The following is the text of a report, prepared for the purpose of incorporation in this document, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

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[●] 2009

The Board of Directors
Peak Sport Products Co., Limited

Dear Sirs

INTRODUCTION

We set out below our report on the consolidated financial information relating to Peak Sport Products Co., Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Track Record Period") and the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and the balance sheets of the Company as at 31 December 2008 and 30 June 2009 and the notes thereto (the "Financial Information"), for inclusion in the document of the Company dated [●] (the "Document") in connection with [●].

The Company was incorporated in the Cayman Islands on 15 February 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization (the "Reorganization") as detailed in the section headed "Corporate Reorganization" in Appendix VI to the Document, which was completed on 30 June 2008, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out below. The Company has not carried on any business since the date of its incorporation save for the Reorganization.

As at the date of this report, no statutory financial statements have been prepared for the Company and Peak Investment Management Co., Limited ("Peak Investment"), as they are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions undertaken by these companies during the Track Record Period for the purpose of this report.

The statutory financial statements of the other subsidiaries of the Company listed below, which were either prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") or the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC") as appropriate, were audited during the Track Record Period by their respective statutory auditors as indicated below:

Name of company	*Financial period*	*Statutory auditors*
Peak (Hong Kong) International Company Limited ("Peak Hong Kong")	Years ended 31 December 2006, 2007 and 2008	United CPA & Co. 中正會計師事務所
Quanzhou Peak Shoes Co., Ltd. (泉州匹克鞋業有限公司) ("Peak Shoes") (Notes (i) & (ii))	Year ended 31 December 2006	Xiamen Yongruihengxin Accountants Office Co., Ltd. (Note (iii)) 廈門永瑞恒信會計師事務所
	Years ended 31 December 2007 and 2008	Xiamen Shengyuan Certified Public Accountants Co., Ltd. (Note (iii)) 廈門晟遠會計師事務所有限公司
Fujian Quanzhou Peak Sports Products Co., Ltd. (福建泉州匹克體育用品有限公司) ("Peak Sports") (Notes (i) & (ii))	Year ended 31 December 2006	Fujian Zhonghao Certified Public Accountants Co., Ltd. (Note (iii)) 福建中浩會計師事務所有限公司
	Years ended 31 December 2007 and 2008	Xiamen Shengyuan Certified Public Accountants Co., Ltd. (Note (iii)) 廈門晟遠會計師事務所有限公司
Peak (Jiangxi) Industry Co., Ltd. (匹克(江西)實業有限公司) ("Peak Jiangxi") (Notes (i) & (ii))	Period ended 31 December 2006	Jiangxi Delongdongsheng Certified Public Accountants Co., Ltd. Shanggao Branch (Note (iii)) 江西德龍東升會計師事務所有限公司上高分所
	Years ended 31 December 2007 and 2008	Shanggao Desheng United Accountants Office Co., Ltd. (Note (iii)) 上高德升聯合會計師事務所
Peak (China) Limited Company (匹克(中國)有限公司) ("Peak China") (Notes (i) & (ii))	Period ended 31 December 2007 and year ended 31 December 2008	Xiamen Shengyuan Certified Public Accountants Co., Ltd. (Note (iii)) 廈門晟遠會計師事務所有限公司

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) The official names of these companies are in Chinese. The English translation is for reference only.

(iii) The official names of these auditors are in Chinese. The English translation is for reference only.

(iv) No audited financial statements for the six months ended 30 June 2009 have been prepared.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and [●]. IFRSs include International Accounting Standards ("IASs") and Interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs promulgated by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and [●]. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for expressing an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with [●] issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the Company and its subsidiaries in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purposes of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's consolidated results and cash flows for the Track Record Period, and the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and of the Company as at 31 December 2008 and 30 June 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

The companies that took part in the Reorganization now comprising the Group were controlled by the same group of ultimate equity shareholders, Mr Xu Jingnan, Mr Xu Zhihua, Mr Xu Zhida and Ms Wu Tigao (together referred to as the "Controlling Shareholders") before and after the Reorganization. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and, therefore, the Reorganization is considered to be a business combination of entities under common control.

Merger accounting has been applied in the accounting of the Reorganization. The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in Section B include the results of operations of the Company and its subsidiaries for the Track Record Period (or where the Company and its subsidiaries were incorporated/established at a date later than 1 January 2006, for the period from the date of incorporation/establishment to 30 June 2009) as if the Reorganization was completed at the beginning of the Track Record Period. The consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Section B have been prepared to present the state of affairs of the Company and its subsidiaries as at those dates as if the Reorganization was completed at the beginning of the Track Record Period.

All material intra-group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	*Place and date of incorporation/ establishment*	*Issued and fully paid up/registered capital*	*Attributable equity interest Direct*	*Indirect*	*Principal activities*
Peak Investment	British Virgin Islands (the "BVI") 17 January 2008	US$1/US$50,000	100%	—	Investment holding
Peak Hong Kong. . . .	Hong Kong SAR of the PRC 2 January 2003	HK$200,000/ HK$200,000	—	100%	Investment holding
Peak Shoes.	PRC 23 July 1994	RMB20,880,000/ RMB20,880,000	—	100%	Manufacturing and trading of sporting goods
Peak Sports	PRC 10 August 2004	US$3,000,000/ US$3,000,000	—	100%	Manufacturing and trading of sporting goods
Peak Jiangxi	PRC 6 April 2006	US$20,000,000/ US$20,000,000	—	100%	Manufacturing and trading of sporting goods
Peak China.	PRC 29 January 2007	RMB100,000,000/ RMB100,000,000	—	100%	Manufacturing and trading of sporting goods

B FINANCIAL INFORMATION

1 Consolidated income statements

	Section C	Year ended 31 December			Six months ended 30 June	
	Note	2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Turnover	**2**	623,870	1,014,622	2,042,041	846,744	1,357,263
Cost of sales		(446,654)	(708,646)	(1,374,208)	(571,271)	(840,569)
Gross profit		177,216	305,976	667,833	275,473	516,694
Other revenue	**3**	1,461	1,660	3,534	1,357	4,259
Other net (loss)/ income	**3**	(991)	728	11,896	8,346	4,625
Selling and distribution expenses		(60,242)	(116,316)	(180,996)	(85,871)	(192,810)
Administrative expenses		(7,131)	(14,651)	(84,670)	(21,052)	(27,611)
Profit from operations		110,313	177,397	417,597	178,253	305,157
Finance expenses	**4(a)**	(1,085)	(1,552)	(6,935)	(597)	(7,553)
Share of profits of associates		349	79	—	—	—
Profit before taxation	**4**	109,577	175,924	410,662	177,656	297,604
Income tax	**5**	(23,651)	(9,902)	(34,704)	(13,181)	(30,248)
Profit for the year/period attributable to equity shareholders		85,926	166,022	375,958	164,475	267,356
Earnings per share — basic and diluted (RMB)	**9**	0.06	0.11	0.25	0.11	0.17

The accompanying notes form part of the Financial Information. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year/period are set out in note 8.

2 Consolidated statements of comprehensive income

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit for the year/ period attributable to equity shareholders	85,926	166,022	375,958	164,475	267,356
Other comprehensive income for the year/ period (after tax and reclassification adjustments)					
Exchange differences on translation of financial statements of a foreign operation	—	—	—	—	(98)
Total comprehensive income for the year/ period attributable to equity shareholders	85,926	166,022	375,958	164,475	267,258

The accompanying notes form part of the Financial Information.

