	708.6	100.0	1,374.2	100.0	571.3	100.0	840.6	100.0

Gross profit and gross profit margin

The following table sets out our total gross profit and gross profit margin by product category during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Gross profit					
Footwear	103.8	172.8	330.4	137.8	235.5
Apparel	72.9	115.9	317.7	127.3	269.6
Accessories	0.5	17.3	19.7	10.3	11.6
Total gross profit	177.2	306.0	667.8	275.4	516.7
	%	%	%	%	%
Gross profit margin					
Footwear	28.3	30.3	32.1	31.4	37.7
Apparel	28.5	30.0	33.0	33.4	38.4
Accessories	28.3	30.0	38.3	39.6	36.9
Overall gross profit margin	28.4	30.2	32.7	32.5	38.1

Other revenue

Our other revenue primarily consists of interest income and government grants. The government grants were provided by various local government bodies in the Fujian province to the Group for the recognition of its export sales performance and contribution to the local community. Such grants during the Track Record Period were one-off and were unconditional and not specific to the Group. The amount of the grants received depended on the applicable policies at the relevant time and were subject to government approvals.

Other net income

Our other net income primarily consists of exchange differences, gain on disposal of associates and sales of scrapped materials.

Selling and distribution expenses

Selling and distribution expenses primarily consist of advertising and promotion expenses, renovation, rental and marketing subsidies, bonuses to distributors for meeting sales targets, expenses related to sales fairs, and salary and welfare expenses for sales and marketing personnel. However, starting from 1 April 2008, renovation, rental and marketing subsidies and bonuses were changed to take the form of discounts on products subsequently purchased by the relevant distributors. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our total selling and distribution expenses accounted for approximately 9.7%, 11.5%, 8.9%, 10.1% and 14.2%, respectively, of our turnover. Advertising and promotion expenses accounted for the majority of our selling and distribution expenses, representing approximately 64.3%, 75.2%, 85.1%, 84.7% and 93.0% of our total selling and distribution expenses for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively.

Administrative expenses

Administrative expenses primarily consist of salary and welfare expenses for management and administrative personnel, stamp duty and other taxes, office rent, research and development expenses, and utilities. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our total administrative expenses accounted for approximately 1.1%, 1.4%, 4.1%, 2.5% and 2.0%, respectively, of our turnover.

Finance expenses

Our finance expenses represent interest expenses on our bank and other borrowings.

Income tax

Income tax represents the amounts of China foreign enterprise income tax we pay. We were not subject to Hong Kong profits tax or any income tax in the Cayman Islands and the British Virgin Islands during the Track Record Period. The applicable China foreign enterprise income tax rates during the Track Record Period for Peak China, Peak Jiangxi, Peak Sports and Peak Shoes, through which the majority of our operations were conducted, are set out below:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Peak China	Nil	Nil	Nil	Nil
Peak Jiangxi	Nil	Nil	Nil	Nil
Peak Sports	27%	Nil	Nil	12.5%
Peak Shoes	12%	27%	25%	25%

See "Factors affecting financial condition and results of operations of the Group — Level of income tax and preferential tax treatment" in this section of the document for additional information on the applicable China foreign enterprise income tax rates for our subsidiaries in China.

The clearance letters issued by the relevant PRC tax authorities state that each of Peak Sports, Peak Shoes, Peak China and Peak Jiangxi has complied with the PRC tax rules and regulations since its establishment. King & Wood PRC Lawyers, our PRC legal adviser, has confirmed these authorities are the proper authorities to issue such clearance. Therefore, based upon clearance letters received from these relevant PRC tax authorities, King & Wood PRC Lawyers has confirmed that each of Peak Sports, Peak Shoes, Peak China and Peak Jiangxi has complied with the PRC tax rules and regulations over the Track Record Period.

Under the new tax law, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As all of the Group's foreign-invested enterprises are directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the mainland of the PRC. We control the dividend policy of these subsidiaries and have determined that it is probable that profits will be distributed in the foreseeable future. We have therefore made provision of withholding tax based on planned distribution of the distributable profits generated by the subsidiaries of the Company located in the PRC equivalent to RMB22.3 million for the year ended 31 December 2008 and RMB3.6 million for the six months ended 30 June 2009 pursuant to the rules and regulation described above. No provision for withholding tax was made for the six months ended 30 June 2008, as at that point in time the Directors did not believe dividends would be declared.

RESULTS OF OPERATIONS

Our consolidated income statements for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 as set out below are derived from our consolidated financial statements included in Appendix I to this document. Financial information related to the six months ended 30 June 2008 is derived from unaudited financial statements:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Turnover					
Footwear	366.5	570.5	1,028.9	439.4	624.6
Apparel	255.4	386.4	961.5	381.2	701.4
Accessories	2.0	57.7	51.6	26.1	31.3
	623.9	**1,014.6**	**2,042.0**	**846.7**	**1,357.3**
Cost of sales	(446.7)	(708.6)	(1,374.2)	(571.3)	(840.6)
Gross profit	**177.2**	**306.0**	**667.8**	**275.4**	**516.7**
Other revenue	1.5	1.7	3.6	1.5	4.3
Other net (loss)/income	(1.0)	0.7	11.9	8.4	4.6
Selling and distribution expenses	(60.3)	(116.3)	(181.0)	(85.9)	(192.8)
Administrative expenses	(7.1)	(14.7)	(84.7)	(21.1)	(27.6)
Profit from operations	**110.3**	**177.4**	**417.6**	**178.3**	**305.2**
Finance expenses	(1.1)	(1.6)	(6.9)	(0.6)	(7.6)
Share of profits of associates	0.4	0.1	—	—	—
Profit before taxation	**109.6**	**175.9**	**410.7**	**177.7**	**297.6**
Income tax	(23.7)	(9.9)	(34.7)	(13.2)	(30.2)
Profit for the year/period attributable to equity shareholders	**85.9**	**166.0**	**376.0**	**164.5**	**267.4**
Dividends declared during the year/period	—	—	—	—	—
Earnings per Share					
Basic and diluted (RMB)	0.06	0.11	0.25	0.11	0.17

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2009 compared to six months ended 30 June 2008

Turnover

Turnover increased by approximately 60.3% 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, primarily as a result of an increase in sales volume of our apparel products, and, to a lesser extent, our footwear products, in China. The increase in the sales of these products was attributable to the enhanced recognition of the Peak brand as a result of our Peak brand promotion and marketing activities and the broadening of our footwear and apparel product offerings. The increase in sales volume was also attributable to the expansion of our distribution network and the opening of additional authorized retail outlets across China as well as the general increase in demand for sportswear products in China. The increase in sales volume was partially offset by the decrease in the average selling prices of our footwear and apparel products period over period.

Footwear

- Revenue from the sales of our footwear products increased by approximately 42.1% from RMB439.4 million for the six months ended 30 June 2008 to RMB624.6 million for the six months ended 30 June 2009, primarily as a result of an increase in sales volume, particularly sales of running shoes and casual footwear. The number of pairs of footwear products sold increased from 5.1 million pairs for the six months ended 30 June 2008 to 7.6 million pairs for the six months ended 30 June 2009. A 49.0% increase in sales volume of this product due to enhanced brand recognition in China and the broadening of our foot wear lines was partially offset by a 6.5% decrease in average sales price.

