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Web Proof Information Pack of



PEAK SPORT PRODUCTS CO., LIMITED

匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

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YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

SUMMARY

OVERVIEW

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

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

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

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

We sell substantially all of our products in China on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. Substantially all of these authorized Peak retail outlets are located in second-tier and third-tier cities throughout China. We do not own or operate any of these authorized Peak retail outlets. As of 30 June 2009, the

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number of authorized Peak retail outlets located in first, second and third-tier cities in China were 273, 1,212 and 4,182, respectively. Such total of 5,667 authorized Peak retail outlets as of 30 June 2009 represents an increase of 329.3% from 1,320 authorized Peak retail outlets as of 1 January 2006.

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

- A well-recognized sportswear brand in China
- Effective and focused marketing and promotional capabilities

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- Extensive nationwide sales network
- Vertically integrated business model with strong production capabilities
- Strong market research and product design and development capabilities
- Experienced management team with a proven track record

OUR BUSINESS STRATEGY

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

- Further enhance brand image and recognition
- Continue to increase our market share in the Chinese sportswear industry
- Expand and optimize Peak’s sales network in China and internationally
- Continue to improve product research, design and development capabilities
- Increase our production capacity to benefit from greater economies of scale
- Expand strategically through mergers and acquisitions

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SUMMARY FINANCIAL INFORMATION

The tables below present the summary consolidated financial information of our Group. The summary consolidated income statement data for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the summary consolidated balance sheet data as of 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 and the summary consolidated cash flow data for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 are derived from, and should be read in conjunction with our consolidated financial information, including the notes thereto, set forth in the accountants’ report in Appendix I to this document. Financial information related to the six months ended 30 June 2008 is derived from unaudited financial statements:

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

SUMMARY

<u>Summary consolidated balance sheet information</u>	<u>As of 31 December</u>			<u>As of</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>30 June 2009</u>
	<u>RMB</u> <u>(million)</u>	<u>RMB</u> <u>(million)</u>	<u>RMB</u> <u>(million)</u>	<u>RMB</u> <u>(million)</u>
Assets				
Non-current assets	22.9	101.4	269.2	302.7
Current assets	<u>302.9</u>	<u>774.8</u>	<u>1,165.3</u>	<u>1,803.9</u>
Total assets	<u>325.8</u>	<u>876.2</u>	<u>1,434.5</u>	<u>2,106.6</u>
Equity and liabilities				
Total equity	137.5	398.1	774.0	1,313.5
Non-current liabilities	—	0.1	92.7	106.4
Current liabilities	<u>188.3</u>	<u>478.0</u>	<u>567.8</u>	<u>686.7</u>
Total equity and liabilities	<u>325.8</u>	<u>876.2</u>	<u>1,434.5</u>	<u>2,106.6</u>
<u>Summary consolidated cash flow information</u>	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
	<u>(million)</u>	<u>(million)</u>	<u>(million)</u>	<u>(million)</u>
Net cash generated from operating activities	99.1	13.3	284.3	156.6
Net cash (used in) investing activities	(29.5)	(137.3)	(134.7)	(21.8)
Net cash (used in)/generated from financing activities	(21.6)	175.1	169.5	(49.4)
				335.1

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2009

Forecast consolidated profit attributable to the equity shareholders

of our Company^{(1) & (2)} not less than RMB[●] million (HK\$[●] million)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarized in Appendix III to this document.
- (2) The forecast of the consolidated profit attributable to equity shareholders of our Company for the year ending 31 December 2009 prepared by our Directors is based on the audited consolidated income statements of our Group for the year ended 31 December 2008 and the six months ended 30 June 2009 and the forecast of the consolidated results of our Group for the six months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies being consistent in all material respects with those currently adopted by our Group as set out in note 1 “Significant accounting policies” in the accountants’ report attached as Appendix I to this document.

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DIVIDEND POLICY

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

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

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

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate eligible participants to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of the executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability. The principal terms of this scheme are summarized in the paragraph headed “Share Option Scheme” in Appendix VI to this document.

LITIGATION AGAINST OUR NON-EXECUTIVE DIRECTOR

Mr. Shen Nanpeng, our non-executive Director, is currently involved, in his personal capacity, as a defendant in a legal proceeding in the High Court of Hong Kong. Pursuant to a writ of summons dated 2 December 2008 filed with the High Court of Hong Kong, the plaintiffs in the legal proceeding alleged that Mr. Shen procured a breach of contract, interfered with the plaintiffs’ agreements with third parties and conspired with others to do unlawful acts or used unlawful means to cause damages to the plaintiffs. Mr. Shen was sued for payment of damages in the sum of approximately US\$200 million. Mr. Shen has informed the Company that he has obtained a legal opinion from his legal counsel who has formed a view that the plaintiffs do not have meritorious claims against Mr. Shen and that he will contest the case vigorously. As of the Latest Practicable Date, the date for trial has not yet been fixed.

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RISK FACTORS

Our Group’s operations are subject to a number of risks, a detailed discussion of which is set out in the section headed “Risk Factors” in this document. These risks can be broadly classified into:

- Risks relating to our business;
- Risks relating to our industry; and
- Risks relating to conducting business in China.

Set out below is a list of the risks referred to above.

Risks relating to our business

- We rely on our “Peak” brand.
- We may have difficulty managing and financing future growth and our growth in percentage terms may slow in the future.
- We cannot assure you that we will continue to be successful in developing our Peak branded products and expanding our product lines and offerings.
- We may not be able to accurately anticipate or respond in a timely manner to changes in continually evolving consumer tastes and preferences for sportswear products.
- Our sales may be affected by seasonality and a number of other factors.
- We rely on our distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets for the sales of our products in China.
- We have limited control over the ultimate retail sales by our distributors. Our brand image and business may be adversely affected if our distributors fail to adhere to, or fail to cause the third party retail outlet operators to adhere to, our retail policies and standards.
- We may not be able to accurately monitor the inventory level at our distributors and third party authorized Peak retail outlet operators, and we cannot determine the proportion of products sold to end-users.
- We cannot assure the accuracy of the sales and inventory data collected from the Lijing system.
- We face possible infringement of our trademarks and other intellectual property rights and counterfeiting of our products.
- We may be involved in intellectual property infringement litigation initiated by others.

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- Registration by other parties of trademarks similar to ours or the same as ours but in different categories under China’s trademark classification system may have a negative impact on the market perception of our Peak brand and may adversely affect our sales.
- Expansion of our production capacity may not be successful.
- We rely on a limited number of suppliers for our primary raw materials and failure to obtain sufficient quantities of quality raw materials in a timely manner or at acceptable prices may delay our production schedules.
- We rely on certain major customers for a significant portion of our business. The loss of any of such customers may materially and adversely affect our business, results of operations and financial position.
- If our distributors do not pay us for their purchases in a timely manner or at all, our results of operations and financial condition may be materially and adversely affected.
- We rely on our Contract Manufacturers for the production of a significant portion of our products and any material disruption to the supply of products from our Contract Manufacturers would materially and adversely affect our results of operations.
- Our results of operations may be adversely affected by increases in the market prices of raw materials if we are unable to pass on the increased cost of raw materials to our customers through higher prices for our products.
- We may experience a shortage of labor and our labor costs may increase.
- Our sales and operations may be affected by any prolonged business interruption at our production facilities.
- Our business may be affected by any malfunction of our management information systems for extended period.
- Our brand image and business may be damaged if we or our Contract Manufacturers, suppliers or distributors violate any relevant laws, rules or regulations, particularly in respect of labor and environmental protection.
- Our brand image and business may be adversely affected by any negative news on our spokespersons or on the teams for which we sponsor their home stadiums.
- We may fail to integrate future acquired businesses successfully into our existing operations.
- We rely on our key executives and personnel.
- Our insurance coverage may not be sufficient to cover the risks related to our operations.
- The operations of our distributors and third party authorized Peak retail outlet operators may be disrupted by earthquakes and other reasons beyond our control, which could materially and adversely affect our business, results of operations and financial condition.

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- We may be exposed to product liability claims which may adversely affect our reputation and business.
- We are a holding company that relies heavily on dividend payments from our subsidiaries for funding.
- Prior dividend distributions are not an indication of our future dividend policy.
- Any change in our tax treatment in China, including preferential enterprise income tax rates, may have a negative impact on our results of operations.
- We may be deemed a PRC tax resident under the New Tax Law and be subject to the PRC taxation on our worldwide income.
- Recent changes in the laws and regulations applicable to the retail industry in China may intensify competition in China’s retail industry, which may adversely affect our expansion into the sportswear retail business and our results of operations.
- Our labor costs may increase due to the implementation of the new PRC Labor Contract Law.
- We may be subject to penalties for our past loan advancing activities to related parties.
- PRC Exchange Regulations on loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from the [●] to make loans or additional capital contributions to our PRC subsidiaries.

Risks relating to our industry

- We face increasing competition from international and domestic brands.
- Changes in consumer spending patterns could materially affect our growth and profitability.

Risks relating to conducting business in China

- Changes in the economic, political and social conditions in China and policies adopted by the Chinese Government may adversely affect our business, results of operations and financial condition.
- Our future performance is dependent on China’s economy and in particular, the level of growth of the consumer market in China.
- Our business may be materially and adversely impacted by recent financial difficulties and economic conditions in the United States, Europe and elsewhere.
- The legal system in China is not fully developed and has inherent uncertainties which could limit the legal protection available to us and adversely affect our operations.
- It may be difficult to effect service of process upon us or our Directors who reside in China or to enforce against them or us in China any judgments obtained from non-Chinese courts.

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- Government control in currency conversion and future movements in foreign exchange rates may materially and adversely affect our results of operations, financial condition and ability to remit dividends.
- Gain on the sale of our Shares and dividends on our Shares may be subject to withholding tax.
- An outbreak of the Avian Influenza or SARS or any other similar epidemic or an increase in the severity of H1N1 flu (swine flu) may, directly or indirectly, adversely affect our results of operations and the price of the Shares.

DEFINITIONS

In this document, the following expressions shall have the meanings set out below unless the context otherwise requires.

“Alpha Top”	Alpha Top Group Limited (頂峰集團有限公司), a limited liability company incorporated in the British Virgin Islands on 18 March 2009 which is wholly owned by Mr. Xu Zhihua
“Amended and Restated Shareholders Agreement”	the agreement dated 4 April 2009 entered into among the Company and its subsidiaries, the Controlling Shareholders, Haojia, the First Round Financial Investors, CCBIAM and the Third Round Financial Investors as amended by two supplemental agreements entered into amongst the same parties dated 24 June 2009 and 27 August 2009 respectively
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 8 September 2009 and as amended from time to time, a summary of which is set out in Appendix V to this document
“Associate(s)”	has the meaning ascribed thereto under the [●]
“Brilliant Lead”	Brilliant Lead Group Limited (嶺輝集團有限公司), a limited liability company incorporated in the British Virgin Islands on 18 March 2009 which is wholly owned by Mr. Xu Zhida
“Business Day”	any day (excluding Saturdays, Sundays or public holidays) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate
“CBA”	the Chinese Basketball Association
“CCBIAM”	CCB International Asset Management Limited, one of the Second Round Financial Investors. It is incorporated in Hong Kong and is a wholly-owned subsidiary of CCB International (Holding) Limited, which in turn is a wholly-owned subsidiary of China Construction Bank Corporation. It is a licenced corporation under the SFO for Type 9 regulated activity (asset management). Its major business includes direct investment, conducting mergers and acquisitions, providing portfolio management services and fixed income services
“China” or “PRC”	the People’s Republic of China, which for the purposes of this document and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

DEFINITIONS

“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Contract Manufacturers”	depending on the context, our subcontractors who manufacture finished products with the raw materials provided by us, ODMs or OEMs
“Controlling Shareholders”	has the meaning ascribed to it under the [●] and, in the context of our Company and for the purposes of this document, means Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida, Ms. Wu Tigao, Ever Sound, Alpha Top and Brilliant Lead, who are entitled to control, in aggregate, the exercise of approximately [●]% of the voting rights in the issued share capital of our Company immediately after completion of the [●]
“Convertible Bond Agreement”	the convertible bond agreement dated 28 December 2006 entered into between Legacy China Limited, the Xu Family and the Company
“Director(s)”	the director(s) of the Company whose name(s) are set out in the section headed “Directors and Senior Management” of this document
“Ever Sound”	Ever Sound Development Limited (永聲發展有限公司), a limited liability company incorporated in the British Virgin Islands on 18 March 2009 which is wholly owned by Mr. Xu Jingnan and Ms. Wu Tigao
“Feng Deng”	Feng Deng Shoes Manufacturing Co., Ltd Quanzhou (泉州豐登製鞋有限公司), a limited liability company wholly owned by an Independent Third Party and was initially established in the PRC as a sino-foreign equity joint venture on 30 July 1988 and converted into a wholly foreign owned enterprise in the PRC on 8 August 2003. It was subsequently converted back to a sino-foreign equity joint venture on 10 August 2004. Feng Deng was an associated company of Peak Hong Kong prior to its disposal in April 2007 with all of the relevant procedures completed in accordance with the PRC laws and regulations in July 2007
“FIBA”	Fédération Internationale de Basketball

DEFINITIONS

“First Round Financial Investors”	Sequoia Entities 1 and Pre IPO Capital Partners Limited (a limited company incorporated in the British Virgin Islands in April 2006, which is wholly owned by Mr. Kevin Wu and the principal business of which is private equity investment in China, all of which are independent from the Group, Haojia, the Second Round Financial Investors and the Third Round Financial Investors and each other, except for Sequoia Entities 1 and Sequoia Entities 2 which are partnerships managed by Sequoia Capital China Advisor Limited
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch
“Fujian Peak”	Fujian Peak Group Co., Ltd (福建匹克集團有限公司), previously known as Fujian Quanzhou Peak (Group) Company Limited (福建泉州匹克(集團)有限公司) a collectively-owned enterprise established in the PRC on 22 December 1992 and subsequently converted into a limited liability company on 30 November 2004 and is owned as to 60% by Mr. Xu Jingnan, 20% by Mr. Xu Zhihua and 20% by Mr. Xu Zhida
“GAQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the PRC
“GDP”	gross domestic product
“GFA”	gross floor area
“Haojia”	Haojia Global Capital Limited, an investment holding company incorporated in the British Virgin Islands and owned by Mr. Xu Chenyang, Mr. Zhong Zhenfa and Mr. Tian Shixiang, all of whom are Independent Third Parties and are independent from each of the First Round Financial Investors and Second Round Financial Investors
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standard Board. IFRS includes International Accounting Standards and their interpretations
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with any of the connected persons of our Company

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“Investment Agreement”	the agreement entered into between the Company and SCGC on 3 April 2009, as supplemented by a supplementary agreement entered into by the Company, the Controlling Shareholders and SCGC dated 24 June 2009
“Latest Practicable Date”	9 September 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“LCL Complaint”	the purported complaint made by Legacy China Limited in which it alleged to enforce the obligations under the Convertible Bond Agreement. See the section headed “Our business — legal compliance and proceedings” for details
“Legend Entities”	LC Fund IV, L.P. and Right Lane Limited. LC Fund IV, L.P. was established in the Cayman Islands in 2008, which business is seeking investment opportunities in the PRC. Right Lane Limited is a limited company incorporated in Hong Kong in 1988 and is a wholly-owned subsidiary of Legend Holdings Limited, an investment company in the PRC. It is one of the limited partners of LC Fund IV, L.P. and committed less than 30% of total commitment capital of LC Fund IV, L.P.. Right Lane Limited also holds 30% equity interest of LC Fund IV GP Limited which is the sole general partner of LC Fund IV, L.P.. The manager of LC Fund IV, L.P. is Legend Capital Management Limited which is a professional venture capital management company. Right Lane Limited currently principally invests in offshore information technology companies, venture capital and private equity funds on behalf of Legend Holdings Limited
“Litigation”	the legal proceeding instituted by the Company and the Xu Family against Legacy China Limited, details of which are set out in the paragraph headed “Our business — legal compliance and proceedings”
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, adopted on 8 September 2009 and as amended from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NBA”	the National Basketball Association
“NBA China”	the NBA Sports and Culture Development (Beijing) Co., Ltd.

DEFINITIONS

“ODM”	acronym for original design manufacturer, which is a business that designs and manufactures goods or equipment that is subsequently sold by other companies under their own brand names
“OEM”	acronym for original equipment manufacturer, which is a business that manufactures goods or equipment that is subsequently sold by other companies under their own brand names
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of China
“Peak China”	Peak (China) Limited Company (匹克(中國)有限公司), a WFOE with limited liability established in the PRC on 29 January 2007 and a wholly-owned subsidiary of Peak Hong Kong
“Peak Hong Kong”	Peak (Hong Kong) International Company Limited (匹克(香港)國際有限公司), a limited liability company incorporated in Hong Kong on 2 January 2003 and a wholly-owned subsidiary of Peak Investment
“Peak Investment”	Peak Investment Management Co., Limited (匹克投資管理有限公司), a limited liability company incorporated in the British Virgin Islands on 17 January 2008 and a wholly-owned subsidiary of the Company
“Peak Jiangxi”	Peak (Jiangxi) Industry Co., Ltd. (匹克(江西)實業有限公司), a WFOE with limited liability established in the PRC on 6 April 2006 and a wholly-owned subsidiary of Peak Hong Kong
“Peak Material”	Quanzhou Peak Shoes Material Co., Ltd (泉州匹克鞋材有限公司), a limited liability company wholly owned by an Independent Third Party and was initially established in the PRC as a sino-foreign equity joint venture on 19 March 1993 and converted into a wholly foreign owned enterprise in the PRC on 7 July 2003 and subsequently converted back to a sino-foreign equity joint venture on 10 August 2004. It was an associated company of Peak Hong Kong prior to its disposal in April 2007 with all the relevant procedures completed in accordance with the PRC laws and regulations in July 2007
“Peak Sports”	Fujian Quanzhou Peak Sports Products Co., Ltd. (福建泉州匹克體育用品有限公司), a wholly foreign owned enterprise with limited liability established in the PRC on 10 August 2004 and a wholly owned subsidiary of Peak Hong Kong

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“Peak Shoes”	Quanzhou Peak Shoes Co., Ltd (泉州匹克鞋業有限公司), a WFOE with limited liability established in the PRC on 23 July 1994 and a wholly-owned subsidiary of Peak Hong Kong
“Reorganization”	the reorganization by the companies comprising the Group in preparation for the [●]. Please refer to the paragraph headed “Corporate Reorganization” in Appendix VI to this document
“RMB” or “Renminbi”	Chinese yuan or Renminbi yuan, the lawful currency of the PRC
“SCGC”	SCGC Capital Holding Company Limited, one of the Second Round Financial Investors. It is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Shenzhen Capital (Hong Kong) Co., Limited. Its major business includes provision of consultation services for investment projects, laws and regulations consultation services, project management services, listing planning services and exploration of investment opportunities services
“Second Round Financial Investors”	those investors as described in the section headed “Statutory and General Information — 4. Details of the Second Round Financial Investors” in this document, all of which are Independent Third Parties and are independent from Haojia, each of the First Round Financial Investors and the Third Round Financial Investors and each other
“Sequoia Entities 1”	Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P. and Sequoia Capital China Principals Fund I, L.P.. All of them are limited liability partnership incorporated in the Cayman Islands. They invest in companies in early stages of development in China. Their general partner is Sequoia Capital China Management I, L.P. whose general partner is SC China Holding Limited. They are managed by Sequoia Capital China Advisors Limited
“Sequoia Entities 2”	Sequoia Capital China Growth Fund I, L.P., Sequoia Capital China Growth Partners Fund I, L.P. and Sequoia Capital China GF Principals Fund I, L.P.. All of them are limited liability partnership incorporated in the Cayman Islands. They invest in growing stage companies in China. Their general partner is Sequoia Capital China Growth Fund Management I, L.P. whose general partner is SC China Holding Limited. They are managed by Sequoia Capital China Advisors Limited
“SFC”	the Securities and Futures Commission of Hong Kong

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the agreement entered into among the Company and its subsidiaries, the First Round Financial Investors and the Xu Family dated 30 June 2008 setting out certain rights and obligations of the First Round Financial Investors and the Xu Family, and it has been superseded by the Amended and Restated Shareholders Agreement
“Share Purchase Agreement”	the share purchase agreement entered into amongst the Group, the Xu Family, the Third Round Financial Investors and CCBIAM on 4 April 2009 as amended by the supplemental share purchase agreement entered into amongst the same parties on 24 June 2009
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to a resolution passed by our Shareholders on 8 September 2009
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases (as amended from time to time)
“Third Round Financial Investors”	Sequoia Entities 2 and Legend Entities, all of which are independent from the Group, Haojia, the First Round Financial Investors, the Second Round Financial Investors and each other except for Sequoia Entities 1 and Sequoia Entities 2 which are partnerships managed by Sequoia Capital China Advisor Limited
“Track Record Period”	1 January 2006 to 30 June 2009
“US” or “United States”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“WFOE”	wholly foreign owned enterprise within the meaning prescribed under the PRC laws

DEFINITIONS

“WNBA”	the Women’s National Basketball Association
“Xu Family”	Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua and Mr. Xu Zhida
“%”	per cent.

In this document:

- “Company” and “our Company” refer to Peak Sport Products Co., Limited (匹克體育用品有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability on 15 February 2008;
- “Group”, “our Group”, “our”, “we” and “us” mean Peak Sport Products Co., Limited (匹克體育用品有限公司) and its subsidiaries from time to time and, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, mean the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors;
- the terms “associate”, “[●]”, “[●]”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the [●], unless the context otherwise requires;
- “first-tier city” refers to any of Beijing, Shanghai, Guangzhou and Shenzhen;
- “second-tier city” refers to any of Chongqing, Foshan, Tianjin, Chengdu, Wuhan, Shantou, Hangzhou, Xi’an, Nanjing, Shenyang, Ji’nan, Dongguan, Wenzhou, Taizhou, Ningbo, Zhongshan, Suzhou, Xiamen, Changzhou, Wuxi, Zhuhai, Fuzhou, Taiyuan, Qingdao, Kunming, Changsha, Harbin, Yantai, Tangshan, Dalian, Changchun, Putian, Shijiazhuang, Zibo, Huai’an, Zhengzhou and Guiyang; and
- “third-tier city” refers to any other city within China that is not categorised as first or second-tier city.
- Throughout this document, financial information related to the six months ended 30 June 2008 is derived from unaudited financial statements.

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RISKS RELATING TO OUR BUSINESS

We rely on our “Peak” brand.

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

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

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

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

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

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

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

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

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

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

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

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

The success and popularity of our sportswear products depend, in part, upon our ability to identify consumer preferences and design products that appeal to the mass market. Fashion trends and consumer preferences, however, change frequently. There is no assurance that we can anticipate and respond in a timely manner to changes in fashion trends and consumer tastes and preferences. Our failure to

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anticipate, identify or react swiftly to changes in such trends and preferences could result in lower sales, higher markdowns to reduce excess inventories and lower operating profits. Conversely, if we fail to anticipate increased consumer demand for our products, we may experience inventory shortages, which would result in foregone sales, and could negatively impact our customer goodwill, brand image and profitability.

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

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

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

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

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

We rely on the contractual obligations set forth in the distribution agreements we entered into with our distributors, as well as policies and standards we formulate from time to time, to impose our retail policies on these distributors in respect of the authorized Peak retail outlets. In addition, as we do not enter into any agreements with the third party retail outlet operators, we rely on our distributors to ensure that these authorized Peak retail outlets operate in accordance with our retail policies. As such,

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

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

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

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

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

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

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

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

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

During the course of our operations, third parties may in the future attempt to challenge the ownership and/or validity of our intellectual property rights, or assert claims that we have violated their intellectual property rights. As a part of our strategy to enhance the brand image and recognition of our Peak brand, we have in recent years begun to enter into contractual and other relationships with organizations such as NBA China, the WNBA, FIBA and others in order to promote our Peak brand and raise our profile with our target consumers. The terms of these contracts place restrictions on our ability to use the copyrights or intellectual property owned or licensed by these organizations. As a PRC-based company, we are relatively new to understanding and applying intellectual property rights, and may inadvertently design products that include elements that may be alleged by third parties as infringing upon their copyright and/or other intellectual property rights. As a result, these parties or other parties may choose to discontinue their cooperation with us in the development and promotion of our Peak

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brand, or initiate litigation or other proceedings against us alleging breach of contract. Loss of our relationships with NBA China, the WNBA, FIBA or other important organizations may limit our ability to grow and promote our Peak brand in the manner we intend, and limit our turnover and profitability. Responding to and defending these proceedings may require substantial costs and diversion of resources, and the result of these proceedings may be uncertain. As a result, our business, results of operations, financial condition and reputation may be materially and adversely affected.

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

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

Expansion of our production capacity may not be successful.

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

We launched production at our new footwear production facility in Shang’gao, Jiangxi province in June 2008. The facility currently has six footwear production lines and we plan to gradually increase our production lines at that facility to 16 footwear production lines by the end of 2013. The annual footwear production by our Shang’gao plant upon the launching of all 16 production lines (which is expected to be in 2013) is expected to be approximately 12.0 million pairs. We also launched trial production and production at our new apparel production facility in Hui’an, Fujian province in March 2008 and September 2008, respectively. Our new apparel production facility in Hui’an has an expected annual apparel production capacity of 16.4 million pieces by 2012. Through our increased production capacity, we expect to gradually be able to produce more Peak footwear and apparel at our own facilities to meet the growing demand for our products and to benefit from related economies of scale. However, our new footwear and apparel production facilities in Shang’gao and Hui’an are not likely to operate at full capacity immediately and will probably only produce a portion of our footwear and apparel products in the short term, and as such, we are likely to continue to rely on Contract Manufacturers for the production of a portion of our footwear and apparel products. In addition, annual production capacity is

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an estimate based on a number of factors and assumptions, including factors that we may be unable to control, such as average productivity rates of our workers. There can be no assurance that such estimates will not be higher or lower than the amounts we actually are able to produce. As a result of the foregoing factors, if we are unable to continue to successfully increase our production capacity due to, among other things, insufficient financial resources, any shortage of labor, or the inability to engage suitable Contract Manufacturers to supplement our production capacity, our production estimates may turn out to be incorrect. Our future business and results of operations may be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on our key executives and personnel.

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

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

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

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

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

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

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

We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. We believe that it is normal industry practice in China not to have such insurance. In the event that we are found to be liable for a product liability claim, we could be required to pay substantial

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monetary damages. Furthermore, even if we successfully defend ourselves against a product liability claim, we could be forced to spend a substantial amount of money, time and resources on defending such a claim and our reputation could suffer as a result of the negative publicity associated with it.