3 Consolidated balance sheets

	Section C Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	As at 30 June 2009 RMB'000
Non-current assets					
Property, plant and equipment	**11**	9,248	25,245	136,954	169,144
Construction in progress	**12**	—	46,655	95,189	100,872
Lease prepayments	**13**	5,602	19,906	19,500	16,429
Intangible assets	**14**	—	9,386	9,855	9,848
Interest in associates	**15**	8,050	—	—	—
Deferred tax assets	**24(b)**	7	174	7,662	6,374
Total non-current assets		22,907	101,366	269,160	302,667
Current assets					
Inventories	**16**	100,178	157,846	169,266	216,618
Trade and other receivables	**17(a)**	109,587	447,561	507,476	780,268
Amounts due from related parties	**22**	12,601	—	—	—
Pledged deposits	**18**	29,099	67,000	70,256	84,390
Cash	**19**	51,478	102,430	418,377	722,613
Total current assets		302,943	774,837	1,165,375	1,803,889
Total assets		325,850	876,203	1,434,535	2,106,556
Current liabilities					
Bank loans	**20**	14,549	10,879	132,233	245,254
Trade and other payables	**21**	152,092	391,225	369,731	425,313
Amounts due to related parties	**22**	—	67,994	52,687	—
Current taxation	**24(a)**	21,724	7,939	13,216	16,157
Total current liabilities		188,365	478,037	567,867	686,724
Net current assets		114,578	296,800	597,508	1,117,165
Total assets less current liabilities		137,485	398,166	866,668	1,419,832
Non-current liabilities					
Bank loans	**20**	—	—	70,000	80,000
Deferred tax liabilities	**24(b)**	—	117	22,661	26,386
Total non-current liabilities		—	117	92,661	106,386
Total liabilities		188,365	478,154	660,528	793,110
Equity					
Share capital	**25**	—	195	13,188	14,761
Reserves	**26**	137,485	397,854	760,819	1,298,685
Total equity		137,485	398,049	774,007	1,313,446
Total liabilities and equity		325,850	876,203	1,434,535	2,106,556

The accompanying notes form part of the Financial Information.

4 Balance sheets of the Company

	Section C Note	*As at 31 December 2008* RMB'000	*As at 30 June 2009* RMB'000
Non-current assets			
Investment in subsidiaries	**10**	564,252	564,015
Other receivables	**17(b)**	—	272,619
Total assets		564,252	836,634
Current liabilities			
Other payables		—	1,309
Total liabilities		—	1,309
Equity			
Share capital	**25(b)**	13,188	14,761
Reserves	**26**	551,064	820,564
Total equity		564,252	835,325
Total liabilities and equity		564,252	836,634

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity

	Section C Note	*Share capital* RMB'000 *(Note 25)*	*Share premium* RMB'000 *(Note 26(a))*	*Statutory reserve* RMB'000 *(Note 26(b))*	*Other reserve* RMB'000 *(Note 26(c))*	*Exchange reserve* RMB'000 *(Note 26(d))*	*Retained profits* RMB'000 *(Note 26)*	*Total equity* RMB'000
At 1 January 2006		—	—	6,174	—	—	45,385	51,559
Total comprehensive income for the year		—	—	—	—	—	85,926	85,926
Appropriation to statutory reserve		—	—	8,546	—	—	(8,546)	—
At 31 December 2006		—	—	14,720	—	—	122,765	137,485
Total comprehensive income for the year		—	—	—	—	—	166,022	166,022
Capital injection	**25(a)**	195	94,347	—	—	—	—	94,542
Appropriation to statutory reserve		—	—	7,535	—	—	(7,535)	—
At 31 December 2007		195	94,347	22,255	—	—	281,252	398,049
Total comprehensive income for the year		—	—	—	—	—	375,958	375,958
Arising from the Reorganization	**25(b)/ 26(c)**	12,993	(94,347)	—	81,354	—	—	—
Appropriation to statutory reserve		—	—	966	—	—	(966)	—
At 31 December 2008		13,188	—	23,221	81,354	—	656,244	774,007
Total comprehensive income for the period		—	—	—	—	(98)	267,356	267,258
Capital injection	**25(b)**	1,573	270,608	—	—	—	—	272,181
At 30 June 2009		14,761	270,608	23,221	81,354	(98)	923,600	1,313,446
(Unaudited)								
At 31 December 2007		195	94,347	22,255	—	—	281,252	398,049
Total comprehensive income for the period		—	—	—	—	—	164,475	164,475
Arising from the Reorganization	**25(b)/ 26(c)**	12,993	(94,347)	—	81,354	—	—	—
At 30 June 2008		13,188	—	22,255	81,354	—	445,727	562,524

The accompanying notes form part of the Financial Information.

6 Consolidated cash flow statements

	Section C Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Operating activities						
Profit before taxation		109,577	175,924	410,662	177,656	297,604
Adjustments for:						
— Depreciation	**4(c)**	2,228	2,848	8,584	3,130	6,508
— Amortisation of lease prepayments	**4(c)**	—	152	406	204	171
— Finance expenses	**4(a)**	1,085	1,552	6,935	597	7,553
— Interest income	**3**	(252)	(1,089)	(3,073)	(1,033)	(2,085)
— Share of profits of associates		(349)	(79)	—	—	—
— Loss on disposal of property, plant and equipment	**4(c)**	—	274	187	—	106
— Gain on disposal of lease prepayments	**3**	—	—	—	—	(3,813)
— Gain on disposal of associates	**3**	—	(1,602)	—	—	—
— Amortisation of intangible assets	**14**	—	—	1	—	7
Foreign exchange gains		(440)	(1,897)	(6,209)	(5,707)	(112)
Operating profit before changes in working capital		111,849	176,083	417,493	174,847	305,939
Increase in inventories		(50,377)	(57,668)	(11,420)	(24,296)	(47,352)
(Increase)/decrease in trade and other receivables		(64,152)	(324,528)	(71,764)	133,651	(272,792)
(Increase)/decrease in amounts due from related parties		(3,302)	3,962	—	—	—
Increase/(decrease) in trade and other payables		108,478	239,216	(35,683)	(120,425)	64,043
Cash generated from operations		102,496	37,065	298,626	163,777	49,838
Income tax paid		(3,422)	(23,737)	(14,371)	(7,195)	(22,294)
Net cash generated from operating activities		99,074	13,328	284,255	156,582	27,544

	Section C	Year ended 31 December			Six months ended 30 June	
	Note	2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Investing activities						
Payment for purchase of property, plant, and equipment		(3,076)	(12,285)	(37,986)	(18,682)	(14,605)
Proceeds from sale of property, plant and equipment		—	2,000	130	—	6
Proceeds from disposal of lease prepayments		—	—	—	—	6,713
Payment for construction in progress		—	(63,279)	(105,119)	(19,068)	(38,349)
Payment for lease prepayments		(2,502)	(17,556)	—	—	—
Payment for intangible assets		—	(9,386)	(470)	(413)	—
Payment for investment in a subsidiary	27	(1,624)	—	—	—	—
Proceeds from disposal of associates		—	—	8,964	—	—
Interest received		252	1,089	3,073	1,033	2,085
(Increase)/decrease in pledged deposits		(22,529)	(37,901)	(3,256)	15,329	(14,134)
Net cash used in investing activities		(29,479)	(137,318)	(134,664)	(21,801)	(58,284)
Financing activities						
Proceeds from bank loans		24,549	72,177	299,939	69,852	256,959
Repayment of bank loans		(30,905)	(75,847)	(108,585)	(12,524)	(133,938)
Proceeds from capital injection	25	—	45,824	—	—	272,181
Net advances (to)/from related parties		(14,131)	134,452	(16,484)	(106,082)	(50,987)
Interest paid		(1,085)	(1,552)	(5,371)	(597)	(9,117)
Net cash (used in)/ generated from financing activities		(21,572)	175,054	169,499	(49,351)	335,098
Net increase in cash		48,023	51,064	319,090	85,430	304,358
Cash at 1 January		3,469	51,478	102,430	102,430	418,377
Effect of foreign exchange rate changes		(14)	(112)	(3,143)	(2,971)	(122)
Cash at 31 December/ 30 June	19	51,478	102,430	418,377	184,889	722,613

Major non-cash transaction

In 2007, Peak Hong Kong issued 184,316 shares to the Controlling Shareholders for HK$50,000,000 (RMB48,718,000 equivalent) satisfied by amounts due to Controlling Shareholders of HK$50,000,000 (RMB48,718,000 equivalent).

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) ***Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by IASB. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the [●]. Further details of the significant accounting policies are set out in the remainder of this Section C below.