Apparel

- Revenue from the sales of our apparel products increased by approximately 84.0% from RMB381.2 million for the six months ended 30 June 2008 to RMB701.4 million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our apparel products in China due to enhanced brand recognition, the broadening of our apparel offerings and the continued expansion of authorized retail outlets. The number of pieces of apparel products sold increased from 8.7 million pieces for the six months ended 30 June 2008 to 16.5 million pieces for the six months ended 30 June 2009.

Accessories

- Revenue from the sales of our accessory products increased by approximately 19.9% from RMB26.1 million for the six months ended 2008 to RMB31.3 million for the six months ended 30 June 2009, primarily as a result of increased efforts to promote such products including the setting up of a new dedicated team in charge of such promotion.

Cost of sales

Cost of sales increased by approximately 47.1% from RMB571.3 million for the six months ended 30 June 2008 to RMB840.6 million for the six months ended 30 June 2009, primarily due to an increase in our outsourced production volume and, to a lesser extent, an increase in our internal production volume, in each case, as a result of increased sales volume. The cost of our own production increased by approximately 23.3% from RMB166.9 million for the six months ended 30 June 2008 to RMB205.8 million for the six months ended 30 June 2009, primarily as a result of an increase in our internal production volume of our apparel and footwear products due to ramping up of production at our new production facilities in Hui'an, Fujian province and Shang'gao, Jiangxi province, respectively. This resulted in an increase of approximately 12.5% in cost of raw materials, an increase of approximately 53.1% in cost of direct labor and an increase of approximately 52.1% in overhead cost. Cost of outsourced production increased by approximately 57.0% from RMB404.4 million to RMB634.8 million, which was primarily driven by higher consumer demand for our footwear and apparel products.

Footwear

- Cost of sales for our footwear products increased by approximately 29.0% from RMB301.6 million for the six months ended 30 June 2008 to RMB389.1 million for the six months ended 30 June 2009, primarily as a result of an increase in production volume of our footwear products.

Apparel

- Cost of sales for our apparel products increased by approximately 70.1% from RMB253.9 million for the six months ended 30 June 2008 to RMB431.8 million for the six months ended 30 June 2009, primarily as a result of an increase in production volume for our apparel products.

Accessories

- Cost of sales for our accessory products increased by approximately 24.7% from RMB15.8 million for the six months ended 30 June 2008 to RMB19.7 million for the six months ended 30 June 2009, primarily as a result of an increase in outsourced production volume of our accessory products.

Gross profit and gross profit margin

Gross profit increased by approximately 87.6% from RMB275.4 million for the six months ended 30 June 2008 to RMB516.7 million for the six months ended 30 June 2009, primarily as a result of an increase in sales of our apparel and footwear products during this period. Our overall gross profit margin increased from approximately 32.5% for the six months ended 30 June 2008 to approximately 38.1% for the six months ended 30 June 2009 primarily as a result of our ability to increase the wholesale prices of like products due to enhanced brand recognition. The overall decrease in average sales prices of our footwear and apparel products, however, was due to a proportionate increase in sales of lower-priced footwear and apparel products, such as running shoes and casual footwear, and T-shirts as discussed above.

Footwear

- Gross profit from our footwear products increased by approximately 70.9% from RMB137.8 million for the six months ended 30 June 2008 to RMB235.5 million for the six months ended 30 June 2009. The gross profit margin for our footwear products increased from approximately 31.4% for the six months ended 30 June 2008 to approximately 37.7% for the six months ended 30 June 2009.

Apparel

- Gross profit from our apparel products increased by approximately 111.8% from RMB127.3 million for the six months ended 30 June 2008 to RMB269.6 million for the six months ended 30 June 2009. The gross profit margin for our apparel products increased from approximately 33.4% for the six months ended 30 June 2008 to approximately 38.4% for the six months ended 30 June 2009.

Accessories

- Gross profit from our accessory products increased by approximately 12.6% from RMB10.3 million for the six months ended 30 June 2008 to RMB11.6 million for the six months ended 30 June 2009. The gross profit margin for our accessory products decreased from approximately 39.6% for the six months ended 30 June 2008 to approximately 36.9% for the six months ended 30 June 2009.

Other revenue

Other revenue increased by approximately 186.7% from RMB1.5 million for the six months ended 30 June 2008 to RMB4.3 million for the six months ended 30 June 2009, primarily as a result of an increase in government grants awarded for the recognition of our export sales performance and our contribution to the local community and to higher interest income received by the Group.

Other net income

Other net income decreased by approximately 45.2% from RMB8.4 million for the six months ended 30 June 2008 to RMB4.6 million for the six months ended 30 June 2009, primarily as a result of a decrease in exchange gain, which was higher in the six months ended 30 June 2008 arising from advances due to a related party denominated in foreign currencies, and a decrease in gain on sales of materials as we recognized gains on sales of semi-finished products produced during the trial runs of our new production facility in Hui'an, Fujian province in the six months ended 30 June 2008. Such decreases were partially offset by a gain on disposal of a land use right in Hui'an back to the local government.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 124.4% from RMB85.9 million for the six months ended 30 June 2008 to RMB192.8 million for the six months ended 30 June 2009. This increase was primarily due to an increase in advertising and promotion expenses relating to increased expenditures on television advertisements, sponsorship of sporting events and endorsement arrangements with professional athletes and online advertising in 2009. Advertising and promotion expenses represented approximately 93.0% of our total selling and distribution expenses in the six months ended 30 June 2009, as compared to approximately 84.7% of our total selling and distribution expenses in the six months ended 30 June 2008.

Administrative expenses

Administrative expenses increased by approximately 30.8% from RMB21.1 million for the six months ended 30 June 2008 to RMB27.6 million for the six months ended 30 June 2009, primarily as a result of an increase in salaries and welfare benefits for our management and administrative personnel due to expansion of our team as our operations grew, and an increase in research and development expenses incurred in the development of our products. We anticipate significant increases in administrative expenses going forward due to increased administrative staff costs as we continue to expand our operations and in connection with the needs of a listed company.

Profit from operations

Profit from operations increased by approximately 71.2% from RMB178.3 million for the six months ended 30 June 2008 to RMB305.2 million for the six months ended 30 June 2009, primarily as a result of the factors described above.

Finance expenses

Finance expenses increased by approximately 11.7 times from RMB0.6 million for the six months ended 30 June 2008 to RMB7.6 million for the six months ended 30 June 2009, primarily as a result of increased interest on borrowings. We expect our finance expenses to increase going forward due to additional bank borrowings to be incurred in connection with financing our expansion plans.

Income tax

Income tax increased from RMB13.2 million for the six months ended 30 June 2008 to RMB30.2 million for the six months ended 30 June 2009. The increase in income tax expense was primarily due to an increase in our profit from operations. Our effective tax rate increased from approximately 7.4% in the six months ended 30 June 2008 to approximately 10.1% in the six months ended 30 June 2009 primarily due to Peak Sports not being exempt from income tax starting from 2009 and to a provision of withholding tax of RMB3.6 million made on the distributable profits generated by our PRC subsidiaries in the six months ended 30 June 2009.

Profit for the period attributable to equity shareholders

Due to the factors described above, our profit for the period attributable to equity shareholders increased by approximately 62.6% from RMB164.5 million for the six months ended 30 June 2008 to RMB267.4 million for the six months ended 30 June 2009.