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

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

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

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

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

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

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

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

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

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

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

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

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implementation regulations and how local tax authorities apply or enforce the New Tax Law and the implementation regulations. Our financial performance may be materially and adversely affected if we are subject to the PRC taxation on our worldwide income.

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

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

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

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

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causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for the compensation for such loss. Our labor costs may increase due to the implementation of the new PRC Labor Contract Law (中華人民共和國勞動合同法) and the PRC Labor Contract Law Implementation Rules (中華人民共和國勞動合同法實施條例) and our business and results of operations may be materially and adversely affected.

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

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

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

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

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

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

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RISKS RELATING TO OUR INDUSTRY

We face increasing competition from international and domestic brands.

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

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

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

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

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

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

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

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

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

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

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

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

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

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

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

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;
- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession, may cause our customers to delay, defer or cancel their purchases, including decisions previously made;
- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of our sportswear products;

RISK FACTORS

- financing and other sources of liquidity may not be available on reasonable terms or at all; and
- the trading price of our Shares may experience increased volatility.

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

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

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

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

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

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

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

In China, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People’s Bank of China. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. However, the Chinese Government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the US

RISK FACTORS

dollar and Hong Kong dollar by approximately 2%. On 23 September 2005, the Chinese Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. A significant appreciation of Renminbi will have a material impact on our foreign currency denominated turnover from the exports of our Peak branded products. A significant depreciation of Renminbi will, on the other hand, affect our capability to remit dividends.

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

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

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

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

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

DIRECTORS AND PARTIES INVOLVED

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Xu Jingnan (許景南)	No. 4, 80 Dingrong Road Fengze District Quanzhou, Fujian PRC	PRC
Mr. Xu Zhihua (許志華)	No. 4, 80 Dingrong Road Fengze District Quanzhou, Fujian PRC	PRC
Mr. Xu Zhida (許志達)	No. 4, 80 Dingrong Road Fengze District Quanzhou, Fujian PRC	PRC
<i>Non-executive Directors</i>		
Ms. Wu Tigao (吳提高)	No. 4, 80 Dingrong Road Fengze District Quanzhou, Fujian PRC	PRC
Mr. Shen Nanpeng (沈南鵬)	House 6 33–35 Island Road Repulse Bay Hong Kong	PRC
Dr. Hu Zhanghong (胡章宏)	Flat A, 18th Floor Ying Piu Mansion 1 Breezy Path Mid-levels Hong Kong	PRC
Mr. Zhu Linan (朱立南)	3-505, Xin Ke Xiang Yuan Ke Xue Yuan Nan Road Hai Dian District Beijing PRC	PRC

DIRECTORS AND PARTIES INVOLVED

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent non-executive Directors</i>		
Dr. Xiang Bing (項兵)	26H, Tower 2 Merlin Garden 33 Zi Zhu Yuan Road Beijing PRC	Hong Kong
Dr. Rock Jin (金岩石)	No. 418, Building 34–302 East Jin Xiu Road Pudong Shanghai PRC	American
Mr. Wang Mingquan (王明權)	Rm 401, Building No. 0 Xao Chai Road Quanzhou Fujian PRC	PRC

PARTIES INVOLVED

Legal advisers to the Company	<i>As to Hong Kong Law and United States Law</i> DLA Piper Hong Kong 40th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
	<i>As to Cayman Islands Law</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

DIRECTORS AND PARTIES INVOLVED

As to PRC Law

King & Wood PRC Lawyers
28th Floor
Landmark
4028 Jintian Road
Futian District
Shenzhen 518026
PRC

Auditors and reporting accountants

KPMG
Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central
Hong Kong

Property valuers

Vigers Appraisal & Consulting Limited
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	Dongbao Industrial Area Donghai Fengze District Quanzhou Fujian Province, the PRC
Principal place of business in Hong Kong	40th Floor, Bank of China Tower 1 Garden Road, Central Hong Kong
Company secretary	Mr. Tsoi Ka Ho <i>CPA</i> Flat H, 10th Floor 77 Kung Lok Road Kwun Tong Kowloon
Authorized representatives (for the purpose of the [●])	Mr. Xu Zhihua No. 4, 80 Dingrong Road Fengze District Quanzhou, Fujian PRC Mr. Tsoi Ka Ho <i>CPA</i> Flat H, 10th Floor 77 Kung Lok Road Kwun Tong Kowloon
Audit committee	Dr. Xiang Bing (<i>Chairman</i>) Dr. Rock Jin Mr. Wang Mingquan
Remuneration committee	Dr. Xiang Bing (<i>Chairman</i>) Dr. Rock Jin Mr. Shen Nanpeng Mr. Wang Mingquan Mr. Xu Jingnan

CORPORATE INFORMATION

Nomination committee

Dr. Rock Jin (*Chairman*)
Mr. Wang Mingquan
Dr. Xiang Bing

Principal bankers

China Construction Bank (Quanzhou Bincheng Branch)
No. 10–14, Hao Sheng Hua Yuan
Pingshan Road
Fengze District
Quanzhou, Fujian
PRC

Company website address

www.peaksport.com.hk
(contents of this website do not form part of this document)

INDUSTRY OVERVIEW

SOURCES OF THE INDUSTRY INFORMATION

We commissioned ZOU Marketing Limited, an Independent Third Party, to conduct an analysis of, and produce a report on, the Chinese sportswear market for inclusion in this document at an aggregate fixed fee of RMB850,000. ZOU Marketing Limited is a Shanghai-based sports marketing and consulting firm that conducts market research and provides advisory services on the China sports industry.

The methodology used by ZOU Marketing Limited involves reviewing reports and statistics published by various sportswear companies, independent industry researchers, and Chinese government agencies as well as conducting interviews with footwear and apparel companies and retailers. Interviews with companies and retailers were utilized as a cross-checking mechanism to verify the accuracy of all the market shares and revenue figures that were and were not contained in publicly available company reports. Market size and company revenue derived from forecasts were obtained from historical data analysis compared against macroeconomic factors and mapped against publicly available forecasts to arrive at their estimates. “Sportswear” as used in the report includes sports apparel, footwear and accessories.

ZOU Marketing Limited has made the following principal assumptions in the preparation of the report:

- the 2008 Olympic Games in Beijing have significantly raised public awareness in sports and fitness, stimulated the consumption of sports goods and sportswear and positively impacted overall market growth. As a result, the sportswear industry in China will continue to experience strong growth over the next five years;
- basketball will continue to be the most popular sports in China;
- the Chinese government will continue to support the development of the sportswear industry in China in the next 5 years;
- the recent financial and credit crisis will have a negative impact on China’s economy for the next couple of years; and
- there will be no material changes in existing political, legal conditions in China that will adversely affect the Chinese sportswear industry.

We also commissioned Frost & Sullivan, an Independent Third Party, to conduct brand awareness survey of the Chinese sports footwear market and produce a report on the sports footwear and basketball footwear markets in China for inclusion in this document. A fixed fee of RMB180,000 was paid to Frost & Sullivan for conducting the survey and preparing the independent report.

The methodology used by Frost & Sullivan in the preparation of the report involved conducting both primary and secondary research obtained from numerous sources within the sports footwear and basketball footwear industries in the PRC. The primary research was conducted through face-to-face interviews of customers in 28 major cities in terms of population and disposable income level which are located in 21 provinces and municipalities: Beijing, Shanghai, Guangdong, Heilongjiang, Jilin, Chongqing, Shandong, Henan, Hubei, Hunan, Hebei, Shaanxi, Sichuan, Zhejiang, Jiangsu, Fujian, Guangxi, Anhui, Yunnan, Gansu and Hainan. These 21 provinces/municipalities are typically regarded

INDUSTRY OVERVIEW

as representatives of northern, eastern, southern and western China geographically and economically. The research involved participants answering a number of questions as an interactive qualitative session to map brand perceptions. Secondary research was conducted through reviewing company reports and independent research reports to obtain the information of brand overview in target industries and products of manufacturers.

Certain other information and statistics set forth in this section are derived from publications of CEIC Data Company Ltd. (“CEIC”) and the Economist Intelligence Unit (“EIU”). Such publications were not commissioned by our Company.

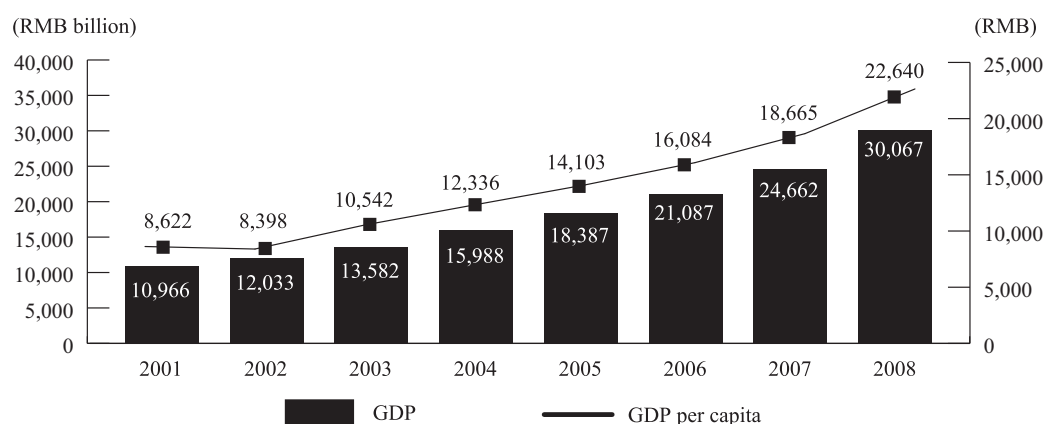
CEIC was founded in 1992 and is headquartered in New York with 26 offices located in Asia, Africa, Europe and Latin America. CEIC supplies clients in the field of macroeconomic and financial trend monitoring with access to financial time series data. The information and statistics derived from CEIC are based on secondary sources of government official publications with data being updated annually.

The Economist Intelligence Unit is a specialist publisher providing analysis and forecast on over 200 countries and nine strategic industries. The head office of the EIU is in London with major regional centres in Hong Kong, Vienna and New York. It maintains over 40 editorial and sales offices around the world. The information and statistics derived from the EIU are based on the China Country Report for April 2008 which is prepared by the EIU combining analytical insight and quantitative forecasts.

RAPID ECONOMIC GROWTH AND URBANIZATION

From 2001 to 2008, China’s GDP grew from RMB10,966 billion (US\$1,606 billion) to RMB30,067 billion (US\$4,402 billion), representing a CAGR of 15.5%. During the same period, GDP per capita increased from RMB8,622 (US\$1,262) to RMB22,640 (US\$3,315), representing a CAGR of 14.8%. According to the EIU, the economy is expected to continue its rapid growth in the coming years.

GDP and GDP per capita in China, 2001–2008

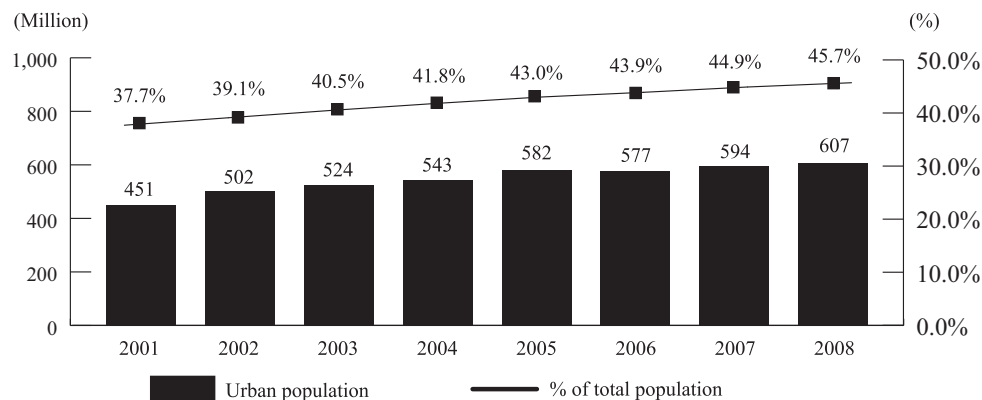


Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

The rapid growth of the Chinese economy has led to unprecedented urbanization of its population. The urban population has increased dramatically as people from rural and less developed areas migrated to cities in search of better jobs and higher living standards. Across China, cities have expanded their boundaries to accommodate this migration. In the period between 2001 and 2008, China’s urban population increased from 451 million to 607 million and accounted for 45.7% of the total population.

Urban Population in China, 2001–2008



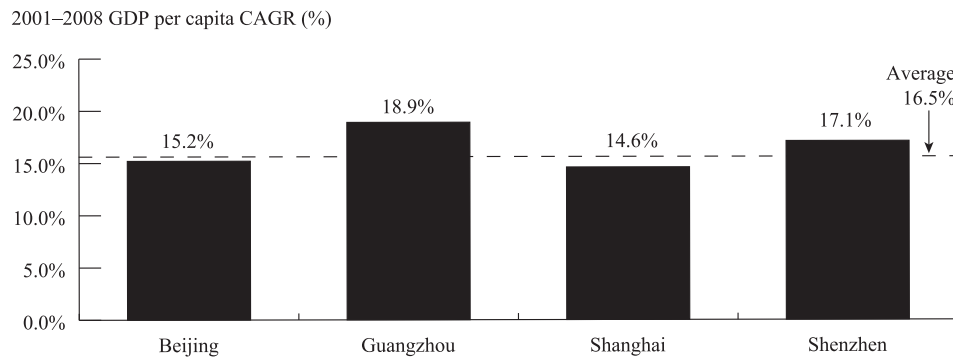
Source: National Bureau of Statistics of China

The growth of the urban population has been accompanied by rising income levels of urban households. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households increased from RMB6,860 (US\$1,004) to RMB15,781 (US\$2,311) from 2001 to 2008, representing a CAGR of 12.6%.

First-tier cities, commonly acknowledged as Beijing, Shanghai, Guangzhou and Shenzhen, have led the growth of the domestic economy. As the domestic economy expanded, investment and development has been increasingly focused on second and third-tier cities, which have in recent years shown stronger economic growth than first-tier cities. From 2001 to 2008, the GDP per capita for selected second and third-tier cities have grown at an average CAGR of 19.8% and 24.2%, respectively, higher than the 16.5% average CAGR of GDP per capita experienced by selected first-tier cities during the same period.

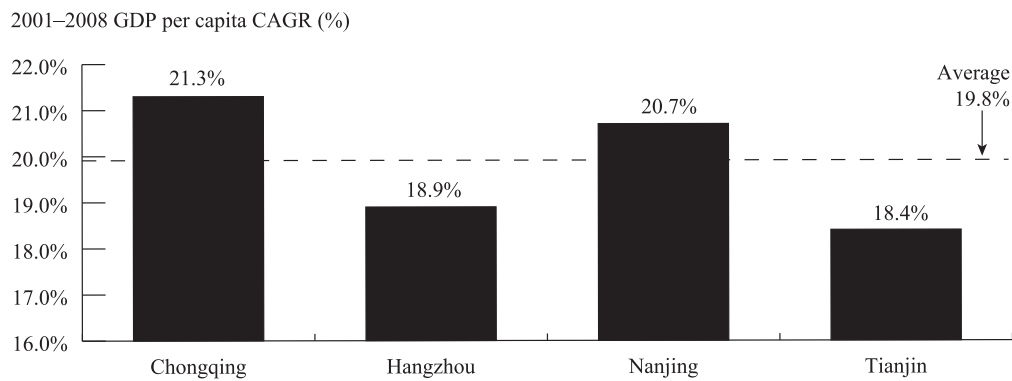
INDUSTRY OVERVIEW

First-tier cities’ GDP per capita CAGR, 2001–2008



Source: CEIC

Selected second-tier cities’ GDP per capita CAGR, 2001–2008

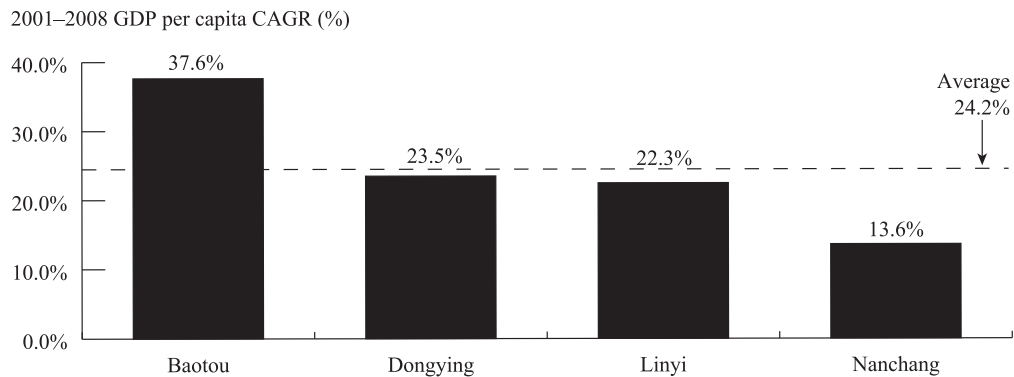


Note: CAGR of Nanjing is from 2001–2007

Source: CEIC

INDUSTRY OVERVIEW

Selected third-tier cities’ GDP per capita CAGR, 2001–2008



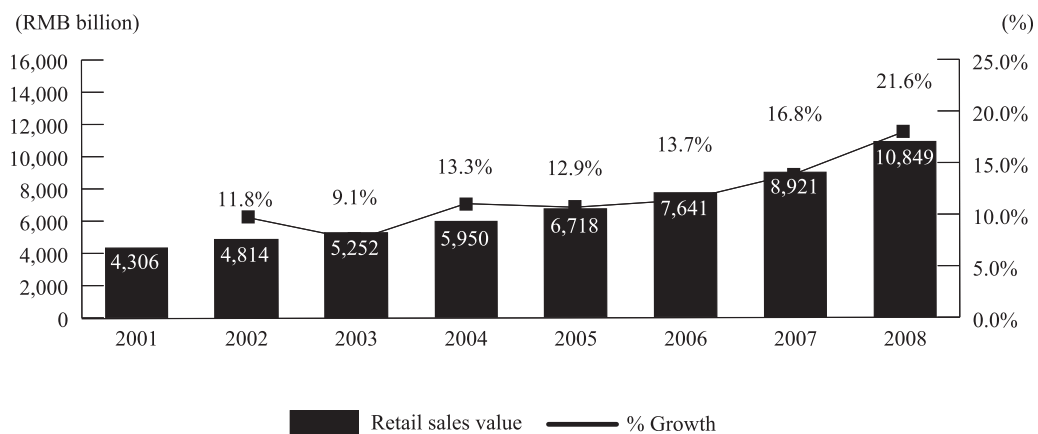
Note: CAGR of Baotou and Linyi are from 2001–2007

Source: CEIC

ROBUST RETAIL GROWTH AND SHIFTING CONSUMPTION PATTERNS

Increasing purchasing power of urban consumers has driven the rapid development of the retail sector in China. As illustrated in the following chart, total retail sales of consumer goods increased from RMB4,306 billion (US\$630 billion) in 2001 to RMB10,849 billion (US\$1,588 billion) in 2008, representing a CAGR of 14.1%.

Retail Sales in China, 2001–2008

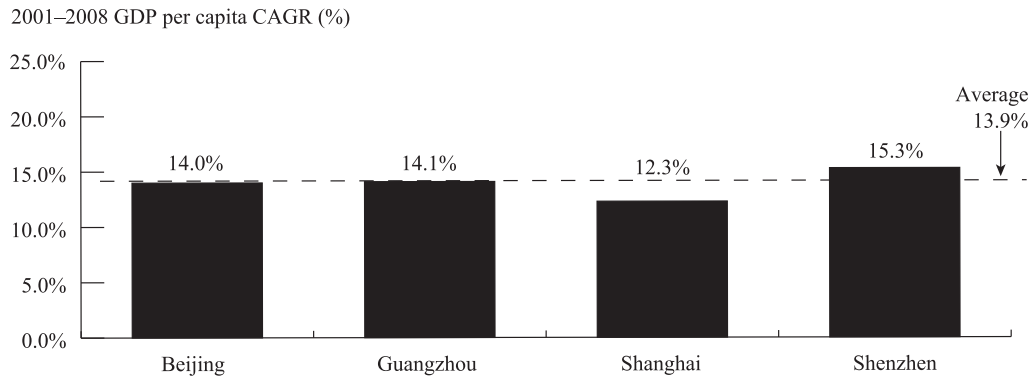


Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

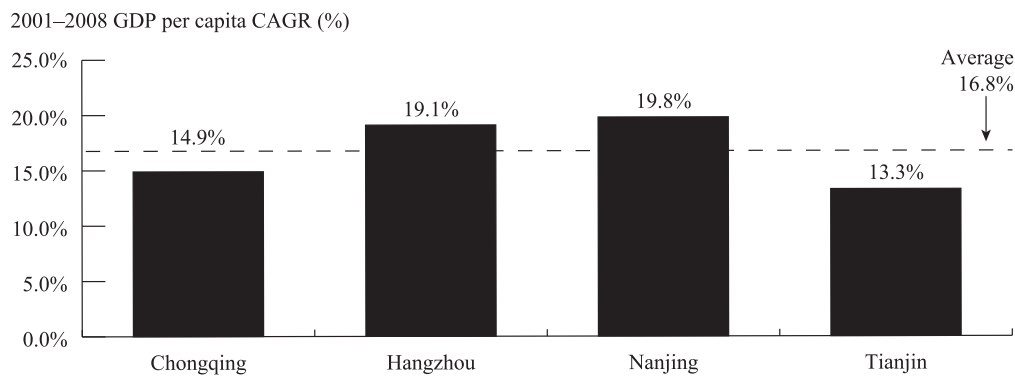
In recent years, retail sales in second and third-tier cities have grown more rapidly than in first-tier cities. From 2001 to 2008, retail sales of consumer goods for selected second and third-tier cities grew at an average CAGR of 16.8% and 21.7%, respectively, significantly higher than the 13.9% average CAGR in first-tier cities during the same period.

First-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

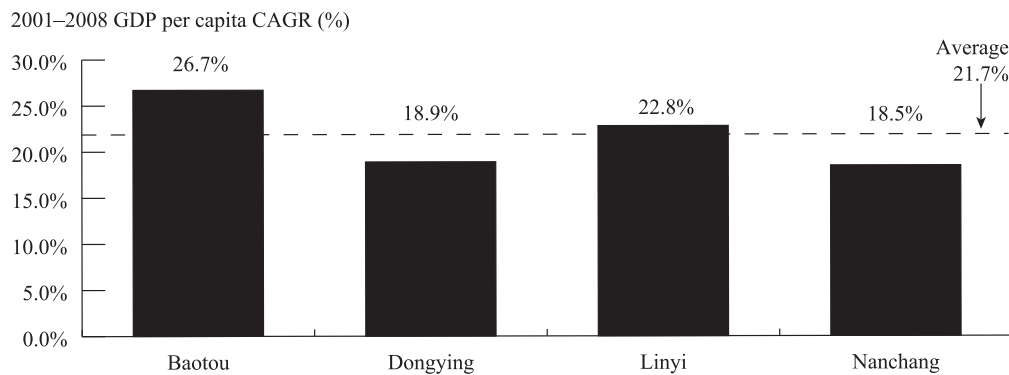
Selected second-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

INDUSTRY OVERVIEW

Selected third-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

THE CHINESE SPORTSWEAR MARKET

The shifting consumption pattern towards lifestyle products can be well evidenced in China’s sportswear market.

In China, more and more people are participating in sports due to the growing popularity of sports and increasing health awareness of the general public. According to the National General Administration of Sport, the sports participation rate increased from 31.4% in 1996 to 33.9% in 2000 and further rose to 37% in 2005, with a total increase of over 100 million people participating in sports over the nine years. The Chinese government expects the sports participation rate to reach 40% by 2010.

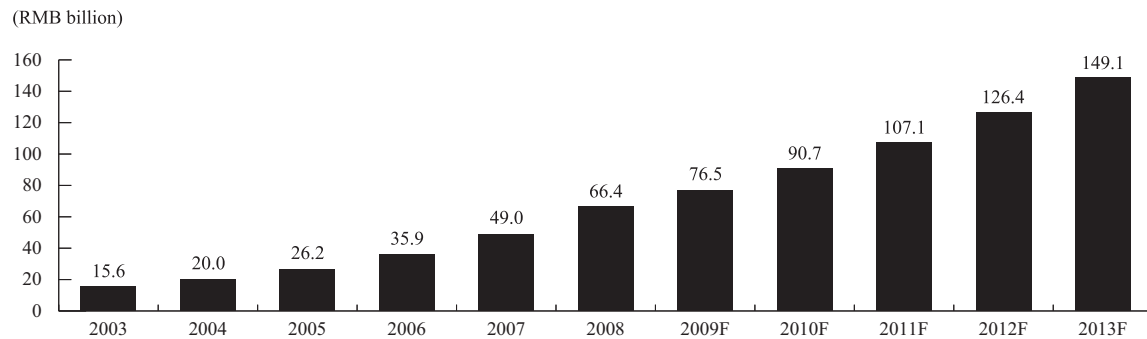
As a result, China’s sportswear market, which includes apparel, footwear, and accessories, has expanded rapidly in recent years. According to ZOU Marketing Limited, China’s branded sportswear market has experienced double-digit annual growth since 2000, with an approximate market size of RMB66.4 billion (US\$9.7 billion) in 2008. From 2003 to 2008, China’s sportswear market experienced an estimated CAGR of 33.6% in growth.

We believe that the combination of the government’s support and promotion of sporting programs for the general public, China’s hosting of upcoming international sporting events, increasing media exposure and rapid disposable income growth of the population are key drivers to sustaining double-digit growth for China’s sportswear market beyond 2008. In particular, we believe the 2008 Olympic Games held in Beijing significantly enhanced the recognition of major sportswear brands in China through vast marketing promotions and sponsorships. According to ZOU Marketing Limited, the market is expected to reach approximately RMB107.1 billion by 2011, representing a three-year CAGR of around 17.3% from 2008, and further surge to RMB149.1 billion in 2013.

INDUSTRY OVERVIEW

The following chart sets out the historical and estimated size of China’s sportswear market as measured by retail sales for the periods indicated.