The Group has not previously issued any consolidated financial statements. This is the Group's first IFRS Financial Information and IFRS 1 "First-time adoption of International Financial Reporting Standards" has been applied.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting year ending 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2009 are discussed in note 33.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) ***Basis of measurement***

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The functional currency of the Company is Hong Kong Dollars ("HK$"). The Financial Information is presented in Renminbi ("RMB") as the functional currency of the Group's operating subsidiaries is RMB. All Financial Information presented in RMB has been rounded to the nearest thousand.

(c) ***Judgments and estimates***

The preparation of the Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 32.

(d) ***Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is included in the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

(e) *Associates*

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 1(k)). The Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the Track Record Period is recognised in the consolidated income statements, whereas the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statements of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

(f) *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated balance sheets at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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 as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.
- Plant and machinery 5–10 years
- Motor vehicles 5 years
- Furniture and fixtures 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) *Construction in progress*

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)). Cost of self-constructed items of property, plant and equipment include the cost of materials, direct labour, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) ***Lease prepayments***

Lease prepayments represent cost of land use rights paid to the PRC governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 1(k)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(i) ***Intangible assets***

Intangible assets represent trademarks and software and are stated in the consolidated balance sheets at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Trademarks are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful lives of trademarks are indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that trademark. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives.

Software is amortised on the straight-line basis over its estimated useful life of five years.

Both the useful life and method of amortisation are reviewed annually.

(j) ***Operating lease charges***

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(k) ***Impairment of assets***

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

If any such evidence exists, any impairment loss is determined and recognised as follows:

The 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade debtors are included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) 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 recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- intangible assets; and
- investments in subsidiaries and associates.

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

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised 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.

- Reversals of impairment losses

  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 loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) ***Inventories***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) ***Trade and other payables***

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) ***Cash***

Cash comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash for the purpose of the consolidated cash flow statements.

(q) ***Employee benefits***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(r) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities that affect neither accounting nor taxable profit, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised in profit and loss.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue allocated to incentive reward and renovation subsidy are deferred and recognised when utilised. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss over the useful life of the asset.

(u) ***Translation of foreign currencies***

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheets items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(v) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare that asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(w) *Research and development*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(x) *Advertising and promotion*

Expenditure on advertising and promotion activities is recognised as an expense in the period in which it is incurred.

Advertising expenses result from media advertising, primarily TV and internet advertisements and relevant placement costs are expensed in the month the advertisement appears.

The Group has also signed sponsorship agreements and endorsement contracts with various sports associations and professional athletes respectively. Accounting for the sponsorship and endorsement payments is based upon specific agreement/contract provisions. Sponsorship and endorsement payments are expensed on a straight-line basis over the term of sponsorship agreement or endorsement contract.

(y) *Rewards and subsidies*

The Group provides subsidies to its distributors to expand the number of authorized Peak retail outlets and create a uniform high-quality store image nationwide. The Group also offers subsidies to its distributors to open new authorized Peak retail outlets. The Group estimates the subsidies during a year based on the location, size of and rental for the new authorized Peak outlets opened and the compliance with the Group's renovation standards.

The Group also rewards its distributors who meet or exceed predetermined annual sales target with a certain percentage of their annual purchase amount. For the two years ended 31 December 2006 and 2007, the Group offered subsidies and rewards to its distributors in cash payments. From 1 January 2008 onwards, it offered subsidies and rewards to its distributors in the form of a deduction from their subsequent purchases of our products.

The subsidies and rewards are recognised as reduction of revenue when it is probable that these subsidies and rewards will be granted, and the amounts can be reliably measured.

(z) *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

(aa) *Related parties*

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(ab) ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's business segment as the Group is principally engaged in one segment in the manufacture and sale of sport products in the PRC.

2 **Turnover**

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories. Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes, which may be analysed as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Footwear	366,470	570,574	1,028,895	439,443	624,589
Apparel	255,358	386,372	961,470	381,229	701,409
Accessories	2,042	57,676	51,676	26,072	31,265
	623,870	1,014,622	2,042,041	846,744	1,357,263

The Group has only one customer with whom transactions have exceeded 10% of the Group's aggregate revenues in the six months ended 30 June 2009. The amount of sales from this customer amounted to approximately RMB244,742,000 for the six months ended 30 June 2009. During the three years ended 31 December 2008, there was not a single customer with whom transactions exceeded 10% of the Group's aggregate revenues.

The Group's revenue by geographical locations is determined by the destination where the goods are delivered.

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Domestic sales	319,345	774,958	1,786,810	724,988	1,230,150
International sales					
Europe	95,688	90,747	106,903	44,856	61,175
Asia	94,655	67,030	77,933	37,040	35,308
South America	49,249	51,685	39,604	21,870	18,911
Africa	29,966	12,999	10,749	5,040	6,172
North America	24,527	12,452	14,503	9,191	5,547
Australia	10,440	4,751	5,539	3,759	—
Subtotal	304,525	239,664	255,231	121,756	127,113
Total	623,870	1,014,622	2,042,041	846,744	1,357,263

Substantially all of the Group's assets and capital expenditure, based on where the assets are located, are located in the PRC.

3 Other revenue and net (loss)/income

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Other revenue					
Interest income	252	1,089	3,073	1,033	2,085
Government grants	1,158	566	394	292	2,123
Others	51	5	67	32	51
	1,461	1,660	3,534	1,357	4,259
Other net (loss)/income					
Exchange (loss)/gain	(991)	(874)	7,965	6,575	617
Gain on disposal of lease prepayments	—	—	—	—	3,813
Gain on disposal of associates	—	1,602	—	—	—
Gain on sales of materials	—	—	3,931	1,771	195
	(991)	728	11,896	8,346	4,625

The Group was awarded government grants totalling RMB1,158,000, RMB566,000, RMB394,000, RMB292,000 (unaudited) and RMB2,123,000 in the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 respectively, for the recognition of the Group's export sales performance and contribution to local community. These grants were not conditional and were therefore recognised as income when received.

4 Profit before taxation

Profit before taxation is arrived at after charging:

		Year ended 31 December			*Six months ended 30 June*	
		2006	*2007*	*2008*	*2008*	*2009*
		RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
(a)	Finance expenses:					
	Interest on bank borrowings	1,085	1,552	5,371	597	4,879
	Interest on related party borrowings (*note 30(b)*)	—	—	1,564	—	2,674
		1,085	1,552	6,935	597	7,553
(b)	Staff costs:					
	Contributions to defined contribution retirement plans	308	478	1,043	298	655
	Salaries, wages and other benefits	25,662	42,272	111,726	44,389	67,558
		25,970	42,750	112,769	44,687	68,213
(c)	Other items:					
	Amortisation of lease prepayments	—	152	406	204	171
	Auditors' remuneration	50	100	70	30	30
	Depreciation	2,228	2,848	8,584	3,130	6,508
	Operating lease charges in respect of properties	2,410	2,410	2,627	1,335	1,317
	Cost of inventories#	446,654	708,646	1,374,208	571,271	840,569
	Incentive rewards and renovation subsidies*	15,815	18,952	71,877	27,695	20,810
	Advertising and promotion expenses	38,719	87,483	154,020	72,693	179,403
	Loss on disposal of property, plant and equipment	—	274	187	—	106

\# Cost of inventories includes RMB23,952,000, RMB37,857,000, RMB80,351,000, RMB33,929,000 (unaudited), RMB52,723,000 in the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 respectively relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in notes 4(b) and (c) for each of these types of expenses.

* Incentive rewards and renovation subsidies are provided to the Group's qualified distributors as an incentive to open more authorized retail outlets and to achieve sales target.

5 Income tax in the consolidated income statements

(a) *Taxation in the consolidated income statements represents:*

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax-PRC income tax					
Provision for the year	23,658	9,952	19,648	13,151	25,235
Deferred tax					
Origination and reversal of temporary differences	(7)	(50)	15,056	30	5,013
	23,651	9,902	34,704	13,181	30,248

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands or BVI.