Year ended 31 December 2008 compared to year ended 31 December 2007

Turnover

Turnover increased by approximately 101.3% from RMB1,014.6 million for the year ended 31 December 2007 to RMB2,042.0 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume of our footwear and apparel products in China. The increase in the sales of these products was attributable to the enhanced recognition of the Peak brand as a result of our Peak brand promotion and marketing activities and the broadening of our footwear and apparel product offerings. The increase in sales volume was also attributable to the expansion of our distribution network and the opening of additional authorized retail outlets across China as well as the general increase in demand for sportswear products in China. Average selling prices of our footwear products also increased period over period due to enhanced brand recognition.

International sales increased slightly by approximately 6.5% from RMB239.7 million for the year ended 31 December 2007 to RMB255.2 million for the year ended 31 December 2008, primarily as a result of enhanced marketing of our brand abroad by certain of our distributors.

Footwear

- Revenue from the sales of our footwear products increased by approximately 80.4% from RMB570.5 million for the year ended 31 December 2007 to RMB1,028.9 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume of our footwear products in China due to enhanced brand recognition and the broadening of our footwear lines. The number of pairs of footwear products sold increased from 7.2 million pairs for the year ended 31 December 2007 to 11.7 million pairs for the year ended 31 December 2008.

Apparel

- Revenue from the sales of our apparel products increased by approximately 148.8% from RMB386.4 million for the year ended 31 December 2007 to RMB961.5 million for the year ended 31 December 2008, primarily as a result of an increase in the sales volume of our apparel products in China due to enhanced brand recognition, the broadening of our apparel categories and the continued expansion of authorized retail outlets into apparel product offerings. The number of pieces of apparel products sold increased from 7.1 million pieces for the year ended 31 December 2007 to 18.3 million pieces for the year ended 31 December 2008.

Accessories

- Revenue from the sales of our accessory products decreased slightly by approximately 10.4% from RMB57.7 million for the year ended 31 December 2007 to RMB51.6 million for the year ended 31 December 2008, as we focused more on the sales of our footwear and apparel products.

Cost of sales

Cost of sales increased by approximately 93.9% from RMB708.6 million for the year ended 31 December 2007 to RMB1,374.2 million for the year ended 31 December 2008, primarily due to an increase in our outsourced production volume and, to a lesser extent, an increase in our internal production volume, in each case, as a result of increased sales volume. The cost of our own production increased by approximately 98.3% from RMB181.0 million for the year ended 31 December 2007 to RMB358.9 million for the year ended 31 December 2008, primarily as a result of an increase in our internal production volume of our footwear and apparel products following the launch of production at our new production facilities in Shang'gao, Jiangxi province and Hui'an, Fujian province. This resulted in a period-over-period increase of approximately 89.4% in the cost of raw materials, 133.0% in cost of direct labor and 109.5% in overhead cost. Cost of outsourced production increased by approximately 92.4% from RMB527.6 million to RMB1,015.3 million, which was primarily driven by higher consumer demand for our footwear and apparel products.

Footwear

- Cost of sales for our footwear products increased by approximately 75.6% from RMB397.7 million for the year ended 31 December 2007 to RMB698.5 million for the year ended 31 December 2008, primarily as a result of an increase in the outsourced production volume of our footwear products.

Apparel

- Cost of sales for our apparel products increased by approximately 138.0% from RMB270.5 million for the year ended 31 December 2007 to RMB643.8 million for the year ended 31 December 2008, primarily as a result of an increase in the outsourced production volume for our apparel products.

Accessories

- Cost of sales for our accessory products decreased by approximately 21.0% from RMB40.4 million for the year ended 31 December 2007 to RMB31.9 million for the year ended 31 December 2008, primarily as a result of a decrease in the outsourced volume for our accessory products.

Gross profit and gross profit margin

Gross profit increased by approximately 118.2% from RMB306.0 million for the year ended 31 December 2007 to RMB667.8 million for the year ended 31 December 2008, primarily as a result of an increase in sales of our footwear and apparel products during this period. Our overall gross profit margin increased from approximately 30.2% for the year ended 31 December 2007 to approximately 32.7% for the year ended 31 December 2008 primarily as a result of the increase in the wholesale prices of our products due to enhanced brand recognition.

Footwear

- Gross profit from our footwear products increased by approximately 91.2% from RMB172.8 million for the year ended 31 December 2007 to RMB330.4 million for the year ended 31 December 2008. The gross profit margin for our footwear products increased from approximately 30.3% for the year ended 31 December 2007 to approximately 32.1% for the year ended 31 December 2008.

Apparel

- Gross profit from our apparel products increased by approximately 174.1% from RMB115.9 million for the year ended 31 December 2007 to RMB317.7 million for the year ended 31 December 2008. The gross profit margin for our apparel products increased from approximately 30.0% for the year ended 31 December 2007 to approximately 33.0% for the year ended 31 December 2008.

Accessories

- Gross profit from our accessory products increased by approximately 13.9% from RMB17.3 million for the year ended 31 December 2007 to RMB19.7 million for the year ended 31 December 2008. The gross profit margin for our accessory products increased from approximately 30.0% for the year ended 31 December 2007 to approximately 38.3% for the year ended 31 December 2008.

Other revenue

Other revenue increased by approximately 111.8% from RMB1.7 million for the year ended 31 December 2007 to RMB3.6 million for the year ended 31 December 2008, primarily as a result of an increase in interest income.

Other net income

Other net income increased by approximately 16 times from RMB0.7 million for the year ended 31 December 2007 to RMB11.9 million for the year ended 31 December 2008, primarily as a result of an increase in exchange gain arising from advances due to a related party denominated in foreign currencies and gain on sales of semi-finished products produced during the trial runs of our new production facility in Hui'an, Fujian province.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 55.6% from RMB116.3 million for the year ended 31 December 2007 to RMB181.0 million for the year ended 31 December 2008. This increase was primarily due to an increase in advertising and promotion expenses relating to increased expenditures on television advertisements, sponsorship of sporting events and endorsement arrangements in 2008. Advertising and promotion expenses represented approximately 85.1% of our total selling and distribution expenses in the year ended 31 December 2008, as compared to approximately 75.2% of our total selling and distribution expenses in the year ended 31 December 2007.

Administrative expenses

Administrative expenses increased by approximately 476.2% from RMB14.7 million for the year ended 31 December 2007 to RMB84.7 million for the year ended 31 December 2008, primarily as a result of an increase in salaries and welfare benefits for our management and administrative personnel due to expansion of our team as our operations grew, an increase in legal and professional fees incurred in connection with [●] and an increase in research and development expenses incurred in the development of our products. We anticipate significant increases in administrative expenses going forward due to increased administrative staff costs as we continue to expand our operations and in connection with the needs of a listed company.

Profit from operations

Profit from operations increased by approximately 135.4% from RMB177.4 million for the year ended 31 December 2007 to RMB417.6 million for the year ended 31 December 2008, primarily as a result of the factors described above.

Finance expenses

Finance expenses increased by approximately 331.3% from RMB1.6 million for the year ended 31 December 2007 to RMB6.9 million for the year ended 31 December 2008.

Income tax

Income tax increased from RMB9.9 million for the year ended 31 December 2007 to RMB34.7 million for the year ended 31 December 2008. Our effective tax rate increased from approximately 5.6% in the year ended 31 December 2007 to approximately 8.5% in the year ended 31 December 2008, primarily as a result of a provision of withholding tax of RMB22.3 million made on the distributable profits generated by our PRC subsidiaries in 2008. The increase in income tax expense was primarily due to an increase in our profit from operations, which was slightly offset by the decrease in the applicable tax rate for Peak Shoes from 27% in 2007 to 25% in 2008.