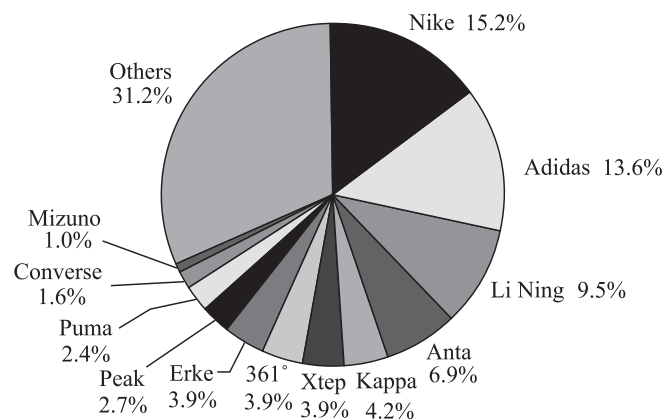
Estimated China’s Sportswear Market Size by Revenue, 2003–2013



Source: ZOU Marketing Limited

The barriers to entry to China’s branded sportswear market are high, due to the cost and time required to build brand awareness and establish an effective distribution network. There are close to 100 sportswear brands in China, of which 15% to 20% are international brands and the remaining domestic brands. However, sales breakdown by international brands was about 39% in 2008.

Estimated Peak’s Market Share Relative to Publicly-listed Sportswear Companies’ Brands in China by Revenue in 2008



Source: ZOU Marketing Limited

Notes:

- (1) Chart is based on China domestic sales revenue
- (2) “Others” includes listed companies’ brands whose market share by China domestic sales revenue were less than Peak’s China domestic sales revenue in 2008. These brands include, among others, Reebok and Yeli

INDUSTRY OVERVIEW

- (3) “Others” also includes non-listed companies’ brands whose market share by China domestic sales revenue may be more or less than Peak’s China domestic sales revenue in 2008. These brands include, among others, New Balance, VOIT and Qiaodan.

THE CHINESE BASKETBALL MARKET

Since its introduction in the late 19th century by American missionaries, basketball has become one of the most popular sports among Chinese sports fans. According to the NBA, basketball has surpassed soccer as China’s most popular “big-ball” sport (“small-ball” sports include activities such as table tennis and badminton). The NBA estimates that approximately 300 million people in China play basketball.

Factors contributing to basketball’s popularity in China include the NBA’s expansion in China, significant media coverage and promotion, popular cultural appeal to the youth population and government support.

In China, the NBA has played an essential role to the popularity of basketball. Since its entry into China in 1989, the NBA has grown into the most popular international professional sports league in the country.

Extensive media coverage and promotion further enhanced the popularity of basketball in China. The NBA currently has relationships with over 30 major TV stations in China. Chinese basketball fans in the urban markets can now watch one to four NBA games each week. During the 2007–08 NBA season, an estimated 100 million Chinese viewers tuned in to watch Chinese stars Yao Ming (Houston Rockets) and Yi Jian Lian (formerly of the Milwaukee Bucks and now on the New Jersey Nets) play against one another for the first time in NBA uniforms. Domestic basketball leagues are also available on TV, including men’s and women’s professional basketball and the fledgling China University Basketball Association (CUBA).

Youth appealing basketball culture is another key contributing factor to basketball’s popularity in China. There are many aspects of the sport that attract Chinese youth, including the individual spirit it advocates, the strong presence of hip-hop and rap music in the global basketball culture and its powerful influence on youth fashion trends, including urban street wear uniforms such as basketball warm-ups, tee-shirts, sweatshirts and athletic footwear.

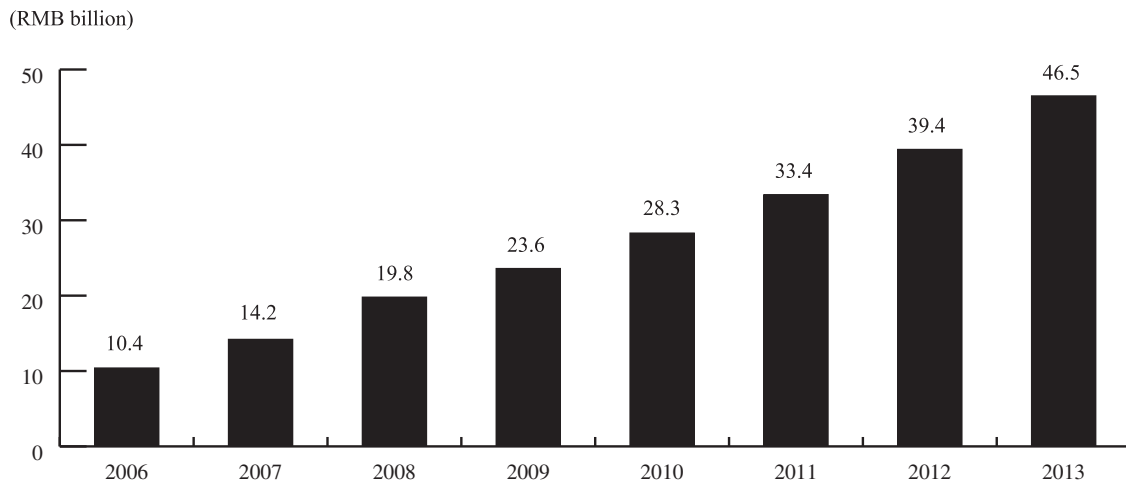
Basketball also enjoys substantial government support. The “Mini-Basketball Project” (小篮板工程) which commenced in 1998 led by the National General Administration of Sport, aimed to build over 80,000 basketball shooting facilities in over 100 cities nationwide in 10 years and to have up to 10 million teenagers playing basketball on a regular basis. With wider basketball facility availability and more people participating in basketball, we believe that demand for basketball sportswear will continue to grow in the coming years.

INDUSTRY OVERVIEW

THE CHINESE BASKETBALL FOOTWEAR MARKET

According to ZOU Marketing Limited, in light of the rise in spending power and disposable income, and growing popularity of basketball as a sport and fashion statement, China’s basketball footwear market size is estimated to be approximately RMB19.8 billion (US\$2.9 billion) in 2008 by retail value and expected to reach more than double to RMB46.5 billion (US\$6.8 billion) by 2013. According to the same source, China’s basketball footwear market was one of the largest segments of the Chinese sportswear market. In 2008, it accounted for approximately 15.5% of the Chinese sportswear market by revenue.

China’s Basketball Footwear Market Size by Retail Sales, 2006–2013



Source: ZOU Marketing Limited

BRAND AWARENESS

In November 2008, Frost & Sullivan conducted a market survey commissioned by Peak. Based on Frost & Sullivan’s face-to-face interviews with over 4,000 respondents in November 2008 in 28 major cities across China including, among others, all first-tier cities and 12 second-tier cities, Peak is among the top three most recognized sports footwear and basketball footwear brands in China as compared to other domestic and international sports footwear and basketball footwear brands. Based on the market survey, Lining, Nike and Peak are the top three most recognized sports footwear and basketball footwear brands in China.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

ORIGIN AND HISTORY

Early Development

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

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

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

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

Note:

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

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

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

Development of our Group

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

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

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

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

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

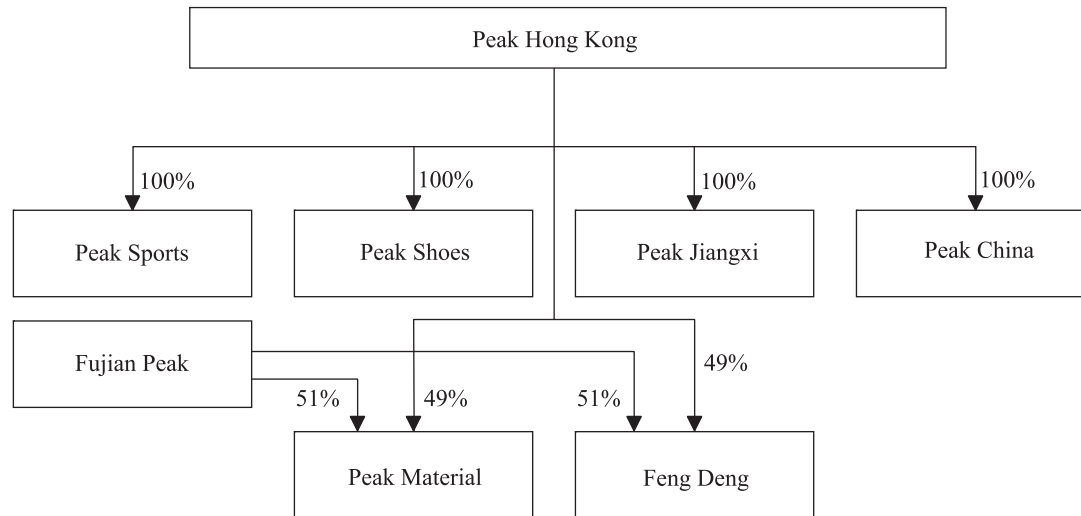
In August 2006, Peak Hong Kong issued to each of Mr. Xu Zhihua and Mr. Xu Zhida a 20% interest in the enlarged issued share capital of Peak Hong Kong at par value. Following such issuance, the shareholding of Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua and Mr. Xu Zhida in Peak Hong Kong were 40%, 20%,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

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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



Streamlining the corporate structure

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

FINANCIAL INVESTMENTS AND REORGANIZATION

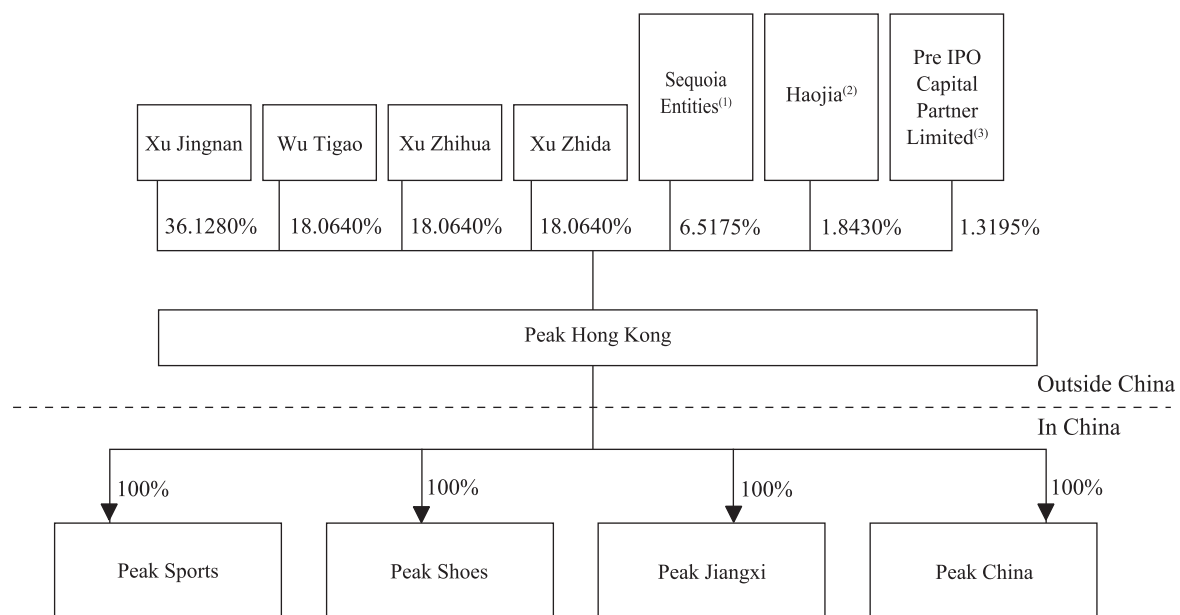
Investment made by Haojia and the First Round Financial Investment

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

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



Notes:

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

Incorporation of the Company

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

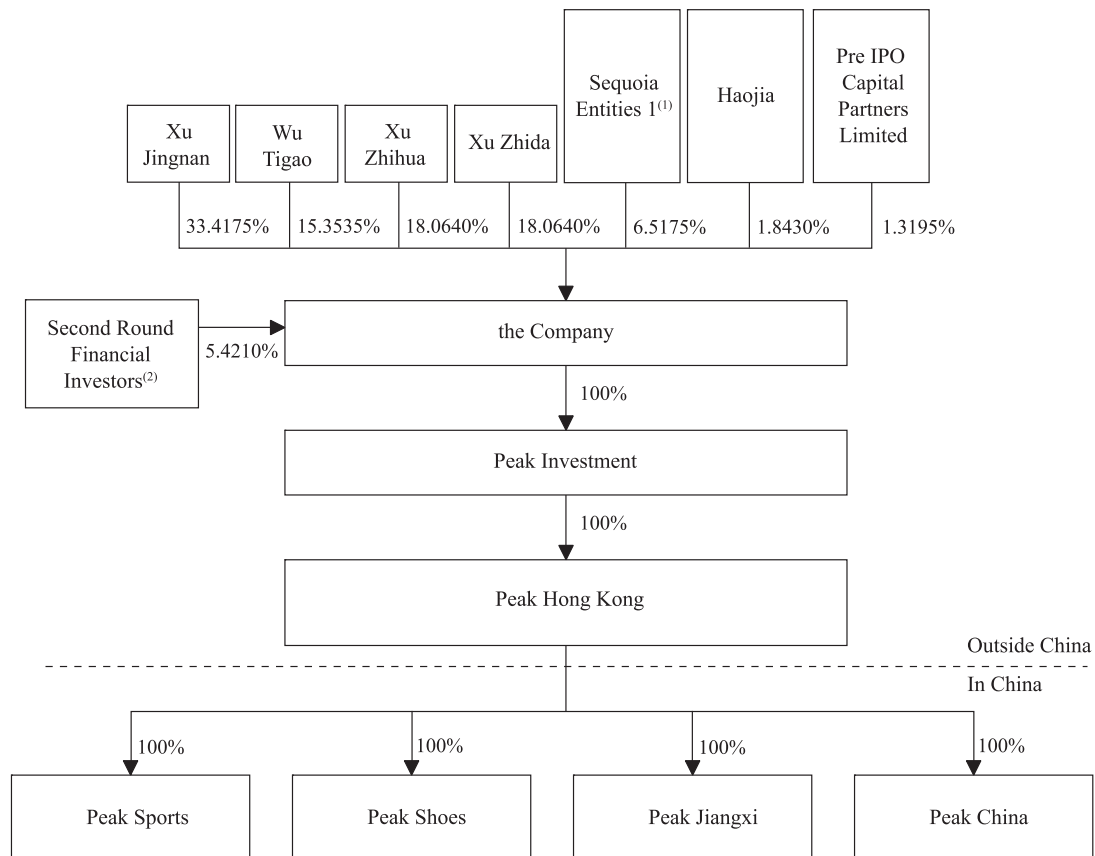
As part of the Reorganization, on 30 June 2008, Peak Hong Kong entered into a share transfer agreement with the Xu Family, Haojia, the First Round Financial Investors and Peak Investment. Pursuant to the share transfer agreement, the Xu Family, Haojia, and the First Round Financial Investors transferred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

Second Round Financial Investment

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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



Notes:

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Repurchase of Shares from Second Round Financial Investors

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

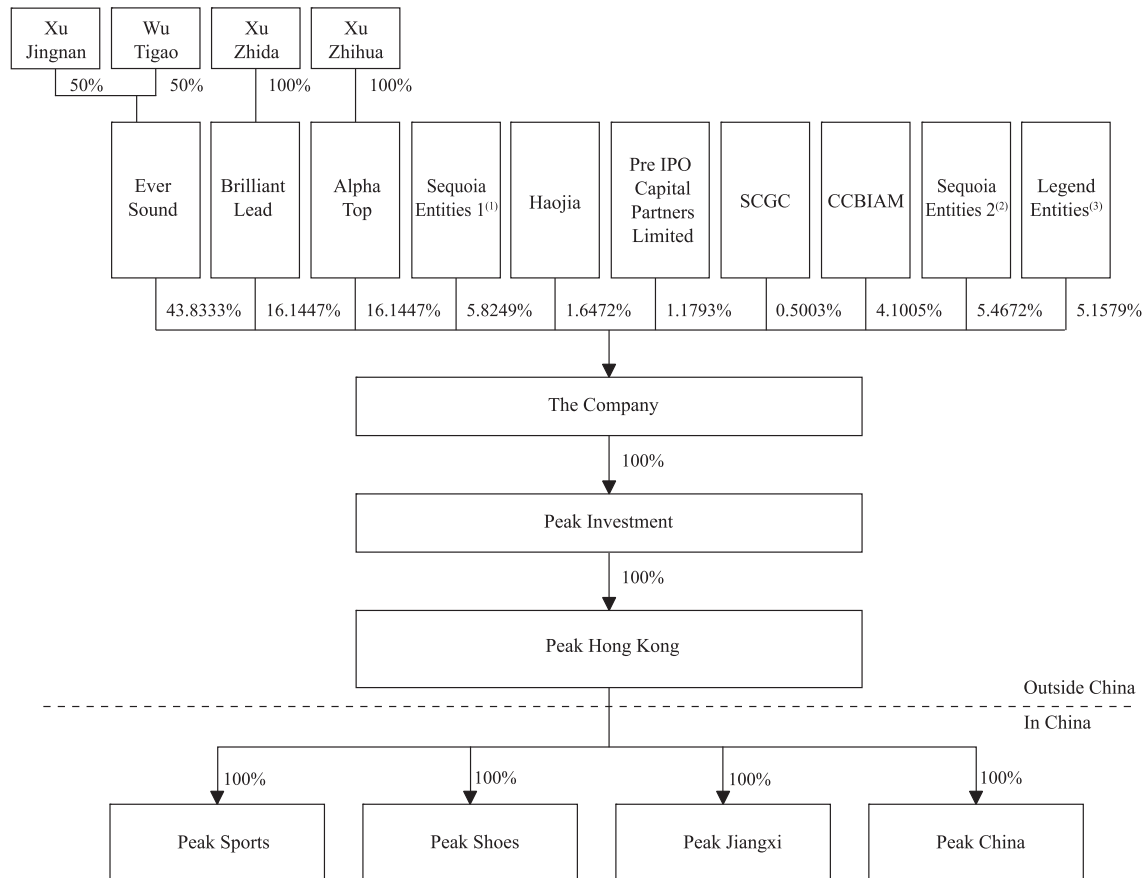
Reorganization, further acquisition by CCBIAM and SCGC and investments by the Third Round Financial Investors

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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



Notes:

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

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

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

Notes:

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

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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

- (i) for CCBIAM:

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

- (ii) for SCGC:

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

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

- (i) for Sequoia Entities 2

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

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

(ii) for Legend Entities

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

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

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

Fujian Peak

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

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

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

OUR BUSINESS

OVERVIEW

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

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

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

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

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

OUR BUSINESS

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

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

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

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

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

OUR BUSINESS

OUR COMPETITIVE STRENGTHS

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

A well-recognized sportswear brand in China

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

Effective and focused marketing and promotional capabilities

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

Extensive nationwide sales network

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

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

Vertically integrated business model with strong production capabilities

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

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

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

Strong market research and product design and development capabilities

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

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

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

Experienced management team with a proven track record

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

OUR BUSINESS STRATEGY

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

Further enhance brand image and recognition

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

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

OUR BUSINESS

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

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

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

Continue to increase our market share in the Chinese sportswear industry

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

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

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

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

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Continue to improve product research, design and development capabilities

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

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

Increase our production capacity to benefit from greater economies of scale

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

Expand strategically through mergers and acquisitions

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

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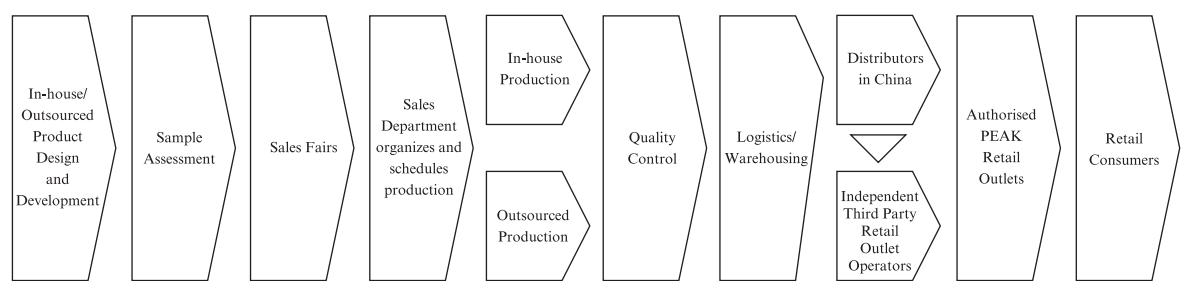
OUR BUSINESS MODEL

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

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

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

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



OUR BUSINESS

PEAK BRAND AND PRODUCTS

The Peak brand

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

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

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

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Our products

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

Footwear

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

Apparel

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

Accessories

		
Bags	Hats	
		
Socks	Protective Gear	Ball
		
Equipment	Knitwear	

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

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

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

MARKETING AND PROMOTION

Brand promotion

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

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

Agreements with NBA, NBA China and WNBA

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

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December 2007 WNBA

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

Agreements with FIBA

April 2008 FIBA

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

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

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

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Agreements with NBA players and CBA player

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

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

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

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

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Agreements with NBA home stadiums

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

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

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

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Agreement with Australian Basketball Federation Inc.

February 2006	Australian Basketball Federation Inc.	We entered into a sponsorship agreement with the Australian Basketball Federation Inc. pursuant to which we became the exclusive sponsor to certain Australian national teams including Australian Boomers (Senior Men) and Australian Opals (Senior Women). We have the rights to use the logos of the men’s and women’s national basketball teams and mention our sponsorship in connection with the promotion and marketing activities of our products. The men’s national team players are obliged to use our apparel products in basketball matches (except for the Olympic Games). The arrangement will expire in December 2012.

Our planning department is responsible for creating a strong brand image and increasing our overall brand recognition. The department evaluates market information and trends, coordinates unified brand marketing strategies, generates and carries out advertising and promotional activities, coordinates marketing surveys and manages our athletic sponsorship and endorsement programs as well as our relations with the media and relevant Chinese authorities. The planning department is further divided into a media group, league group, promotional activities group, image group, internet group and public relations and sales promotion group. At times, we also engage external advertising consultants to advise us on our marketing activities.

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

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

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

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

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

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

PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

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

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

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

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

SALES AND DISTRIBUTION

General

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

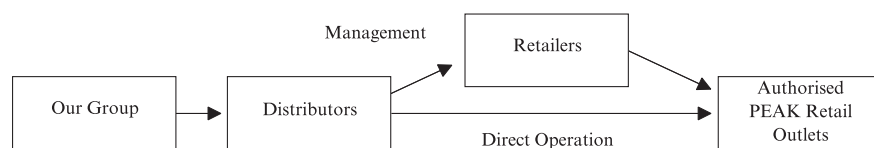
As of 31 December 2006, 2007 and 2008 and 30 June 2009, we had engaged 31, 35, 34 and 37 distributors within China, respectively. The number of authorized Peak retail outlets operated directly by our distributors or by their third party retail outlet operators were 2,340, 3,661, 5,179 and 5,667, respectively,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

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

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

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



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

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Peak’s sales network

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



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

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

Retail outlet format

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

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

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

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

Store locations

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

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

Selection of distributors

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

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

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

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

Distribution agreements

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

Our distribution agreements contain the following principal terms:

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

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

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

Management of distributors

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

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

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

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

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

Renewal and termination of distribution agreements

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

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

Training

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

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Subsidies and rewards

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

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

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

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

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

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

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Top five distributors

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, sales to our top five distributors accounted for approximately 20.9%, 19.6%, 26.1%, 20.7% and 33.4%, respectively, of our total turnover. Sales to our largest distributor accounted for approximately 6.5%, 5.1%, 9.7%, 5.1% and 18.0%, respectively, of our total turnover for the same periods. None of our Directors, or any of their respective associates, or any person who, to the knowledge of our Directors owns any of our issued share capital, had any interest in any of our top five distributors during the Track Record Period.

Selection of authorized Peak retail outlet operators

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

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

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

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

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

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

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

Online platform

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

Sales network management

Sales management

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

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

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

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

Retail operations

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

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

Pricing and discounts

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

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

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

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

Sales fairs

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

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

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

Credit control

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

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As part of our credit policy, we also offer revolving credit to our distributors in China. This revolving credit provides for a maximum credit limit that may be outstanding at any one time. This limit is determined on a distributor by distributor basis, based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In determining the amount of revolving credit, we also take into account on a case by case basis the funding needs of the distributor in expanding the sales network. When a distributor is required to make payment in any month, such distributor may decide to use part or all of the revolving credit granted to it and delay such payment provided that prior oral notice and the reasons for such use is given to our sales department, and that such credit, together with any outstanding credit, does not exceed the maximum credit limit granted. Subsequent payment by that distributor will be applied by us first as repayment for any credit used previously by the distributor to meet its previous monthly payment obligations and the remainder, if any, will be applied as payment for the current month. We generally evaluate the credit limits granted to our distributors in China annually upon renewal of the relevant distribution agreements although adjustments may be made during the year in light of market conditions and circumstances of the individual distributor. As of 31 December 2006, 2007 and 2008 and 30 June 2009, the average of the credit limits granted to our distributors, stated as a percentage of the actual aggregate purchase amounts of our distributors in China during the relevant financial year or annualized aggregate purchase amount for the six months ended 30 June 2009 (not taking into account any adjustments to credit amount limits made during the year due to market conditions or circumstances of any individual distributors) was 9.7%, 9.6%, 17.3% and 18.5%. Significantly higher revolving credit limits were granted in certain cases over the course of the relevant year or period after considering the expansion plans and circumstances of such distributors. All of our existing distributors are now granted the revolving credit.