No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the Track Record Period.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group, are subject to foreign enterprise income tax/corporate income tax as follows:

— Peak Shoes is entitled to a preferential tax rate of 12% for the year ended 31 December 2006 for being an export oriented enterprise. The applicable tax rate of Peak Shoes was 27% for the year ended 31 December 2007. In accordance with the Corporate Income Tax Law of the PRC ("new tax law"), which is effective on 1 January 2008, the applicable tax rate of Peak Shoes is 25% with effect from 1 January 2008.

— Peak Sports, Peak China and Peak Jiangxi are foreign-invested enterprises and are entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempt from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate.

Peak Sports commenced production in 2006 but has been approved for postponing its first year of tax exemption to 2007. As Peak Sports is registered as production oriented enterprises in Quanzhou, Fujian Province, which is coastal open area of the PRC, it enjoys a preferential tax rate of 27% in 2006. Peak Sports is exempt from PRC foreign enterprise income tax/corporate income tax from 1 January 2007 to 31 December 2008 and the applicable tax rate from 1 January 2009 to 31 December 2011 is 12.5%. With effect from 1 January 2012, the applicable tax rate is 25%.

Peak China and Peak Jiangxi did not generate taxable profits prior to 31 December 2007. In accordance with the transitional arrangement of the new tax law, Peak China and Peak Jiangxi are entitled to enjoy the granted tax concession on adoption of the new tax law. Accordingly, Peak China and Peak Jiangxi are exempt from PRC corporate income tax from 1 January 2008 to 31 December 2009 and the applicable tax rate from 1 January 2010 to 31 December 2012 is 12.5%. With effect from 1 January 2013, the applicable tax rate is 25%.

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 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.

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 at 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.

(b) ***Reconciliation between tax expense and accounting profit at applicable tax rates:***

		Year ended 31 December			*Six months ended 30 June*	
		2006	*2007*	*2008*	*2008*	*2009*
		RMB'000	RMB'000	RMB'000	RMB'000 *(Unaudited)*	RMB'000
Profit before taxation		109,577	175,924	410,662	177,656	297,604
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdiction		36,080	62,450	106,794	45,635	76,825
Effect of lower tax rates applicable to subsidiaries as a result of preferential tax policy as described in 5(a)		(12,575)	(57,332)	(102,079)	(35,608)	(55,705)
Tax effect of non-deductible expenses						
— Advertising expenses	(i)	—	5,193	4,521	3,811	4,890
— Expenses without official invoices		191	174	35	35	157
— [●] expenses	(ii)	—	—	3,396	—	—
— Others		100	61	873	368	497
Tax effect of non-taxable income	(iii)	(145)	(644)	(1,136)	(1,060)	(18)
Effect of withholding tax	(iv)	—	—	22,300	—	3,602
Actual tax expense		23,651	9,902	34,704	13,181	30,248

(i) These mainly represented the tax effect of non-deductible advertising expenses in Peak Hong Kong, which had generated no income subject to Hong Kong Profits Tax and non-deductible advertising expenses accrued in Peak Sports.

(ii) These mainly represented the tax effect of non-deductible professional and other expenses of Peak Hong Kong in connection with [●].

(iii) These mainly represented the tax effect of the exchange gain of Peak Hong Kong, as well as the tax effect of the gain on disposal of certain associates of approximately RMB281,000 in 2007. The amount in 2008 mainly represented the tax effect of the exchange gain of Peak Hong Kong of approximately RMB1,119,000.

(iv) The Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will be distributed in the foreseeable future. The Group has made provision of withholding tax based on planned distribution of the distributable profits generated by the subsidiaries of the Company located in the PRC since 1 January 2008 pursuant to the rules and regulation described in note 5(a).

6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2006

	Fee RMB'000	*Basic salaries, allowances and other benefits* RMB'000	*Contributions to retirement benefit scheme* RMB'000	*Bonuses* RMB'000	*Total* RMB'000
Executive directors					
Mr Xu Jingnan	—	75	4	8	87
Mr Xu Zhihua	—	33	4	7	44
Mr Xu Zhida	—	35	4	6	45
Subtotal	—	143	12	21	176
Non-executive directors					
Ms Wu Tigao	—	29	—	5	34
Mr Shen Nanpeng	—	—	—	—	—
Dr Hu Zhanghong	—	—	—	—	—
Mr Zhu Linan	—	—	—	—	—
Subtotal	—	29	—	5	34
Independent non-executive directors					
Mr Wang Mingquan	—	—	—	—	—
Dr Xiang Bing	—	—	—	—	—
Dr Rock Jin	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	172	12	26	210

Year ended 31 December 2007

	Fee RMB'000	*Basic salaries, allowances and other benefits* RMB'000	*Contributions to retirement benefit scheme* RMB'000	*Bonuses* RMB'000	*Total* RMB'000
Executive directors					
Mr Xu Jingnan	—	103	4	20	127
Mr Xu Zhihua	—	41	4	10	55
Mr Xu Zhida	—	44	4	10	58
Subtotal	—	188	12	40	240
Non-executive directors					
Ms Wu Tigao	—	37	—	6	43
Mr Shen Nanpeng	—	—	—	—	—
Dr Hu Zhanghong	—	—	—	—	—
Mr Zhu Linan	—	—	—	—	—
Subtotal	—	37	—	6	43
Independent non-executive directors					
Mr Wang Mingquan	—	—	—	—	—
Dr Xiang Bing	—	—	—	—	—
Dr Rock Jin	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	225	12	46	283

Year ended 31 December 2008

	Fee RMB'000	*Basic salaries, allowances and other benefits* RMB'000	*Contributions to retirement benefit scheme* RMB'000	*Bonuses* RMB'000	*Total* RMB'000
Executive directors					
Mr Xu Jingnan	—	127	9	60	196
Mr Xu Zhihua	—	31	9	30	70
Mr Xu Zhida	—	31	9	30	70
Subtotal	—	189	27	120	336
Non-executive directors					
Ms Wu Tigao	—	38	—	30	68
Mr Shen Nanpeng	—	—	—	—	—
Dr Hu Zhanghong	—	—	—	—	—
Mr Zhu Linan	—	—	—	—	—
Subtotal	—	38	—	30	68
Independent non-executive directors					
Mr Wang Mingquan	—	—	—	—	—
Dr Xiang Bing	—	—	—	—	—
Dr Rock Jin	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	227	27	150	404

Six months ended 30 June 2009

	Fee RMB'000	*Basic salaries, allowances and other benefits* RMB'000	*Contributions to retirement benefit scheme* RMB'000	*Bonuses* RMB'000	*Total* RMB'000
Executive directors					
Mr Xu Jingnan	—	63	5	—	68
Mr Xu Zhihua	—	15	5	—	20
Mr Xu Zhida	—	15	5	—	20
Subtotal	—	93	15	—	108
Non-executive directors					
Ms Wu Tigao	—	61	—	—	61
Mr Shen Nanpeng	—	—	—	—	—
Dr Hu Zhanghong	—	—	—	—	—
Mr Zhu Linan	—	—	—	—	—
Subtotal	—	61	—	—	61
Independent non-executive directors					
Mr Wang Mingquan	—	—	—	—	—
Dr Xiang Bing	—	—	—	—	—
Dr Rock Jin	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	154	15	—	169

Six months ended 30 June 2008 (Unaudited)

	Fee RMB'000	*Basic salaries, allowances and other benefits* RMB'000	*Contributions to retirement benefit scheme* RMB'000	*Bonuses* RMB'000	*Total* RMB'000
Executive directors					
Mr Xu Jingnan	—	64	5	—	69
Mr Xu Zhihua	—	16	5	—	21
Mr Xu Zhida	—	16	5	—	21
Subtotal	—	96	15	—	111
Non-executive directors					
Ms Wu Tigao	—	18	—	—	18
Mr Shen Nanpeng	—	—	—	—	—
Dr Hu Zhanghong	—	—	—	—	—
Mr Zhu Linan	—	—	—	—	—
Subtotal	—	18	—	—	18
Independent non-executive directors					
Mr Wang Mingquan	—	—	—	—	—
Dr Xiang Bing	—	—	—	—	—
Dr Rock Jin	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	114	15	—	129

Mr Shen Nanpeng, Mr Zhu Linan and Dr Hu Zhanghong were appointed to such positions of the Company in June 2008, April 2009 and April 2009 respectively, while the independent non-executive directors were appointed subsequent to the Track Record Period. They did not receive any remuneration during the Track Record Period.