Profit for the year attributable to equity shareholders

Due to the factors described above, our profit for the year attributable to equity shareholders increased by approximately 126.5% from RMB166.0 million for the year ended 31 December 2007 to RMB376.0 million for the year ended 31 December 2008.

Year ended 31 December 2007 compared to year ended 31 December 2006

Turnover

Turnover increased by approximately 62.6% from RMB623.9 million for the year ended 31 December 2006 to RMB1,014.6 million for the year ended 31 December 2007, primarily as a result of an increase in sales volume of our footwear and apparel products in China. The increase in the sales volume of these products was attributable to the enhanced recognition of the Peak brand as a result of our Peak brand promotion and marketing activities and the broadening of our footwear and apparel product offerings. The increase in sales volume was also attributable to the expansion of our distribution network and the opening of additional authorized retail outlets across China as well as the general increase in demand for sportswear products in China. Average selling prices of our products remained relatively stable period over period.

The overall increase in turnover was partially offset by a decrease in international sales as a result of the continuing impact of our shift in strategy away from the export of OEM products to sales of Peak branded products, as well as the impact of the Renminbi's appreciation against the U.S. dollar on the export of OEM products.

Footwear

- Revenue from the sales of our footwear products increased by approximately 55.7% from RMB366.5 million for the year ended 31 December 2006 to RMB570.5 million for the year ended 31 December 2007, primarily as a result of an increase in sales volume of our footwear products in China due to enhanced brand recognition and the broadening of our footwear lines. The number of pairs of footwear products sold increased from 4.7 million pairs for the year ended 31 December 2006 to 7.2 million pairs for the year ended 31 December 2007.

Apparel

- Revenue from the sales of our apparel products increased by approximately 51.3% from RMB255.4 million for the year ended 31 December 2006 to RMB386.4 million for the year ended 31 December 2007, primarily as a result of an increase in sales volume of our apparel products in China as we continued the expansion of authorized retail outlets into apparel product offerings. The number of pieces of apparel products sold increased from 4.1 million pieces for the year ended 31 December 2006 to 7.1 million pieces for the year ended 31 December 2007.

Accessories

- Revenue from the sales of our accessory products increased by approximately 2,785.0% from RMB2.0 million for the year ended 31 December 2006 to RMB57.7 million for the year ended 31 December 2007, primarily as a result of an increase in sales volume of our accessory products attributable to the expansion of our collection of accessory products.

Cost of sales

Cost of sales increased by approximately 58.7% from RMB446.7 million for the year ended 31 December 2006 to RMB708.6 million for the year ended 31 December 2007, primarily due to an increase in our outsourced production volume and, to a lesser extent, an increase in our internal production volume, in each case, as a result of increased sales volume. The cost of our own production increased by approximately 35.0% from RMB134.1 million for the year ended 31 December 2006 to RMB181.0 million for the year ended 31 December 2007, primarily as a result of an increase in our internal production volume of our footwear products as we added new product lines in 2007, resulting in an increase of approximately 28.9% in cost of raw materials, 48.0% in cost of direct labor and 64.5% in overhead cost. Cost of outsourced production increased by approximately 68.8% from RMB312.6 million to RMB527.6 million, which was primarily driven by higher consumer demand for our footwear, apparel and accessory products.

Footwear

- Cost of sales for our footwear products increased by approximately 51.4% from RMB262.7 million for the year ended 31 December 2006 to RMB397.7 million for the year ended 31 December 2007, primarily as a result of an increase in outsourced production volume of our footwear products.

Apparel

- Cost of sales for our apparel products increased by approximately 48.2% from RMB182.5 million for the year ended 31 December 2006 to RMB270.5 million for the year ended 31 December 2007, primarily as a result of an increase in outsourced production volume of our apparel products.

Accessories

- Cost of sales for our accessory products increased by approximately 2,593.3% from RMB1.5 million for the year ended 31 December 2006 to RMB40.4 million for the year ended 31 December 2007, primarily as a result of an increase in outsourced production volume of our accessory products.

Gross profit and gross profit margin

Gross profit increased by approximately 72.7% from RMB177.2 million for the year ended 31 December 2006 to RMB306.0 million for the year ended 31 December 2007, primarily as a result of an increase in sales across all product categories during this period. Our overall gross profit margin increased slightly from approximately 28.4% in 2006 to approximately 30.2% in 2007 primarily as a result of the slight increase in the wholesale prices of our products to our distributors as we implemented a similar increase in the retail prices of our products due to enhanced brand recognition.

Footwear

- Gross profit from our footwear products increased by approximately 66.5% from RMB103.8 million for the year ended 31 December 2006 to RMB172.8 million for the year ended 31 December 2007. The gross profit margin for our footwear products increased slightly from approximately 28.3% for the year ended 31 December 2006 to approximately 30.3% for the year ended 31 December 2007.

Apparel

- Gross profit from our apparel products increased by approximately 59.0% from RMB72.9 million for the year ended 31 December 2006 to RMB115.9 million for the year ended 31 December 2007. The gross profit margin for our apparel products increased slightly from approximately 28.5% for the year ended 31 December 2006 to approximately 30.0% for the year ended 31 December 2007.

Accessories

- Gross profit from our accessory products increased by approximately 3,360% from RMB0.5 million for the year ended 31 December 2006 to RMB17.3 million for the year ended 31 December 2007. The gross profit margin for our accessory products increased slightly from approximately 28.3% for the year ended 31 December 2006 to approximately 30.0% for the year ended 31 December 2007.

Other revenue

Other revenue increased by approximately 13.3% from RMB1.5 million for the year ended 31 December 2006 to RMB1.7 million for the year ended 31 December 2007, primarily as a result of higher interest income offset in part by a decrease in government grants awarded for the recognition of our export sales performance and our contribution to the local community.

Other net (loss)/income

Other net (loss)/income increased from a net loss of RMB1.0 million for the year ended 31 December 2006 to net income of RMB0.7 million for the year ended 31 December 2007, primarily as a result of a gain on the disposal of our interests in Feng Deng and Peak Material to third parties in 2007.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 92.9% from RMB60.3 million for the year ended 31 December 2006 to RMB116.3 million for the year ended 31 December 2007. This increase was primarily due to an increase in advertising and promotion expenses relating to increased expenditures on television advertisements, sponsorship of sporting events and endorsement arrangements in 2007. Advertising and promotion expenses represented approximately 75.2% of our total selling and distribution expenses for the year ended 31 December 2007, as compared to approximately 64.3% of our total selling and distribution expenses for the year ended 31 December 2006.

Administrative expenses

Administrative expenses increased by approximately 107.0% from RMB7.1 million for the year ended 31 December 2006 to RMB14.7 million for the year ended 31 December 2007, primarily as a result of an increase in salaries and welfare benefits for our management and administrative personnel due to expansion of our team as our operations grew and an increase in utilities related to the startup of our two new production facilities.

Profit from operations

Profit from operations increased by approximately 60.8% from RMB110.3 million for the year ended 31 December 2006 to RMB177.4 million for the year ended 31 December 2007, primarily as a result of the factors described above.

Finance expenses

Finance expenses increased by approximately 45.5% from RMB1.1 million for the year ended 31 December 2006 to RMB1.6 million for the year ended 31 December 2007, primarily as a result of an increase in interest rates and an increase in bank borrowings.

Income tax

Income tax decreased from RMB23.7 million for the year ended 31 December 2006 to RMB9.9 million for the year ended 31 December 2007. Our effective tax rate decreased from approximately 21.6% in 2006 to approximately 5.6% in 2007. The decrease in income tax expense and effective tax rate were primarily due to the fact that Peak Sports was subject to a tax rate of 27% in 2006 and postponed its first year of 100% tax exemption to 2007, which was slightly offset by the increase in the applicable tax rate for Peak Shoes from 12% in 2006 to 27% in 2007 as well as the non-deductible tax effect of advertising and promotion expenses.

Profit for the year attributable to equity shareholders

Due to the factors described above, our profit for the year attributable to equity shareholders increased by approximately 93.2% from RMB85.9 million for the year ended 31 December 2006 to RMB166.0 million for the year ended 31 December 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our operations primarily from cash flow from operating activities, short-term borrowings from banks and related parties and the use of bills payable. We require cash primarily for our working capital needs and capital expenditures.

The following table is a summary of our cash flow data for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Net cash generated from operating activities	99.1	13.3	284.3	156.6	27.5
Net cash used in investing activities	(29.5)	(137.3)	(134.7)	(21.8)	(58.3)
Net cash (used in)/generated from financing activities	(21.6)	175.1	169.5	(49.4)	335.1
Net increase in cash	48.0	51.1	319.1	85.4	304.3
Cash at the beginning of the year/period	3.5	51.5	102.4	102.4	418.4
Effect of foreign exchange rate changes	—	(0.2)	(3.1)	(2.9)	(0.1)
Cash at the end of the year/period	51.5	102.4	418.4	184.9	722.6

Cash flow from operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities is principally for purchases of raw materials and payment of outsourced production costs.

In the six months ended 30 June 2009, we had net cash generated from operating activities of RMB27.5 million, which was primarily contributed by operating profit before changes in working capital of RMB305.9 million and an increase in trade and other payables of RMB64.0 million. The increase in trade and other payables was primarily due to our sales growth. These cash inflows were largely offset by an increase in trade and other receivables of RMB272.8 million and an increase in inventories of RMB47.4 million. The increase in trade and other receivables was primarily due to our sales growth. The increase in inventories was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in product demand for our products.

In the six months ended 30 June 2008, we had net cash generated from operating activities of RMB156.6 million, which was primarily contributed by operating profit before changes in working capital of RMB174.8 million and a decrease in trade and other receivables of RMB133.7 million. The decrease in trade and other receivables was primarily due to payment of bills receivable outstanding as of 31 December 2007 and reduced use of such bills going forward. These cash inflows were partially offset by a decrease in trade and other payables of RMB120.4 million and an increase in inventories of RMB24.3 million. The decrease in trade and other payables was primarily due to our improved cash flow position and our decision to pay our suppliers earlier in order to enhance our relationships with them. The increase in inventories was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in product demand for our products.

In the year ended 31 December 2008, we had net cash generated from operating activities of RMB284.3 million, which was primarily contributed by operating profit before changes in working capital of RMB417.5 million. These cash inflows were partially offset by an increase in trade and other receivables of RMB71.7 million and a decrease in trade and other payables of RMB35.7 million. The increase in trade and other receivables was primarily due to our sales growth. The decrease in trade and other payables was primarily due to our improved cash flow position and our decision to pay our suppliers earlier in order to enhance our relationships with them.

In the year ended 31 December 2007, we had net cash generated from operating activities of RMB13.3 million, which was primarily contributed by operating profit before changes in working capital of RMB176.1 million and an increase in trade and other payables of RMB239.2 million. These cash inflows were partially offset by an increase in trade and other receivables of RMB324.5 million and an increase in inventories of RMB57.7 million. The increase in trade and other payables was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in demand for our products as well as the increased use of bills payable (which have longer terms) to settle purchases from suppliers. The increase in trade and other receivables was primarily due to our sales growth and the increased use of bills receivable (which have longer terms) by distributors to settle purchases with us. The increase in inventories was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in product demand for our products.

In the year ended 31 December 2006, we had net cash generated from operating activities of RMB99.1 million, which was primarily contributed by operating profit before changes in working capital of RMB111.8 million and an increase in trade and other payables of RMB108.5 million. These cash inflows were partially offset by an increase in trade and other receivables of RMB64.2 million and an increase in inventories of RMB50.4 million. The increase in trade and other payables was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in demand for our products. The increase in trade and other receivables was primarily due to our sales growth, while the increase in inventories was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in demand for our products.

Cash flow from investing activities

Our cash outflow for investing activities is principally for purchases of property, plant and equipment, construction in progress such as our new production facilities, pledged deposits for securing bills payable and land use rights.

In the six months ended 30 June 2009, we had net cash used in investing activities of RMB58.3 million, which was primarily due to our payment for construction in progress in the amount of RMB38.3 million and the purchase of property, plant and equipment in the amount of RMB14.6 million both primarily relating to our new production facilities in Shang'gao, Jiangxi province, and Hui'an, Fujian province and an increase in pledged deposits with banks of RMB14.1 million. These cash outflows were partially offset by the proceeds from disposal of land use rights pertaining to certain land in Hui'an back to the local government in the amount of RMB6.7 million.

In the six months ended 30 June 2008, we had net cash used in investing activities of RMB21.8 million, which was primarily due to our payment for construction in progress in the amount of RMB19.1 million relating to new production facilities and the purchase of property, plant and equipment in the amount of RMB18.7 million primarily relating to new production facilities. These cash outflows were partially offset by a decrease in pledged deposits in the amount of RMB15.3 million primarily.

In the year ended 31 December 2008, we had net cash used in investing activities of RMB134.7 million, which was primarily due to our payment for construction in progress in the amount of RMB105.1 million and our purchase of property, plant and equipment in the amount of RMB38.0 million, both relating to our new production facilities in Shang'gao, Jiangxi province, and Hui'an, Fujian province.

In the year ended 31 December 2007, we had net cash used in investing activities of RMB137.3 million, which was primarily due to our payment for construction in progress in the amount of RMB63.3 million relating to our new production facilities, an increase in pledged deposits with banks of RMB37.9 million used to secure bills payable, payment for land use rights in the amount of RMB17.6 million, and the purchase of property, plant and equipment in the amount of RMB12.3 million primarily relating to our new production facilities.

In the year ended 31 December 2006, we had net cash used in investing activities of RMB29.5 million, which was primarily due to an increase in pledged deposits with banks of RMB22.5 million used to secure bills payable and the purchase of property, plant and equipment in the amount of RMB3.1 million.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from bank borrowings, advances from related parties and proceeds from capital injection. Our cash outflow from financing activities relates primarily to our repayment of principal and interest on our bank loans and advances due to related parties.

In the six months ended 30 June 2009, we had net cash generated from financing activities of RMB335.1 million, which was primarily contributed by the proceeds from capital injection in the amount of RMB272.2 million from the Third Round Financial Investors and the proceeds from bank loans in the amount of RMB257.0 million to support working capital needs and to finance a portion of our capital expenditures. These cash inflows were partially offset by the repayment of bank loans during the period in the amount of RMB133.9 million and net advances to related parties in the amount of RMB51.0 million to Mr. Xu Jingnan.

In the six months ended 30 June 2008, we had net cash used in financing activities of RMB49.4 million, which was primarily due to net advances to related parties in the amount of RMB106.1 million to Mr. Xu Jingnan and the repayment of bank loans during the period in the amount of RMB12.5 million. These cash outflows were partially offset by the proceeds from bank loans in the amount of RMB69.9 million.

In the year ended 31 December 2008, we had net cash generated from financing activities of RMB169.5 million, which was primarily contributed by proceeds from bank loans of RMB299.9 million to support our working capital needs and to finance a portion of our capital expenditures in connection with the construction of our new production facility in Hui'an, Fujian province. These cash inflows were partially offset by the repayment of bank loans during the year in the amount of RMB108.6 million.

In the year ended 31 December 2007, we had net cash generated from financing activities of RMB175.1 million, which was primarily contributed by net advances from related parties in the amount of RMB134.5 million to support the construction of the new production facilities and for working capital, proceeds from bank loans in the amount of RMB72.2 million to support our working capital needs and proceeds from capital injection in the amount of RMB45.8 million from the First Round Financial Investors. These cash inflows were partially offset by the repayment of bank loans during the year in the amount of RMB75.8 million.

In the year ended 31 December 2006, we had net cash used in financing activities of RMB21.6 million, which was primarily due to repayment of bank loans during the year in the amount of RMB30.9 million and net advances to related parties in the amount of RMB14.1 million. These cash outflows were partially offset by the proceeds from bank loans of RMB24.5 million to support our working capital needs.

CONTRACTUAL AND CAPITAL COMMITMENTS

Contractual commitments

As of 31 December 2006, 2007 and 2008 and 30 June 2009, we had commitments for future minimum lease payments under non-cancellable operating leases for production facilities and offices, which become due as follows:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Minimum lease payments under non-cancellable operating leases				
Within 1 year	2.4	2.7	2.4	2.5
After 1 year but within 5 years	2.4	0.1	9.0	9.3
After 5 years	—	—	11.3	10.2
Total	4.8	2.8	22.7	22.0

Out contractual commitments as of 30 June 2009 primarily related to the lease agreement with Fujian Peak in respect of the leasing of production facilities and offices.

Capital commitments

We had the following capital commitments which were not provided for in our consolidated financial statements:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Capital commitments				
Contracted for	—	12.9	17.4	13.0
Authorized, but not contracted for	—	0.3	32.7	61.5
Total	—	13.2	50.1	74.5

The capital commitments as of 30 June 2009 primarily related to the construction of our new production facilities in Shang'gao, Jiangxi province and in Hui'an, Fujian province. We expect to finance the above contractual and capital commitments principally through cash generated from our operating activities and proceeds from bank loans.

As of 31 July 2009, our contractual and capital commitments amounted to RMB21.8 million and RMB68.6 million, respectively.

CAPITAL EXPENDITURES

The following table sets out our historical capital expenditures during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Historical capital expenditures				
Property, plant and equipment	3.1	12.3	44.3	9.8
Construction in progress	—	55.5	124.8	34.7
Lease prepayments	5.6	14.5	—	—
Intangible assets	—	9.4	0.5	—
Total capital expenditures	8.7	91.7	169.6	44.5

Our capital expenditures in 2006, 2007 and 2008 and the six months ended 30 June 2009 principally consisted of expenditures on construction in progress of and property, plant and equipment for our new production facilities in Shang'gao, Jiangxi province and in Hui'an, Fujian province.

The following table sets out our projected capital expenditures for each of the two years ending 31 December 2009 and 2010:

	Year ending 31 December	
	2009	2010
	RMB (million)	RMB (million)
Projected capital expenditures		
Construction in progress	62.9	54.0
Property, plant and equipment	43.2	59.8
Total capital expenditures	106.1	113.8

We expect that the capital expenditures planned for 2009 and 2010 will be primarily used for construction in progress and property, plant and equipment. Construction in progress and property, plant and equipment primarily represent projected capital expenditures for our new production facilities in Shang'gao, Jiangxi province and in Hui'an, Fujian province.

We expect to fund our projected capital expenditures principally through a portion of the net proceeds from the [●], cash generated from our operating activities and proceeds from bank loans. Should the necessity for additional funds arise, we cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

Our current plan with respect to future capital expenditures is subject to change based on the implementation of our business strategy and market conditions. As we continue to grow our business, we may incur additional capital expenditures.

Our ability to obtain additional funds in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flow; and political, regulatory, economic and other conditions in China and Hong Kong.

NET CURRENT ASSETS

The following table sets out details of our current assets and current liabilities as of the dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Current assets				
Inventories	100.2	157.9	169.3	216.6
Trade and other receivables	109.5	447.5	507.4	780.3
Amounts due from related parties	12.6	—	—	—
Pledged deposits	29.1	67.0	70.2	84.4
Cash	51.5	102.4	418.4	722.6
	302.9	774.8	1,165.3	1,803.9
Current liabilities				
Bank loans	14.5	10.9	132.2	245.3
Trade and other payables	152.1	391.2	369.7	425.3
Amounts due to related parties	—	68.0	52.7	—
Current taxation	21.7	7.9	13.2	16.1
	188.3	478.0	567.8	686.7
Net current assets	114.6	296.8	597.5	1,117.2

Amounts due from/to related parties

The balances of the amounts due from/to related parties were primarily related to the balances with our chairman, Mr. Xu Jingnan. During the Track Record Period, we received advances from Mr. Xu Jingnan which were used primarily for our day-to-day operations. We also made advances to Mr. Xu Jingnan in 2006 originally as a dividend payment which was subsequently repaid and provided an advance to Mr. Xu Jingnan in the first half of 2008. The amounts due from/to related parties as of 31 December 2006 and 2007 were unsecured, interest free and repayable on demand. Effective from 1 September 2008, the amount due to a related party has been unsecured, repayable on demand and subject to an interest rate of 15% per annum. All the balances with related parties were settled by 30 June 2009.

Net current assets

Based on our unaudited consolidated management accounts as of 31 July 2009, we had net current assets of RMB1,064.5 million. Our current assets as of 31 July 2009 consisted of inventories of RMB221.2 million, trade and other receivables of RMB781.9 million, pledged deposits of RMB55.9 million, and cash of RMB780.7 million. Our current liabilities as of 31 July 2009 consisted of bank loans of RMB332.1 million, trade and other payables of RMB385.3 million, dividend payable of RMB46.8 million and current taxation of RMB11.0 million.

INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the principal components of our current assets. It is imperative that we manage and control our level of inventories. The value of our inventories accounted for approximately 33.1%, 20.4%, 14.5% and 12.0% of our total current assets as of 31 December 2006, 2007 and 2008 and 30 June 2009, respectively.

The following table is a summary of our balance of inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Inventories				
Raw materials	9.1	6.7	24.7	25.5
Work in progress	10.3	13.2	35.8	48.5
Finished goods	80.8	138.0	108.8	142.6
Total	100.2	157.9	169.3	216.6

Our inventories increased by approximately 57.6% from RMB100.2 million as of 31 December 2006 to RMB157.9 million as of 31 December 2007, by approximately 7.2% from RMB157.9 million as of 31 December 2007 to RMB169.3 million as of 31 December 2008 and by approximately 27.9% to RMB216.6 million as of 30 June 2009. The increases were primarily due to increased production to meet the growth in demand for our products.

We do not have a general provisioning policy for inventories but make assessments on provisions on a case-by-case basis. During the Track Record Period, we did not make any provisions for inventories given that we usually procure the majority of our raw materials and commence production after having confirmed purchase orders with our distributors. Our raw materials are not generally susceptible to obsolescence by passage of time.

As of 31 July 2009, approximately RMB135.5 million of our inventories as of 30 June 2009 of RMB216.6 million had been consumed or sold.

The following table sets out our average inventory turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Average inventory turnover days[1]	61	66	43	41

Note:

(1) Average inventory turnover days is equal to the average inventory divided by costs of sales and multiplied by 365 days (180 days in the case of the six months ended 30 June 2009). Average inventory equals inventory at the beginning of the year plus inventory at the end of the year and divided by two.

The increase in the average inventory turnover days over the years ended 31 December 2006 and 2007 was primarily due to the larger average inventory balance we carried at the end of the year in anticipation of the higher demand for our products during the holiday seasons early in the following year. The decrease in the average inventory turnover days from the year ended 31 December 2007 to the year ended 31 December 2008 was primarily due to our improved inventory management as a result of the increased use of advance orders by the distributors. See "Business — Sales and Distribution — Sales Fairs".

TRADE AND OTHER RECEIVABLES ANALYSIS

Trade receivables and bills receivable

Our trade receivables and bills receivable primarily relate to receivables for goods sold to our distributors.

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.

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%, respectively. 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. We will not dispatch our products to the distributors in China if their outstanding balances with us exceed their credit limits. 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 certain 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.

The following table sets out the aging analysis of our trade receivables and bills receivable as of the dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Aging analysis of trade receivables and bills receivable				
Within 3 months	94.1	336.4	395.3	632.2
Over 3 months to 6 months	5.3	86.4	11.7	6.8
Over 6 months to 1 year	4.6	—	—	—
Over 1 year	1.9	—	—	—
Total trade receivables and bills receivable	105.9	422.8	407.0	639.0

As of 31 July 2009, RMB221 million of our trade receivables and bills receivable as of 30 June 2009 of RMB639.0 million have been settled and we did not make any impairment allowance for trade receivables and bills receivable during the Track Record Period.

The following table sets out our average trade receivables and bills receivable turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Average trade receivables and bills receivable turnover days[(1)]	44	95	74	69

Note:

(1) Average trade receivables and bills receivable turnover days is equal to the average trade receivables and bills receivable divided by turnover and multiplied by 365 days (180 days in the case of the six months ended 30 June 2009). Average trade and bills receivables is equal to trade receivables and bills receivable at the beginning of the year plus trade receivables and bills receivable at the end of the year and divided by two.

Our trade receivables and bills receivable increased by approximately 299.2% from RMB105.9 million as of 31 December 2006 to RMB422.8 million as of 31 December 2007, primarily due to our sales growth. Our trade and bills receivable decreased from RMB422.8 million as of 31 December 2007 to RMB407.0 million as of 31 December 2008, primarily due to the decreased use of bills receivable by distributors to settle purchases with us, which the Directors believe was due to the tightening policy of the banks in 2008 of issuing bills to smaller enterprises. Our trade and bills receivable increased from RMB407.0 million as of 31 December 2008 to RMB639.0 million as of 30 June 2009, primarily due to sales growth. Average trade receivables and bills receivable turnover days increased over the years ended 31 December 2006 and 2007, primarily due to the increased use of bills receivable (which have longer terms) by distributors to settle purchases with us. Average trade receivables and bills receivable turnover days decreased from the year ended 31 December 2007 to the year ended 31 December 2008, primarily due to the decreased use of bills receivables by distributors to settle purchases with us for the reasons described above. Average trade receivables and bills receivable turnover days decreased from the year ended 31 December 2008 to the six months ended 30 June 2009, primarily due to a further decrease in the percentage of bills receivable used to settle purchases with us.

Deposits and prepayments and other receivables

Deposits and prepayments primarily consist of prepayments for construction materials for our production facilities and prepaid professional fees for [●]. Other receivables primarily consist of deposits made for land use rights for a piece of land used for our new production facilities. See Note 16 of the accountants' report in Appendix I to this document.

TRADE AND OTHER PAYABLES ANALYSIS

Trade payables and bills payable

Our trade payables and bills payable primarily relate to the costs of outsourced production and purchases of raw materials from our suppliers, with credit terms of 30 to 90 days for trade payables and up to 180 days for bills payable.

The following table sets out the aging analysis of our trade payables and bills payable as of the dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Aging analysis of trade payables and bills payable				
Within 3 months	104.9	212.3	132.5	266.8
Over 3 months to 6 months	22.5	162.4	87.5	95.4
Over 6 months to 1 year	0.3	1.2	0.3	0.1
Over 1 year	0.5	—	—	—
Total trade payables and bills payable	128.2	375.9	220.3	362.3

The following table sets out our average trade payables and bills payable turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Average trade payables and bills payable turnover days(1)	63	130	79	62

Note:

(1) Average trade payables and bills payable turnover days is equal to the average trade payables and bills payable divided by cost of sales and multiplied by 365 days (180 days in the case of the six months ended 30 June 2009). Average trade payables and bills payable is equal to the trade payables and bills payable at the beginning of the year plus trade payables and bills payable at the end of the year and divided by two.

Our trade payables and bills payable increased by approximately 193.2% from RMB128.2 million as of 31 December 2006 to RMB375.9 million as of 31 December 2007, primarily due to increased costs of outsourced production and purchases of raw materials in order to meet the increased demand for our products. Our trade payables and bills payable decreased from RMB375.9 million as of 31 December 2007 to RMB220.3 million as of 31 December 2008, primarily due to our improved cash flow position and our decision to pay our suppliers earlier in order to enhance our relationships with them. Our trade payables and bills payable increased from RMB220.3 million as of 31 December 2008 to RMB362.3 million as of 30 June 2009, primarily due to increased costs of outsourced production and purchases of raw materials in order to meet the increased demand for our products. Average trade payables and bills payable turnover days increased over the years ended 31 December 2006 and 2007, primarily due to our increased use of bills payable (which have longer credit terms of six months) to settle purchases from suppliers. Average trade payables and bills payable turnover days decreased from the year ended 31 December 2007 to the year ended 31 December 2008, primarily due to our decreased use of bills payable to settle purchases from suppliers as a result of our improved cash flow position. Average trade payables and bills payable turnover days decreased from the year ended 31 December 2008 to the six months ended 30 June 2009, primarily due to our decision to settle purchases from suppliers more quickly to strengthen our relationship with them.

We have been using bank acceptance bills to settle a portion our payables as we consider these bills to be a less expensive form of financing as we are only required to pledge a certain percentage of the bill amount as a bank deposit and, beginning in 2008, certain land use rights, to secure a six month credit period. The use of bank acceptance bills enable us to extend our trade payables for a longer credit term, thus enhancing our financing flexibility. We subsequently settle our bills payable by remittance of cash into the relevant bank accounts before the maturity of the bills. We have also been endorsing bank acceptance bills that we receive from our distributors to settle our payables. However, in light of the recent credit crisis, the availability of these bills may become limited for certain distributors, and the amount of bank acceptance bills that we may endorse to settle our payables may decrease accordingly.

Receipts in advance and other payables and accruals

Receipts in advance primarily relate to deposits and prepayments received from our distributors. Receipts in advance amounted to RMB1.2 million, nil, nil and nil as of 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. The change in receipts in advance over the Track Record Period were primarily due to a decrease in deposits required to be paid by the distributors when they place orders with us as well as fluctuations in the amount of prepayments received from our distributors. We have been foregoing the deposit requirement in order to incentivise our distributors to establish more authorized retail outlets and in light of the monthly repayment arrangements and the relationships we have established with our distributors. However, on a case by case basis, we may still require our new customers to place a small deposit when they place orders with us.

Other payables and accruals primarily relate to value-added tax payables, payroll payables, payment for the acquisition of a land use right, provisions for subsidies and rewards payable at the end of the year/period and payment for construction materials. Other payables and accruals amounted to RMB22.8 million, RMB15.4 million and RMB149.4 million as of 31 December 2006, 2007 and 2008, respectively, and RMB63.1 million as of 30 June 2009. The general trend of increases in other payables and accruals during the Track Record Period was primarily due to an increase in payroll payables as a result of an increase in personnel. The significant increase in other payables and accruals in 2008 was primarily due to the provisions made for subsidies and rewards payable at the end of the year and payment for construction materials for the new production facilities.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the financial resources presently available to the Group, including bank loans, banking facilities and other internal resources, and the estimated net proceeds of the [●], the Group has sufficient working capital for its present requirements at least in the next 12 months commencing from the date of this document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Group has not entered into any off-balance sheet transactions.

INDEBTEDNESS

Borrowings

The following table sets out our borrowings as of 31 December 2006, 2007 and 2008 and 30 June 2009 by maturity date:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Within 1 year	14.5	10.9	132.2	245.3
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	—	70.0	80.0
	14.5	10.9	202.2	325.3

A portion of the borrowings as of 31 December 2006 were secured by the land use right held by, and building owned by, a related party and a time deposit of US$600,000. These borrowings are no longer outstanding. All borrowings as of 31 December 2006 and 2007 were either secured or guaranteed by related parties. These guarantees were either expired or were released before 30 June 2008. All borrowings as of 30 June 2009 were either secured by certain of our buildings, land use rights and construction in progress or guaranteed by Peak Shoes, Peak Sports, Peak Jiangxi and Peak China.

The following table sets out the weighted average effective interest rates of our bank borrowings as of the balance sheet dates indicated:

	As of 31 December			As of 30 June
	2006	2007	2008	2009
Weighted average effective interest rates — bank borrowings	6.59%	7.97%	6.94%	4.84%

As of 31 July 2009, the latest practicable date for determining our indebtedness, the Group's total indebtedness amounted to RMB650.0 million, consisting of short-term unsecured bank loans of RMB312.1 million, unsecured bills payable of RMB237.9 million, long-term secured bank loans of RMB80.0 million and short-term secured bank loans of RMB20.0 million. The bank loans outstanding as of 31 July 2009 bear fixed interest rates ranging from 1.22% to 7.74% per annum and except for a bank loan of RMB5.4 million which is denominated in US dollar, all other bank loans are denominated in RMB. We confirm that there has not been any material change in our indebtedness since 31 July 2009.

As of 31 July 2009, the Group's had unutilized banking facilities of RMB325.3 million which amount includes facilities relating to bank loans and bills payable.

Except as disclosed above, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees outstanding as of 31 July 2009. There are no material covenants relating to our outstanding debt that would prevent us from raising additional bank or other external financing.

CONTINGENT LIABILITIES

As of 31 July 2009, the Group had no material contingent liabilities. The Group is not involved in any current material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, it would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest rate risk

Our exposure to interest rate risks relates to our bank borrowings. As of 30 June 2009, substantially all of our debt was denominated in Renminbi at fixed interest rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. Upward fluctuations in interest rates will increase the costs of both our existing and new debt. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

Foreign exchange rate fluctuation risk

Our operating activities are carried out in China with most of our current transactions denominated and settled in Renminbi. We are however exposed to foreign currency risk when we make sales that are denominated in foreign currencies. The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the Chinese government. In July 2005, the PRC government introduced a managed floating exchange rate system to allow the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made, and may in the future make, further adjustments to the exchange rate system. When the Renminbi appreciates, the value of foreign currency denominated assets will decline against the Renminbi. We currently do not use any forward contracts, currency borrowings or other means to hedge our foreign exchange rate exposure. See "Risk Factors — Risks Relating to Conducting Business in China — Government control in currency conversion and future movements in foreign exchange rates may materially and adversely affect our results of operations, financial condition and ability to remit dividends".

Credit risk

Our cash are deposited principally with banks in China and Hong Kong. Our credit risk is related to our trade and other receivables, which are primarily concentrated in our five largest customers for the Track Record Period. We have no other financial assets that carry significant exposure to credit risk. For a discussion of our credit policy, see the section headed "Business — Credit Control" of this document. We have not experienced any material losses as a result of our customers' default in their payment obligations during the Track Record Period.

Commodity price risk

The major raw materials used in our footwear productions are derived from refining crude oil. We are exposed to commodity price risk resulting from changes in the prices of crude oil. The price of crude oil is subject to significant fluctuations and is influenced by global as well as regional supply and demand conditions. We do not have any commodity derivative instruments to hedge against the potential fluctuations in commodity prices, such as crude oil. We do not have any long-term contracts with our suppliers for any of our raw materials. See the section headed "Risk Factors — Our results of operation may be adversely affected by increases in the market prices of raw materials if we are unable to pass on the increased cost of raw materials to our customers through higher prices of our products" of this document.

For an additional discussion of quantitative and qualitative information about market risks, see note 28 to our consolidated financial statements included in the accountants' report set out in Appendix I to this document.

DIVIDEND POLICY

Our Company declared a special cash dividend of HK$127,950,000 in July 2009. Such special dividend was paid to our Shareholders in July and August 2009. Save as disclosed above, no other dividends were paid by us or any of our subsidiaries during or in relation to the Track Record Period. The payment and the amount of any dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, we currently intend to recommend at the next annual shareholders meeting of the Company an annual dividend of not less than 30% of our net profit available for distribution to shareholders after the [●].

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in this document, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to the Group than terms available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole.

For a discussion of related party transactions, see Appendix I to this document in addition to the other transactions detailed elsewhere in this document.

DISTRIBUTABLE RESERVES

As of 30 June 2009, we had distributable reserves in the amount of RMB819.2 million available for distribution to our shareholders. Such distributable reserves were decreased by declaration and payment of a special dividend of HK$127,950,000 by the Company in July and August 2009.

PROPERTY INTERESTS AND PROPERTY VALUATION

Vigers Appraisal & Consulting Limited, an independent property valuer, has valued our property interests as of 31 July 2009 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB254.6 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this document.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on the audited consolidated financial statements as of 30 June 2009 with the valuation of these properties and lease prepayments (land use rights) as of 31 July 2009 as set out in Appendix IV to this document.

	RMB (million)	RMB (million)
Valuation of properties (including the lease prepayments (land use rights)) owned by the Group as of 31 July 2009 as set out in the property valuation report in Appendix IV to this document		254.6
Net book value of the following properties as of 30 June 2009 as set out in Appendix I to this document:		
— Buildings	114.8	
— Lease prepayments (land use rights)	16.4	
Net book value as of 30 June 2009	131.2	
Add: Additions of buildings during the period from 1 July 2009 to 31 July 2009	10.5	
Less: Depreciation of buildings during the period from 1 July 2009 to 31 July 2009	(0.5)	
Net book value as of 31 July 2009		(141.2)
Net valuation surplus		113.4

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2009, and there is no event since 30 June 2009 which would materially affect the information shown in the accountants' report set out in Appendix I to this document, in each case except as otherwise disclosed herein.