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

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

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

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

Logistics

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

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

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

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

International sales

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

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

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

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

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

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

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PRODUCTION

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

Location	Footwear production facilities		Apparel production facilities	
	Quanzhou, Fujian province	Shang’gao, Jiangxi province	Quanzhou, Fujian province	Hui’an, Fujian province
Commencement date of production	August 1994	June 2008	February 2004	September 2008
Number of production lines as of the Latest Practicable Date	4	6	16	39
Annual production capacity ⁽¹⁾ (pairs/pieces)	2006	1.6 million	—	1.4 million
	2007	2.5 million	—	1.3 million
	2008	3.3 million	2.5 million	1.0 million
	2009	3.7 million	3.5 million	1.2 million
Actual production volume (pairs/pieces)	2006	1.6 million	—	1.4 million
	2007	2.5 million	—	1.3 million
	2008	3.3 million	1.5 million	1.0 million
	2009	1.8 million	1.2 million	0.7 million
	(1 January–30 June)			2.4 million
Expected time of full production	—	2013	—	2012
Expected number of production lines upon full production	—	16	—	140
Expected production capacity upon full production (pairs/pieces)	—	12.0 million	—	16.4 million

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

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

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

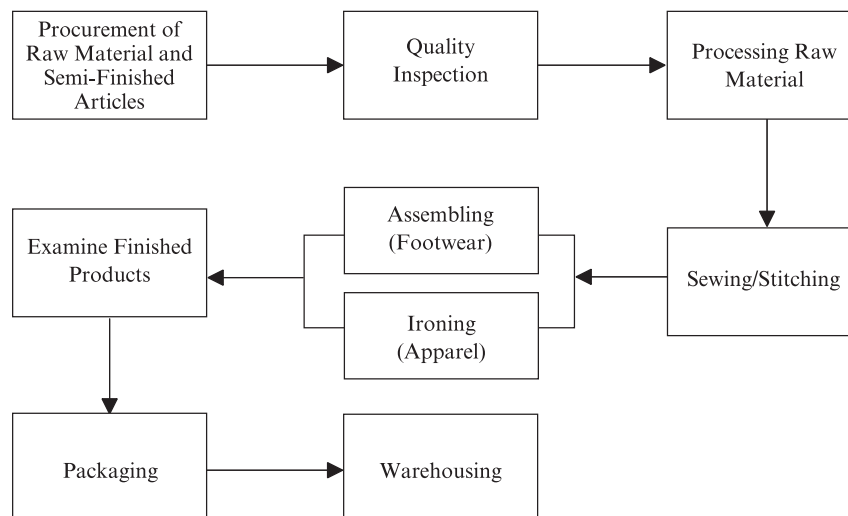
We do not have any production facility for our sports accessories as we outsource production for these items to selected Contract Manufacturers.

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

Production process

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



Production and outsourcing

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

Footwear Production

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

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Apparel Production

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

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

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

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

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

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

Raw materials and suppliers

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

Our five largest suppliers during the Track Record Period included suppliers of raw materials and Contract Manufacturers from whom we purchased footwear and apparel products. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our five largest suppliers accounted for approximately 27.5%, 59.0%, 31.6%, 36.9% and 33.8%, respectively, of our total purchases and our largest supplier accounted for approximately 7.3%, 26.4%, 7.6%, 10.0% and 8.2%, respectively, of our total purchases. Our suppliers generally grant us credit terms of 30 to 90 days. None of our Directors, Directors of our subsidiaries or any of their respective associates, or any person who, to the knowledge of our Directors owns any of our issued share capital, had any interest in any of our suppliers during the Track Record Period. Except for Peak Material which was our Company’s connected person up to 30 April 2007, all of our soles suppliers are Independent Third Parties.

QUALITY CONTROL

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

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

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

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

INVENTORY CONTROL

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

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

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

MANAGEMENT INFORMATION SYSTEM

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

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

INSURANCE

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

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

INTELLECTUAL PROPERTY RIGHTS

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

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

We have in recent years begun to enter into contractual and other relationships with organizations such as NBA China, the WNBA, FIBA and others in order to promote our Peak brand and raise our profile with our target consumers. The terms of these contracts place restrictions on our ability to use the copyrights or intellectual property owned or licensed by these organizations. We take active measures to minimize the risk of designing and manufacturing products that may be alleged by third parties as infringing upon their intellectual property rights. We provide training to our staff from time to time to strengthen their understanding in applying third parties’ intellectual property rights. For example, we have invited NBA China in June 2008 to conduct a training seminar for our staff regarding the use of NBA logos.

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

PROPERTIES AND FACILITIES

Land and buildings

As of 31 July 2009, we owned:

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

Leased properties

As of 31 July 2009, we leased:

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

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

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

EMPLOYEES

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

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

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

DIRECTOR AND STAFF REMUNERATION

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

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ENVIRONMENTAL AND SAFETY MATTERS

Environmental matters

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

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

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

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

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

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

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

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

Labor and safety matters

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

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

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

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

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

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

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

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

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

COMPETITION

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

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

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

LICENSES AND REGULATORY APPROVALS

PRC regulations relating to wholesale or retail business

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

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

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

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

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

PRC laws on consumer protection and product quality

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

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

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

LEGAL COMPLIANCE AND PROCEEDINGS

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS AND WAIVER

[●]

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of ten Directors, including three executive Directors, four non-executive Directors and three independent non-executive Directors. Our Board of Directors is responsible and has general powers for the management and conduct of our business.

The following table sets forth certain information concerning our Company’s Directors:

Name	Age	Position	Date of appointment
Mr. Xu Jingnan (許景南) . . .	54	Chairman and Executive Director	15 February 2008
Mr. Xu Zhihua (許志華). . . .	30	Chief executive officer and Executive Director	30 June 2008
Mr. Xu Zhida (許志達)	29	Vice-president and Executive Director	30 June 2008
Ms. Wu Tigao (吳提高)	55	Non-executive Director	30 June 2008
Mr. Shen Nanpeng (沈南鵬) .	41	Non-executive Director	30 June 2008
Dr. Hu Zhanghong (胡章宏) .	40	Non-executive Director	7 April 2009
Mr. Zhu Linan (朱立南)	46	Non-executive Director	7 April 2009
Dr. Xiang Bing (項兵)	47	Independent Non-executive Director	8 September 2009
Dr. Rock Jin (金岩石)	54	Independent Non-executive Director	8 September 2009
Mr. Wang Mingquan (王明權)	63	Independent Non-executive Director	8 September 2009

Executive Directors

Mr. Xu Jingnan (許景南), aged 54, is an executive Director and the chairman of our Company and the founder of our Group. Mr. Xu is the spouse of Ms. Wu Tigao and the father of Mr. Xu Zhihua and Mr. Xu Zhida. Mr. Xu is primarily responsible for the operation of our Board and is the key decision-maker of our Group. He is responsible for our Group’s overall strategic planning and the management of our Group’s businesses. Mr. Xu was a director and the general manager of Feng Deng from its establishment in July 1988 until April 2007. Mr. Xu launched Peak sports footwear in 1991 and established Peak Shoes in July 1994, and since then, Mr. Xu has played a vital role in the development of our Group. Mr. Xu is an experienced entrepreneur and has approximately 20 years of experience in the sportswear industry in China. In 1996, he was awarded “Fujian Province Outstanding County Entrepreneur” by the Bureau of County Enterprises of Fujian Province (福建省鄉鎮企業局) and in 1995, he was named “Model Labour of Quanzhou City” by the Chief Labour Union of Fengze District, Quanzhou City (泉州市豐澤區總工會). In addition, Mr. Xu is a member of the 12th Quanzhou Municipal People’s Congress, vice-chairman of the Licheng Area Committee of the People’s Political Consultative Conference, committee member of Quanzhou General Chamber of Commerce and the chairman of the General Chamber of Commerce of Fengze District of Quanzhou City. Mr. Xu graduated from Central Institute of Socialism (中央社會主義學院), majoring in Business Administration, in December 1994. He was recognised as an economist in August 1991 by the Human Resources Bureau of Fujian Province.

Mr. Xu Zhihua (許志華), aged 30, is an executive Director and chief executive officer of our Company. Mr. Xu, who is the son of Mr. Xu Jingnan and Ms. Wu Tigao and the brother of Mr. Xu Zhida, joined our Group in 2001 as an assistant to the general manager and the general manager of the Beijing branch of Peak Shoes. Since March 2004, Mr. Xu has been the vice general manager of Fujian

DIRECTORS AND SENIOR MANAGEMENT

Peak. He has more than seven years of experience in the sportswear industry in China. Mr. Xu is primarily responsible for the management of product sales, branding and marketing, as well as management of sales channels of our Group’s businesses. Mr. Xu obtained a Bachelor of Science degree in Applied Information Technology from Sichuan University in July 2001 and a Master of Business Administration degree from Guanghua School of Management, Peking University in October 2004. Mr. Xu was accredited “Top 10 Example Individual for Staff Management of Quanzhou City” in February 2007 by various local authorities, including CCP Quanzhou Commission (中央泉州市委組織部).

Mr. Xu Zhida (許志達), aged 29, is an executive Director and vice-president of our Company. Mr. Xu, who is the son of Mr. Xu Jingnan and Ms. Wu Tigao and the brother of Mr. Xu Zhihua, joined our Group in 2000 after he completed high school education and has been the vice general manager of Fujian Peak since 2001 and has more than seven years of experience in the sportswear industry in China. Mr. Xu is primarily responsible for sales and marketing, production, research and development and product design, of our Group’s businesses.

Non-executive Directors

Ms. Wu Tigao (吳提高), aged 55, is a non-executive Director of our Company. Ms. Wu, who is the spouse of Mr. Xu Jingnan and the mother of Mr. Xu Zhihua and Mr. Xu Zhida, joined our Group in 1996. Ms. Wu was a director of Peak Material and Peak Shoes and she has been a director of Peak Hong Kong since 2003. Her roles in Peak Materials, Peak Shoes and Peak Hong Kong are non-administrative. In July 2008, Ms. Wu decided not to be engaged in the executive level of the Company’s management for family reasons but will continue to contribute to our Group by acting as a non-executive Director of the Company.

Mr. Shen Nanpeng Neil (沈南鵬), aged 41, is a non-executive Director of our Company. As a Director, Mr. Shen will decide together with other Directors on matters of the Company in general. Mr. Shen was invited to act as a non-executive director pursuant to the Shareholders Agreement between the Xu Family, Sequoia Capital China Principals Fund I, L.P., Sequoia Capital China Partners Fund I, L.P., Sequoia Capital China I, L.P. and Pre IPO Capital Partners Limited. Mr. Shen obtained a Bachelor Degree from Shanghai Jiao Tong University in 1988 and a Masters Degree from Yale University in 1992. Mr. Shen is the founding managing partner of Sequoia Capital China. Prior to founding Sequoia Capital China, he co-founded Ctrip.com International Limited (NASDAQ: CTRP), an online travel consolidator in China, in 1999 of which he now serves as a director. Mr. Shen also co-founded Home Inns and Hotels Management Inc. (NASDAQ: HMIN), a budget hotel chain in China, where he acts as its co-chairman. He is also a director of E-House (China) Holdings Ltd. (NYSE: EJ), Focus Media Holding Ltd. (NASDAQ: FMCN) and American Dairy, Inc. (NYSE: ADY). Before founding Ctrip and Home Inns, Mr. Shen had worked for more than eight years in the investment banking industry in New York and Hong Kong. He was a director and Head of Debt Capital Markets for China at Deutsche Bank where he worked from 1996 to 1999. Prior to 1996, he had worked at Chemical Bank, Lehman Brothers and Citibank in various investment banking areas. He was awarded “Economic Figure of the Year” by CCTV in 2006 and was voted “Entrepreneur of the Year” by Asian Venture Capital Journal in 2004. Mr. Shen was named “Venture Capitalist of the Year” by Top Capital Magazine in March 2007 and was also named one of the “Top 10 Most Active Venture Capitalists” in 2006 and 2008 by Zero2IPO. Mr. Shen joined our Company in 2007. Mr. Shen will be eligible for re-election in the next annual general meeting of the Company and his appointment is subject to shareholders’ approval according to the Company’s articles of association.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shen is currently involved, in his personal capacity, as a defendant in a legal proceeding in the High Court of Hong Kong. Pursuant to a writ of summons dated 2 December 2008 filed with the High Court of Hong Kong, the plaintiffs in the legal proceeding alleged that Mr. Shen procured breach of contract, interfered with the plaintiffs’ agreements with third parties and conspired with others to do unlawful acts or used unlawful means to cause damages to the plaintiffs and Mr. Shen was sued for payment of damages in the sum of approximately US\$200 million. Mr. Shen has informed the Company that he has obtained a legal opinion from his legal counsel who formed a view that the plaintiffs of the legal proceeding do not have meritorious claims against Mr. Shen and that he will contest the case vigorously. After reviewing the opinion from Mr. Shen’s legal counsel regarding the legal proceeding and considering Mr. Shen’s experience and qualifications, the Company is of the view that Mr. Shen has the requisite character, experience, integrity and competence to act as a non-executive Director of the Company pursuant to [●]. As of the Latest Practicable Date, the date for trial has not yet been fixed.

Dr. Hu Zhanghong (胡章宏), aged 40, is a non-executive Director of our Company. Dr. Hu is the chief executive officer and an executive director of CCB International (Holdings) Limited (“CCBI”) which is a wholly owned subsidiary of China Construction Bank Corporation (“CCB”) (HKG: 939), a company listed in the Main Board of the Stock Exchange and the Shanghai Stock Exchange (SHA: 601939). Dr. Hu is also the general manager of CCB Asset Management (Tianjin) Limited (建銀國際資產管理(天津)有限公司) and CCB Healthcare Investment Management (Tianjin) Limited (建銀國際醫療保健投資管理(天津)有限公司).

As a founder and the chief executive officer of CCBI, Dr. Hu has been instrumental to the establishment of CCBI and its subsidiaries, including CCB International Capital Limited and CCBIAM in 2004 and 2006 respectively. Currently, CCBI has five subsidiaries providing full fledged investment banking services, including direct investment, asset management, structured finance, financial advisory, listing sponsorship and securities underwriting and brokerage services. Under his leadership, CCBI has recorded substantial growth over the years and was accredited “The Most Promising Private Equity Firm” by China Venture in 2007, “The Best Domestic Investment Bank, Hong Kong” by The Asset in 2008, “The Best Chinese Investment Bank in Hong Kong” by Secutimes (證券時報) in 2008, “The Most Innovative Enterprise of China” by The Manager in 2008, “Capital Leaders of Excellence” by Capital Magazine in 2008 and “The Best Investment Bank of China” by The Economic Observer in 2008.

In addition to his duties at CCBI, Dr. Hu also serves other professional and academic organizations. He was a member of the Professional Events Committee at Hong Kong Securities Institute and is the vice chairman of the finance committee of China Universities (Hong Kong) Association, a standing committee member of the Securities Institute at the China Law Society and a visiting professor at the Chinese Academy of Finance and Development, Central University of Finance and Economics. Over the years, Dr. Hu published numerous books and articles in the aspect of finance.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Hu received a doctorate degree in Finance from Zhongnan University of Economics and Law. He has over 15 years of extensive experience in banking and investment. Prior to joining CCBI, he worked at the head office of CCB since 1997 where he specialized in finance related business and was qualified as senior economist in 2003.

Mr. Zhu Linan (朱立南), aged 46, is a non-executive Director of our Company. Mr. Zhu is the founder, chief executive officer, managing director and a member of the Investment Committee of Legend Capital incorporated in 2001, a subsidiary of Legend Holdings Ltd.. Mr. Zhu is the executive vice president of Legend Holdings Ltd., a strategy-driven investment holding company incorporated in 1984. Mr. Zhu also serves as a non-executive director at Lenovo Group Ltd.(HKG:0992). From 2000 to 2001, Mr. Zhu was the senior vice president and a member of the Executive Committee of Legend Group Ltd., the predecessor of Lenovo Group Ltd.. From 1997 to 2000, Mr. Zhu was the general manager of Business Planning and vice president of the Legend Group Ltd. From 1993 to 1997, Mr. Zhu set up and worked on his own business engaging in development of system integrations and IT products. From 1989 to 1993, Mr. Zhu was a general manager of Shenzhen Legend Computer Co., Ltd. (深圳聯想電腦有限公司) Mr. Zhu has over 17 years of experience in the IT industry and rich management experience. Mr. Zhu was named as one of the “Top Venture Capitalists in 2009” by TopCapital, “Most Respected Entrepreneurs in 2008” by The Founder Magazine, “Most Well-recognized Investors in China’s Venture Capital Industry in 2008” by Peking University Business Review, and “Top 10 VC Funds and Investors in 2008” by China Venture. Mr. Zhu holds a Master’s degree in Electronic Engineering from Shanghai Jiaotong University. Mr. Zhu is a Senior Engineer certified by the Chinese Academy of Sciences (中國科學院) and he enjoys the special subsidy granted by the State Council of the PRC (中華人民共和國國務院).

Independent Non-executive Directors

Dr. Xiang Bing (項兵), aged 47, is an independent non-executive Director of our Company. Dr. Xiang obtained a Doctor of Philosophy degree in Accounting from University of Alberta, Canada in 1991. Dr. Xiang is currently the founding dean and professor of Cheung Kong Graduate School of Business. He has extensive experience in cooperating with multi-national corporations to offer professional programs regarding, in particular, corporate governance and internal control, to their senior executives. His appointments as independent non-executive director or director of publicly listed companies are as follows:

Listed company	Stock code	Place of listing	Role	Accounting experience in performing the role	Period of employment (From dd/mm/yy to dd/mm/yy)	Existing or past appointment
Dan Form Holdings Company Limited	(HKG: 0271)	Hong Kong	independent non-executive director	member of audit committee	26-05-1995–present	Existing
HC International, Inc.	(HKG: 8292)	Hong Kong	independent non-executive director	member of audit committee	08-03-2002–present	Existing
China Dongxiang (Group) Co., Ltd.	(HKG: 3818)	Hong Kong	independent non-executive director	member of audit committee	12-09-2007–present	Existing
Little Sheep Group Limited	(HKG: 968)	Hong Kong	independent non-executive director	—	01-01-2008–present	Existing

DIRECTORS AND SENIOR MANAGEMENT

Listed company	Stock code	Place of listing	Role	Accounting experience in performing the role	Period of employment (From dd/mm/yy to dd/mm/yy)	Existing or past appointment
LDK Solar Co. Ltd.	(NYSE: LDK)	New York	independent non-executive director	member of audit committee	05-07-2007–present	Existing
Perfect World Co., Ltd.	(NASDAQ: PWRD)	New York	independent non-executive director	member of audit committee	26-07-2007–present	Existing
E-House (China) Holdings Limited	(NYSE: EJ)	New York	independent non-executive director	member of audit committee	08-08-2007–present	Existing
Shenzhen Terca Technology Co., Ltd.	(SHE: 002213)	Shenzhen	independent director	—	26-12-2006–16-10-2008	Past
Jutal Offshore Oil Services Limited	(HKG: 3303)	Hong Kong	director	—	28-08-2006–30-05-2008	Past
Wuhan Jianmin Pharmaceutical Groups Co., Ltd.	(SHA: 600976)	Shanghai	director	—	29-05-2004–21-10-2006	Past
TCL Corporation	(SHE: 000100)	Shenzhen	director	—	27-10-2004–20-06-2008	Past
Shaanxi Qinchuan Machine Development Co., Ltd.	(SHE: 000837)	Shenzhen	director	—	22-06-2001–20-07-2007	Past
Guangdong Midea Electric Appliances Co., Ltd.	(SHE: 000527)	Shenzhen	director	—	08-05-2001–30-05-2007	Past

Dr. Xiang is fully aware of his obligations and responsibilities and the time required to discharge his responsibilities as an independent non-executive Director. As Dr. Xiang’s directorships with other companies are mostly non-executive in nature, and Dr. Xiang will not be involved in the day-to-day operation and management of the Company, the Company considers that Dr. Xiang shall be able to discharge his responsibilities as an independent non-executive Director of our Company.

In accordance with [●], at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. Dr. Xiang obtained a Doctor of Philosophy degree in Accounting from University of Alberta, Canada in 1991 and is also the founding dean and professor of Cheung Kong Graduate School of Business. In addition, Dr. Xiang has extensive experience in acting as independent non-executive director, independent director and director of listed companies in Hong Kong, Shanghai, Shenzhen and New York. The Company considers that Dr. Xiang has relevant knowledge in accounting and has extensive relevant experience and knowledge to fulfill the requirements under [●].

Dr. Rock Jin (金岩石), aged 54, is an independent non-executive Director of our Company. Currently, Dr. Jin is the chief economist of Sinolink (GuoJin) Securities and dean of finance institute (overseas college) of Shanghai JiaoTong University. Dr. Jin obtained a Master of Economics degree and a Doctor of International Business degree from Nankai University in 1982 and 1989, respectively. Dr. Jin was also the visiting scholar sponsored by the Soros Foundation at Harvard University, USA, in

DIRECTORS AND SENIOR MANAGEMENT

1987. Dr. Jin has extensive experience in securities and corporate finance. He was the registered general securities principal and option principal with CSG/JW Charles Securities and was one of the founders of Sunpoint Securities. In 2001, Dr. Jin joined XiangCai Securities as chief economist and chairman of the international committee. Dr. Jin also established the China Euro Securities and ABN Amoro-XiangCai fund. In 2004 to 2006, Dr. Jin was appointed by China People’s Congress Financial Committee as a banking expert and participated in the amendments of the PRC Securities Law.

Mr. Wang Mingquan (王明權), aged 63, is an independent non-executive Director of our Company. Mr. Wang obtained a Bachelor of Chinese Language Literature degree from Fujian Radio and Television University in 1984. Mr. Wang has extensive experience in economic management. Mr. Wang retired in September 2006. From June 1993 to August 2006, Mr. Wang worked as the vice-director, director and Head of the Bureau in Quanzhou Bureau of Foreign Trade and Economic Cooperation. From August 1991 to June 1993, Mr. Wang was the vice-director of Quanzhou Development and Reform Bureau. From April 1989 to August 1991, Mr. Wang was the vice-Head of the Bureau in Quanzhou Municipal Bureau of Statistics (泉州市統計局). From October 1984 to April 1989, Mr. Wang was the director of the Development and Reform Bureau of Quanzhou Licheng District. Prior to that, Mr. Wang was the secretary of the Party Committee in Quanzhou Donghai Commune.

There are no other matters or information relating to the above Directors that need to be brought to the attention of the Shareholders or to be disclosed pursuant to [●].

SENIOR MANAGEMENT

The following table sets forth certain information concerning our Company’s senior management:

Name	Age	Position
Mr. Tsoi Ka Ho (蔡家豪)	44	qualified accountant, company secretary and chief financial officer
Mr. Li Wei (李偉)	32	deputy general manager
Mr. Li Shumei (李樹梅)	43	Group factory manager (footwear division)
Ms. Li Yashuang (李雅霜)	44	Group factory manager (apparel division)
Mr. Cai Jinhai (蔡金海)	32	chief marketing officer
Ms. Wu Bingrui (吳冰蕊)	28	sales officer (international sales)
Ms. Lin Bilian (林碧蓮)	40	sales officer (domestic sales)
Mr. Yang Huiyong (楊慧勇)	37	chief brand officer

Mr. Tsoi Ka Ho (蔡家豪), aged 44, is our Company’s chief financial officer and the company secretary. Mr. Tsoi ordinarily resides in Hong Kong and is employed by our Company on a full-time basis pursuant to [●]. Mr. Tsoi is responsible for our Group’s company secretarial matters and overall financial and accounting affairs. Mr. Tsoi graduated from The Hong Kong Polytechnic University with a Professional Diploma in Accountancy in 1988. He also obtained a Bachelor of Science Degree in Economics from University of London in 1994. Mr. Tsoi is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Prior to joining to the Group, Mr. Tsoi worked for KPMG from August 1988 to October 2005, an international accounting firm, Roadshow Holdings Limited (HKG: 0888) from December 2005 to January 2007 and China Properties Group Limited (HKG: 1838) from October 2007 to March 2008, both of which are listed on the Stock Exchange of Hong Kong and

DIRECTORS AND SENIOR MANAGEMENT

in these companies, Mr. Tsoi’s main duties were auditing, accounting, financial control and financial management. Mr. Tsoi has over 20 years of experience in auditing, financial control, accounting and financial management and he joined our Group on 1 April 2008.

Mr. Li Wei (李偉), aged 32, is the deputy general manager of Peak (China) Limited Company. Mr. Li joined our Group in June 2007. Prior to joining our Group, he was the Assistant General Manager of ANTA (Changting) Sporting Goods Company Limited. Prior to joining ANTA (Changting) Sporting Goods Company Limited, Mr. Li was employed as manager by two local entities, Xiamen Jinlu Clothing Company Limited and Haosha Enterprises (Fujian) Company.

Mr. Li Shumei (李樹梅), aged 43, is our Group’s factory manager (footwear division). Mr. Li joined our Group in December 2006. Prior to joining our Group, he was a manager of Dongguan Shengbaiji Shoes Industry Co., Ltd. from April 2000 to August 2006. Before that, he was employed as manager by various local entities since 1988, such as Xinda Shoes Factory and Gangtai Shoes Company Limited (港台鞋業股份有限公司). Mr. Li completed a course in Production Management and was awarded a certificate in 1994.

Ms. Li Ya Shuang (李雅霜), aged 44, is our Group’s factory manager (apparel division). Ms. Li joined our Group in 2004. Prior to joining our Group, Ms. Li was employed as a departmental manager by Quanzhou Xiangquan Garments Industry Co., Ltd. (泉州市祥泉服裝實業有限公司) and she has more than 20 years of management experience in apparel industry. Ms. Li is responsible for the production of our sportswear apparel line.

Mr. Cai Jinhai (蔡金海), aged 32, is our chief marketing officer. Mr. Cai joined our Group in November 2007. Prior to joining our Group, Mr. Cai was employed by Beijing Donxian Sports Products Company in 2006 and was responsible for sales and marketing. From 2000 to 2005, Mr. Cai worked in Fujian Volt Sports Products Company Limited (福建沃特體育用品有限公司) and was a sales director from January 2004 to June 2005. Mr. Cai has more than seven years of experience in sales and marketing.

Ms. Wu Bingrui (吳冰蕊), aged 28, is our sales officer (international sales) and spouse of Mr. Xu, Zhida. Ms. Wu obtained a degree in English language in 2003 from Fujian Normal University. Ms. Wu joined our Group in 2004 as a sales representative after her graduation from Fujian Normal University and has been our sales director since January 2004. Ms. Wu is responsible for the sales and branding of our products and in sponsorship matters.

Ms. Lin Bi Lian (林碧蓮), aged 40, is our sales officer (domestic sales). Ms. Lin joined our Group in September 1989 after she finished high school education. Since September 2007, Ms. Lin has been our sales director. Prior to that, she was our sales manager and she also held various positions in Peak Shoes mainly responsible for sales of product. Ms. Lin graduated from Fujian Radio & TV University (福建廣播電視大學), majoring in sales and marketing, in 2006, where she was awarded a certificate.

Mr. Yang Huiyong (楊慧勇), aged 37, is the chief brand officer. Mr. Yang has been working as the chief brand officer of our Company since September 2008. Mr. Yang worked with Guangzhou Lehua Information Industry Group Company Limited (廣州樂華資訊產業集團有限公司) from 1992 to 2008. From 2002 to 2008, Mr. Yang was a general manager of the Marketing and Branding Center in Guangzhou Lehua Information Industry Group Company Limited. From 1997 to 2001, Mr. Yang was a

DIRECTORS AND SENIOR MANAGEMENT

brand manager in Guangzhou Lehua Information Industry Group Company Limited. From 1992 to 1996, Mr. Yang was an marketing manager assistant and subsequently a marketing manager in Guangzhou Lehua Information Industry Group Company Limited. Mr. Yang obtained a Bachelor of Law degree from Wuhan University in 1992.