7 Individual with highest emoluments

Of the five individuals with the highest emoluments, one is also a director of the Company for 2006, 2007 and 2008 and the six months ended 30 June 2008 whose remuneration is disclosed in note 6 above. The aggregate of the emoluments in respect of the other four for 2006, 2007 and 2008 and the six months ended 30 June 2008 and the five for the six months ended 30 June 2009 are as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Salaries and other emoluments	200	276	1,695	539	1,120
Contributions to retirement benefit scheme	10	10	19	17	—
	210	286	1,714	556	1,120

The emoluments of the four individuals in 2006, 2007 and 2008 and the six months ended 30 June 2008 and that of the five individuals in the six months ended 30 June 2009 with the highest emoluments are within the following bands:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
HK$1 to HK$1,000,000	4	4	3	4	5
HK$1,000,001 to HK$1,500,000	—	—	1	—	—
	4	4	4	4	5

8 Dividends

The companies now comprising the Group did not declare any dividend during the Track Record Period.

The Company declared dividend of HK$127,950,000 (equivalent to RMB113,000,000), representing HK$0.0853 per share after 30 June 2009, which has not been recognised as a liability as at 30 June 2009.

9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 and the 1,500,000,000 shares in issue as at the date of the Company becoming the holding company of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and the weighted average number of shares in issue for the six months ended 30 June 2009, as described in the section headed "Share Capital" in the document.

There were no dilutive potential ordinary shares during the Track Record Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

10 Investment in subsidiaries

Investment in subsidiaries is stated at cost and details of the subsidiaries as at 31 December 2008 and 30 June 2009 are set out in Section A.

11 Property, plant and equipment

	Note	Building RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
Cost:						
At 1 January 2006		—	10,079	518	2,861	13,458
Additions		—	2,074	121	881	3,076
At 31 December 2006		—	12,153	639	3,742	16,534
Additions		1,764	8,001	555	1,965	12,285
Transfer from construction in progress	**12**	8,834	—	—	—	8,834
Disposals		—	(2,382)	—	(1,164)	(3,546)
At 31 December 2007		10,598	17,772	1,194	4,543	34,107
Additions		4,601	31,723	633	7,340	44,297
Transfer from construction in progress	**12**	74,168	503	—	1,642	76,313
Disposals		—	(388)	—	(205)	(593)
At 31 December 2008		89,367	49,610	1,827	13,320	154,124
Additions		1,673	6,096	477	1,511	9,757
Transfer from construction in progress	**12**	28,806	—	—	247	29,053
Disposals		—	(482)	—	—	(482)
At 30 June 2009		119,846	55,224	2,304	15,078	192,452
Accumulated depreciation:						
At 1 January 2006		—	3,958	174	926	5,058
Charge for the year		—	1,611	58	559	2,228
At 31 December 2006		—	5,569	232	1,485	7,286
Charge for the year		—	2,027	91	730	2,848
Written back on disposals		—	(885)	—	(387)	(1,272)
At 31 December 2007		—	6,711	323	1,828	8,862
Charge for the year		2,618	4,038	206	1,722	8,584
Written back on disposals		—	(213)	—	(63)	(276)
At 31 December 2008		2,618	10,536	529	3,487	17,170
Charge for the period		2,457	2,745	136	1,170	6,508
Written back on disposals		—	(370)	—	—	(370)
At 30 June 2009		5,075	12,911	665	4,657	23,308
Net book value:						
At 31 December 2006		—	6,584	407	2,257	9,248
At 31 December 2007		10,598	11,061	871	2,715	25,245
At 31 December 2008		86,749	39,074	1,298	9,833	136,954
At 30 June 2009		114,771	42,313	1,639	10,421	169,144

Buildings with carrying amount of RMB49,427,000 under Peak China have been pledged to banks as security for certain bank loans and facilities as at 31 December 2008 (see note 20). Buildings with carrying amount of RMB69,201,000 and RMB34,472,000 under Peak China and Peak Jiangxi have been pledged to banks as security for certain bank loans and facilities as at 30 June 2009 (see note 20).

12 Construction in progress

	Note	As at 31 December			As at 30 June
		2006	*2007*	*2008*	*2009*
		RMB'000	RMB'000	RMB'000	RMB'000
At 1 January		—	—	46,655	95,189
Additions		—	55,489	124,847	34,736
Transfer to property, plant and equipment	**11**	—	(8,834)	(76,313)	(29,053)
At 31 December/30 June		—	46,655	95,189	100,872

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the respective balance sheet dates. Construction in progress with carrying amount of RMB72,714,000 and RMB57,858,000 under Peak China was pledged to banks as security for certain bank loans and facilities as at 31 December 2008 and 30 June 2009 respectively (see note 20).

13 Lease prepayments

	As at 31 December			As at 30 June
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January	—	5,602	20,058	20,058
Additions	5,602	14,456	—	—
Disposal	—	—	—	(2,974)
At 31 December/30 June	5,602	20,058	20,058	17,084
Accumulated amortisation:				
At 1 January	—	—	152	558
Charge for the year/period	—	152	406	171
Write back on disposal	—	—	—	(74)
At 31 December/30 June	—	152	558	655
Net book value:				
At 31 December/30 June	5,602	19,906	19,500	16,429

Interests in leasehold land represent prepayments of land use rights premiums to the PRC authorities. The Group's leasehold lands are located in the PRC. The Group is granted land use rights for a period of 50–70 years.

Lease prepayments with carrying amount of RMB1,441,000 and RMB14,126,000 respectively under Peak Jiangxi and Peak China were pledged to banks as security for certain bank loans and facilities as at 31 December 2008 (see notes 20 and 21).

All lease prepayments were pledged to banks as security for certain bank loans and facilities as at 30 June 2009 (see notes 20 and 21).

14 Intangible assets

	Trademarks RMB'000	*Software* RMB'000	*Total* RMB'000
Cost:			
At 1 January 2006 and 2007	—	—	—
Additions (i)	9,386	—	9,386
At 31 December 2007	9,386	—	9,386
Additions	413	57	470
At 31 December 2008 and 30 June 2009	9,799	57	9,856
Accumulated amortisation:			
At 1 January 2006, 2007 and 2008	—	—	—
Amortisation for the year	—	1	1
At 31 December 2008	—	1	1
Amortisation for the period	—	7	7
At 30 June 2009	—	8	8
Net book value:			
At 31 December 2006	—	—	—
At 31 December 2007	9,386	—	9,386
At 31 December 2008	9,799	56	9,855
At 30 June 2009	9,799	49	9,848

(i) The trademarks were acquired from Fujian Peak Group Co., Ltd ("Fujian Peak") (see note 30(b)), a related party to the Group in August 2007. The cost of the trademarks also included their registration costs.

15 Interest in associates

The following list contains the particulars of associates during the Track Record Period, all of which are unlisted corporate entities:

Name of associate	*Form of business structure*	*Place of establishment and operation*	*Particulars of issued and paid up capital*	*Group's effective interest*	*Principal activity*
Peak Sports	Limited company	PRC	US$3,000,000	49%	Manufacturing and trading of sporting goods
Fengdeng Shoes Manufacturing Co., Ltd Quanzhou ("Feng Deng")	Limited company	PRC	RMB11,000,000	49%	Manufacturing and trading of sporting footwear
Quanzhou Peak Shoes Material Co., Ltd. ("Peak Material")	Limited company	PRC	US$1,000,000	49%	Manufacturing and trading of shoes material

The Group's interests in these associates were held by a subsidiary.

Peak Sports became a wholly owned subsidiary from August 2006 upon the acquisition of the remaining equity interests from Fujian Peak (refer to note 27). Fujian Peak is 100% owned by the Controlling Shareholders.

The 49% interests in associates of Feng Deng and Peak Material were disposed of to third parties in April 2007.

Summary financial information on associates:

	Assets RMB'000	*Liabilities* RMB'000	*Equity* RMB'000	*Revenues* RMB'000	*Profit* RMB'000
2007 (up to date of disposal)					
100 percent	56,506	46,249	10,257	13,882	162
Group's effective interest	27,688	22,662	5,026	6,802	79
2006					
100 percent	57,436	47,341	10,095	42,370	712
Group's effective interest	28,144	23,197	4,947	20,761	349

16 Inventories

Inventories in the consolidated balances sheets comprise:

	As at 31 December			*As at 30 June*
	2006 RMB'000	*2007* RMB'000	*2008* RMB'000	*2009* RMB'000
Raw materials	9,101	6,714	24,705	25,504
Work in progress	10,336	13,118	35,769	48,480
Finished goods	80,741	138,014	108,792	142,634
	100,178	157,846	169,266	216,618

17 Trade and other receivables

(a) *The Group*

	As at 31 December			*As at 30 June*
	2006 RMB'000	*2007* RMB'000	*2008* RMB'000	*2009* RMB'000
Bills receivable	300	192,010	29,100	28,509
Trade receivables	105,589	230,810	377,895	610,520
Deposits and prepayments	1,863	23,624	94,336	136,276
Other	1,835	1,117	6,145	4,963
	109,587	447,561	507,476	780,268

All of the trade and other receivables are expected to be recovered within one year. Deposits and prepayments as at 31 December 2008 mainly comprise prepayments of purchase of inventory, advertising expenses and [●] expenses in relation to issue of new shares of the Company of RMB32,780,000, RMB48,972,000 and RMB9,883,000 respectively.

Deposits and prepayments as at 30 June 2009 mainly comprise prepayments of purchase of inventory, advertising expenses and [●] expenses in relation to issue of new shares of the Company of RMB72,300,000, RMB52,790,000 and RMB11,185,000 respectively.

Set out below is the aging analysis of the total balance of the trade receivables and bills receivable based on the invoice date as of the balance sheet date:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	94,101	336,354	395,330	632,169
3 to 6 months	5,323	86,466	11,665	6,860
6 months to 1 year	4,560	—	—	—
Over 1 year	1,905	—	—	—
	105,889	422,820	406,995	639,029

The Group offers revolving credit to the domestic distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding the sales network. The Group generally evaluates the credit limits granted to the domestic distributors annually upon renewal of the relevant distribution agreements. Accordingly, there were no trade debts that were considered past due.

At each of the balance sheet dates, the Group considered whether impairment provision for doubtful debts for trade and other receivables need to be set up and no provision was considered necessary at each of the balance sheet dates. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(k)(i)).

(b) ***The Company***

The balance as at 30 June 2009 represented amounts due from a subsidiary. These amounts are unsecured, non-interest bearing and not expected to be recovered within 12 months.

18 Pledged deposits

Bank deposits have been pledged to banks as security for certain bank facilities (see notes 20 and 21).

19 Cash

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	51,478	102,430	418,377	722,613

As at 31 December 2006, 2007 and 2008 and 30 June 2009, cash and bank balances denominated in RMB that were placed with banks in the PRC and included in the cash above amounted to RMB44,765,000, RMB16,473,000, RMB406,897,000 and RMB611,613,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

20 Bank loans

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the bank loans were repayable as follows:

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	14,549	10,879	132,233	245,254
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	—	70,000	80,000
	14,549	10,879	202,233	325,254

The short-term bank loans as at 31 December 2006, 2007 and 2008 and 30 June 2009 carried weighted average interest rates at 6.59%, 7.97% and 6.94% and 4.84% per annum respectively.

Details of Renminbi denominated bank loans with original maturity over one year are as follows:

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Floating interest rate of 110% of benchmark interest rate stipulated by Peoples' Bank of China ("PBOC") per annum, with maturities through 2012	—	—	10,000	10,000
Floating interest rate of 102% of benchmark interest rate stipulated by PBOC per annum, with maturities through 2013	—	—	20,000	20,000
Flotating interest rate of benchmark interest rate stipulated by PBOC per annum, with maturities through 2013	—	—	40,000	50,000
	—	—	70,000	80,000

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the bank loans were secured and guaranteed as follows:

		As at 31 December			*As at 30 June*
		2006	*2007*	*2008*	*2009*
		RMB'000	RMB'000	RMB'000	RMB'000
Secured	(i)	4,686	—	81,497	110,000
Unsecured	(ii)	9,863	10,879	120,736	215,254
		14,549	10,879	202,233	325,254

(i) The bank loans as at 31 December 2006 was secured by a time deposit of US$600,000 (see note 18). The bank loans as at 31 December 2008 and 30 June 2009 were secured by the buildings, lease prepayments and construction in progress (see notes 11, 12 and 13).

(ii) The bank loans as at 31 December 2006 and 2007 were guaranteed by related parties (see note 30). The guarantees provided by related parties were either expired or were released before 31 December 2008.

21 Trade and other payables

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	68,900	164,300	154,758	274,253
Trade payables	59,251	211,568	65,569	87,999
Receipts in advance	1,189	—	—	—
Other payables and accruals	22,752	15,357	149,404	63,061
	152,092	391,225	369,731	425,313

Bills payable as at 31 December 2006 and 2007 were secured by pledged bank deposits (see note 18).

Bills payable as at 31 December 2008 were secured by one of the Group's lease prepayments and pledged bank deposits (see notes 13 and 18).

Bills payable as at 30 June 2009 were secured by all of the Group's lease prepayments and pledged bank deposits (see notes 13 and 18).

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

The balance of other payables and accruals as at 31 December 2008 mainly comprises deferred revenue for incentive rewards and renovation subsidy of RMB59,734,000, payable for construction in progress of RMB18,020,000, payroll payable of RMB15,299,000 and other taxes payable of RMB15,725,000.

An ageing analysis of the trade and bills payables based on the invoice date is as follows:

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	104,828	212,250	132,457	266,815
3 to 6 months	22,512	162,358	87,490	95,337
6 months to 1 year	327	1,209	380	100
Over 1 year	484	51	—	—
	128,151	375,868	220,327	362,252

22 Amounts due from/to related parties

The amounts due from/to related parties as at 31 December 2006 and 2007 are unsecured, interest-free and repayable on demand. With effect from 1 September 2008, the amount due to a related party is unsecured, repayable on demand and subject to an interest at the rate of 15% per annum. All the balances with related parties were settled in April 2009 (see note 30).

23 Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities in Fujian and Jiangxi provinces whereby the Group is required to make contributions to the Schemes at the rate of 18% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

24 Income tax in the consolidated balance sheets

(a) ***Current taxation in the consolidated balance sheets represents:***

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax	21,724	7,939	13,216	16,157

(b) ***Recognised deferred tax assets and liabilities***

Recognised deferred tax assets/(liabilities) are attributable to the following:

	Provision of incentive rewards and renovation subsidy	*Undistributed profits of subsidiaries in the PRC since 1 January 2008*	*Pre-operating expense, accruals and others*	*Total*
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At 1 January 2006	—	—	—	—
Charged to profit and loss	—	—	7	7
At 31 December 2006	—	—	7	7
At 1 January 2007	—	—	7	7
Charged to profit and loss	—	—	50	50
At 31 December 2007	—	—	57	57
Charged to profit and loss	6,381	(22,300)	863	(15,056)
At 31 December 2008	6,381	(22,300)	920	(14,999)
Charged to profit and loss	(4,997)	(3,602)	3,586	(5,013)
At 30 June 2009	1,384	(25,902)	4,506	(20,012)

	As at 31 December			As at 30 June
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Represented by:				
Deferred tax assets	7	174	7,662	6,374
Deferred tax liabilities	—	(117)	(22,661)	(26,386)
	7	57	(14,999)	(20,012)

25 Share capital

(a) Peak Hong Kong was set up in 2003 with an authorised share capital of HK$200,000 and issued share capital of HK$2 comprising 2 ordinary shares of HK$1 each. In August 2006, the shareholders injected additional capital of HK$8 comprising 8 ordinary shares of HK$1 each to Peak Hong Kong.