COMPANY SECRETARY

Details of the qualifications and experience of Mr. Tsoi Ka Ho are set out in paragraph headed “Senior Management” in this section.

BOARD COMMITTEES

Audit Committee

We have established the Audit Committee [●] with terms of reference. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system. The Audit Committee shall comprise three Directors not involved in our day-to-day management, who shall be appointed by the Board. The Audit Committee currently comprises Mr. Wang Mingquan, Dr. Xiang Bing, and Dr. Rock Jin and is chaired by Dr. Xiang Bing.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference [●]. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing our remuneration policies and determining remuneration packages for our Directors. The Remuneration Committee consists of Dr. Xiang Bing, Mr. Wang Mingquan, Dr. Rock Jin, Mr. Shen Nanpeng and Mr. Xu Jingnan and is chaired by Dr. Xiang Bing.

Nomination Committee

We have also set up the Nomination Committee, the primary duties of which are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The Nomination Committee comprises Dr. Xiang Bing, Mr. Wang Mingquan and Dr. Rock Jin and is chaired by Dr. Rock Jin.

SHARE OPTION SCHEME

Our Directors or employees may be invited by the Board to participate in the Share Option Scheme at the discretion of the Board. The principal terms of the Share Option Scheme are summarized in the paragraph headed “Share Option Scheme” in Appendix VI to this document.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. Upon and after [●], the remuneration package will be extended to include options granted or to be granted under the Share Option Scheme. During the Track Record Period, we have regularly reviewed and determined from time to time the remuneration and

DIRECTORS AND SENIOR MANAGEMENT

compensation packages of our Directors and senior management. After [●], our Remuneration Committee will also review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group. The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to the Directors during the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 were approximately RMB210,000, RMB283,000, RMB404,000, RMB129,000 and RMB169,000, respectively.

During the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, no remuneration was paid by us to, or receivable by, our Directors as an inducement to join or upon joining us. No compensation was paid by us to, or receivable by, our Directors or past Directors for each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 for the loss of any office in connection with the management of the affairs of any member of our Group.

Except as disclosed above, no other amounts have been paid or are payable by us to the Directors in respect of the three years ended 31 December 2008, by the Group to or on behalf of any of the Directors.

Under the arrangements currently in force, the aggregate amount of salaries and other emoluments payable to the Directors for the year ending 31 December 2009 is estimated to be approximately RMB1,083,000, excluding any discretionary bonuses payable under the Directors’ service contracts.

During the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the aggregate amount of fees and other allowances and benefits in kind paid by the Company to its five highest paid individuals were approximately RMB297,000, RMB413,000, RMB1,910,000, RMB625,000 and RMB1,120,000, respectively.

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

- (a) So far as our Directors are aware, immediately following completion of the [●], without taking into account [●], the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity/Nature of interest	Number of Shares directly or indirectly held immediately following completion of the [●]	Approximate percentage of issued Share immediately following completion of the [●]
Ever Sound ⁽¹⁾	Registered and beneficial owner	[●]	[●]%
Alpha Top ⁽²⁾	Registered and beneficial owner	[●]	[●]%
Brilliant Lead ⁽³⁾ . .	Registered and beneficial owner	[●]	[●]%

Notes:

(1) Each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the entire issued share capital of Ever Sound.

(2) Mr. Xu Zhihua holds 100% of the entire issued share capital of Alpha Top.

(3) Mr. Xu Zhida holds 100% of the entire issued share capital of Brilliant Lead.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the [●] have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group (other than our Company).

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately following completion of the [●], Ever Sound, Alpha Top and Brilliant Lead will hold [●]%, [●]% and [●]% of our Company’s issued share capital respectively. Since each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the issued share capital of Ever Sound, they are Controlling Shareholders of our Company. In addition, Mr. Xu Zhihua and Mr. Xu Zhida hold the entire issued share capital of Alpha Top and Brilliant Lead respectively. Given that Mr. Xu Zhihua and Mr. Xu Zhida are the sons of Mr. Xu Jingnan and Ms. Wu Tigao, they are also considered as Controlling Shareholders of our Company.

Independence from Controlling Shareholders

(i) *Management independence and operational independence*

Although our Controlling Shareholders will retain a controlling interest in our Company after the [●], our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licenses necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its business independently from our Controlling Shareholders.

Our Company’s management and operational decisions are made by its executive Directors and senior management, who have served our Company and/or its subsidiaries for a long time and have substantial experience in the industry in which our Company is engaged. Further, our three independent non-executive Directors will bring independent judgment to the decision-making process of the board of our Company.

Our Directors currently do not expect that following the [●], there will be any business transactions between our Company and our Controlling Shareholders. Based on the above, our Directors are of the view that our Company is independent from the Controlling Shareholders in terms of management and business operations.

(ii) *Administrative independence*

Our Group has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and research and development. Our qualified accountant, company secretary and senior management staff are independent of our Controlling Shareholders.

(iii) *Financial independence*

Our Group has its own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Having considered the above reasons, our Directors are of the view that our Group is capable of carrying its business independently of our Controlling Shareholders (including any associate thereof) after the [●].

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

Fujian Peak and NBA

On 11 October 2007, Peak Shoes, Peak Sports and Fujian Peak entered into a marketing, sponsorship and advertising agreement with NBA Properties, Inc. pursuant to which Fujian Peak and our Group became the official marketing partner of the NBA. On 23 April 2008, our Company became a party to an advertising agreement dated 23 April 2008 and made between Fujian Peak, Tido Sports Co., Ltd and Clutch City Sports & Entertainment, L.P. and Rocketball, Ltd. in relation to the home stadium sponsorship for the NBA’s Houston Rockets.

Although Fujian Peak is authorised to conduct business related to the sale of shoe materials, shoes, apparel, leather and leather products current under its business license, and it is party to the two agreements mentioned, Fujian Peak has not carried out any active business activities other than holding the real estate property which is leased to the Group. To avoid any potential competition with our Group, the following arrangements have been made:

Non-competition undertaking

Despite our Controlling Shareholders are not engaged in and do not own any business that directly or indirectly competes with the Group, our Controlling Shareholders and Fujian Peak (each a “**Covenantor**” and collectively, “**Covenantors**”), and the Company entered into a deed of non-competition (the “**Non-competition Deed**”) in favour of the Company (for itself on behalf of its subsidiaries) on 8 September 2009, pursuant to which the Covenantors have jointly, severally and irrevocably agreed, undertaken to and covenanted with our Company (for itself and on behalf of its subsidiaries) that, with effect from the [●]:

- (i) the Covenantors shall not and shall procure that none of their respective associates shall except through his/her/its interests in the Company, whether as principal or agent and whether undertaken directly or indirectly in his/her/its own account or through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate, acquire or hold (whether as a shareholder, partner, agent or otherwise) any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or may be in competition, directly or indirectly, with the business of the Group including, but not limited to, the manufacturing and sales of sports products and any other business from time to time conducted by any member of the Group or in which any member of the Group is engaged or has invested or which the Group has otherwise publicly announced its intention to enter into, engage in or invest in (the “**Restricted Business**”) within Hong Kong and the PRC and such other parts of the world where any member of the Group carries on business from time to time (the “**Restricted Territories**”); and
- (ii) in the event that any of them and/or any of their respective associates is offered or becomes aware of any business investment or commercial opportunity directly or indirectly relating to a Restricted Business in any of the Restricted Territories, the Covenantors:
 - (a) shall promptly notify the Company in writing and refer such business opportunity to the Company for consideration and provide such information as may be reasonably required by the Company in order to make an informed assessment of such business investment or commercial opportunity; and

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

- (b) shall not and procure their respective associates shall not, invest or participate in any project or business investment or commercial opportunity unless such project or business investment or commercial opportunity shall have been rejected by the Company in writing and the principal terms of which the Covenantors or their respective associates invest or participate are no more favourable than those made available to the Company and such terms shall be fully disclosed to the Company prior to consummation of such rejected opportunities.
- (iii) they shall not and shall procure that none of their respective associates shall:
 - (a) at any time induce or attempt to induce any director, manager or employee or consultant of any member of the Group to terminate his or her employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
 - (b) at any time employ any person who has been a director, manager, employee of or consultant to any member of the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
 - (c) alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition, directly or indirectly, with any member of the Group, canvass, or solicit or accept orders from or do business with any person with whom any member of the Group has done business or solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

Furthermore, pursuant to a deed of undertaking date 8 September 2009, Fujian Peak specifically undertakes to the Group that it will not exercise its rights under the NBA Marketing, Sponsorship and Advertising Agreement entered into between Peak Shoes, Peak Sports, Fujian Peak and NBA Properties, Inc dated 11 October 2007 and the advertising agreement entered into between Fujian Peak, Tido Sports Co., Ltd., Clutch City Sports & Entertainment, L.P. and Rocketball, Ltd and our Company dated 23 April 2008 and it will, upon requested by the Group, assist the Group in complying with these agreements and will not do or attempt to do anything that may breach these two agreements and will keep the Group fully indemnified for any breach of these two agreements by Fujian Peak.

In addition, the following measures will be adopted to ensure good corporate governance practices:

- (i) independent non-executive Directors will review on an annual basis the compliance with the non-competition undertakings given by the Controlling Shareholders and other Covenantors and the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholders and other Covenantors on their existing or future competing business;

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

- (ii) the Controlling Shareholders and other Covenantors will provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertakings;
- (iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the undertakings (including the exercise of options or first rights of refusals) either through the annual report or by way of announcements to the public;
- (iv) the Controlling Shareholders and other Covenantors will make an annual declaration on the compliance with the non-competition undertakings in the annual report of the Company and disclose how the non-competition undertakings were complied with and enforced, which is consistent with the principles of making voluntary disclosures in the Corporate Governance Report; and
- (v) the Controlling Shareholders and conflicting Directors will abstain from the meeting and voting and will not be counted as quorum where there is actual or potential conflicting interest.

SHARE CAPITAL

SHARE CAPITAL

Our Company’s issued share capital immediately following the [●] will be as follows:

	<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
<i>Authorised share capital</i>		
5,000,000,000 Shares	50,000,000	

SHARE OPTION SCHEME

We have not adopted any share option scheme other than the Share Option Scheme.

GENERAL MANDATE TO ISSUE SHARES AND REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal in Shares with an aggregate nominal value of not more than the sum of (i) 20.0% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the [●]; and (ii) the total amount of share capital of our Company repurchased by our Company (if any) pursuant to the repurchase mandate of our Company.

This mandate will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the date on which such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

Our Directors have also been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10.0% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the [●].

This mandate will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands; or

SHARE CAPITAL

- the date on which such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

A summary of the relevant [●] is set out in the paragraph headed “Repurchase by the Company of Its Own Securities” in Appendix VI to this document.

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OVERVIEW

We are a rapidly growing sportswear company in China with a distribution network of 5,667 authorized Peak retail outlets in China as of 30 June 2009, which are operated either by our distributors or by their third party retail outlet operators. We employ a vertically integrated business model where we design, develop, manufacture, distribute and market our sportswear products under the Peak brand.

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

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

Our products are manufactured at our own production facilities as well as selectively outsourced to Contract Manufacturers. We sell substantially all of our products in China on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. We also sell our products on a wholesale basis to overseas customers, as well as to overseas distributors who then sell our products to consumers, retailers or sports teams and clubs. During the Track Record Period, we exported our products to over 70 countries in total.

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

BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully described in the section headed “Our History, Reorganization and Corporate Structure” in this document and in Appendix VI “Statutory and General Information” to this document, the Company became the holding company of the companies now

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comprising the Group. Our financial information presents our results of operations, financial position and cash flows of the companies now comprising the Group and have been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies’ respective dates of incorporation or establishment, where there is a shorter period.

FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE GROUP

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

Ability to maintain brand image and recognition

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

Pricing

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

Our product mix

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

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

In China, we sell substantially all of our products on a wholesale basis to distributors who operate, either directly or through third party retail outlet operators, authorized Peak retail outlets. We also sell our products to overseas customers directly, as well as to overseas distributors, who then sell the products to consumers, retailers and sports teams and clubs. Our growth is affected by the business performance of our distributors and how quickly they expand the network of authorized Peak retail outlets. If our distributors do not continue to add new authorized Peak retail outlets, our growth in turnover could be materially and adversely affected. We believe that our ability to effectively supervise and manage our distributors will affect their performance, which will in turn significantly affect our results of operations and financial performance.

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

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

Changes in consumption patterns and consumer demand for sportswear in China

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

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

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

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

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

Competition

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

Production arrangements and production capacity

During the Track Record Period, a substantial portion of our footwear and apparel production, and all of our accessory production, was outsourced to Contract Manufacturers. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, the cost of outsourced production amounted to approximately 70.0%, 74.5%, 73.9%, 70.8% and 75.5% of our total cost of sales, respectively. We plan to continue to outsource a portion of our sales orders to Contract Manufacturers in order to give us the flexibility to adjust our production schedules and to meet seasonal fluctuations in demand. Our reliance on outsourced production may expose us to risks relating to the disruption of outsourced products manufactured by these Contract Manufacturers, and if we are unable to maintain sufficient external production capacity, our business and results of operations may be materially and adversely affected.

We currently manufacture a portion of our footwear and apparel products at our own production facilities and intend to increase our internal production capacity with the launch of new production facilities. Our existing two footwear production facilities are located in Quanzhou, Fujian province, China, and Shang’gao, Jiangxi province, China, which have four and six production lines respectively. Annual production volume at such two production facilities equaled approximately 3.3 million and 1.5 million pairs of footwear, respectively, in 2008. We plan to gradually increase the production lines at our new footwear production facility in Shang’gao, Jiangxi province, China to 16 by the end of 2013. The expected annual footwear production by our Shang’gao plant upon the full launch of the 16 production lines (which is expected to be in 2013) will be approximately 12.0 million pairs. Our current

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two apparel production facilities are located in Quanzhou, Fujian province, China, and Hui'an, Fujian province, China, and have 16 and 39 production lines, respectively. Annual production volume at these two production facilities equaled approximately 1.0 million and 0.9 million pieces of sportswear, respectively, in 2008. We expect our new apparel production facility in Hui'an, Fujian province, China, when completed in 2012, to have 140 production lines, with an expected annual production capacity of 16.4 million pieces. Through our increased production capacity, we expect to be able to produce more Peak footwear and apparel at our own facilities to meet the growing demand for our products and to benefit from related economies of scale and improved margins. However, our planned expansion of production capacity as described above may not be successful and we may continue to rely on Contract Manufacturers for the production of a significant portion of our footwear, apparel and accessory products. See “Risk Factors — Our expansion of our production capacity may not be successful”.

Cost of raw materials for our footwear and apparel productions

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

Seasonality

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

Level of income tax and preferential tax treatment

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements requires us to make judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be

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considered when reviewing our consolidated financial information. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on, among other things, our experience, our observance of trends in the industry, and information available from outside sources, as appropriate. There can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. Our critical accounting estimates and judgments are set out in detail in note 32 of the accountants’ report in Appendix I to this document. We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations.

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

Revenue recognition

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

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

Impairment of assets

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

Impairment of receivables

Trade and other receivables that are carried at cost or amortized costs are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between the asset’s carrying amount and the present

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value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

Impairment of other assets

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

- property, plant and equipment;
- construction in progress;
- lease prepayments (land use rights);
- intangible assets; and
- investments in associates.

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

Estimates in determining impairment of receivables and other assets

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

Depreciation and amortization

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The useful lives are based on our experience with similar assets and taking into account anticipated technological changes. Both the useful life of an asset and its residual value, if any, are reviewed annually. Changes in circumstances, such as technological advances or changes to our business operations, can result in differences between the actual and estimated useful lives of an asset. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase the

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depreciation expense over the remaining useful life to depreciate the asset’s net book value to its salvage value. We also amortize our lease prepayments (land use rights) using the straight-line method over the respective periods of the leases.

Inventories

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

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

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

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

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

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

The following table sets out our turnover by product category during the Track Record Period:

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

Cost of sales

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

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

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

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

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

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Gross profit and gross profit margin

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

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

Other revenue

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

Other net income

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

Selling and distribution expenses

Selling and distribution expenses primarily consist of advertising and promotion expenses, renovation, rental and marketing subsidies, bonuses to distributors for meeting sales targets, expenses related to sales fairs, and salary and welfare expenses for sales and marketing personnel. However, starting from 1 April 2008, renovation, rental and marketing subsidies and bonuses were changed to take the form of discounts on products subsequently purchased by the relevant distributors. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, our

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total selling and distribution expenses accounted for approximately 9.7%, 11.5%, 8.9%, 10.1% and 14.2%, respectively, of our turnover. Advertising and promotion expenses accounted for the majority of our selling and distribution expenses, representing approximately 64.3%, 75.2%, 85.1%, 84.7% and 93.0% of our total selling and distribution expenses for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively.

Administrative expenses

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

Finance expenses

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

Income tax

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

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

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

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

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

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RESULTS OF OPERATIONS

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

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

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

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

Turnover

Turnover increased by approximately 60.3% from RMB846.7 million for the six months ended 30 June 2008 to RMB1,357.3 million for the six months ended 30 June 2009, primarily as a result of an increase in sales volume of our apparel products, and, to a lesser extent, our footwear products, in China. The increase in the sales of these products was attributable to the enhanced recognition of the Peak brand as a result of our Peak brand promotion and marketing activities and the broadening of our footwear and apparel product offerings. The increase in sales volume was also attributable to the expansion of our distribution network and the opening of additional authorized retail outlets across China as well as the general increase in demand for sportswear products in China. The increase in sales volume was partially offset by the decrease in the average selling prices of our footwear and apparel products period over period.

Footwear

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

Apparel

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

Accessories

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

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Cost of sales

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

Footwear

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

Apparel

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

Accessories

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

Gross profit and gross profit margin

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

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Footwear

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

Apparel

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

Accessories

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

Other revenue

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

Other net income

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

Selling and distribution expenses

Selling and distribution expenses increased by approximately 124.4% from RMB85.9 million for the six months ended 30 June 2008 to RMB192.8 million for the six months ended 30 June 2009. This increase was primarily due to an increase in advertising and promotion expenses relating to increased expenditures on television advertisements, sponsorship of sporting events and endorsement arrangements

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with professional athletes and online advertising in 2009. Advertising and promotion expenses represented approximately 93.0% of our total selling and distribution expenses in the six months ended 30 June 2009, as compared to approximately 84.7% of our total selling and distribution expenses in the six months ended 30 June 2008.

Administrative expenses

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

Profit from operations

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

Finance expenses

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

Income tax

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

Profit for the period attributable to equity shareholders

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

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

Turnover

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

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

Footwear

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

Apparel

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

Accessories

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

Cost of sales

Cost of sales increased by approximately 93.9% from RMB708.6 million for the year ended 31 December 2007 to RMB1,374.2 million for the year ended 31 December 2008, primarily due to an increase in our outsourced production volume and, to a lesser extent, an increase in our internal

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

Footwear

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

Apparel

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

Accessories

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

Gross profit and gross profit margin

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

Footwear

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

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Apparel

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

Accessories

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

Other revenue

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

Other net income

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

Selling and distribution expenses

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

Administrative expenses

Administrative expenses increased by approximately 476.2% from RMB14.7 million for the year ended 31 December 2007 to RMB84.7 million for the year ended 31 December 2008, primarily as a result of an increase in salaries and welfare benefits for our management and administrative personnel due to expansion of our team as our operations grew, an increase in legal and professional fees incurred in connection with [●] and an increase in research and development expenses incurred in the

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development of our products. We anticipate significant increases in administrative expenses going forward due to increased administrative staff costs as we continue to expand our operations and in connection with the needs of a listed company.

Profit from operations

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

Finance expenses

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

Income tax

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

Profit for the year attributable to equity shareholders

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

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

Turnover

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

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

Footwear

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

Apparel

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

Accessories

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

Cost of sales

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

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Footwear

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

Apparel

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

Accessories

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

Gross profit and gross profit margin

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

Footwear

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

Apparel

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

Accessories

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

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Other revenue

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

Other net (loss)/income

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

Selling and distribution expenses

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

Administrative expenses

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

Profit from operations

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

Finance expenses

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

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Income tax

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

Profit for the year attributable to equity shareholders

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Cash flow from operating activities

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

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

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

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

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

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

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growth in demand for our products. The increase in trade and other receivables was primarily due to our sales growth, while the increase in inventories was primarily due to increased purchases of raw materials and increased outsourced production in order to meet the growth in demand for our products.

Cash flow from investing activities

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

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

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

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

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

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

Cash flow from financing activities

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

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

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

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

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

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

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CONTRACTUAL AND CAPITAL COMMITMENTS

Contractual commitments

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

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

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

Capital commitments

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

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

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

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

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CAPITAL EXPENDITURES

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

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

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

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

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

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

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

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

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

NET CURRENT ASSETS

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

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

Amounts due from/to related parties

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

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Net current assets

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

INVENTORY ANALYSIS

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

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

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

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

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

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

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

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

Note:

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

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

TRADE AND OTHER RECEIVABLES ANALYSIS

Trade receivables and bills receivable

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

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

As part of our credit policy, we also offer revolving credit to our distributors in China. This revolving credit provides for a maximum credit limit that may be outstanding at any one time. This limit is determined on a distributor by distributor basis, based on, among others, credit history, market conditions, prior year’s purchases and estimated purchases for the coming year. In determining the amount of revolving credit, we also take into account on a case by case basis the funding needs of the distributor in expanding the sales network. When a distributor is required to make payment in any month, such distributor may decide to use part or all of the revolving credit granted to it and delay such payment provided that prior oral notice and the reasons for such use is given to our sales department, and that such credit, together with any outstanding credit, does not exceed the maximum credit limit granted. Subsequent payment by that distributor will be applied by us first as repayment for any credit

FINANCIAL INFORMATION

used previously by the distributor to meet its previous monthly payment obligations and the remainder, if any, will be applied as payment for the current month. We generally evaluate the credit limits granted to our distributors in China annually upon renewal of the relevant distribution agreements although adjustments may be made during the year in light of market conditions and circumstances of the individual distributor. As of 31 December 2006, 2007 and 2008 and 30 June 2009, the average of the credit limits granted to our distributors, stated as a percentage of the actual aggregate purchase amounts of our distributors in China during the relevant financial year or annualized aggregate purchase amount for the six months ended 30 June 2009 (not taking into account any adjustments to credit amount limits made during the year due to market conditions or circumstances of any individual distributors) was 9.7%, 9.6%, 17.3% and 18.5%, respectively. Significantly higher revolving credit limits were granted in certain cases over the course of the relevant year or period after considering the expansion plans and circumstances of such distributors. We will not dispatch our products to the distributors in China if their outstanding balances with us exceed their credit limits. All of our existing distributors are now granted the revolving credit.

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

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

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

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

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

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

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

Note:

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

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

Deposits and prepayments and other receivables

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

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TRADE AND OTHER PAYABLES ANALYSIS

Trade payables and bills payable

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

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

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

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

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

Note:

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

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

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

Receipts in advance and other payables and accruals

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

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

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result of an increase in personnel. The significant increase in other payables and accruals in 2008 was primarily due to the provisions made for subsidies and rewards payable at the end of the year and payment for construction materials for the new production facilities.

WORKING CAPITAL

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

INDEBTEDNESS

Borrowings

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

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

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

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

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

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

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

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

CONTINGENT LIABILITIES

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

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest rate risk

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

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Foreign exchange rate fluctuation risk

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

Credit risk

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

Commodity price risk

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

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

FINANCIAL INFORMATION

DIVIDEND POLICY

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

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

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

RELATED PARTY TRANSACTIONS

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

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

DISTRIBUTABLE RESERVES

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

PROPERTY INTERESTS AND PROPERTY VALUATION

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

FINANCIAL INFORMATION

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

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

NO MATERIAL ADVERSE CHANGE

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

FUTURE PLANS

FUTURE PLANS AND PROSPECTS

Please refer to the section headed “Our Business — Our Business Strategy” of this document for a detailed description of our future plans.

APPENDIX I

ACCOUNTANTS’ REPORT

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.



8th Floor
Prince’s Building
10 Chater Road
Central
Hong Kong

[●] 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.

APPENDIX I

ACCOUNTANTS’ 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:

<i>Name of company</i>	<i>Financial period</i>	<i>Statutory auditors</i>
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”)	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
(Notes (i) & (ii))	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”)	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
(Notes (i) & (ii))	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”)	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

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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

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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.

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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:

<i>Name of company</i>	<i>Place and date of incorporation/establishment</i>	<i>Issued and fully paid up/registered capital</i>	<i>Attributable equity interest</i>		<i>Principal activities</i>
			<i>Direct</i>	<i>Indirect</i>	
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

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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	RMB'000
					(Unaudited)	
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		<u>85,926</u>	<u>166,022</u>	<u>375,958</u>	<u>164,475</u>	<u>267,356</u>
Earnings per share — basic and diluted (RMB).	9	<u>0.06</u>	<u>0.11</u>	<u>0.25</u>	<u>0.11</u>	<u>0.17</u>

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.

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2 Consolidated statements of comprehensive income

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
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	<u>85,926</u>	<u>166,022</u>	<u>375,958</u>	<u>164,475</u>	<u>267,258</u>

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS’ REPORT

3 Consolidated balance sheets

Section C		As at 31 December			As at 30 June
	Note	2006 RMB'000	2007 RMB'000	2008 RMB'000	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		<u>22,907</u>	<u>101,366</u>	<u>269,160</u>	<u>302,667</u>
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		<u>302,943</u>	<u>774,837</u>	<u>1,165,375</u>	<u>1,803,889</u>
Total assets		<u>325,850</u>	<u>876,203</u>	<u>1,434,535</u>	<u>2,106,556</u>
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.		<u>188,365</u>	<u>478,037</u>	<u>567,867</u>	<u>686,724</u>
Net current assets		<u>114,578</u>	<u>296,800</u>	<u>597,508</u>	<u>1,117,165</u>
Total assets less current liabilities		<u>137,485</u>	<u>398,166</u>	<u>866,668</u>	<u>1,419,832</u>
Non-current liabilities					
Bank loans	20	—	—	70,000	80,000
Deferred tax liabilities	24(b)	—	117	22,661	26,386
Total non-current liabilities		<u>—</u>	<u>117</u>	<u>92,661</u>	<u>106,386</u>
Total liabilities.		<u>188,365</u>	<u>478,154</u>	<u>660,528</u>	<u>793,110</u>
Equity					
Share capital	25	—	195	13,188	14,761
Reserves	26	137,485	397,854	760,819	1,298,685
Total equity		<u>137,485</u>	<u>398,049</u>	<u>774,007</u>	<u>1,313,446</u>
Total liabilities and equity		<u>325,850</u>	<u>876,203</u>	<u>1,434,535</u>	<u>2,106,556</u>

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS’ REPORT

4 Balance sheets of the Company

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

The accompanying notes form part of the Financial Information.

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5 Consolidated statements of changes in equity

	<i>Section C Note</i>	<i>Share capital RMB'000 (Note 25)</i>	<i>Share premium RMB'000 (Note 26(a))</i>	<i>Statutory reserve RMB'000 (Note 26(b))</i>	<i>Other reserve RMB'000 (Note 26(c))</i>	<i>Exchange reserve RMB'000 (Note 26(d))</i>	<i>Retained profits RMB'000 (Note 26)</i>	<i>Total equity RMB'000</i>
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		<u>14,761</u>	<u>270,608</u>	<u>23,221</u>	<u>81,354</u>	<u>(98)</u>	<u>923,600</u>	<u>1,313,446</u>
(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		<u>13,188</u>	<u>—</u>	<u>22,255</u>	<u>81,354</u>	<u>—</u>	<u>445,727</u>	<u>562,524</u>

The accompanying notes form part of the Financial Information.

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6 Consolidated cash flow 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	RMB'000
					(Unaudited)	
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

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Section C		Year ended 31 December			Six months ended 30 June	
	Note	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 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.

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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.

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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.

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(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.

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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.

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(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.

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(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.

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(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.

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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;

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- (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:

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

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.

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

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
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

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
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.

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4 Profit before taxation

Profit before taxation is arrived at after charging:

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
(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
	<u>1,085</u>	<u>1,552</u>	<u>6,935</u>	<u>597</u>	<u>7,553</u>
(b) Staff costs:					
Contributions to defined contribution retirement plans.	308	478	1,043	298	655
Salaries, wages and other benefits	<u>25,662</u>	<u>42,272</u>	<u>111,726</u>	<u>44,389</u>	<u>67,558</u>
	<u>25,970</u>	<u>42,750</u>	<u>112,769</u>	<u>44,687</u>	<u>68,213</u>
(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	<u>—</u>	<u>274</u>	<u>187</u>	<u>—</u>	<u>106</u>

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.

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5 Income tax in the consolidated income statements

(a) Taxation in the consolidated income statements represents:

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
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
	<u>23,651</u>	<u>9,902</u>	<u>34,704</u>	<u>13,181</u>	<u>30,248</u>

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.

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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 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (Unaudited)	2009 RMB’000
Profit before taxation	<u>109,577</u>	<u>175,924</u>	<u>410,662</u>	<u>177,656</u>	<u>297,604</u>
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	<u>23,651</u>	<u>9,902</u>	<u>34,704</u>	<u>13,181</u>	<u>30,248</u>

- (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).

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6 Directors’ remuneration

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

Year ended 31 December 2006

	<i>Fee</i> RMB’000	<i>Basic salaries, allowances and other benefits</i> RMB’000	<i>Contributions to retirement benefit scheme</i> RMB’000	<i>Bonuses</i> RMB’000	<i>Total</i> 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

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Year ended 31 December 2007

	<i>Fee</i>	<i>Basic salaries, allowances and other benefits</i>	<i>Contributions to retirement benefit scheme</i>	<i>Bonuses</i>	<i>Total</i>
	RMB'000	RMB'000	RMB'000	RMB'000	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

	<i>Fee</i>	<i>Basic salaries, allowances and other benefits</i>	<i>Contributions to retirement benefit scheme</i>	<i>Bonuses</i>	<i>Total</i>
	RMB'000	RMB'000	RMB'000	RMB'000	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

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Six months ended 30 June 2009

	<i>Fee</i> RMB'000	<i>Basic salaries, allowances and other benefits</i> RMB'000	<i>Contributions to retirement benefit scheme</i> RMB'000	<i>Bonuses</i> RMB'000	<i>Total</i> 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)

	<i>Fee</i> RMB'000	<i>Basic salaries, allowances and other benefits</i> RMB'000	<i>Contributions to retirement benefit scheme</i> RMB'000	<i>Bonuses</i> RMB'000	<i>Total</i> 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

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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:

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

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:

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	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	—	—
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>

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.

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11 Property, plant and equipment

	<i>Note</i>	<i>Building</i> RMB'000	<i>Plant and machinery</i> RMB'000	<i>Motor vehicles</i> RMB'000	<i>Furniture and fixtures</i> RMB'000	<i>Total</i> 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).

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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).

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14 Intangible assets

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

- (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:

<i>Name of associate</i>	<i>Form of business structure</i>	<i>Place of establishment and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Group’s effective interest</i>	<i>Principal activity</i>
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.

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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:

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

16 Inventories

Inventories in the consolidated balances sheets comprise:

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	RMB'000	RMB'000	RMB'000	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	<u>80,741</u>	<u>138,014</u>	<u>108,792</u>	<u>142,634</u>
	<u>100,178</u>	<u>157,846</u>	<u>169,266</u>	<u>216,618</u>

17 Trade and other receivables

(a) The Group

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	RMB'000	RMB'000	RMB'000	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	<u>1,835</u>	<u>1,117</u>	<u>6,145</u>	<u>4,963</u>
	<u>109,587</u>	<u>447,561</u>	<u>507,476</u>	<u>780,268</u>

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.

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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:

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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	—	—	—
	<u>105,889</u>	<u>422,820</u>	<u>406,995</u>	<u>639,029</u>

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

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

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.

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20 Bank loans

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

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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
	<u>14,549</u>	<u>10,879</u>	<u>202,233</u>	<u>325,254</u>

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:

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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
	<u>—</u>	<u>—</u>	<u>70,000</u>	<u>80,000</u>

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

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

(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.

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21 Trade and other payables

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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	<u>22,752</u>	<u>15,357</u>	<u>149,404</u>	<u>63,061</u>
	<u>152,092</u>	<u>391,225</u>	<u>369,731</u>	<u>425,313</u>

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:

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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	<u>484</u>	<u>51</u>	<u>—</u>	<u>—</u>
	<u>128,151</u>	<u>375,868</u>	<u>220,327</u>	<u>362,252</u>

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).

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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:*

	<i>As at 31 December</i>			<i>As at 30 June</i>
	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:

	<i>Provision of incentive rewards and renovation subsidy</i>	<i>Undistributed profits of subsidiaries in the PRC since 1 January 2008</i>	<i>Pre-operating expense, accruals and others</i>	<i>Total</i>
	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)

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	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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)
	<u>7</u>	<u>57</u>	<u>(14,999)</u>	<u>(20,012)</u>

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*

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

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.

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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

	<i>Share premium</i>	<i>Other reserve</i>	<i>Exchange reserve</i>	<i>Accumulated losses</i>	<i>Total equity</i>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(Note a)	(Note c)	(Note d)		
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.

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(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.

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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:

	<i>Carrying amount (Fair value) RMB’000</i>
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.

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(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:

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
100 basis point increase	<u>134</u>	<u>79</u>	<u>1,814</u>	<u>405</u>	<u>2,773</u>

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\$.

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

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>’000</i>	<i>’000</i>	<i>’000</i>	<i>’000</i>
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.

	<i>Year ended 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
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.

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— 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:

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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
	<u>—</u>	<u>13,223</u>	<u>50,079</u>	<u>74,508</u>

(b) Operating leases

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

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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
	<u>4,820</u>	<u>2,807</u>	<u>22,717</u>	<u>21,978</u>

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.

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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:

<i>Name of party</i>	<i>Relationship</i>
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:

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

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).

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(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:

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
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	—	—	—
	<u>70,459</u>	<u>141,891</u>	<u>—</u>	<u>—</u>	<u>—</u>
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	—	—	—
	<u>28,355</u>	<u>332,418</u>	<u>162,188</u>	<u>40,210</u>	<u>35,195</u>

The above amounts have been settled in April 2009.

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

	<i>Year ended 31 December</i>			<i>Six months ended 30 June</i>	
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2009</i>
	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 (<i>note 4(a)</i>)	—	—	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.

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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

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	RMB’000	RMB’000	RMB’000	RMB’000
Trade related				
— Peak Material	3,962	—	—	—
Non-trade related				
— Mr Xu Jingnan	8,639	—	—	—
	<u>12,601</u>	<u>—</u>	<u>—</u>	<u>—</u>

(ii) Amounts due to related parties

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	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:

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

(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.

APPENDIX I

ACCOUNTANTS’ REPORT

(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.

APPENDIX I

ACCOUNTANTS’ REPORT

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

APPENDIX III

PROFIT FORECAST

Our forecast consolidated profit attributable to equity shareholders of our Company for the year ending 31 December 2009 is set out in the section headed “Financial Information — Profit Forecast” in this document.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to our equity shareholders for the year ending 31 December 2009, based on the audited consolidated results for the six months ended 30 June 2009 and a forecast of the consolidated results of the Group for the remaining six months ending 31 December 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in the accountants’ report of our Company as set out in Appendix I of this document. The profit forecast has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing rules, laws, regulations, or government policies (economic, political or legal), including changes in legislation or rules, regulatory, fiscal, economic or market conditions in the PRC including Hong Kong, the Cayman Islands, the British Virgin Islands, or any of the countries in which members of the Group currently operate or are established;
- there will be no material changes in inflation rate, interest rate or foreign currency exchange rate in the countries, regions or industries applicable to the business activities of the Group from those presently prevailing;
- there will be no material changes in the bases or rates of taxation or duties in the PRC including Hong Kong, the Cayman Islands, the British Virgin Islands, or any of the countries in which members of the Group operate or are established, except as otherwise disclosed in this document;
- there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on the Group’s business and operating activities;
- the Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in this document; and
- the Group will not experience significant changes in seasonal fluctuation in respect of market demand and production of its products.

APPENDIX IV

PROPERTY VALUATION

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants



10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

[●] 2009

The Directors
Peak Sport Products Co., Limited

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Peak Sport Product Co., Limited (the “Company”) or its subsidiaries (collectively referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 July 2009 (the “date of valuation”) for incorporating into the document.

Our valuation is our opinion of the market value of the property interest which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

For properties located in the PRC, we have not caused title search to be made at the relevant government bureau in the People’s Republic of China (the “PRC”) nor inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation, we have relied on the legal opinions provided by the Group’s PRC legal advisers, King & Wood (the “PRC legal opinion”).

In valuing the property interests in Group I, due to the lack of identifiable market transaction on properties of similar nature of the buildings and structure, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the properties and the buildings and structures standing on the land respectively. The sum of the two results represents the market value of the properties as a whole. In the valuation of the land portions, reference has been made to the standard land prices in the relevant cities and the sales evidences in the locality as available to us.

The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes a reliable indication of value for property in the absence of a known market based on comparable sales. It is subject to adequate potential profitability of the business or of the whole entity.

APPENDIX IV

PROPERTY VALUATION

The properties in Group II have been ascribed no commercial value due to the short-term nature of their tenancies, their prohibition against assignment or sub-letting, or otherwise the lack of substantial profit rent.

In valuing the properties, we have assumed that the property owner has free and uninterrupted rights to use the property and is entitled to transfer, lease or mortgage the property to any third party with the residual term without payment of any further premium or onerous fee to the government or any third party. All land use rights premium and other relevant costs and fees on utility provisions are assumed to have been fully settled.

Our valuation has been made on the assumption that the owners sell the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation. Unless otherwise stated, the valuation represents the value of the entire property interest described in the valuation certificate and not the value of a share of it. Other assumptions in respect of each property, if any, have been set out in the notes of the valuation certificates for the respective properties.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, development plans, construction costs, identification of the properties and other relevant matters. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

We have had no reason to doubt the true and accuracy of the information provided to us by the Group, and have no reason to suspect that any material information has been withheld. We considered that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

APPENDIX IV

PROPERTY VALUATION

In valuing the property interests, we have complied with the requirements set out in [●] and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (“HKIS”).

We enclosed herewith a summary of our valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS, MHKIS has over twenty two years’ experience in undertaking valuations of properties in Hong Kong, and has over fifteen years’ experience in the valuation of properties in the PRC. Mr. Ho has been working with Vigers Group since 1989.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUATION

<u>Property</u>	<u>Capital Value in existing state as at 31 July 2009</u>
Group I — Property interests owned and occupied by the Group in the PRC	
1. An industrial complex at Shoe Leather City, Shang’gao County Industrial Park, Yichun City, Jiangxi Province, the PRC	RMB84,100,000 (see also note (v) in the certificate)
2. An industrial complex at Lot A6, Cheng Nan Industrial Zone, Hui’an County, Fujian Province, the PRC	RMB170,500,000
Sub-total:	RMB254,600,000
Group II — Property interests leased and occupied by the Group in the PRC	
3. Workshops and dormitories located at Dong Hai Street, Dong Bao Pi Ke Industrial District, Quanzhou City, Fujian Province, the PRC	No commercial value
4. Units 1009–10, Block B, No. 242 Tianhe Road, Guangzhou City, Guangdong Province, the PRC	No commercial value
Sub-total:	Nil
Grand-total	<u>RMB254,600,000</u>

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATES

Group I — Property interests owned and occupied by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009
1. An industrial complex at Shoe Leather City, Shang’gao County Industrial Park, Yichun City, Jiangxi Province, the PRC	The property comprises 2 parcels of land with site areas of respectively approximately 200,000 sq.m. and 133,333 sq.m. (total 333,333 sq.m.) together with the buildings and structures completed or being constructed thereon. The buildings including 7 workshops and 4 dormitories having a total gross floor area of approximately 55,496 sq.m. completed in between 2007 and 2008. In addition, there are construction of 3 workshops, 1 boiler room and 2 dormitory buildings having a planned total gross floor area of approximate 33,568.64 sq.m. in progress. The scheduled date of their completion is around 2010. (see note (v) below) The land use rights of the two sites are held for industrial uses for terms expiring respectively in September 2056 and November 2056.	The property is held and occupied by the Group as a manufacturing complex.	RMB84,100,000 (see also note (v) below)

Notes:

- i. According to the State-owned Land Use Rights Certificate No. Gong Ye Yuan Guo Yong (2006) Zi No. 0111, the land use rights of the property having a site area of approximately 200,000 sq.m. (300 Mu) have been granted to 匹克(江西)實業有限公司 (Peak (Jiangxi) Industry Co. Ltd. or “Peak Jiangxi”) for industrial uses for a term expiring in September 2056.

APPENDIX IV

PROPERTY VALUATION

According to the State-owned Land Use Rights Certificate No. Jing Jiang Guo Yong (2006) Zi No. 0002-1, the land use rights of the property having a site area of approximately 133,333 sq.m. (200 Mu) have been granted to Peak Jiangxi for comprehensive uses for a term expiring in November 2056.

- ii. According to 7 Building Ownership Certificates Nos. Shang Fang Quan Zheng Ao Zi Nos. 03-2008-0476 and 03-2008-0481 to 03-2008-0486, the title of seven single-storey buildings (for workshop uses) having a total gross floor area of approximately 33,138 sq.m. is vested in 匹克(江西)實業有限公司(許景南) (Peak (Jiangxi) Industry Co. Ltd. (Xu Jing Nan)).

According to 4 Building Ownership Certificates Nos. Shang Fang Quan Zheng Ao Zi Nos. 03-2008-0477 to 03-2008-0480, the title of four 6-storey buildings (for commercial use on the first level and residential uses on the upper levels) having a total gross floor area of approximately 22,358 sq.m. is vested in 匹克(江西)實業有限公司(許景南) (Peak (Jiangxi) Industry Co. Ltd. (Xu Jing Nan)).

- iii. According to a State-owned Land Use Rights Grant Contract entered into between Land Resource Bureau of Shang’gao County, Jiangxi (the Grantor) and Peak Jiangxi (the Grantee) on 20 June 2006, the land use rights of the property for a site having an area of 300Mu (approximately 200,000 sq.m.) were agreed to be granted to Peak Jiangxi for industrial use for a term of 50 years.

According to a State-owned Land Use Rights Grant Contract entered into between Land Resource Bureau of Shang’gao County (the Grantor), Jiangxi and Peak Jiangxi (the Grantee) on 9 November 2006, the land use rights of the property for a site having an area of 200Mu (approximately 133,333 sq.m.) were agreed to be granted to Peak Jiangxi for comprehensive uses for a term of 50 years.

According to the Company, the total cost expended on the land acquisition was approximately RMB5,602,000.

- iv. According to the Construction Land Use Planning Permit No. 2006Y0507024 dated 19 May 2006, the construction land use planning for industrial complex development on the site having a total area of 500 Mu(or approximately 333,333 sq.m.) has been granted.
- v. There are construction of 3 workshops, 1 boiler room and 2 dormitories in progress and 4 incompletd dormitories on the site. Their planned total gross floor area is approximately 57,200.8 sq.m. According to the Company, the application for the relevant construction works and construction commencement permits are in progress. The scheduled date of their completion is around 2010. The total cost expended on the construction, as at the date of valuation, was approximately RMB5,132,000. The outstanding cost to complete the project was RMB31,130,000. Our valuation has not taken the construction costs expended into account.
- vi. The PRC legal opinion states, *inter alia*, as follows:
- (1) Peak Jiangxi legally holds the land use rights and the building ownership rights of the property under the land use rights certificates and the building ownership certificates respectively.
 - (2) Peak Jiangxi is entitled to occupy, use, assign, lease out, mortgage the land use rights and the building ownership rights or use the land and the buildings in accordance with the laws.
 - (3) The property is subject to a mortgage in favour of China Construction Bank, Quanzhou Bincheng Branch.
- vii. According to the Company, Peak Jiangxi is an indirectly wholly-owned subsidiary of the Company.

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PROPERTY VALUATION

Property	Description and Tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009
2. An industrial complex at Lot A6, Cheng Nan Industrial Zone, Hui'an County, Fujian Province, the PRC	The property comprises 4 parcels of land having a total site area of approximately 71,935.8 sq.m. together with the buildings and structures completed thereon. According to the Company, the property is planned to be developed into a industrial complex comprising workshops and dormitories having a planned total gross floor area of approximately 178,937 sq.m. together with the associated structures including roadworks and fencing wall. The buildings having a total gross floor area of approximately 122,226.42 sq.m. have been completed in 2008. The property is held with the land use rights for industrial uses for a term expiring in 2056.	The property is held and occupied by the Group as a manufacturing complex.	RMB170,500,000

APPENDIX IV

PROPERTY VALUATION

Notes:

- i. According to 4 State-owned Land Use Rights Certificates, the land use rights of the property having a total site area of approximately 71,935.8 sq.m. have been granted to 匹克(中國)有限公司(Peak (China) Limited Company or “Peak China”) for industrial uses. The further details are as follows:

<u>Certificate No.</u>	<u>Year Term Expiring Date</u>	<u>Site Area (in sq.m.)</u>
Hui Guo Yong (2009 Chu) Zi No. 11	31 December 2056	6,829.9
Hui Guo Yong (2007 Chu) Zi No. 120044	31 December 2056	26,054.0
Hui Guo Yong (2008 Chu) Zi No. 120011	27 October 2056	13,867.2
Hui Guo Yong (2008 Chu) Zi No. 120012	31 December 2056	25,184.7
Total:		<u>71,935.8</u>

- ii. According to the Construction Land Use Planning Permit No. Wei Gui Jiang No. 200705 dated 29 January 2007, the construction land use planning for workshops and their associated buildings at a plot ratio of 2.01 on a site having a total area of 89,737 sq.m. has been granted.
- iii. According to the Construction Project Planning Permit No. Jiang Zi No. 350521200800019 dated 28 March 2008, the construction project on workshops and their ancillary facilities with a total gross floor area of 174,795.4 sq.m has been granted.
- iv. According to the Construction Works Commencement Permit No. 350521200805210101 dated 21 May 2008, the commencement of the construction works on workshops and dormitories respectively with the areas of 129,312 sq.m. and 34,174 sq.m. have been granted.
- v. According to 3 Building Ownership Certificates (Document Nos.: Fang Quan Zheng Hui Yang Zi Nos. 0307, 0308 and 0309), the buildings having a total gross floor area of approximately 122,226.42 sq.m. are vested in Peak China.
- vi. The PRC legal opinion states, inter alia, as follows:
- (1) Peak China legally holds the land use rights and the building ownership rights of the property under the land use rights certificates and the building ownership certificates respectively.
 - (2) Peak China is entitled to occupy, use, assign, lease out, mortgage the land use rights and the building ownership rights or use the land and the buildings in accordance with the laws.
 - (3) Based on the related agreement and the confirmation by the China Construction Bank, Quanzhou, Bincheng Branch, the titles held under 3 Building Ownership Certificates (Document Nos.: Fang Quan Zheng Hui Yang Zi Nos. 0307, 0308 and 0309) and the land use rights held under 4 State-owned Land Use Rights Certificates (Document Nos.: Hui Guo Yong (2007 Chu) Zi No. 120044, Hui Guo Yong (2008 Chu) Zi Nos. 120011 and 120012 and Hui Guo Yong (2009 Chu) Zi No. 11 are subject to a mortgage in favour of China Construction Bank, Quanzhou Bincheng Branch.
- vii. According to the Company, Peak China is an indirectly wholly-owned subsidiary of the Company.

APPENDIX IV

PROPERTY VALUATION

Group II — Property interests leased and occupied by the Group in the PRC

			Capital Value in existing state as at 31 July 2009												
<u>Property</u>	<u>Description</u>	<u>Particulars of occupancy</u>													
3. Workshops and dormitories located at Dong Hai Street, Dong Bao Pi Ke Industrial District, Quanzhou City, Fujian Province, the PRC	The property comprises 4 building blocks having a total gross floor area of approximately 37,644 sq.m. completed in about 2005. The buildings include the followings: <table><tr><th><u>Building Name</u></th><th><u>Approximate Gross Floor Area (in sq.m.)</u></th></tr><tr><td>Workshop A1</td><td>14,461</td></tr><tr><td>Office A2</td><td>4,523</td></tr><tr><td>Workshop BC</td><td>9,414</td></tr><tr><td>Dormitory E</td><td>9,246</td></tr><tr><td>Total:</td><td>37,644</td></tr></table>	<u>Building Name</u>	<u>Approximate Gross Floor Area (in sq.m.)</u>	Workshop A1	14,461	Office A2	4,523	Workshop BC	9,414	Dormitory E	9,246	Total:	37,644	The property is leased from 福建匹克集團有限公司 (Fujian Peak Group Co., Ltd or “Fujian Peak”), a related party, for a term expiring on 31 December 2018 at a monthly rent of RMB188,221.6. The property is occupied by the Group as a manufacturing complex.	No commercial value
<u>Building Name</u>	<u>Approximate Gross Floor Area (in sq.m.)</u>														
Workshop A1	14,461														
Office A2	4,523														
Workshop BC	9,414														
Dormitory E	9,246														
Total:	37,644														

Notes:

- i. According to an Assets Lease Agreement entered into between 福建匹克集團有限公司 (Fujian Peak) (the lessor) and 泉州匹克鞋業有限公司 (Quanzhou Peak Shoes Company Limited or “Peak Shoes”) (the lessee), the property is leased to the Group for a term from 1 June 2008 to 31 December 2018 at a monthly rent of RMB188,221.6 for production and business operation uses. The lessor is responsible for the building structure maintenance. The lessee is also granted with the pre-emption right on the lease renewal and purchase of the property.
- ii. The PRC legal opinion states, *inter alia*, as follows:
 - (1) According to the State-owned Land Use Rights Certificate No. Quan Guo Yong (2008) No. 200022, the land use rights of the property having a site area of approximately 26,038.6 sq.m. have been granted to lessor via assignment for industrial uses for a term expiring on 30 June 2057.
 - (2) The lessor has legally acquired the title of the buildings and their corresponding site. It is entitled to lease out the property. The property is not subject to mortgage or other significant encumbrances.
 - (3) The content of the lease agreements are legally effective, binding and enforceable. The lessee is entitled to use the property in accordance with the lease terms.
 - (4) The lease agreements have been registered with the authority in accordance with the law in the PRC.
 - (5) As confirmed by Peak Shoes, the current use of the property is in compliance with the approved use stated in the relevant certificate.
- iii. According to the Company, Peak Shoes is an indirectly wholly-owned subsidiary of the Company.

APPENDIX IV

PROPERTY VALUATION

Property	Description	Particulars of occupancy	Capital Value in existing state as at 31 July 2009
4. Units 1009-10, Block B, No.242 Tianhe Road, Guangzhou City, Guangdong Province, the PRC	The property comprises an office unit on the 10th level of a 28-storey composite building completed in about 2006. The property has a gross floor area of approximately 318.54 sq.m.	The property is leased to 福建泉州匹克體育用品 有限公司 (Fujian Quanzhou Peak Sports Products Co., Ltd. or “Peak Sports”) from Gao Lin Hui, an independent third party, for a term from 10 July 2009 to 9 July 2011 at a monthly rent of RMB21,660, exclusive of service charges. The property is occupied by the Group as office.	No commercial value

Notes:

- i. The PRC legal opinion states, *inter alia*, as follows:
 - (1) The lessor has entered into a Commodity House Sales and Purchase Agreement with 廣州豐偉房地產開發有限公司 (the seller) on 9 November 2006 on the purchase of the property for office use.
 - (2) The content of the lease agreement is legally effective, binding and enforceable. The lessee is entitled to use the property in accordance with the lease terms.
 - (3) The lessor has completed the relevant registration of the lease agreement with the administrative authority.
 - (4) The lessor has obtained the Building Ownership Certificates of the property.
 - (5) As confirmed by Peak Sports, the current use of the property is in compliance with the approved use stated in the lease agreement.
- ii. According to the Company, Peak Sports is an indirectly wholly-owned subsidiary of the Company.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 February 2008 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 8 September 2009. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

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board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

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- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include

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any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

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- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

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(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly

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authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company’s affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

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- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

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Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

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(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 4 March, 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members’ voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company’s affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company’s liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company’s articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

A. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 15 February 2008 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a nominal value of HK\$0.01 per Share. Our Company has established a place of business in Hong Kong at 40/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 18 April 2008. Mr. Tsoi Ka Ho has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising the Memorandum and Articles of Association. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix V to this document.

B. Change in share capital

- (a) The authorized share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each.
- (b) On 15 February 2008, one subscriber Share with a par value of HK\$0.01 of our Company was transferred to Mr. Xu Jingnan.
- (c) On 26 June 2008, the authorised share capital of our Company was increased to HK\$50,000,000 divided into 5,000,000,000 Shares.
- (d) Immediately following completion of the [●], the issued share capital of our Company will be [●] divided into [●] Shares, all fully paid or credited as fully paid and [●] Shares will remain unissued.
- (e) Save for the aforesaid and as mentioned in the paragraph headed “Resolutions in writing of all the shareholders of our Company passed on 8 September 2009” below, there has been no alteration in the share capital of our Company since its incorporation.

C. Resolutions in writing of all the shareholders of our Company passed on 8 September 2009

[●]

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

2. CORPORATE REORGANIZATION

In preparation for the [●] on the [●], the companies comprising the Group underwent the Reorganization to rationalize the structure of our Group. The following are the steps taken by our Group:

- (i) on 15 February 2008, the Company with an authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each was incorporated in the Cayman Islands as an exempted company with limited liability, and one subscriber Share in the Company was transferred to Mr. Xu Jingnan;
- (ii) on 17 January 2008, Peak Investment was incorporated in the BVI as a shelf company and on 15 February 2008, the Company became the sole shareholder of Peak Investment;
- (iii) on 26 June 2008, the authorized share capital of the Company was increased to HKD50,000,000 divided into 5,000,000,000 shares;
- (iv) on 30 June 2008, Peak Investment acquired the entire issued share capital of Peak Hong Kong from Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua, Mr. Xu Zhida, Haojia and the First Round Financial Investors, and in consideration thereof, a total of 1,499,999,999 shares in the capital of our Company were issued and allotted to Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua, Mr. Xu Zhida, Haojia and the First Round Financial Investors in the same proportion to their respective shareholding interests in Peak Hong Kong (save that Mr. Xu Jingnan received one Share less);
- (v) on 7 January 2009, at the request of World Fund Pte Limited (one of the Second Round Financial Investors), Mr. Xu Jingnan and Ms. Wu Tigao purchased all the Shares held by World Fund Pte Limited;
- (vi) on 2 April 2009, the Second Round Financial Investors (except for SCGC, CCBIAM, Charalambos Papas, Freddie John Paul, Christakis Potamitis and Hanna Nicola Abulaitah) exercised their put option rights and Mr. Xu Jingnan and Ms. Wu Tigao purchased all the shareholdings interests held by them;
- (vii) on 2 April 2009, Mr. Xu Jingnan and Ms. Wu Tigao transferred all their shareholding interests in the Company to Ever Sound. On the same date, Mr. Xu Zhihua and Mr. Xu Zhida transferred all their shareholding interests in the Company to Alpha Top and Brilliant Lead respectively;
- (viii) on 7 April 2009, the Company allotted and issued certain number of Shares to the Third Round Financial Investors, details of which are set out in the paragraph headed “6. Details of the Third Round Financial Investors” of this section. On the same date, Ever Sound transferred 48,018,979 Shares and 5,197,001 Shares to CCBIAM and SCGC respectively; and
- (ix) on 3 June 2009, Charalambos Papas, Freddie John Paul, Christakis Potamitis and Hanna Nicola Abulaitah exercised their put option rights and Ever Sound repurchased all their shareholdings in the Company.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

3. DETAILS OF THE FIRST ROUND FINANCIAL INVESTORS AND HAOJIA

The table below sets out details of the First Round Financial Investors and Haojia, the number of shares of Peak Hong Kong transferred from Mr. Xu Jingnan and Ms. Wu Tigao, the number of shares allotted by Peak Hong Kong, their respective shareholdings interests in Peak Hong Kong before the share swap as described in paragraph 2(iv) above and also the shareholdings interests before and after the completion of the [●]:

<u>Name</u>	<u>Number of shares transferred from Xu Family</u>	<u>Number of shares allotted by Peak Hong Kong</u>	<u>Total number of shares held</u>	<u>Percentage of shareholding interests in Peak Hong Kong</u>	<u>Percentage of shareholding interests in the Company (before the completion of the [●])</u>
Haojia Global Capital Limited. . . .	3,686	0	3,686	1.8430%	1.6472%
Pre IPO Capital Partners Limited (優勢資本(私募投資)有限公司).	0	2,639	2,639	1.3195%	1.1793%
Sequoia Capital China Principals Fund I, LP	0	1,589	1,589	0.7945%	0.7100%
Sequoia Capital China I, LP	0	10,266	10,266	5.1330%	4.5876%
Sequoia Capital China Partners Fund I, LP	0	1,180	1,180	0.5900%	0.5273%
TOTAL:			19,360	9.6800%	8.6514%

4. DETAILS OF THE SECOND ROUND FINANCIAL INVESTORS

The table below sets out the names of the Second Round Financial Investors, the number of Shares transferred from Mr. Xu Jingnan and Ms. Wu Tigao, and their respective shareholdings interests in the Company before the majority of them exercised the put option in January 2009, April 2009 and June 2009:

<u>Name</u>	<u>Number of Shares transferred from Mr. Xu Jingnan</u>	<u>Number of Shares transferred from Ms. Wu Tigao</u>	<u>Total number of Shares held</u>	<u>Percentage of shareholding interests in the Company (after the completion of the respective transfers)</u>
CCBIAM (建銀國際資產管理有限公司) ¹	10,400,000	10,400,000	20,800,000	1.3867%
Sparkle Day Investments Limited ²	10,000,000	10,000,000	20,000,000	1.3333%
Hong Yuren (洪育仁) ⁹	1,150,000	1,150,000	2,300,000	0.1533%

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<u>Name</u>	<u>Number of Shares transferred from Mr. Xu Jingnan</u>	<u>Number of Shares transferred from Ms. Wu Tigao</u>	<u>Total number of Shares held</u>	<u>Percentage of shareholding interests in the Company (after the completion of the respective transfers)</u>
Superb Great Technology Limited ³	1,000,000	1,000,000	2,000,000	0.1333%
Tao Teok Chon (邱躍進) ¹⁰	150,000	150,000	300,000	0.0200%
Wong Po Nei (黃波泥) ⁹	3,250,000	3,250,000	6,500,000	0.4333%
World Fund Pte Limited ⁴	5,167,000	5,167,000	10,334,000	0.6889%
To Chun (陶晉) ⁹	50,000	50,000	100,000	0.0067%
Ng Chung Yu (吳重如) ⁹	100,000	100,000	200,000	0.0133%
Charalambos Papas ⁷	103,500	103,500	207,000	0.0138%
Freddie John Paul ⁷	628,395	628,395	1,256,790	0.0838%
Christakis Potamitis ⁷	103,500	103,500	207,000	0.0138%
Hanna Nicola Abulaitah ⁸	103,200	103,200	206,400	0.0138%
SCGC (SCGC資本控股有限公司) ⁵	1,600,000	1,600,000	3,200,000	0.2133%
Chang Wing Chiu (張榮超) ⁹	250,000	250,000	500,000	0.0333%
Chan Kam Tsan (陳金燦) ⁹	500,000	500,000	1,000,000	0.0667%
Cai Zhubiao (蔡祝標) ⁹	400,000	400,000	800,000	0.0533%
Cheung Kam Lin (張金蓮) ⁹	500,000	500,000	1,000,000	0.0667%
Shi Aiyu (施愛瑜) ⁹	800,000	800,000	1,600,000	0.1067%
Ho Yi Piu (何宜標) ⁹	750,000	750,000	1,500,000	0.1000%
Chan Loi (陳來) ⁹	139,000	139,000	278,000	0.0185%
Hong Zhaorong (洪昭榕) ⁹	30,000	30,000	60,000	0.0040%
Siu Kwok Ching (蕭國禎) ⁹	300,000	300,000	600,000	0.0400%

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<u>Name</u>	<u>Number of Shares transferred from Mr. Xu Jingnan</u>	<u>Number of Shares transferred from Ms. Wu Tigao</u>	<u>Total number of Shares held</u>	<u>Percentage of shareholding interests in the Company (after the completion of the respective transfers)</u>
Ke Chun Li (柯遵力) ⁹	300,807	300,807	601,614	0.0401%
Shiny Fly Limited ⁶ (晴飛有限公司)	250,000	250,000	500,000	0.0333%
Hui Kam Chuk (許金煉) ⁹	632,500	632,500	1,265,000	0.0844%
Wong Wai Leung (黃偉良) ⁹ . . .	2,000,000	2,000,000	<u>4,000,000</u>	0.2667%
		TOTAL:	<u>81,315,804</u>	5.4210%

Notes:

1. Based on the information provided to the Company and to the best knowledge of the Directors, it is incorporated in Hong Kong and is a wholly-owned subsidiary of CCB International (Holding) Limited, which in turn is a wholly-owned subsidiary of China Construction Bank Corporation. It is a licenced corporation under the SFO for Type 9 regulated activity (asset management). Its major business includes direct investment, conducting mergers and acquisitions, providing portfolio management services and fixed income services.
2. Based on the information provided to the Company and to the best knowledge of the Directors, Sparkle Day Investments Limited is an investment holding company incorporated in the BVI.
3. Based on the information provided to the Company and to the best knowledge of the Directors, Superb Great Technology is an investment holding company incorporated in the BVI.
4. Based on the information provided to the Company and to the best knowledge of the Directors, World Fund Pte Limited is a private investment holding company incorporated in Singapore.
5. Based on the information provided to the Company and to the best knowledge of the Directors, SCGC is incorporated in BVI and is a wholly owned subsidiary of Shenzhen Capital (Hong Kong) Co., Limited. Its major business includes provision of consultation services for investment projects, laws and regulations consultation services, project management services, listing planning services and exploration of investment opportunities services.
6. Based on the information provided to the Company and to the best knowledge of the Directors, Shiny Fly Limited is a private company incorporated in Hong Kong and is mainly engaged in trading businesses.
7. Based on the information provided to the Company and to the best knowledge of the Directors, they are nationals of Republic of Cyprus.
8. Based on the information provided to the Company and to the best knowledge of the Directors, he is a national of Canada.
9. Based on the information provided to the Company and to the best knowledge of the Directors, they are resident of Hong Kong.

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10. Based on the information provided to the Company and to the best knowledge of the Directors, he is a resident of Macau.

5. DETAILS OF THE REMAINING SECOND ROUND FINANCIAL INVESTORS

The table below sets out the names of the Second Round Financial Investors (except those whose shares have been repurchased by Mr. Xu Jingnan and Ms. Wu Tigao in January 2009, April 2009 and June 2009), the number of Shares transferred from Mr. Xu Jingnan and Ms. Wu Tigao in June 2008 and from Ever Sound in April 2009, and their respective shareholdings interests in the Company before and after the completion of the [●]:

Name	Number of Shares transferred from Mr. Xu Jingnan	Number of Shares transferred from Ms. Wu Tigao	Number of Shares transferred from Ever Sound	Total number of Shares held	Percentage of shareholding interests in the Company (before the completion of the [●])
CCBIAM (建銀國際資產管理有限公司) . . .	10,400,000	10,400,000	48,018,979	68,818,979	4.1005%
SCGC (SCGC資本控股有限公司)	1,600,000	1,600,000	5,197,001	<u>8,397,001</u>	<u>0.5003%</u>
			TOTAL:	<u>77,215,980</u>	<u>4.6008%</u>

6. DETAILS OF THE THIRD ROUND FINANCIAL INVESTORS

Name	Total number of Shares held	Percentage of shareholding interests in the Company (before the completion of the [●])
Sequoia Capital China Growth Fund I, L.P., ...	80,031,885	4.7685%
Sequoia Capital China Growth Partners Fund I, L.P., ...	1,908,580	0.1137%
Sequoia Capital China GF Principals Fund I, L.P., ...	9,818,174	0.5850%
LC Fund IV, L.P., ...	64,923,566	3.8684%
Right Lane Limited, ...	<u>21,641,189</u>	<u>1.2895%</u>
TOTAL:	<u>178,323,394</u>	<u>10.6251%</u>

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7. CHANGES IN SHARE CAPITAL OF SUBSIDIARIES

Our Company’s subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this document. There were no changes in the share capital made by the subsidiaries of our Company during the two years preceding the date of this document.

Save for the subsidiaries mentioned in Appendix I to this document, our Company has no other subsidiaries.

8. PARTICULARS OF SUBSIDIARIES

The Group has interests in a number of major PRC subsidiaries. Set out below is a summary of the corporate information of these PRC subsidiaries:

Quanzhou Peak Shoes Company Limited (泉州匹克鞋業有限公司)

Date of Establishment and date of commencement of business	:	23 July 1994
Place of Establishment	:	PRC
Nature	:	Enterprise with Investment of Taiwan, Hong Kong, Macau and overseas in the PRC
Legal Representative	:	Xu Jingnan
Registered Capital	:	RMB20,880,000
Shareholder	:	Peak (Hong Kong) International Company Limited (匹克(香港)國際有限公司)

Peak (Jiangxi) Industry Company Limited (匹克(江西)實業有限公司)

Date of Establishment and date of commencement of business	:	6 April 2006
Place of Establishment	:	PRC
Nature	:	Enterprise with Investment of Taiwan, Hong Kong, Macau and overseas in the PRC
Legal Representative	:	Xu Jingnan
Registered Capital	:	US\$20,000,000
Shareholder	:	Peak (Hong Kong) International Company Limited (匹克(香港)國際有限公司)

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Peak (China) Company Limited (匹克(中國)有限公司)

Date of Establishment and : 29 January 2007
 date of commencement
 of business
 Place of Establishment : PRC
 Nature : Enterprise with Investment of Taiwan, Hong Kong, Macau and
 overseas in the PRC
 Legal Representative : Xu Zhida
 Registered Capital : RMB100,000,000
 Shareholder : Peak (Hong Kong) International Company Limited (匹克(香港)國際
 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)

Date of Establishment and : 10 August 2004
 date of commencement
 of business
 Place of Establishment : PRC
 Nature : Enterprise with Investment of Taiwan, Hong Kong, Macau and
 overseas in the PRC
 Legal Representative : Xu Jingnan
 Registered Capital : US\$3,000,000
 Shareholder : Peak (Hong Kong) International Company Limited (匹克(香港)國際
 有限公司)

9. REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

The [●] permit companies whose [●] to repurchase their securities on the [●] subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders’ approval

The [●] provide that all on-market repurchases of securities by a company with [●] must be approved in advance by an ordinary resolution, either by way of a specific approval in relation to specific transactions or by a general mandate to the directors of the company to make such repurchases.

(b) Connected parties

The [●] prohibit a company from knowingly purchasing securities on the [●] from a connected person (as defined in the [●]) and a connected person is prohibited from knowingly selling his/her securities to the company. No connected persons (as defined in the [●]) of our Company have notified it of a present intention to sell securities to our Company and no such persons have undertaken not to sell any such securities to our Company in the event that the Repurchase Mandate is granted by the shareholders.

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(c) Exercise of Repurchase Mandate

[●]

(d) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Directors to repurchase securities on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets of our Company and/or its earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

(e) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands. Pursuant to the Repurchase Mandate, repurchases will be made out of funds of our Company legally permitted to be utilized in this connection, including profits of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law, out of capital of our Company.

(f) Impact on repurchases

There may be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this document) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of our Company or its gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(g) Share repurchases made by our Company

No repurchase of Shares has been made by our Company since its incorporation.

(h) General

None of our Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, has any present intention, in the event that the Repurchase Mandate is granted by the shareholders, to sell any Shares to our Company or its subsidiaries. Our Directors have undertaken to the [●] to exercise the power of our Company to make repurchases pursuant to the Repurchase Mandate only in accordance with the [●] and the laws of the Cayman Islands.

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(i) Takeovers Code

If as a result of a repurchase of Shares, a Shareholders’ proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code) depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after [●].

Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the [●].

10. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this document and are or may be material:

- (1) a patent licence agreement dated 1 April 2008 entered into by Peak Sports and Fujian Peak pursuant to which Fujian Peak granted a licence to Peak Sports to use two patents;
- (2) a patent transfer agreement dated 7 May 2008 entered into by Peak Sports and Fujian Peak pursuant to which Fujian Peak transferred a patent (patent number: 200720006291.0) to the Peak Sports at a consideration of RMB1,000;
- (3) a patent transfer agreement dated 7 May 2008 entered into by Peak Sports and Fujian Peak pursuant to which Fujian Peak transferred a patent (patent number: 200630180813.X) to the Peak Sports at a consideration of RMB1,000;
- (4) a share transfer agreement dated 15 November 2007 entered into by CCBIAM, Peak Hong Kong and the Xu Family, as amended by an equity transfer deed entered into amongst the same parties on 30 June 2008, pursuant to which Mr. Xu Jingnan and Ms. Wu Tigao agreed to transfer 20,800,000 Shares to CCBIAM for a consideration of HK\$78,000,000;
- (5) a share transfer agreement dated 30 October 2007 entered into by Sparkle Day Investments Limited, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 20,000,000 shares in Peak Hong Kong to Sparkle Day Investments Limited for a consideration of HK\$75,000,000;
- (6) a share transfer agreement dated 27 October 2007 entered into by Hong Yuren, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 2,300,000 shares in Peak Hong Kong to Hong Yuren for a consideration of HK\$8,625,000;

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- (7) a share transfer agreement dated 31 October 2007 entered into by Superb Great Technology Limited, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 2,000,000 shares in Peak Hong Kong to Superb Great Technology Limited for a consideration of US\$967,700;
- (8) a share transfer agreement dated 28 October 2007 entered into by Tao Teok Chon, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 300,000 shares in Peak Hong Kong to Tao Teok Chon for a consideration of HK\$1,125,000;
- (9) a share transfer agreement dated 25 October 2007 entered into by Wong Po Nei, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 6,500,000 shares in Peak Hong Kong to Wong Po Nei for a consideration of HK\$24,375,000;
- (10) a share transfer agreement dated 30 October 2007 entered into by World Fund Pte Limited, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 10,334,000 shares in Peak Hong Kong to World Fund Pte Limited for a consideration of US\$5,000,000;
- (11) a share transfer agreement dated 23 October 2007 entered into by To Chun, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 100,000 shares in Peak Hong Kong to To Chun for a consideration of HK\$375,000;
- (12) a share transfer agreement dated 30 October 2007 entered into by Ng Chung Yu, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 200,000 shares in Peak Hong Kong to Ng Chung Yu for a consideration of HK\$750,000;
- (13) an agreement dated 30 October 2007 entered into by Charalambos Papas, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 207,000 shares in Peak Hong Kong to Charalambos Papas at HK\$3.75 per share;
- (14) an agreement dated 30 October 2007 entered into by Freddie John Paul, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,256,790 shares in Peak Hong Kong to Freddie John Paul at HK\$3.75 per share;
- (15) an agreement dated 30 October 2007 entered into by Christakis Potamitis, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 207,000 shares in Peak Hong Kong to Christakis Potamitis at HK\$3.75 per share;
- (16) an agreement dated 30 October 2007 entered into by Hanna Nicola Abulaitah, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 206,400 shares in Peak Hong Kong to Hanna Nicola Abulaitah at HK\$3.75 per share;
- (17) a share transfer agreement dated 30 October 2007 entered into by SCGC, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 3,200,000 shares in Peak Hong Kong to SCGC for a consideration of HK\$12,000,000;

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- (18) a share transfer agreement dated 30 October 2007 entered into by Cheung Wing Chiu, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 500,000 shares in Peak Hong Kong to Cheung Wing Chiu for a consideration of HK\$1,875,000;
- (19) a share transfer agreement dated 27 October 2007 entered into by Chan Kam Tsan, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,000,000 shares in Peak Hong Kong to Chan Kam Tsan for a consideration of HK\$3,750,000;
- (20) a share transfer agreement dated 27 October 2007 entered into by Cai Zhubiao, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 800,000 shares in Peak Hong Kong to Cai Zhubiao for a consideration of HK\$3,000,000;
- (21) a share transfer agreement dated 22 October 2007 entered into by Cheung Kam Lin, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,000,000 shares in Peak Hong Kong to Cheung Kam Lin for a consideration of HK\$3,750,000;
- (22) a share transfer agreement dated 30 October 2007 entered into by Shi Aiyu, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,600,000 shares in Peak Hong Kong to Shi Aiyu for a consideration of HK\$6,000,000;
- (23) a share transfer agreement dated 30 October 2007 entered into by Ho Yi Piu, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,500,000 shares in Peak Hong Kong to Ho Yi Piu for a consideration of HK\$5,625,000;
- (24) a share transfer agreement dated 30 October 2007 entered into by Chan Loi, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 278,000 shares in Peak Hong Kong to Chan Loi for a consideration of HK\$1,042,500;
- (25) a share transfer agreement dated 25 October 2007 entered into by Hong Zhaorong, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 60,000 shares in Peak Hong Kong to Hong Zhaorong for a consideration of HK\$225,000;
- (26) a share transfer agreement dated 27 October 2007 entered into by Siu Kwok Ching, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 600,000 shares in Peak Hong Kong to Siu Kwok Ching for a consideration of HK\$2,250,000;
- (27) a share transfer agreement dated 27 October 2007 entered into by Ke Chun Li, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 601,614 shares in Peak Hong Kong to Ke Chun Li for a consideration of HK\$2,256,052.5;
- (28) a share transfer agreement dated 27 October 2007 entered into by Shiny Fly Limited, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 500,000 shares in Peak Hong Kong to Shiny Fly Limited for a consideration of HK\$1,875,000;
- (29) a share transfer agreement dated 27 October 2007 entered into by Hui Kam Chuk, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 1,265,000 shares in Peak Hong Kong to Hui Kam Chuk for a consideration of HK\$4,743,750;

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- (30) a share transfer agreement dated 24 November 2007 entered into by Wong Wai Leung, Peak Hong Kong and the Xu Family pursuant to which the Xu Family agreed to transfer 4,000,000 shares in Peak Hong Kong to Wong Wai Leung for a consideration of HK\$15,000,000;
- (31) a lease agreement dated 31 May 2008 entered into between Fujian Peak and Peak Shoes pursuant to which Fujian Peak leased to Peak Shoes four buildings in Fujian Province, the PRC having a gross floor area of approximately 37,644.3 sq. m. from 1 June 2008 to 31 December 2018 at a rate of approximately RMB2.3 million per annum.
- (32) an agreement on adjustment of subscription price dated 6 August 2008 entered into between Peak Hong Kong, Peak Sports, Peak Shoes, Peak Jiangxi, Peak China, the Xu Family and the First Round Financial Investors pursuant to which the First Round Financial Investors paid an additional sum of US\$1,739,472.12 to the Xu Family as required under an agreement entered into amongst the same parties dated 7 July 2007.
- (33) a share sale and purchase agreement dated 30 June 2008 entered into by Peak Investment, the Company, the Xu Family, the First Round Financial Investors, Haojia and Peak Hong Kong regarding the transfer by the Xu Family, Haojia and the First Round Financial Investors of their entire respective interest in Peak Hong Kong to Peak Investment in exchange for an aggregate of 1,499,999,999 Shares;
- (34) the Shareholders’ Agreement dated 30 June 2008 entered into among the Company and its subsidiaries, the First Round Financial Investors and the Xu Family setting out certain rights and obligations of the First Round Financial Investors and the Xu Family, and it has been superseded by the Amended and Restated Shareholders Agreement dated 4 April 2009 (as amended by a supplemental amended and restated shareholders agreement dated 24 June 2009 and a second supplemental amended and restated shareholders agreement dated 27 August 2009);
- (35) the Share Purchase Agreement dated 4 April 2009 entered into amongst the Company and its subsidiaries, the Controlling Shareholders, the Third Round Financial Investors and CCBIAM as amended by a supplementary share purchase agreement entered into amongst the same parties on 24 June 2009, pursuant to which Sequoia Capital China Growth Fund I, L.P. subscribed for 80,031,885 Shares from the Company at a consideration of US\$17,444,000, Sequoia Capital China Growth Partners Fund I, L.P. subscribed for 1,908,580 Shares from the Company at a consideration of US\$416,000, Sequoia Capital China GF Principals Fund I, L.P. subscribed for 9,818,174 Shares from the Company at a consideration of US\$2,140,000, LC Fund IV, L.P. subscribed for 64,923,566 Shares from the Company at a consideration of US\$15,000,000, and Right Lane Limited subscribed for 21,641,189 Shares from the Company at a consideration of US\$5,000,000. In addition, pursuant to the Share Purchase Agreement, CCBIAM additionally acquired 48,018,979 Shares from Ever Sound at a consideration of US\$5,000,000;
- (36) the Amended and Restated Shareholders Agreement dated 4 April 2009 entered into among the Company and its subsidiaries, the Controlling Shareholders, Haojia, the First Round Financial Investors, CCBIAM and the Third Round Financial Investors as amended by a supplemental amended and restated shareholders agreement dated 24 June 2009 and a second supplemental amended and restated shareholders agreement dated 27 August 2009, both

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entered into amongst the same parties and setting out certain rights and obligations of the Controlling Shareholders, Haojia, the First Round Financial Investors, CCBIAM and the Third Round Financial Investors;

- (37) the Investment Agreement dated 3 April 2009 entered into between the Company and SCGC, as supplemented by a supplementary agreement dated 24 June 2009 entered into by the Company, the Controlling Shareholders and SCGC increased the investment amount from HK\$12 million to HK\$14,188,767;
- (38) a deed of non-competition dated 8 September 2009 entered into between the Controlling Shareholders and Fujian Peak as covenantors and the Company (for itself and on behalf of its subsidiaries) pursuant to which each of the covenantors undertook not to engage in competing business with the Company; and
- (39) a deed of undertaking dated 8 September 2009 given by Fujian Peak to the Company pursuant to which Fujian Peak undertakes that, amongst other matters, it will not breach the agreement dated 11 October 2007 entered into between Peak Shoes, Peak Sports, Fujian Peak and NBA Properties, Inc. and the agreement dated 23 April 2008 entered into between the Company, Fujian Peak, Tido Sports Co., Ltd, Clutch City Sports & Entertainment, L.P. and Rocketball, Ltd.

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B. Intellectual property rights of our Group

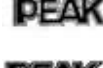
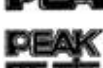
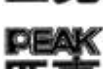
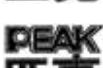
(a) Trademarks

As at the Latest Practicable Date, our Group has registered for the registration of the following trademarks:

Trademark	Place of registration	Class	Registration number	Expiry Date
	PRC	25	676992	2014.2.6
	PRC	18	726347	2015.1.20
	PRC	18	726348	2015.1.20
	PRC	25	730203	2015.2.13
	PRC	25	1164671	2018.4.6
	PRC	35	1958783	2013.2.13
	PRC	17	3414898	2014.9.27
	PRC	12	3414901	2014.7.27
	PRC	11	3414902	2014.7.27
	PRC	8	3414903	2014.7.27
	PRC	4	3414904	2014.11.20
	PRC	3	3414905	2014.11.20
	PRC	2	3414932	2014.8.27
	PRC	25	3414936	2014.11.20
	PRC	41	3414937	2014.6.6

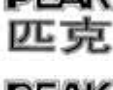
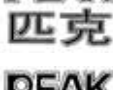
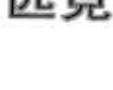
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Trademark	Place of registration	Class	Registration number	Expiry Date
	PRC	34	3414938	2014.3.13
	PRC	30	3414939	2014.8.6
	PRC	29	3414940	2013.12.20
	PRC	27	3414941	2014.8.6
	HK	25	199404885	2013.4.30
	HK	25	300067554	2013.8.22
	HK	3, 9, 18, 25, 28	300948754	2017.9.5
	HK	3, 9, 18, 28	300948772	2017.9.5
	PRC	24	3414943	2014.10.27
	PRC	23	3414944	2014.6.6
	PRC	21	3414945	2014.10.13
	PRC	25	3414975	2015.5.20
	PRC	25	546731	2011.3.19
	PRC	25	546732	2011.3.19
	PRC	15	3414900	2015.1.6
	PRC	16	3414899	2015.1.6
	PRC	19	3414897	2015.1.6

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Trademark	Place of registration	Class	Registration number	Expiry Date
	PRC	26	3414942	2014.10.20
	PRC	28	3317343	2014.2.27
	PRC	28	3317342	2014.2.27
	PRC	18	3968201	2017.8.20
	PRC	28	1942117	2015.2.27
	PRC	38	4795846	2019.2.27
	PRC	6	4798233	2018.10.13
	PRC	7	4798234	2018.8.20
	PRC	10	4798236	2018.8.20
	PRC	13	4798237	2018.8.20
	PRC	45	4798255	2019.2.27
	PRC	44	4798347	2019.2.27
	PRC	42	4798349	2019.2.27
	PRC	14	4798238	2019.2.27

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Trademark	Place of registration	Class	Registration number	Expiry Date
	PRC	1	4798231	2019.4.6
	PRC	18	4798256	2019.2.27
	PRC	22	4798240	2019.4.13
	PRC	39	4795845	2019.2.13
	PRC	40	4798350	2019.2.27
	PRC	36	4795848	2019.2.27
	Taiwan	28	01358451	2019.4.15
	Taiwan	18	01360379	2019.4.30
	Myanmar	18, 28	2104/2009	2012.3.22
	PRC	25	4209238	2018.3.13
	PRC	43	4798348	2019.6.27
	PRC	9	4798235	2019.5.20
	PRC	5	4798232	2019.6.13
	PRC	21	5087688	2019.7.13
	PRC	28	3968200	2017.10.27

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Trademark	Place of registration	Class	Registration number	Expiry Date
	PRC	14	5087687	2019.4.27
	PRC	37	4795847	2019.6.27
	PRC	31	4795850	2018.6.13

As at the Latest Practicable Date, our Group has applied for the registration of the following trademarks in PRC:

Trademark	Class	Application Number	Application Date
	18	4971746	2005.10.31
	11	5087686	2005.12.28
	20	4798239	2005.7.25
	25	5087689	2005.12.28
	25	4971745	2005.10.31
	3	5957791	2007.3.23
	3	5957792	2007.3.23
	3	6045822	2007.5.14
	3	6045820	2007.5.14
	35	6045819	2007.5.14
	35	6045818	2007.5.14

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Trademark	Class	Application Number	Application Date
	9	6045817	2007.5.14
	9	6045816	2007.5.14
	18	6198803	2007.8.2
	25	6198802	2007.8.2
	28	6198801	2007.8.2
	35	6198800	2007.8.2
	25	6255756	2007.9.3
	25	6255757	2007.9.3
	18	6255758	2007.9.3
	28	6255759	2007.9.3
	41	6259204	2007.9.5
	40	6259205	2007.9.5
	39	6259206	2007.9.5
	36	6259207	2007.9.5
	35	6259208	2007.9.5
	33	6259209	2007.9.5
	30	6259210	2007.9.5

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Trademark	Class	Application Number	Application Date
	29	6259211	2007.9.5
	27	6259213	2007.9.5
	44	6259254	2007.9.5
	26	6259265	2007.9.5
	24	6259266	2007.9.5
	23	6259267	2007.9.5
	22	6259268	2007.9.5
	20	6259269	2007.9.5
	19	6259270	2007.9.5
	18	6259271	2007.9.5
	16	6259272	2007.9.5
	12	6259273	2007.9.5
	9	6259274	2007.9.5
	7	6259275	2007.9.5
	6	6259276	2007.9.5
	3	6259277	2007.9.5
	1	6259278	2007.9.5
peak	18	6582162	2008.3.7

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Trademark	Class	Application Number	Application Date
peak	24	6582163	2008.3.7
peak	25	6582164	2008.3.7
peak	28	6582165	2008.3.7
ALPEAK	18	6659457	2008.4.15
	25	6747525	2008.5.27
	24	6747526	2008.5.27
	22	6747527	2008.5.27
	21	6747528	2008.5.27
	20	6747529	2008.5.27
	18	6747530	2008.5.27
	16	6747531	2008.5.27
	14	6747532	2008.5.27
	9	6747533	2008.5.27
	3	6747534	2008.5.27

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Trademark	Class	Application Number	Application Date
	41	6747535	2008.5.27
	35	6747536	2008.5.27
	34	6747537	2008.5.27
	33	6747538	2008.5.27
	32	6747539	2008.5.27
	31	6747540	2008.5.27
	30	6747541	2008.5.27
	29	6747542	2008.5.27
	28	6747543	2008.5.27
	26	6747544	2008.5.27
	25	6747545	2008.5.27
	24	6747546	2008.5.27
	22	6747547	2008.5.27

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Trademark	Class	Application Number	Application Date
	21	6747548	2008.5.27
	20	6747549	2008.5.27
	18	6747550	2008.5.27
	16	6747551	2008.5.27
	14	6747552	2008.5.27
	9	6747553	2008.5.27
	3	6747554	2008.5.27
	41	6747555	2008.5.27
	35	6747556	2008.5.27
	34	6747557	2008.5.27
	33	6747558	2008.5.27
	32	6747559	2008.5.27

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Trademark	Class	Application Number	Application Date
	31	6747560	2008.5.27
	30	6747561	2008.5.27
	29	6747562	2008.5.27
	28	6747563	2008.5.27
	26	6747564	2008.5.27

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As at the Latest Practicable Date, our Group has registered the following trademarks under the Madrid Agreement and Protocol:

Trademark	Place of registration	Class	Registration number	Expiry date
	Designations under the Madrid Agreement and Protocol (<i>Note 1</i>)	18, 28	887957	2016.3.15
	Designations under the Madrid Agreement and Protocol (<i>Note 2</i>)	25	794347	2012.12.30
	Designations under the Madrid Agreement and Protocol (<i>Note 3</i>)	18	951920	2018.1.23
	Designations under the Madrid Agreement and Protocol (<i>Note 4</i>)	18, 25, 28	1006460	2019.4.21
	Designations under the Madrid Agreement and Protocol (<i>Note 5</i>)	25	584801	2012.4.29

Notes:

- (1) This mark has been registered in, through designations under the Madrid Agreement: Albania, Algeria, Armenia, Austria, Azerbaijan, Belarus, Benelux, Bhutan, Bosnia and Herzegovina, Bulgaria, Croatia, Cuba, Cyprus, Czech Republic, Democratic People’s Republic of Korea, Egypt, France, Germany, Hungary, Islamic Republic of Iran, Italy, Kazakhstan, Kenya, Kyrgyzstan, Latvia, Lesotho, Liberia, Liechtenstein, Monaco, Mongolia, Morocco, Mozambique, Namibia, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, San Marino, Serbia and Montenegro, Sierra Leone, Slovakia, Slovenia, Spain, Sudan, Swaziland, Switzerland, Syrian Arab Republic, Tajikistan, The former Yugoslav Republic of Macedonia, Ukraine, Uzbekistan, Vietnam; and through designations under the Madrid Protocol: Antigua and Barbuda, Australia, Denmark, Estonia, Finland, Georgia, Greece, Iceland, Ireland, Japan, Kingdom of Bahrain, Lithuania, Netherlands Antilles, Norway, Republic of Korea, Singapore, Sweden, Turkey, Turkmenistan, United Kingdom, United States of America, Zambia.
- (2) This mark has been registered in, through designations under the Madrid Agreement: Albania, Algeria, Armenia, Austria, Azerbaijan, Belarus, Benelux, Bhutan, Bosnia and Herzegovina, Bulgaria, Croatia, Cuba, Czech Republic, Democratic People’s Republic of Korea, Egypt, Hungary, Kazakhstan, Kenya, Kyrgyzstan, Latvia, Lesotho, Liberia, Liechtenstein, Monaco, Mongolia, Mozambique, Poland, Republic of Moldova, Romania, San Marino, Sierra Leone, Slovakia, Slovenia, Sudan, Swaziland, Tajikistan, The former Yugoslav Republic of Macedonia, Ukraine, Uzbekistan, Yugoslavia; and through designations under the Madrid Protocol: Antigua and Barbuda, Australia, Denmark, Estonia, Finland, Georgia, Greece, Iceland, Lithuania, Norway, Singapore, Sweden, Turkey, Turkmenistan, United Kingdom.

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- (3) This mark has been registered in, through designations under the Madrid Agreement: Algeria, Armenia, Austria, Azerbaijan, Benelux, Bhutan, Bosnia and Herzegovina, Bulgaria, Croatia, Cuba, Cyprus, Czech Republic, Democratic People’s Republic of Korea, Egypt, France, Germany, Hungary, Italy, Kazakhstan, Kenya, Kyrgyzstan, Latvia, Lesotho, Liberia, Liechtenstein, Moldova, Monaco, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Poland, Portugal, Russian Federation, San Marino, Serbia, Sierra Leone, Slovakia, Slovenia, Spain, Sudan, Swaziland, Switzerland, Syrian Arab Republic, Tajikistan, The former Yugoslav Republic of Macedonia, Ukraine, Vietnam; and through designations under the Madrid Protocol: Antigua and Barbuda, Bahrain, Botswana, Denmark, Georgia, Iceland, Ireland, Lithuania, Netherlands Antilles, Turkmenistan, Uzbekistan, Zambia.
- (4) This mark has been designated in Czech Republic under the Madrid Protocol by virtue of Article 9sexies.
- (5) This mark has been registered in, through designations under the Madrid Agreement: France, Germany, Italy, Morocco, Portugal, Russian Federation, Spain, Switzerland, Vietnam.

As at the Latest Practicable Date, our Group has applied for the following trademarks in Hong Kong:

Trademark	Class	Application Number	Application Date
	3, 9, 18, 28	300948772	2007.9.6

(b) *Domain Name*

As at the Latest Practicable Date, our Group is a registered proprietor of the following domain names:

No.	Domain name	Place of registration	Expiry date
1.	www.chinapeak.com	PRC	2015.12.19
2.	www.chinapeak.com.cn	PRC	2011.6.20
3.	www.chinapeak.cn	PRC	2013.3.17
4.	www.peaksport.com.hk	HK	2010.3.26
5.	www.epeaksport.com	HK	2009.12.30

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(c) *Patents*

The following are utility models and design patents that have been granted to our Group in China as at the Latest Practicable Date which we consider is or may be material to our business activities:

<u>Title</u>	<u>Type</u>	<u>Patent No.</u>	<u>Application Date</u>	<u>Publication Date</u>
Basketball Shoe (Peak:E7213A)	Design	200630180813.X	2006.12.7	2008.2.13
Sports shoe sole with three levels of shock absorption	Utility Model	200720006291.0	2007.7.5	2008.1.16
Air permeable shoe sole . .	Utility Model	200820045998.7	2008.4.2	2009.1.7
Dual core air cushion shock absorption shoe sole.	Utility Model	200820045997.2	2008.4.2	2009.1.7

Pursuant to PRC laws, a granted utility model or design patent has a validity period of 10 years from the date of its application.

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11. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

A. Directors

- (a) *Disclosure of interest* — interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the [●] and [●], the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions seven and eight of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to [●] are as follows:

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares directly or indirectly held immediately following completion of the [●]</u>	<u>Approximate percentage of issued Share immediately following completion of the [●]</u>
Xu Jingnan ⁽¹⁾ . .	Interest of a controlled corporation	[●]	[●]
Wu Tigao ⁽¹⁾ . . .	Interest of a controlled corporation	[●]	[●]
Xu Zhihua ⁽²⁾ . . .	Interest of a controlled corporation	[●]	[●]
Xu Zhida ⁽³⁾ . . .	Interest of a controlled corporation	[●]	[●]

Notes:

- (1) Each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the entire issued share capital of Ever Sound.
- (2) Mr. Xu Zhihua holds 100% of the entire issued share capital of Alpha Top.
- (3) Mr. Xu Zhida holds 100% of the entire issued share capital of Brilliant Lead.

- (b) *Particulars of service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the date of [●], which may be terminated by not less than three months’ notice in writing served by either party on the other.

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(c) *Directors’ remuneration*

Each of the Executive Directors is entitled to a director’s fee. Each Executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 10 per cent. of the audited combined or consolidated net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An Executive Director may not vote on any resolution of the Directors regarding the amount of the bonus payable to him. The current annual director’s fees and remuneration of the executive Directors are as follows:

Name	Annual Amount (RMB)
Mr. Xu Jingnan.	1,200,000
Mr. Xu Zhihua	1,000,000
Mr. Xu Zhida	900,000

The non-executive Directors have been appointed for a term of three years and the independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay a director’s fee of RMB180,000 and RMB180,000 per annum to each of the non-executive Directors and the independent non-executive Directors (except for Mr. Wang Mingquan who will receive a director’s fee of RMB100,000 per annum) respectively.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to the Directors for the year ending 31 December 2009 will be approximately RMB1,083,000.

Further details of the terms of the above service contracts are set out in the paragraph headed “Particulars of service contracts” in this Appendix.

B. **Substantial Shareholders**

So far as the Directors are aware, immediately following the completion of the [●], the following persons (other than the Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division two and three of Part XV of the SFO:

Name	Capacity/Nature of interest	Number of Shares directly or indirectly held immediately following completion of the [●]	Approximate percentage of issued Share immediately following completion of the [●]
Ever Sound ⁽¹⁾	Registered and beneficial owner	[●]	[●]
Alpha Top ⁽²⁾	Registered and beneficial owner	[●]	[●]
Brilliant Lead ⁽³⁾ . .	Registered and beneficial owner	[●]	[●]

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Notes:

- (1) Each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the entire issued share capital of Ever Sound.
- (2) Mr. Xu Zhihua holds 100% of the entire issued share capital of Alpha Top.
- (3) Mr. Xu Zhida holds 100% of the entire issued share capital of Brilliant Lead.

C. Personal guarantees

None of our Directors has provided any personal guarantee in favour of any banks for banking facilities granted to any member of our Group.

D. Agency fees or commissions

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this document in connection with the issue or sale of any capital of any member of our Group.

E. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions seven and eight of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the [●];
- (b) none of the Directors or experts referred to under the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the [●], none of the Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [●], have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company

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under the provisions of Divisions two and three of Part XV of SFO or be interested, directly or indirectly, in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

- (f) none of the experts referred to under the paragraph headed “Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the [●]) or shareholders of our Company who are interested in more than five per cent. of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

12. OTHER INFORMATION

A. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved and adopted by the written resolutions of all the shareholders of our Company passed on 8 September 2009. The Directors confirm that the terms of the Share Option Scheme are fully complied with the requirements under [●].

(a) *Purpose*

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, our Company and to enable our Company and its subsidiaries to recruit and retain high-calibre employees.

(b) *Who may join*

The Board may, at its discretion, offer eligible persons (being full time or part time employees, executive, non-executive Directors and independent non-executive Directors of our Group) (the “Eligible Persons”) who the Board may in its absolute discretion select to subscribe for such number of Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below.

(c) *Maximum number of Shares*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of our Company must not in aggregate exceed 10.0% of the Shares in issue, which is equivalent to [●]. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10.0% limit. Subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the [●] from time to time, the Board may:

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- (i) refresh this limit at any time up to 10.0% of the Shares in issue as at the date of the approval of the limit as refreshed by the Shareholders in general meeting (options previously granted under any share option schemes of our Company including those outstanding, cancelled or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed); and
- (ii) grant options beyond the 10.0% limit to Eligible Persons specifically identified by the Board whereupon our Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of our Company at any time shall not in aggregate exceed 30.0% of the total number of Shares in issue from time to time. No options shall be granted under any scheme(s) of our Company or any of its subsidiaries if this will result in the 30.0% limit being exceeded.

(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme(s) of our Company (including exercised, cancelled and outstanding options) to each Eligible Person in any 12-month period up to the date of grant shall not exceed 1.0% of the Shares in issue as at the date of grant.

Any further grant of options in excess of this 1.0% limit shall be subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting with such Eligible Persons and his associate (as defined in the [●]) abstaining from voting and the number and terms (including the subscription price) of such options are fixed before such general meeting and other requirements prescribed under the [●] from time to time.

(e) *Price of Shares*

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board shall determine, save that such price must not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the [●] shall be used as the closing price for any business day falling within the period before [●]; and (iii) the nominal value of a Share. A consideration of RMB26,600 is payable on acceptance of the Offer of the first of an option.

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(f) *Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

If our Company proposes to grant options to a substantial shareholder (as defined in the [●]) or an independent non-executive Director of our Company or their respective associates which will result in the number and value of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of each offer, such further grant of options will be subject to the issue of a circular by our Company in accordance with the relevant provisions of the [●] and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the [●]) of our Company shall abstain from voting, and such other requirements prescribed under the [●] from time to time.

(g) *Restrictions on the time of grant of options*

An offer to grant option may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the [●]. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the [●]); and (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the [●], or quarterly or any other interim period (whether or not required under the [●]) and ending on the date of actual publication of the results announcement.

(h) *Rights are personal to grantee*

An option is personal to the grantee and shall not be assignable nor transferable, and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option.

(i) *Time of exercise of option*

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The Board is currently unable to determine such minimum period. The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry giving

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notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral number thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

(j) *Performance target*

The Board may from time to time require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Share Option Scheme.

(k) *Rights on ceasing to be an Eligible Person*

In the event of the grantee ceasing to be an Eligible Person for any reason other than ceasing (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty or (2) by death, the option may be exercised within one month after the date of such cessation, which date shall be (i) if he is an employee of our Company or any subsidiary, his last actual working day with our Company or any subsidiary whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of our Company or any subsidiary, the date on which the relationship constituting him an Eligible Person ceases.

(l) *Rights on death*

In the event that the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee or, if appropriate, in the circumstances described in (n), (o) and (q), an election made by his personal representatives within twelve months after the date of his death.

(m) *Lapse of option on misconduct, bankruptcy or dismissal etc.*

If a grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his

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creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty, the right to exercise the option (to the extent not already exercised) shall terminate immediately.

(n) *Rights on general offer by way of a take-over*

If a general offer by way of a take-over is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, the grantee (or his personal representatives) may by notice in writing to our Company within 21 days after such offer becoming or being declared unconditional exercise the option to its full extent or to the extent specified in such notice.

(o) *Rights on general offer by way of a scheme of arrangement*

If a general offer by way of a scheme of arrangement is made to all the Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, the grantee (or his personal representatives) may thereafter (but before such time as shall be notified by our Company) by notice in writing to our Company exercise the option to its full extent or to the extent specified in such notice.

(p) *Rights on a compromise or arrangement*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it dispatches the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement become effective, all options shall lapse except insofar as previously exercised under this Scheme. Our Company may require the grantee (or his personal representatives) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(q) *Rights on winding-up*

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal

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representatives) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(r) *Lapse of the options*

The right to exercise an option granted under the Share Option Scheme (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraph (k), (l) or (n);
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (iv) subject to the compromise or arrangement referred to in paragraph (p);
- (v) the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;
- (vi) subject to paragraph (q), the date of the commencement of the voluntary winding-up of our Company;
- (vii) the date on which the grantee commits a breach of paragraph (h);
- (viii) the date on which the option is cancelled by the Board as provided in paragraph (v); or
- (ix) the non-fulfillment of any condition referred to in paragraph (x) on or before the date specified therein.

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph (r).

(s) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option granted under the Share Option Scheme shall be subject to our Company’s Memorandum and Articles of Association for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or

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other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the date of allotment.

(t) *Effect of alterations to share capital*

In the event of any alteration to the capital structure of our Company whilst any option granted under the Share Option Scheme remains exercisable, arising from capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party. Adjustment (if any) shall be made to (a) the number or nominal amount of Shares subject to the option so far as unexercised; (b) the subscription price for the Shares subject to the option so far as unexercised; (c) the Shares to which the option relates; and (d) the method of exercise of the option, or any combination thereof as the auditors of our Company or the independent financial adviser to our Company shall at the request of our Company certify in writing to the Board either generally or as regards any particular grantee that the adjustments are in compliance with [●].

Any such adjustments must give a grantee the same proportion of the equity capital of our Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the [●] but no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors of our Company or the independent financial adviser to our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees.

(u) *Alteration of Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (i) the definitions of “Eligible Person” and “grantee” in the Share Option Scheme; and
- (ii) the provisions relating to the matters set out in [●], shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders in general meeting (with participants and their respective associates abstained from voting). No such alterations shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantees as would be required of the Shareholders under the Articles of Association for the time being of our Company for a variation of the rights attached to the Shares. Any change to the authority of the Board in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

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Any alterations to the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting except where the alterations take effect automatically under the existing provisions of the Share Option Scheme. Any amended terms of the Scheme or the options must comply with [●].

(v) *Cancellation of options*

The Board may cancel an option granted under the Share Option Scheme but not exercised with the approval of the grantee of such option. No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the limit set out in paragraph (c) above from time to time.

(w) *Termination of the Share Option Scheme*

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolution to adopt the scheme by the Shareholders in an extraordinary general meeting or by way of a written resolution signed by all shareholders;
- (ii) [●]
- (iii) [●]

(y) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the [●] in force from time to time.

(z) *Present status of the Share Option Scheme*

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme. [●].

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B. Litigation

As at the Latest Practicable Date, save as disclosed in this document in the section headed “Our business — legal compliance and proceedings”, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

C. [●]

D. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$3,650 and are payable by our Company.

E. Promoter

There are no promoters of our Company.

F. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company’s Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1 per cent. of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, the Directors or the other parties involved in the [●] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

G. Indemnities

Our Controlling Shareholders (the “Indemnifiers”) have entered into a deed of indemnity in favor of our Group (being a material contract referred to in the paragraph headed “A. Summary of material contracts” of this section) to provide the following indemnities in favor of the Company (for itself and as trustee for its subsidiaries).

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Under the deed of indemnity, amongst others, each of the Indemnifiers irrevocably, jointly and severally agrees, covenants and undertakes with each of the member of the Group that he/she/it will indemnify and at all times keep them and each of them fully indemnified on demand (a) against taxation falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date when the [●] becomes unconditional (the "Effective Date") whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; (b) against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred or may suffer or incur by any member of the Group directly or indirectly as a result of or in connection with the social insurance, housing fund and work-related injury insurance contributions due or payable for employees of the Group prior to the Effective Date that any member of the Group failed to make (if any); (c) against all claims, actions, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred or may suffer or incur by any member of the Group directly or indirectly as a result of or in connection with the LCL Complaint, the Convertible Bond Agreement and the Litigation which the members of the Group or any of them may hereafter become liable to pay; (d) against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of the Group directly or indirectly as a result of or in connection with any non-compliance with the applicable laws, rules or regulations in respect of the manufacturing of the products by any member of the Group on or before the [●]; (e) against all claims, actions, proceedings, judgments, losses, liabilities, damages, costs, charges and expenses suffered or incurred or may suffer or incur by any member of the Group directly or indirectly as a result of or in connection with any infringement of the intellectual property rights belonging to third parties that committed, occurred or happened before the Effective Date which the members of the Group or any of them may hereafter become liable to pay (f) against all claims, actions, proceedings, judgments, losses, liabilities, damages, costs, charges, penalty, fines, fees and expenses suffered or incurred or may suffer or incur by any member of the Group directly or indirectly as a result of or in connection with any advances from any members of the Group to its or their respective related party(ies) before the Effective Date which the members of the Group or any of them may hereafter become liable to pay; and (g) against all claims, actions, proceedings, judgments, losses, liabilities, damages, costs, charges and expenses suffered or incurred or may suffer or incur by any member of the Group directly or indirectly as a result of or in connection with any investments or purported investments made or to be made by potential investors to the members of the Group before the [●] that are arranged or agreed by the Indemnifies or their respective associates on behalf of the members of the Group which the members of the Group or any of them may hereafter become liable to pay.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision reserve or allowance has been made for such taxation in the audited accounts of our Group for each of the three financial years ended 31 December 2008 and the six months ended 30 June 2009 as set out in the Accountants' Report in Appendix I to this document; and (b) the taxation arises or is incurred as a result of a retrospective change in law or practice coming into force after the Effective Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands.

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H. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualification
Credit Suisse (Hong Kong) Limited.	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
CCB International Capital Limited.	A licensed corporation under the SFO for Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance)
King & Wood PRC Lawyers.	PRC legal advisers
Conyers Dill & Pearman.	Cayman Islands attorneys-at-law
KPMG.	Certified Public Accountants
Vigers	Chartered surveyors and valuers

I. [●]

J. [●]

K. [●]

L. Miscellaneous

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

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- (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) save as disclosed in this document, there are no founder, management or deferred shares nor any debentures in our Company or any of its subsidiaries;
- (c) none of the persons named in the paragraph headed “[●]” in this section is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (d) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2009 (being the date to which the latest audited combined financial statements of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (f) the register of members of our Company will be maintained in Hong Kong by [●]. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s Hong Kong Share Registrar in Hong Kong and may not be lodged in the Cayman Islands;
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (h) the Directors have been advised that, under the Companies Law, the use of a Chinese name by our Company for identification purposes only does not contravene the Companies Law.