In July 2007, the shareholders injected a further capital of approximately HK$96,800,000 (equivalent to RMB94,542,000) to Peak Hong Kong for 199,990 ordinary shares of HK$1 each. The par value of approximately RMB195,000 was recorded under share capital. A surplus of RMB94,347,000 over the par value is credited to the share premium account.

The share capital in the consolidated balance sheets as at 31 December 2006 and 2007 represented the share capital of Peak Hong Kong.

(b) ***Authorised and issued share capital of the Company***

	As at 31 December 2008 & 30 June 2009	
	Number of shares	'000
Authorised:		
Ordinary shares of HK$0.01 each	5,000,000,000	HK$50,000
Equivalent to		RMB43,959
		RMB'000
Ordinary shares, issued and fully paid:		
At 15 February 2008	1	—
Arising from the Reorganization	1,499,999,999	13,188
As at 31 December 2008	1,500,000,000	13,188
Share issues	178,323,394	1,573
As at 30 June 2009	1,678,323,394	14,761

The Company was incorporated on 15 February 2008 with an authorised share capital of HK$380,000 comprising 38,000,000 shares of HK$0.01 each and one share of HK$0.01 was allotted and issued to Mr Xu Jingnan.

On 26 June 2008, the authorised share capital of the Company was increased to HK$50,000,000 comprising 5,000,000,000 shares.

Pursuant to the Reorganization, on 30 June 2008, Peak Investment acquired the entire issued share capital of Peak Hong Kong from the Controlling Shareholders and the other shareholders of Peak Hong Kong, and in consideration thereof, a total of 1,500,000,000 shares in the capital of the Company were issued and allotted to the Controlling Shareholders and the other shareholders of Peak Hong Kong in the same proportion to their respective shareholding interests in Peak Hong Kong.

In April 2009, the Company entered into a share purchase agreement ("Share Purchase Agreement") with Sequoia Capital China Growth Fund I, L.P., Sequoia Capital China Growth Partners Fund I, L.P., Sequoia Capital China GF Principals Fund I, L.P., LC Fund IV, L.P. and Right Lane Limited (together referred to as "New Investors") to issue an aggregate of 178,323,394 shares for an aggregate cash consideration of US$40,000,000 (equivalent to RMB273,395,000). The par value of approximately RMB1,573,000 was recorded under share capital. A surplus of RMB270,608,000 (after netting off directly attributable expenses of the share issue) over the par value is credited to share premium account.

The holders of ordinary shares of the Company are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

26 Reserves

Details of the changes in the Company's individual components of reserve are set out below:

The Company

	Share premium RMB'000 (Note a)	*Other reserve* RMB'000 (Note c)	*Exchange reserve* RMB'000 (Note d)	*Accumulated losses* RMB'000	*Total equity* RMB'000
At 15 February 2008	—	—	—	—	—
Arising from the Reorganization	—	549,336	—	—	549,336
Total comprehensive income for the period	—	—	1,728	—	1,728
At 31 December 2008	—	549,336	1,728	—	551,064
Total comprehensive income for the period	—	—	(335)	(773)	(1,108)
Capital injection	270,608	—	—	—	270,608
At 30 June 2009	270,608	549,336	1,393	(773)	820,564

(a) *Share premium*

The share premium in the consolidated balance sheet at 31 December 2007 represented the share premium of Peak Hong Kong.

The application of the share premium account of Peak Hong Kong is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

The share premium in the consolidated balance sheet as at 30 June 2009 represented the share premium of the Company.

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The funds in the share premium are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) *Statutory reserve*

Pursuant to applicable PRC regulations, PRC subsidiaries are required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders.

The statutory reserve of Peak Shoes and Peak Sports reached 50% of the registered capital of those companies as at 31 December 2007.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that the balance after such issue is not less than 25% of its registered capital.

(c) *Other reserve*

The other reserve of the Group represents the difference between the historical carrying value of share capital and share premium of Peak Hong Kong acquired over the nominal value of the shares issued by the Company as consideration.

The other reserve of the Company represents the difference of the historical carrying value of the net assets of Peak Hong Kong and its subsidiaries acquired over the nominal value of the shares issued by the Company at the date of the Reorganization.

The other reserve is distributable to the shareholders of the Company provided that immediately following the date on which the distribution is proposed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(d) *Exchange reserve*

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The exchange reserve of the Company comprises the foreign exchange differences arising from the translation of the financial statements of the Company from its functional currency, which is HK$, to the presentation currency.

The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(e) *Distributable reserve*

The distributable reserve of the Company as at 31 December 2008 and 30 June 2009 was RMB549,336,000 and RMB819,171,000 respectively.

On the basis set out in Section A above, the aggregate amount of distributable reserves at 31 December 2006 and 2007 of the subsidiaries of the Group were RMB122,765,000 and RMB281,252,000 respectively.

(f) *Capital management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans less cash and capital is defined as the total equity. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group has cash in excess of interest-bearing loans. It is the management's intention to restrict the ratio below 50% in the future. To achieve this end, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or raise new debt financing.

Neither the Company nor any of the companies now comprising the Group are subject to externally imposed capital requirements.

27 Business combination

In August 2006, Peak Hong Kong acquired the remaining equity interest in Peak Sports from Fujian Peak for a cash consideration of US$241,000 (equivalent to RMB1,984,000) and assumption of the capital injection obligation (based on total capital received up to the date of acquisition) of Fujian Peak amounted to US$352,000 (equivalent to RMB2,826,000). The share of fair value of Peak Sports' net assets at the date Peak Hong Kong obtained control in August 2006 was equal to the carrying amount, which was RMB4,810,000.

Peak Sports did not carry out any significant business prior to the acquisition transaction and that it recorded RMB218,713,000 and RMB46,125,000 of revenue and net profit, respectively, during the post-acquisition period from September 2006 to December 2006.

The acquisition has the following effect on the Group's assets and liabilities in August 2006:

	Carrying amount (Fair value) RMB'000
Trade and other receivables	9,191
Cash	360
Trade and other payables	(119)
Net assets acquired	9,432
Fujian Peak's share of net assets	4,810
Share of net assets acquired satisfied by	
Cash	1,984
Assumption of capital injection obligation of Fujian Peak	2,826
	4,810

Analysis of the net cash outflow of cash in respect of the acquisition of Peak Sports

Cash consideration paid	1,984
Less: cash acquired	(360)
	1,624

28 Financial risk management and fair value

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The Group offers revolving credit to the domestic distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding the sales network. The Group generally evaluates the credit limits granted to the domestic distributors annually upon renewal of the relevant distribution agreements.

At the balance sheet date, the Group has a certain concentration of credit risk as 10%, 6%, 9% and 14% and 27%, 26%, 30% and 33% of the total trade receivables which were due from the Group's largest customer and the five largest customers as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets after deducting any impairment allowance.

(b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

(c) *Interest rate risk*

The interest rates of the Group's bank loans are disclosed in note 20.

A general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax by an amount as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
100 basis point increase	134	79	1,814	405	2,773

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date.

(d) *Foreign currency risk*

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group is exposed to foreign currency risk primarily through sales and advances to/from related parties that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US$ and HK$.

Included in assets and liabilities are the following amounts that are denominated in a currency other than the functional currency.

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	'000	'000	'000	'000
Trade and other receivables				
US$	3,263	1,746	3,432	4,573
HK$	—	3,241	8,379	8,165
Amounts due from related parties				
US$	1,714	—	—	—
HK$	—	49,946	44,016	—
Cash				
US$	217	11,761	1,661	16,233
HK$	36	46	142	112
Pledged deposits				
US$	600	—	—	—
Trade and other payables				
US$	145	29	493	412
HK$	—	—	567	6,634
EUR	46	—	—	—
Amounts due to related parties				
US$	3,375	28,090	31,430	—
EUR	—	—	5	—
Bank loans				
US$	1,200	120	2,653	1,252

Sensitivity analysis

The following foreign currency sensitivity has been calculated based on the major net foreign currency exposure of the Group as at the balance sheet dates, assuming 5% shift of RMB against US$/HK$ are as follows:

A 5% strengthening of the RMB against US$/HK$ at 31 December 2006, 2007 and 2008 and 30 June 2009 would have increased/(decreased) profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Year ended 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
Effect in RMB'000				
US$	(264)	5,540	10,021	(6,540)
HK$	(2)	(2,492)	(2,292)	(72)

A 5% weakening of the RMB against US$/HK$ at 31 December 2006, 2007 and 2008 and 30 June 2009 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

(e) ***Fair Value***

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006, 2007 and 2008 and 30 June 2009.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

— Cash, trade receivables, other receivables and other current assets, trade payables, taxes payable and other liabilities

The carrying values approximate their fair values because of the short maturities of these instruments.

— Bank loans

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

— Amounts due from/to related parties

Amounts due from/to related parties as at 31 December 2006 and 2007 are interest-free and repayable on demand. Given these terms, it is not meaningful to disclose fair value. Amounts due to related parties as at 31 December 2008 are subject to an interest at the rate of 15% per annum with effect from 1 September 2008. The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

29 Commitments

(a) *Capital commitments*

Capital commitments for the acquisition of property, plant and equipment outstanding at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	—	12,893	17,414	12,970
Authorised but not contracted for	—	330	32,665	61,538
	—	13,223	50,079	74,508

(b) *Operating leases*

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,410	2,671	2,389	2,519
After 1 year but within 5 years	2,410	136	9,035	9,295
After 5 years	—	—	11,293	10,164
	4,820	2,807	22,717	21,978

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew when all terms are renegotiated. None of the lease includes contingent rentals.

30 Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the Track Record Period, the directors are of the view that the following are related parties of the Group:

Name of party	*Relationship*
Controlling Shareholders	Mr Xu Jingnan, Mr Xu Zhihua, Mr Xu Zhida and Ms Wu Tigao
Ever Sound Development Limited	Effectively 100% owned by Mr Xu Jingnan and Ms Wu Tigao
Brilliant Lead Group Limited	Effectively 100% owned by Mr Xu Zhida
Alpha Top Group Limited	Effectively 100% owned by Mr Xu Zhihua (Ever Sound Development Limited, Brilliant Lead Group Limited and Alpha Top Group are hereafter collectively referred to as Entities Controlled by Controlling Shareholders)
Fujian Peak	Effectively 100% owned by the Controlling Shareholders of the Company
Feng Deng	Associate company (up to 30 April 2007)
Peak Material	Associate company (up to 30 April 2007)
Peak Sports	Associate company (up to 29 August 2006)

(a) *Recurring transactions*

Particulars of significant transactions between the Group and the above related parties during the Track Record Period and expected to continue after the [●] of the Company are as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000 (*Unaudited*)	RMB'000
Lease of land and properties					
— Fujian Peak	2,410	2,410	2,322	1,205	1,129

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the [●].

The Group leased certain properties from Fujian Peak during the Track Record Period. The Group renewed the lease agreement with Fujian Peak for certain properties for a period from 1 June 2008 to 31 December 2018 with an annual rental of RMB2,259,000. The operating lease commitment is disclosed in note 29(b).

(b) ***Non-recurring transactions***

Included in the balances as at 31 December 2006 and 2007 set out in note 30(c) are unsecured, interest free advance made to/from related parties of the Group. With effect from 1 September 2008, the amount due to a related party is subject to an interest at the rate of 15% per annum. The maximum balances of which during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 are as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term advances to companies controlled by the Controlling Shareholders					
— Fujian Peak	51,673	133,515	—	—	—
— Feng Deng	18,336	6,450	—	—	—
— Peak Material	450	1,926	—	—	—
	70,459	141,891	—	—	—
Short-term advances from the Controlling Shareholders of the Company					
— Mr Xu Jingnan	26,105	330,141	162,188	40,210	35,195
— Ms Wu Tigao	2,250	2,277	—	—	—
	28,355	332,418	162,188	40,210	35,195

The above amounts have been settled in April 2009.

In addition, the Group had the following significant transactions with related parties:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trademarks transfer					
— Fujian Peak	—	7,500	—	—	—
Shares transfer					
— Fujian Peak	1,984	—	—	—	—
Purchases of raw materials					
— Peak Material	10,542	—	—	—	—
Accrued interest expenses					
— Mr Xu Jingnan *(note 4(a))*	—	—	1,564	—	2,674
Loans guaranteed by					
— Mr Xu Jingnan	9,863	10,879	—	—	—

According to the Share Purchase Agreement (as referred in note 25(b)), where the Group's profit after tax for the year ending 31 December 2009 is less than a predetermined amount, the Controlling Shareholders and the Entities Controlled by Controlling Shareholders shall pay each of these New Investors a sum as determined by the Share Purchase Agreement.

The Controlling Shareholders and the Entities Controlled by Controlling Shareholders shall also redeem all or any part of the outstanding ordinary shares held by the requesting New Investors at a redemption price per share if the Company fails to complete a qualified public offering of the Company's shares on a recognised stock exchange by specific dates at the option of the New Investors as determined by the Share Purchase Agreement.

(c) ***Balances with related parties***

As at each balance sheet date, the Group had the following balances with related parties:

(i) Amounts due from related parties

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related				
— Peak Material	3,962	—	—	—
Non-trade related				
— Mr Xu Jingnan	8,639	—	—	—
	12,601	—	—	—

(ii) Amounts due to related parties

	As at 31 December			*As at 30 June*
	2006	*2007*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade related				
— Mr Xu Jingnan	—	67,994	52,687	—

The amounts due from/to related parties as at 31 December 2006 and 2007 are unsecured, interest free and are expected to be recovered/repaid within one year. With effect from 1 September 2008, the amount due to a related party is subject to an interest at the rate of 15% per annum. There was no provision made against these amounts due from related parties as at 31 December 2006.

Non-trade related amounts due from/to related parties were mainly funding arrangements with related parties.

(d) ***Key management personnel compensation***

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6, is as follows:

	Year ended 31 December			*Six months ended 30 June*	
	2006	*2007*	*2008*	*2008*	*2009*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term employee benefits	198	271	1,520	497	909
Contributions to retirement benefit scheme	12	12	28	17	14
Total	210	283	1,548	514	923

Total remuneration is included in "staff costs" (note 4(b)).

(e) ***Contributions to defined contribution retirement plans***

The Group participates in defined contribution retirement plans organised by municipal governments for its employees in the PRC. The details of the Group's defined contribution retirement plan are described in note 23.

There were no material outstanding contributions to post-employment benefit plans as at 31 December 2006, 2007 and 2008 and 30 June 2009.

31 Immediate and ultimate controlling party

The directors consider the immediate parent companies as at 30 June 2009 to be Entities Controlled by Controlling Shareholders, while the ultimate controlling party of the Company as at 30 June 2009 to be the Controlling Shareholders.

32 Significant accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(a) ***Impairments***

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(b) ***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at each balance sheet date.

(c) ***Impairment of trade and other receivables***

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at each balance sheet date.

(d) ***Depreciation and amortisation***

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Track Record Period

Up to the date of issue of this Accountants' Report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Track Record Period and which have not been adopted in this Accountants' Report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in material impacts to the Group's results of operations and financial position.

D NON-ADJUSTING SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

a Valuation of properties

For the purpose of the [●] of the Company's share on the [●], the properties of the Group were revalued as at 31 July 2009 by Vigers Appraisal & Consulting Limited. In accordance with the accounting policy of the Group, the valuation difference was not taken up in its financial statements.

b Dividend declaration

The Company proposed dividend amounting to HK$127,950,000 (or HK$0.0853 per share) after 30 June 2009.

According to the Share Purchase Agreement (as referred in note 25(b)), the New Investors are not entitled to any portion of the above dividend.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2009.

F DIRECTORS' REMUNERATION

Save as disclosed in Section C note 6 above, no other remuneration has been paid or is payable in respect of the Track Record Period to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of the Company's directors' remuneration payable for the year ending 31 December 2009 is approximately RMB1,083,000, excluding management bonuses which are payable at the Company's discretion.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong