



XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

(Incorporated in Bermuda under the Companies Act 1981 of Bermuda
(Company Registration No. 42756))

(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia
(Malaysia Branch Registration No. 995177-V))

INITIAL PUBLIC OFFERING IN CONJUNCTION WITH OUR LISTING ON THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING A PUBLIC ISSUE OF:

- (i) UP TO 90,000,000 NEW ORDINARY SHARES OF USD0.10 EACH IN OUR COMPANY ("SHARES") MADE AVAILABLE FOR APPLICATION BY MALAYSIAN AND FOREIGN INSTITUTIONAL INVESTORS AND SELECTED INVESTORS AT THE INSTITUTIONAL PRICE TO BE DETERMINED BY WAY OF BOOKBUILDING, PAYABLE IN FULL UPON ALLOCATION ("INSTITUTIONAL PRICE") ("INSTITUTIONAL OFFERING"); AND
- (ii) 9,500,000 NEW SHARES MADE AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC AT THE RETAIL PRICE OF RM2.10 PER SHARE, PAYABLE IN FULL UPON APPLICATION ("RETAIL PRICE") ("RETAIL OFFERING").

IN CONJUNCTION WITH THE LISTING OF AND QUOTATION FOR UP TO 329,555,000 SHARES (ASSUMING THE OVER-ALLOTMENT OPTION IS EXERCISED) ON THE MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD.

THE RETAIL PRICE IS SUBJECT TO REFUND OF THE DIFFERENCE, IN THE EVENT THAT THE FINAL RETAIL PRICE IS LESS THAN THE RETAIL PRICE. THE FINAL RETAIL PRICE WILL BE THE LOWER OF:

- (i) THE RETAIL PRICE; AND
- (ii) 95% OF THE INSTITUTIONAL PRICE.

ADVISER, UNDERWRITER, PLACEMENT AGENT AND
SOLE BOOKRUNNER



CIMB Investment Bank Berhad (18417-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH YOU SHOULD CONSIDER, SEE "RISK FACTORS" AS SET OUT IN SECTION 5 OF THIS PROSPECTUS.

THIS PROSPECTUS IS NOT TO BE DISTRIBUTED OUTSIDE MALAYSIA
LISTING SOUGHT : MAIN BOARD OF BURSA MALAYSIA SECURITIES BERHAD

OUR BUSINESS

We are a sports and leisurewear enterprise based in Quanzhou City, Fujian Province, PRC engaged in the manufacture and distribution of outdoor and indoor sports and leisure shoes, apparel and accessories with a strong focus on brand management and product development.

OUR PRODUCTS

Shoe Soles

Comprise athletic shoe sole products designed for specific sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes.



Outdoor and Indoor Sports and Leisure Shoes

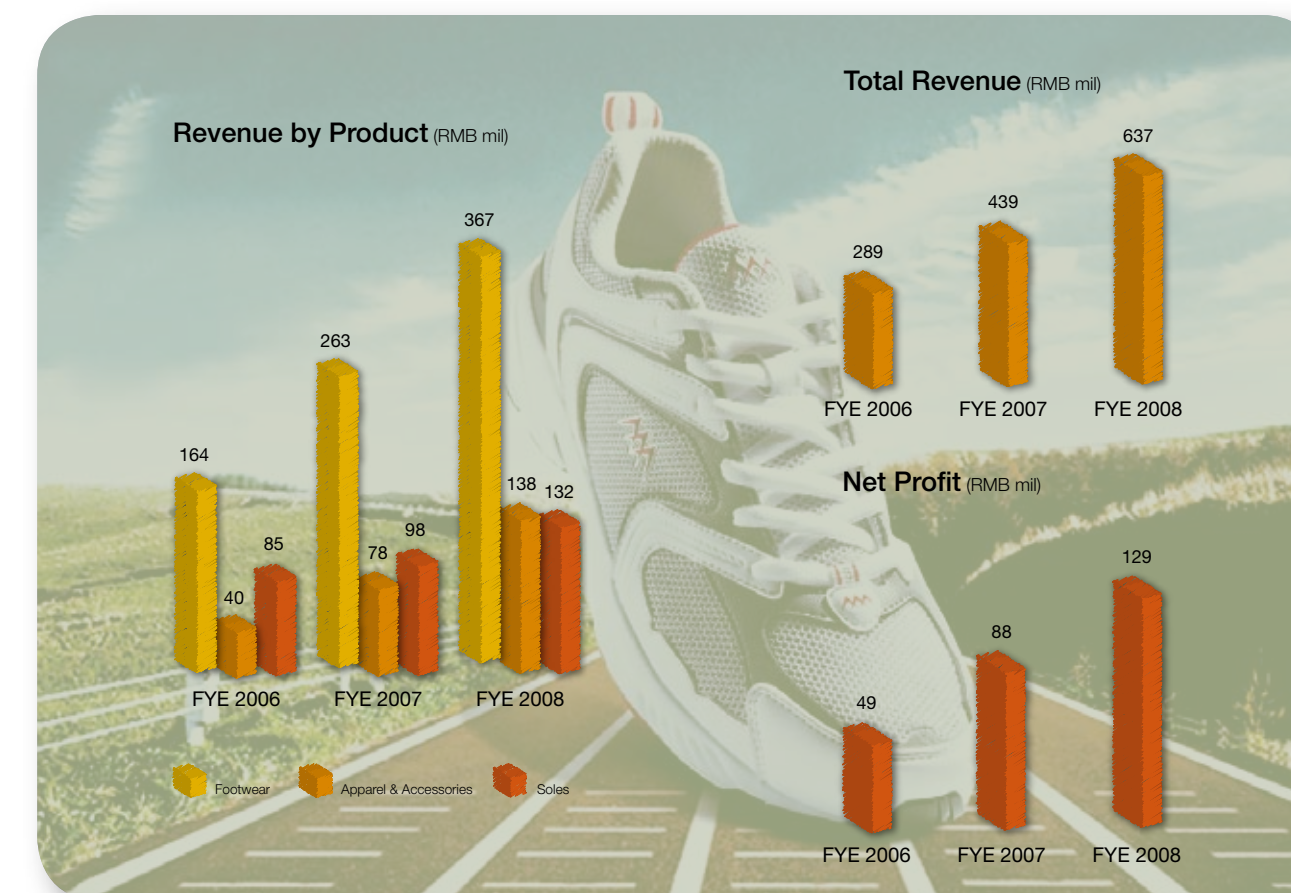
Comprise mainly of outdoor sports shoes designed for specific outdoor and indoor sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes, marketed under our "Addnice" brand.

Outdoor and Indoor Sports and Leisure Apparels and Accessories



Comprise apparels for specific outdoor and indoor sporting activities such as running, tennis, basketball and mountain climbing and leisure and functional apparels such as t-shirts, polo shirts and windbreakers and accessories such as sport bags, caps, socks and head and wrist bands, designed for various outdoor and indoor sporting activities and marketed under our "Addnice" brand.

FINANCIAL HIGHLIGHTS



HEAD OFFICE XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

Houyang Industrial Zone, Yanshang Village, Chendai Town,
Jinjiang City, Quanzhou City, Fujian Province, PRC 362211
Tel. No.: (86) 595 8508 8999 Fax. No.: (86) 595 8516 6111
E-mail address: addnice@addnicechina.com
Website: www.addnice.com.cn

REGISTERED OFFICE IN MALAYSIA – BRANCH

312, 3rd Floor, Block C, Kelana Square, 17 Jalan SS7/26
47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel. No.: (603) 7803 1126 Fax. No.: (603) 7806 1387

OUR DIRECTORS AND PROMOTERS HAVE SEEN AND APPROVED THIS PROSPECTUS AND THEY COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION IN THIS PROSPECTUS. THEY CONFIRM, AFTER MAKING ALL REASONABLE ENQUIRIES THAT, TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO FALSE OR MISLEADING STATEMENTS OR OTHER FACTS WHICH, IF OMITTED, WOULD MAKE ANY STATEMENT IN THIS PROSPECTUS FALSE OR MISLEADING.

CIMB INVESTMENT BANK BERHAD ("CIMB"), AS THE ADVISER TO OUR INITIAL PUBLIC OFFERING ("IPO"), UNDERWRITER FOR THE RETAIL OFFERING AND PLACEMENT AGENT AND SOLE BOOKRUNNER FOR THE INSTITUTIONAL OFFERING IN RELATION TO OUR IPO, ACKNOWLEDGES THAT, BASED ON ALL AVAILABLE INFORMATION AND TO THE BEST OF ITS KNOWLEDGE AND BELIEF, THIS PROSPECTUS CONSTITUTES A FULL AND TRUE DISCLOSURE OF ALL MATERIAL FACTS ON OUR IPO.

THE SECURITIES COMMISSION ("SC") HAS APPROVED OUR IPO. HOWEVER, THIS IS NOT AN INDICATION THAT THE SC RECOMMENDS OUR IPO.

OUR ADMISSION TO THE OFFICIAL LIST OF BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF OUR COMPANY, OUR SHARES OR OUR IPO.

THE SC IS NOT LIABLE FOR ANY NON-DISCLOSURE IN THIS PROSPECTUS BY US. THE SC ALSO TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS AND MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS THAT YOU MAY SUFFER AS A RESULT OF YOUR RELIANCE ON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS PROSPECTUS. **YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE IPO AND AN INVESTMENT IN US. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD IMMEDIATELY CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER BEFORE APPLYING FOR OUR SHARES.**

YOU ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE OR MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THIS PROSPECTUS IS DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS AND SERVICES ACT, 2007.

THIS PROSPECTUS HAS BEEN REGISTERED WITH THE SC. THIS PROSPECTUS AND THE ACCOMPANYING APPLICATION FORMS, HAVE ALSO BEEN LODGED WITH THE REGISTRAR OF COMPANIES WHO TAKES NO RESPONSIBILITY FOR ITS CONTENTS. THIS PROSPECTUS CAN BE VIEWED OR DOWNLOADED FROM BURSA SECURITIES' WEBSITE AT www.bursamalaysia.com.

THE BERMUDA MONETARY AUTHORITY HAS GIVEN ITS CONSENT FOR THE ISSUE OF THE CONSIDERATION SHARES IN CONNECTION WITH THE ACQUISITION, THE TRANSFER OF 35,560,989 SHARES PURSUANT TO THE TRANSFERS, THE ISSUE OF THE ISSUE SHARES PURSUANT TO THE IPO ON THE TERMS REFERRED TO IN THIS PROSPECTUS AND THE ISSUE OF XINGQUAN INTERNATIONAL SHARES PURSUANT TO THE OVER-ALLOTMENT OPTION. A COPY OF THIS PROSPECTUS WILL BE FILED WITH THE REGISTRAR OF COMPANIES IN BERMUDA. THE BERMUDA MONETARY AUTHORITY IN GRANTING ITS PERMISSION AND THE REGISTRAR OF COMPANIES IN BERMUDA IN ACCEPTING THIS PROSPECTUS FOR FILING ACCEPT NO RESPONSIBILITY FOR THE FINANCIAL SOUNDNESS OF OUR GROUP OR ANY PROPOSAL OR FOR THE CORRECTNESS OF ANY OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS PROSPECTUS OR ANY OTHER DOCUMENTS.

OUR SECURITIES ARE CLASSIFIED AS SHARIAH-COMPLIANT BY THE SHARIAH ADVISORY COUNCIL OF THE SC BASED ON OUR LATEST AUDITED COMBINED FINANCIAL STATEMENTS AND THIS CLASSIFICATION REMAINS VALID FROM THE DATE OF THIS PROSPECTUS UNTIL THE NEXT SHARIAH COMPLIANCE REVIEW IS UNDERTAKEN BY THE SHARIAH ADVISORY COUNCIL OF THE SC. THE NEW STATUS IS RELEASED IN THE UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES ON THE LAST FRIDAY OF EITHER MAY OR NOVEMBER OF EACH YEAR.

SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO YOU PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE IPO FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CAPITAL MARKETS AND SERVICES ACT, 2007 E.G. DIRECTORS AND ADVISER, ARE RESPONSIBLE.

THE CONTENTS OF THE ELECTRONIC PROSPECTUS AND THE COPY OF THIS PROSPECTUS REGISTERED WITH THE SC ARE THE SAME. YOU MAY OBTAIN A COPY OF THE ELECTRONIC PROSPECTUS (AS DEFINED HEREIN BELOW), FROM THE WEBSITE OF CIMB AT www.eipocimb.com. IN ADDITION, YOU MAY ALSO OBTAIN A COPY OF THE ELECTRONIC PROSPECTUS FROM THE WEBSITE OF CIMB BANK BERHAD AT www.cimbclicks.com.my, MALAYAN BANKING BERHAD AT www.maybank2u.com.my, RHB BANK BERHAD AT www.rhbbank.com.my AND AFFIN BANK BERHAD AT www.affinOnline.com VIA HYPERLINK TO THE WEBSITE OF BURSA SECURITIES. THIS PROSPECTUS ENDS AT PAGE F-96.

THE INTERNET IS NOT A FULLY SECURE MEDIUM. YOUR INTERNET SHARE APPLICATION MAY BE SUBJECT TO RISKS IN DATA TRANSMISSION, COMPUTER SECURITY THREATS SUCH AS VIRUSES, HACKERS AND CRACKERS, FAULTS WITH COMPUTER SOFTWARE AND OTHER EVENTS BEYOND THE CONTROL OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTION. THESE RISKS CANNOT BE BORNE BY THE INTERNET PARTICIPATING FINANCIAL INSTITUTION. IF YOU DOUBT THE VALIDITY OR INTEGRITY OF AN ELECTRONIC PROSPECTUS, YOU SHOULD IMMEDIATELY REQUEST FROM US, OUR ADVISER OR THE ISSUING HOUSE, A PAPER/PRINTED COPY OF THE PROSPECTUS. IF THERE IS ANY DISCREPANCY BETWEEN THE CONTENTS OF THE ELECTRONIC PROSPECTUS AND THE PAPER/PRINTED COPY OF THIS PROSPECTUS, THE CONTENTS OF THE PAPER/PRINTED COPY OF THIS PROSPECTUS WHICH ARE IDENTICAL TO THE COPY OF THE PROSPECTUS REGISTERED WITH THE SC SHALL PREVAIL.

IN RELATION TO ANY REFERENCE IN THIS PROSPECTUS TO THIRD PARTY INTERNET SITES (REFERRED TO AS "THIRD PARTY INTERNET SITES"), WHETHER BY WAY OF HYPERLINKS OR BY WAY OF DESCRIPTION OF THE THIRD PARTY INTERNET SITES, YOU ACKNOWLEDGE AND AGREE THAT:

- (I) WE DO NOT ENDORSE AND ARE NOT AFFILIATED IN ANY WAY TO THE THIRD PARTY INTERNET SITES. ACCORDINGLY, WE ARE NOT RESPONSIBLE FOR THE AVAILABILITY OF OR THE CONTENT OR ANY DATA, FILES OR OTHER MATERIAL PROVIDED ON THE THIRD PARTY INTERNET SITES. YOU BEAR ALL RISKS ASSOCIATED WITH THE ACCESS TO OR USE OF THE THIRD PARTY INTERNET SITES;
- (II) WE ARE NOT RESPONSIBLE FOR THE QUALITY OF PRODUCTS OR SERVICES IN THE THIRD PARTY INTERNET SITES, PARTICULARLY IN FULFILLING ANY OF THE TERMS OF ANY OF YOUR AGREEMENTS WITH THE THIRD PARTY INTERNET SITES. WE ARE ALSO NOT RESPONSIBLE FOR ANY LOSS OR DAMAGE OR COST THAT YOU MAY SUFFER OR INCUR IN CONNECTION WITH OR AS A RESULT OF DEALING WITH THE THIRD PARTY INTERNET SITES OR THE USE OF OR RELIANCE ON ANY DATA, FILE OR OTHER MATERIAL PROVIDED BY SUCH PARTIES; AND
- (III) ANY DATA, FILE OR OTHER MATERIAL DOWNLOADED FROM THE THIRD PARTY INTERNET SITES IS DONE AT YOUR OWN DISCRETION AND RISK. WE ARE NOT RESPONSIBLE, LIABLE OR UNDER OBLIGATION FOR ANY DAMAGE TO YOUR COMPUTER SYSTEM OR LOSS OF DATA RESULTING FROM THE DOWNLOADING OF ANY SUCH DATA, INFORMATION, FILES OR OTHER MATERIAL.

WHERE AN ELECTRONIC PROSPECTUS IS HOSTED ON THE WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTION, YOU ARE ADVISED THAT:

- (I) THE INTERNET PARTICIPATING FINANCIAL INSTITUTION IS ONLY LIABLE IN RESPECT OF THE INTEGRITY OF THE CONTENTS OF AN ELECTRONIC PROSPECTUS, TO THE EXTENT OF THE CONTENT OF THE ELECTRONIC PROSPECTUS ON THE WEB SERVER OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTION WHICH MAY BE VIEWED VIA YOUR WEB BROWSER OR OTHER RELEVANT SOFTWARE. THE INTERNET PARTICIPATING FINANCIAL INSTITUTION IS NOT RESPONSIBLE FOR THE INTEGRITY OF THE CONTENTS OF AN ELECTRONIC PROSPECTUS WHICH HAS BEEN OBTAINED FROM THE WEB SERVER OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTION AND SUBSEQUENTLY COMMUNICATED OR DISSEMINATED IN ANY MANNER TO YOU OR OTHER PARTIES; AND
- (II) WHILE ALL REASONABLE MEASURES HAVE BEEN TAKEN TO ENSURE THE ACCURACY AND RELIABILITY OF THE INFORMATION PROVIDED IN AN ELECTRONIC PROSPECTUS, THE ACCURACY AND RELIABILITY OF AN ELECTRONIC PROSPECTUS CANNOT BE GUARANTEED BECAUSE THE INTERNET IS NOT A FULLY SECURE MEDIUM.

THE INTERNET PARTICIPATING FINANCIAL INSTITUTION IS NOT LIABLE (WHETHER IN TORT OR CONTRACT OR OTHERWISE) FOR ANY LOSS, DAMAGE OR COSTS, YOU OR ANY OTHER PERSON MAY SUFFER OR INCUR DUE TO, AS A CONSEQUENCE OF OR IN CONNECTION WITH ANY INACCURACIES, CHANGES, ALTERATIONS, DELETIONS OR OMISSIONS IN RESPECT OF THE INFORMATION PROVIDED IN AN ELECTRONIC PROSPECTUS WHICH MAY ARISE IN CONNECTION WITH OR AS A RESULT OF ANY FAULT WITH WEB BROWSERS OR OTHER RELEVANT SOFTWARE, ANY FAULT ON YOUR OR ANY THIRD PARTY'S PERSONAL COMPUTER, OPERATING SYSTEM OR OTHER SOFTWARE, VIRUSES OR OTHER SECURITY THREATS, UNAUTHORISED ACCESS TO INFORMATION OR SYSTEMS IN RELATION TO THE WEBSITE OF THE INTERNET PARTICIPATING FINANCIAL INSTITUTION, AND/OR PROBLEMS OCCURRING DURING DATA TRANSMISSION WHICH MAY RESULT IN INACCURATE OR INCOMPLETE COPIES OF INFORMATION BEING DOWNLOADED OR DISPLAYED ON YOUR PERSONAL COMPUTER.

YOU SHOULD NOT TAKE THE AGREEMENT BY THE UNDERWRITER TO UNDERWRITE THE RETAIL OFFERING AS AN INDICATION OF THE MERITS OF OUR SHARES.

THIS PROSPECTUS DOES NOT COMPLY WITH THE LAWS OF ANY JURISDICTION OTHER THAN MALAYSIA, AND HAS NOT BEEN AND WILL NOT BE LODGED, REGISTERED OR APPROVED PURSUANT TO OR UNDER ANY APPLICABLE SECURITIES OR EQUIVALENT LEGISLATION OR BY ANY REGULATORY AUTHORITY OF ANY JURISDICTION OTHER THAN MALAYSIA, SAVE THAT A COPY OF THIS PROSPECTUS WILL BE FILED WITH THE REGISTRAR OF COMPANIES IN BERMUDA.

THIS PROSPECTUS IS PUBLISHED SOLELY IN CONNECTION WITH OUR IPO. THE SHARES BEING OFFERED IN THE IPO ARE OFFERED SOLELY ON THE BASIS OF THE INFORMATION CONTAINED AND REPRESENTATIONS MADE IN THIS PROSPECTUS. NEITHER THE COMPANY NOR THE ADVISER HAD AUTHORISED ANYONE TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY, THE ADVISER, THE UNDERWRITER, THE PLACEMENT AGENT, THE SOLE BOOKRUNNER, ANY OF THEIR RESPECTIVE DIRECTORS, OR ANY OTHER PERSON INVOLVED IN OUR IPO.

THIS PROSPECTUS HAS BEEN PREPARED IN THE CONTEXT OF AN IPO UNDER THE LAWS OF MALAYSIA.

THE DISTRIBUTION OF THIS PROSPECTUS AND OUR IPO ARE SUBJECT TO THE LAWS OF MALAYSIA. THIS PROSPECTUS WILL NOT BE DISTRIBUTED OUTSIDE MALAYSIA. THE COMPANY, THE PROMOTERS AND THE ADVISER HAVE NOT AUTHORISED AND TAKE NO RESPONSIBILITY FOR THE DISTRIBUTION OF THIS PROSPECTUS OUTSIDE MALAYSIA. NO ACTION HAS BEEN TAKEN TO PERMIT A PUBLIC OFFERING OF THE SHARES IN ANY JURISDICTION OTHER THAN MALAYSIA. ACCORDINGLY, THIS PROSPECTUS MAY NOT BE USED FOR THE PURPOSE OF AND DOES NOT CONSTITUTE AN OFFER FOR SUBSCRIPTION OR PURCHASE OR INVITATION TO SUBSCRIBE OR PURCHASE, ANY SHARES UNDER OUR IPO IN ANY JURISDICTION IN WHICH SUCH OFFER OR INVITATION IN ANY JURISDICTION OR IN ANY CIRCUMSTANCES IN WHICH SUCH AN OFFER IS NOT AUTHORISED OR LAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION. THE DISTRIBUTION OF THIS PROSPECTUS AND THE SALE OF OUR ISSUE SHARES IN CERTAIN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS WHO MAY BE IN POSSESSION OF THIS PROSPECTUS ARE REQUIRED TO INFORM THEMSELVES OF AND TO OBSERVE SUCH RESTRICTIONS.

OUR SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT"). OUR SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO US PERSONS (AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT ("REGULATION S")), EXCEPT IN A TRANSACTION PURSUANT TO AN EXEMPTION FROM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT. ACCORDINGLY, OUR SHARES ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S.

THE CIRCULATION OF THIS PROSPECTUS AND THE ISSUE, OFFER OR INVITATION OF THE SECURITIES MAY BE RESTRICTED IN CERTAIN JURISDICTIONS OUTSIDE MALAYSIA AND THEREFORE PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHALL SEEK ADVICE ON AND OBSERVE ANY SUCH RESTRICTIONS. THIS PROSPECTUS DOES NOT CONSTITUTE AN ISSUE, OFFER OR INVITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH ISSUE, OFFER OR INVITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH ISSUE, OFFER OR INVITATION.

THIS PROSPECTUS AND THE ISSUE, OFFER OR INVITATION OF THE PUBLIC OFFERING ARE NOT IN DEROGATION OF OR IN CONTRAVENTION OF ANY OF THE APPLICABLE LAWS AND REGULATIONS OF THE JURISDICTION IN WHICH THE FOREIGN CORPORATION IS INCORPORATED/REGISTERED, PROVIDED THAT THE PERMISSIONS OBTAINED FROM THE BERMUDA MONETARY AUTHORITY IN RELATION TO THE IPO REMAIN IN FULL FORCE AND EFFECT AND HAVE NOT BEEN AMENDED OR RESCINDED, AND SAVE FOR THE FILING OF THE PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN BERMUDA IN ACCORDANCE WITH THE COMPANIES ACT 1981 OF BERMUDA WHICH FILING WILL BE MADE.

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TENTATIVE TIMETABLE

The following events are intended to take place on the following tentative dates:

Events	Date
Institutional Offering begins	15 June 2009
Issuance of Prospectus/Opening of Retail Offering	23 June 2009
Institutional Offering closes	25 June 2009
Price Determination Date	25 June 2009
Closing of Retail Offering	30 June 2009
Balloting of applications for the Issue Shares pursuant to the Retail Offering	2 July 2009
Allotment of Issue Shares to successful applicants	7 July 2009
Listing	10 July 2009

The Institutional Offering was opened and will close at the dates stated above or such other date or dates as our Directors and Sole Bookrunner, may mutually decide, at their absolute discretion. Applications for the Issue Shares pursuant to the Retail Offering will open and close at the times and on the dates stated above or such other times or dates as our Directors and our Underwriter may mutually decide at their absolute discretion.

In the event that the closing period of either the Institutional Offering or the Retail Offering is extended, the dates for the balloting, allotment of the Issue Shares and our Listing will be extended accordingly. We will announce any extension in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia.

Further information on the tentative timetable is set forth in Section 4.1 of this Prospectus.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “our Company” in this Prospectus are to Xingquan International Sports Holdings Limited. Unless the context otherwise requires, references to “Management” are to our Directors and key management personnel as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of our Management. Xingquan International is a foreign incorporated company and not incorporated under the Malaysian Companies Act. However, for your ease of reference and understanding, all substantial shareholders and their indirect shareholdings in the Company have been identified based on Section 69D and Section 6A of the Malaysian Companies Act.

In this Prospectus, references to the “Government” are to the Government of Malaysia; references to “Ringgit”, “Malaysian Ringgit”, “RM” and “sen” are to the lawful currency of Malaysia; references to “US dollars”, “US\$” and “USD” are to the lawful currency of the United States of America; references to “Renminbi” and “RMB” are to the lawful currency of China; references to “Hong Kong Dollar”, “HK\$” and “HKD” are to the lawful currency of Hong Kong. Certain acronyms, technical terms and other abbreviations used are defined in “Definitions” appearing after this section. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

Any reference to any provisions of the statutes, rules, regulations, enactments or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations, enactments or rules of stock exchange (as the case may be) as modified by any written law or (if applicable) amendments or re-enactment to the statutes, rules, regulation, enactment or rules of stock exchange for the time being in force.

All references to dates and times are references to dates and times in Malaysia.

In this Prospectus, certain names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of investors. They may not have been registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters. In the case of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.

This Prospectus includes statistical data provided by us and various third parties and cites third-party projections regarding growth and performance of the industry in which we operate. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is stated in this Prospectus, provided that where no source is stated, it can be assumed that the information originates from us. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by the Independent Market Researcher for inclusion in this Prospectus. We had appointed the Independent Market Researcher to provide a business and independent market and industry review relating to an overview of the economy and industry in which we operate. In compiling their data for the review, the Independent Market Researcher relied on industry sources, published materials, its own private databanks and direct contacts within the industry. We believe that the information on the industry as contained in this Prospectus and the other statistical data and projections cited in this Prospectus are useful in helping prospective investors understand the major trends in the industry in which we operate. However, neither we nor our advisers have verified these data.

We and our advisers do not make any representation as to the correctness, accuracy or completeness of such data. You should not place undue reliance on the statistical data cited in this Prospectus. Similarly, third-party projections cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. You should not place undue reliance on the third-party projections cited in this Prospectus.

The information on our websites, or any website directly or indirectly linked to such websites does not form part of this Prospectus and you should not rely on it.

FORWARD LOOKING STATEMENTS

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives of our Management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect our Management's current view with respect to future events and are not a guarantee of future performance. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are not historical facts. Such forward-looking statements include, without limitation, statements relating to:

- (i) demand for our products and services;
- (ii) our business strategies;
- (iii) plans and objectives of our Management for future operations;
- (iv) our financial position; and
- (v) our future earnings, cash flows and liquidity.

Our actual results may differ materially from the information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitation:

- (i) the economic, political and investment environment in Malaysia, PRC and globally; and
- (ii) government policy, legislation or regulation.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to those discussed in Section 5 and Section 8.7.2 of this Prospectus. We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the date of this Prospectus.

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DEFINITIONS

The following terms in this Prospectus bear the same meanings as set out below unless the term is defined otherwise or the context requires otherwise:

1H 2009	:	Financial period commencing 1 July 2008 to 31 December 2008
Acquisition	:	The acquisition of Addnice Holdings by our Company from Sheng Xiang Shun the details of which is set out in Section 14.1.1 of this Prospectus
ADA	:	Authorised Depository Agent
Addnice China	:	Addnice (China) Co., Ltd. (艾迪耐斯(中国)有限公司) (350500400038279)
Addnice Holdings	:	Addnice Holdings Limited (艾迪耐斯控股有限公司) (<i>formerly known as Adynice Holdings Limited (艾迪耐斯控股有限公司) and formerly known as Cheng Tai Xin Holdings Limited (成泰鑫控股有限公司) (No. 1219639)</i>)
Addnice Sports	:	Fujian Aidinaiisi Sports Goods Co., Ltd. (福建艾迪耐斯体育用品有限公司) (350500400016097)
Admission	:	Admission of our Shares to the Official List of the Main Board of Bursa Securities
AIC	:	Administration for Industry and Commerce (工商行政管理局)
ATM	:	Automated teller machine
Authorised Depository Agent	:	A person appointed by Bursa Depository under the Rules of Bursa Depository
Bermuda Companies Act	:	The Companies Act 1981 of Bermuda
Board or Directors	:	Our Board of Directors
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
Bursa Securities LR	:	Listing Requirements of Bursa Securities
Bye-laws	:	The bye-laws of our Company for the time being adopted
CAGR	:	Compounded annual growth rate
CDS	:	Central Depository System
CEO	:	Chief executive officer
China or PRC	:	The People's Republic of China which, for the purpose of this Prospectus, excludes Hong Kong, Macau and Taiwan province
CIMB	:	CIMB Investment Bank Berhad (18417-M)
CMSA	:	Capital Markets and Services Act, 2007 of Malaysia
Depositors	:	A holder of a Securities Account

DEFINITIONS *(Cont'd)*

EBITDA	:	Earnings before finance costs, taxation, depreciation and amortisation
Electronic Prospectus	:	Copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
Electronic Share Application	:	Application for the Issue Shares through a Participating Financial Institution's ATMs
EPS	:	Earnings per share
Export Distributors	:	Our distributors who export our OEM shoe products to overseas markets
FIC	:	Foreign Investment Committee
Final Retail Price	:	The final price per Issue Share to be paid by investors pursuant to the Retail Offering, equivalent to RM2.10 per Share or 95% of the Institutional Price, whichever is lower, to be determined on the Price Determination Date as detailed in Section 4.9 of this Prospectus
FYE	:	Financial year(s) ended or ending 30 June
GDP	:	Gross Domestic Product
HKD or HK\$:	The lawful currency of the Hong Kong
Hong Kong	:	Hong Kong Special Administrative Region of the People's Republic of China
Independent Market Researcher	:	Converging Knowledge Pte Ltd (200200797W)
Initial Public Offering or IPO	:	The initial public offering constituting the Retail Offering and the Institutional Offering
Institutional Offering	:	Public issue of up to 90,000,000 Issue Shares to be made available for application at the Institutional Price, subject to clawback and reallocation, by: (i) Malaysian institutional and selected investors; and (ii) Foreign institutional and selected investors outside USA in reliance on Regulation S under the US Securities Act
Institutional Price	:	The price per Issue Share to be paid by investors pursuant to the Institutional Offering. The Institutional Price will be determined on the Price Determination Date by way of bookbuilding
Internet Participating Financial Institution	:	The participating financial institution for Internet Share Application
Internet Share Application	:	Application for the Issue Shares through an Internet Participating Financial Institution
Issuing House	:	Malaysian Issuing House Sdn Bhd (258345-X)
Issue Share(s)	:	Up to 99,500,000 new Shares being offered pursuant to the Public Issue

DEFINITIONS (Cont'd)

Jinjiang Xingquan	:	福建省晋江市星泉鞋业有限公司 (<i>translated as "Fujian Province Jinjiang City Xingquan Footwear Enterprise Co. Ltd." (350582100043419)</i>)
Latest Practicable Date	:	1 June 2009, being the latest practicable date prior to the registration of our Prospectus
Listing	:	Listing of and quotation for all of our issued and paid-up Shares on the Main Board of Bursa Securities
Listing Scheme	:	The scheme for our Listing as set out in Section 14.1 of this Prospectus
Macau	:	Macau Special Administrative Region of the People's Republic of China
Malaysian Companies Act	:	Companies Act, 1965 of Malaysia
Malaysian Public	:	Malaysian citizens, companies, societies, co-operatives and institutions incorporated or organised under the laws of Malaysia
Market Day	:	Day on which Bursa Securities is open for securities trading
Maximum Scenario	:	Representing the scenario where 99,500,000 Issue Shares are issued assuming the Issue Shares are fully subscribed for by the respective applicants. For further details, please refer to Section 4.3 of this Prospectus
MOC	:	Ministry of Commerce of the People's Republic of China
Minimum Scenario	:	Representing the scenario where the minimum subscription level for the Public Issue of 59,870,000 Issue Shares which was determined by the Board based on various factors such as the level of funding requirements of the Group and the public shareholding spread required is met. For further details, please refer to Section 4.3 of this Prospectus
N/A	:	Not applicable
NA	:	Net assets
NTA	:	Net tangible assets
Official List	:	A list specifying all securities which have been admitted for listing on the Bursa Securities and not removed
Over-Allotment Option	:	Over-allotment option exercisable by the Stabilising Manager in whole or in part within 30 days from the date of commencement of trading of Xingquan International Shares on Bursa Securities, to subscribe for up to an aggregate of 8,980,500 new Xingquan International Shares (assuming Minimum Scenario) or 14,925,000 new Xingquan International Shares (assuming Maximum Scenario), being 15% of the total number of Xingquan International Shares to be issued pursuant to the Public Issue at the Institutional Price, solely for purposes of covering over-allotments of Xingquan International Shares (if any). Further details are set out in Section 4.3.3 of this Prospectus
Participating Financial Institutions	:	Participating financial institutions for Electronic Share Application
PAT	:	Profit after taxation
PBT	:	Profit before taxation

DEFINITIONS (Cont'd)

PE Multiple	:	Price-earnings multiple
Price Determination Date	:	The date on which the Institutional Price and Final Retail Price will be determined
Promoters	:	Tai Zhen Xiang, Mdm Ng Sio Peng and Mr Iao Ieok Chon
Public Issue	:	Public issue of up to 99,500,000 Issue Shares to be made pursuant to the Retail Offering and the Institutional Offering
Retail Offering	:	Public issue of 9,500,000 Issue Shares to be made available for application by the Malaysian Public at the Retail Price
Retail Price	:	The initial price of RM2.10 per Share to be fully paid upon application pursuant to the Retail Offering subject to adjustment as detailed in Section 4.9 of this Prospectus
RM or ringgit	:	The lawful currency of Malaysia
RMB or renminbi	:	The lawful currency of China
ROC	:	Registrar of Companies, Malaysia
SAC of the SC	:	Shariah Advisory Council of the SC
SAFE	:	State Administration of Foreign Exchange
SC	:	Securities Commission, Malaysia
SC Guidelines	:	Guidelines on the Offering of Equity and Equity-Linked Securities issued by the SC of Malaysia
Securities Account	:	An account established by Bursa Depository for a Depositor for the recording of deposit of securities and for dealing in such securities by the Depositor
Shareholder or Member	:	Registered holders of Xingquan International Shares
Share Split	:	A share split of every 1 ordinary share of USD1.00 each in Xingquan International into 10 Xingquan International Shares after the Acquisition as detailed in Section 14.1.2 of this Prospectus
Sheng Xiang Shun	:	Sheng Xiang Shun Holdings Limited (1455865)
SICDA	:	Securities Industry (Central Depositories) Act, 1991 of Malaysia
sq metre	:	Square metre
Stabilising Manager	:	CIMB
Subsidiary(ies)	:	Subsidiary(ies) as defined by Section 5 of the Malaysian Companies Act
Substantial Shareholder	:	A person having an aggregate of not less than 5% interest, whether direct or indirect of the total voting shares in a corporation. For purposes of this definition, the term 'interest' shall have the same meaning ascribed to it in Section 6A of the Malaysian Companies Act
Tai Zhen Xiang	:	Tai Zhen Xiang Holdings Limited (1455863)

DEFINITIONS (Cont'd)

Transfers	:	The transfer of an aggregate of 35,560,989 existing Xingquan International Shares, representing 16.53% of the issued and paid-up share capital of our Company, to the identified investors, the details of which are set out in Section 14.1.3 of this Prospectus
Underwriter	:	CIMB
Underwriting Agreement	:	Underwriting agreement dated 1 June 2009 between the Company and the Underwriter for the underwriting of the Retail Offering
USA	:	United States of America, its territories and possessions, any state of the United States and the District of Columbia
USD or US\$:	The lawful currency of the USA
US Securities Act	:	United States Securities Act of 1993
WFOE	:	Wholly foreign-owned enterprise
WNBA	:	Women's National Basketball Association
Xingquan Footwear	:	福建省晋江星泉鞋材有限公司 (<i>translated as "Fujian Province Jinjiang Xingquan Footwear Material Co. Ltd."</i>) (350582100013280)
Xingquan International or Company	:	Xingquan International Sports Holdings Limited (<i>Bermuda Company Registration No. 42756 and Malaysia Branch Registration No. 995177-V</i>)
Xingquan International Group or Group	:	Company and its Subsidiaries, namely Addnice Holdings, Addnice China, Addnice Sports, Xingquan Plastics and Xingquan Footwear
Xingquan Plastics	:	Xingquan (Fujian) Shoes Plastics Co. Ltd. (星泉(福建)鞋塑有限公司) (350500400011735)
Xingquan International Share(s) or Share(s)	:	Ordinary share(s) of USD0.10 each in the capital of our Company
Yanshang Shoe Factory	:	(晋江陈埭奄上星泉制鞋厂) (<i>translated as "Jinjiang Chengdai Yanshang Xingquan Shoe Factory"</i>)
YTD	:	Year to date

DEFINITIONS (Cont'd)

Technical terms

EVA	:	Ethylene vinyl acetate, a raw material used to produce a type of soft and light foam material. As EVA contains tiny bubbles it is able to absorb shock and act as cushioning for the foot. EVA is used to produce the midsole of our sole units
EVA base chemicals	:	The base chemicals used in the production of EVA pellets such as POE and titanium powder
EVA pellets	:	A semi-finished product in the form of pellets made of EVA, which are produced using the EVA base chemicals and used in the production of EVA shoe soles
eyelet	:	Holes in the quarters of the upper which allow the lace of the shoe to pass through
heel counter	:	A rigid or semi-rigid component in the upper designed to support and stabilise the heel. Heel counters include external heel counters which are positioned at the base of the midsole and the internal heel counter
insole or insert	:	A detachable layer of material sandwiched between the insole board and the sole of the foot inside the shoe. The insole provides support for the arch of the foot and thus provides a better fit for the wearer. The design of the arch support in an insole is dependent on the type of activity the shoes is designed for and other factors such as age and gender of the wearer. An insole also provides a small amount of cushioning
insole board	:	The insole board is used for the attachment of the upper and the midsole or outsole and is placed just below the insole and above the midsole
lasting	:	The process of shaping the shoe on the shoe tree to its designed shape
MD	:	A type of lightweight material made from EVA pellets
midsole	:	The midsole is the part of a shoe positioned between the outsole and the upper. It provides stability and controls excessive foot motion and serves as a cushion for the foot by absorbing shock. The primary materials used in midsoles are EVA and polyurethane
OEM	:	Original equipment manufacturer, the original manufacturer of a product which may be resold by another company under the latter's trade/brand name
outsole	:	The outsole is the treaded layer of the sole that comes in direct contact with the ground. It resists wear, provides traction and absorbs shock
POE	:	Polyolefin elastomers
quarter	:	The side element of the upper which covers the inner and outer sides and back of a foot
RB	:	Synthetic rubber, a type of material used in the production of our shoe sole products. RB is highly resistant to wear and abrasion
shoe tree	:	A block of plastic shaped like a foot and used for shaping shoes
sole unit	:	The sole unit of a shoe which comprises the midsole and outsole for EVA-based soles and only the outsole for RB soles

DEFINITIONS (Cont'd)

- tongue : A part of the upper which resembles a flap that protects the top of the foot against the pressure from the laces of a shoe
- TPU : Thermoplastic polyurethane, a material used to manufacture parts of shoes and shoe soles for decorative purposes such as our "Addnice" logo or as functional components such as the external heel counter
- TPU pellets : A semi-finished product in the form of pellets made of TPU and used in the production of TPU components
- upper : The part of a shoe sewn or glued onto the sole unit. The upper is made up mainly of parts comprising the vamp, quarters and tongue stitched together. The upper also contains parts such as the tip, eyelets, collar and heel counter and TPU components. The key function of the upper is to hold the midsole and outsole to the bottom of a foot. The upper also provides flexibility or protection to the wearer, depending on the function of the shoe. For instance, uppers for basketball shoes are designed to be snug fitting and have mid to high cutting to provide stability and ankle support to the wearer, while lower cut lightweight uppers provide greater flexibility and are suitable for tennis and running
- vamp : The front section of the upper covering the toes

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1. INTRODUCTION

This Prospectus is dated 23 June 2009.

We have registered this Prospectus with the SC. We have also lodged a copy of this Prospectus together with the Application Forms with the ROC, who takes no responsibility for its contents.

The Bermuda Monetary Authority has in its letter dated 15 April 2009 given its consent for the issue of the Consideration Shares (as defined in Section 14.1.1 (i) of this Prospectus) in connection with the Acquisition, the transfer of 35,560,989 Shares pursuant to the Transfers, the issue of the Issue Shares pursuant to the Initial Public Offering on the terms referred to in this Prospectus and the issue of Xingquan International Shares pursuant to the Over-Allotment Option. A copy of this Prospectus will be filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority in granting its permission and the Registrar of Companies in Bermuda in accepting this Prospectus for filing accepts no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed in this Prospectus or any other documents.

We have received the SC's approval on 4 May 2009 for the IPO. The approval of the SC shall not be taken to indicate that the SC recommends our IPO. On 6 May 2009, we voluntarily submitted an application to the SC for a Shariah compliance review to be carried out by the SAC of the SC as part of the process of determining our Shariah status at IPO. On 25 May 2009, the SAC of the SC has classified our Shares as Shariah-compliant based on the latest audited combined financial statements of our Group for the FYE 2008. This classification will remain valid from the date of issue of this Prospectus until the next Shariah compliance review is undertaken by the SAC of the SC. The new status will be released in the updated list of Shariah-compliant securities on the last Friday of the month of May or November of each year. **You are advised to make your own independent assessment of our Company and should rely on your own evaluation to assess the merits and risks of our IPO and investment in our Company.**

We have received Bursa Securities' approval-in-principle on 16 June 2009 for the admission of our Company to the Official List of the Main Board of Bursa Securities and for permission to deal in and the listing of and quotation for all our Shares. Our Shares will be admitted to the Official List of the Main Board of Bursa Securities and official quotation will commence upon receipt of confirmation from Bursa Depository that all the Shares have been credited into the respective CDS accounts of the successful applicants and the notices of allotment have been despatched to them. Admission to the Official List of the Main Board of Bursa Securities shall not be taken as an indication of the merits of our Company, our Shares or our IPO.

The acceptance of applications for the Shares will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for all our Shares on the Main Board of Bursa Securities. If the permission for the listing is not granted within six (6) weeks from the date of this Prospectus (or such longer period as may be specified by the SC), provided that we are notified by Bursa Securities within the aforesaid timeframe, we are required to return in full, without interest, all monies paid in respect of any application accepted at your own risk. If any such monies are not repaid within fourteen (14) days after we become liable to repay it, the provision of subsection 243(2) of the CMSA shall apply accordingly.

If our Company is required by applicable Malaysia laws to cancel issued Issue Shares and repay application monies to applicants, subject to compliance with the Bermuda Companies Act, our Company will purchase the Issue Shares at (in the case of Issue Shares issued pursuant to the Retail Offering) the Final Retail Price or (in the case of Issue Shares issued pursuant to the Institutional Offering) the Institutional Price (as the case may be) or cancel the Issue Shares by way of capital reduction.

Pursuant to Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as a prescribed security. Therefore, we will deposit our Shares directly with Bursa Depository. Any dealings in our Shares will be carried out in accordance with the SICDA and the Rules of Bursa Depository. We will not issue any share certificates to successful applicants. Please note that Bursa Depository or its nominee will be entered in the register of members of our Company as the registered holder of the entire issued share capital of our Company as joint-holder with the Depositors.

1. INTRODUCTION *(Cont'd)*

Pursuant to the Bursa Securities LR, at least 25% of our total number of Shares for which listing is sought must be held by at least 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing. If we fail to do so, we may not be allowed to proceed with the Listing. Should such an event occur, we will return in full, without interest, monies paid in respect of all applications.

In the case of an application by way of Application Form, you shall state your CDS account number in the space provided in the Application Form. If you do not presently have a CDS account, you must open a CDS account at an ADA before making an application for our Shares. For application by way of Electronic Share Application, only an applicant who has a CDS account number can make an Electronic Share Application and you shall furnish your CDS account number to the Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen at which you submit your Electronic Share Application requires you to do so. In the case of an application by way of Internet Share Application, only an applicant who has a CDS account opened with the Internet Participating Financial Institution can make an Internet Share Application. Arising therewith, your CDS account number will automatically appear in the electronic IPO online application form. A corporation or institution cannot apply for the Issue Shares by way of Electronic Share Application or Internet Share Application.

You should rely only on the information contained in this Prospectus. We have not authorised any person to provide you with information that is different from those contained in this Prospectus. The delivery of this Prospectus or any issue or offer made in connection with this Prospectus shall not, under any circumstances, represent or imply that there has been no change in our affairs since the date of this Prospectus. Nonetheless, should we become aware of any significant change affecting a matter disclosed in this Prospectus up to the date of the Listing, we shall further issue a supplemental or replacement prospectus (as the case may be), in accordance with the provisions of Section 238 of the CMSA.

This Prospectus does not constitute and may not be used for the purpose of an invitation to buy any Issue Shares in any jurisdiction or circumstances in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such invitation. The distribution of this Prospectus and the sale of the Issue Shares in certain other jurisdictions may be restricted by law. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

IF YOU ARE IN ANY DOUBT ABOUT THIS PROSPECTUS OR IN CONSIDERING YOUR INVESTMENT, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR ANY OTHER PROFESSIONAL ADVISER IMMEDIATELY.

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2. CORPORATE DIRECTORY

DIRECTORS

Name	Address	Occupation	Nationality
Mr Wu Qingquan (吴清泉) <i>(Executive Chairman and Chief Executive Officer)</i>	No 1 Yongan Road Yanshang Village Chendai Town Jinjiang City, Fujian Province PRC	Company Director	Chinese
Mr Wu Lianfa (吴连发) <i>(Executive Director)</i>	No 1 Yongan Road Yanshang Village Chendai Town Jinjiang City, Fujian Province PRC	Company Director	Chinese
Mdm Ng Sio Peng (吴小萍) <i>(Non-Independent Non-Executive Director)</i>	192 Rua Do Canal Novo, Suite E 5th Floor, Block 12 Gamhoisan Garden Macau	Company Director	Chinese (Macau)
Mr Zhou Liyi (周立毅) <i>(Independent Non-Executive Director)</i>	Room 406, No. 816 East Lianqian Road Siming District Xiamen City, Fujian Province PRC	Certified public accountant and certified tax agent	Chinese
Dato' Siow Kim Lun @ Siow Kim Lin <i>(Independent Non-Executive Director)</i>	No 22, Jalan Sri Hartamas 10 Sri Hartamas 50480 Kuala Lumpur Malaysia	Company Director	Malaysian
Dato' Ng Ah Hock @ Ng Soon Por <i>(Independent Non-Executive Director)</i>	9, Jalan USJ 2/6H, 47600 Subang Jaya, Selangor Darul Ehsan Malaysia	Company Director	Malaysian

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2. CORPORATE DIRECTORY (Cont'd)

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Ng Ah Hoek @ Ng Soon Por	Chairman	Independent Non-Executive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Member	Independent Non-Executive Director
Mr Zhou Liyi	Member	Independent Non-Executive Director

NOMINATING COMMITTEE

Name	Designation	Directorship
Mdm Ng Sio Peng	Chairman	Non-Independent Non-Executive Director
Mr Zhou Liyi	Member	Independent Non-Executive Director
Dato' Ng Ah Hock @ Ng Soon Por	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Mdm Ng Sio Peng	Chairman	Non-Independent Non-Executive Director
Mr Zhou Liyi	Member	Independent Non-Executive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Member	Independent Non-Executive Director

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2. **CORPORATE DIRECTORY (Cont'd)**

- COMPANY SECRETARIES** :
- Kang Shew Meng (MAICSA 0778565)
23 Jalan Tiara Kemensah 1, Tiara Kemensah
Saujana Melawati,
53100 Kuala Lumpur
Malaysia
 - Seow Fei San (MAICSA 7009732)
A-17-16, Block A
Kondominium Sterling
No. 3 Jalan SS 7/19
Petaling Jaya
47301 Selangor Darul Ehsan
Malaysia
 - Richard J. Evans
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
- * Richard J. Evans is currently a Company Secretary of the Company. Upon the Listing of the Company, Richard J. Evans will resign as Company Secretary and be appointed as Assistant Secretary of the Company.*
- REGISTERED OFFICE IN BERMUDA** :
- Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
- Tel. No.: (441) 295 1422
Fax. No.: (441) 299 4983
- REGISTERED OFFICE IN MALAYSIAN BRANCH** :
- 312, 3rd Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
- Tel. No.: (603) 7803 1126
Fax. No.: (603) 7806 1387
- HEAD OFFICE** :
- Houyang Industrial Zone, Yanshang Village,
Chendai Town, Jinjiang City, Quanzhou City,
Fujian Province, PRC 362211
- Tel. No.: (86) 595 8508 8999
Fax. No.: (86) 595 8516 6111
E-mail address: addnice@addnicechina.com
Website: www.addnice.com.cn

2. **CORPORATE DIRECTORY (Cont'd)**

BERMUDA SHARE REGISTRAR	:	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda Tel. No.: (441) 295 5950 Fax. No.: (441) 292 4720
MALAYSIAN SHARE REGISTRAR		Symphony Share Registrars Sdn Bhd Level 26, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel. No.: (603) 2721 2222
REPORTING ACCOUNTANTS	:	SJ Grant Thornton (AF :0737) Level 11, Faber Imperial Court Jalan Sultan Ismail PO Box 12337 50774 Kuala Lumpur Malaysia Tel. No.: (603) 2692 4022
AUDITORS		Foo Kon Tan Grant Thornton 47 Hill Street #05-01 Singapore Chinese Chamber of Commerce & Industry Building Singapore 179365 Tel. No.: (65) 6336 3355
PRINCIPAL BANKERS	:	China Construction Bank Corporation, Quanzhou Branch (中国建设银行泉州支行) China Construction Bank Building Fengze Street Quanzhou City, Fujian Province PRC Tel. No.: (86) 595 22163762 Industrial Bank Co., Ltd., Chendai Branch (兴业银 行陈埭支行) Crossing of Qiyi Road, Sijing, Chendai Town Jinjiang City Fujian Province PRC Tel. No.: (86) 595 85186801

2. **CORPORATE DIRECTORY (Cont'd)**

PRINCIPAL BANKERS (Cont'd)	CITIC Bank Co., Ltd., Quanzhou Branch (中信銀行 泉州支行) People's Bank Building Fengze Street Quanzhou City, Fujian Province PRC Tel. No.: (86) 595 22148222
LEGAL ADVISER FOR THE IPO	: Wong Beh & Toh Level 12, West Block Wisma Selangor Dredging 142-C, Jalan Ampang 50450 Kuala Lumpur Malaysia Tel. No.: (603) 2713 6050
LEGAL ADVISERS TO THE COMPANY ON HONG KONG LAW	: DLA Piper Hong Kong 40 th Floor Bank of China Tower 1 Garden Road Central Hong Kong Tel. No.: (852) 2103 0808
LEGAL ADVISERS TO THE COMPANY ON BERMUDA LAW	: Conyers Dill & Pearman Pte. Ltd. 50 Raffles Place #18-04 Singapore Land Tower Singapore 048623 Tel. No.: (65) 6223 6006
LEGAL ADVISERS TO OUR COMPANY ON PRC LAW	: Trend Associates 28/F Zhongshan Building 152 Hudong Road Fuzhou, Fujian China 350003 Tel. No.: (86) 591 8785 0803
ADVISER, UNDERWRITER, PLACEMENT AGENT AND SOLE BOOKRUNNER	: CIMB Investment Bank Berhad 5th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: (603) 2084 8888
INDEPENDENT MARKET RESEARCHER	: Converging Knowledge Pte Ltd 43 B&C Tras Street Singapore 078982 Tel. No.: (65) 6225 8781

2. CORPORATE DIRECTORY (Cont'd)

ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd Level 27, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel. No.: (603) 2693 2075
LISTING SOUGHT	:	Main Board of Bursa Securities
SHARIAH STATUS	:	Approved by the Shariah Advisory Council of the SC

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3. SUMMARY

This section is only a summary of the salient information about us and the IPO and is extracted and summarised from the full text of this Prospectus. You should read and understand this section together with the entire Prospectus before you decide as to whether or not to invest in us.

3.1 OVERVIEW

3.1.1 *Our Company*

Our Company was incorporated in Bermuda under the Bermuda Companies Act on 15 December 2008 as an exempted company limited by shares under the name of Xingquan International Sports Holdings Limited. On 11 February 2009, our Company was registered in Malaysia as a foreign company. Our Company commenced business on 1 June 2009.

Our Company's principal activities are investment holding and provision of management services and our Group is principally engaged in the manufacturing of shoe soles and shoes and sales of shoe soles, shoes, apparels and accessories. The principal activities of our subsidiaries are as follows:

Name	Date and place of incorporation	Principal activities/ <i>(Intended principal activities)*</i>
Addnice Holdings	20 March 2008 Hong Kong	Investment Holdings <i>(no change)</i>
Addnice China	7 March 2006 PRC	Inactive <i>(Manufacturing of shoes and sales of shoes, apparels and accessories)</i>
Addnice Sports	1 August 2003 PRC	Manufacturing of shoes and sales of shoes, apparels and accessories. <i>(inactive)</i>
Xingquan Plastics	31 January 2000 PRC	Manufacturing and sales of shoe soles <i>(no change)</i>
Xingquan Footwear	8 February 1999 PRC	Lease of factory and land <i>(no change)</i>

Note:

* *We intend to change the current principal activities of our subsidiaries as disclosed above by 2011 in order to benefit from tax incentives presently available to us. Please refer to Section 5.2.2 of this Prospectus for the tax incentive available to us and the corresponding risk relating thereto.*

As at the date of this Prospectus, we have an authorised share capital of USD50,000,000 comprising 500,000,000 Shares whilst our issued and paid-up share capital is USD21,513,000 comprising 215,130,000 Shares.

3. SUMMARY (*Cont'd*)

3.1.2 *Our History and Business*

Our history may be traced back to 1995 when our Executive Chairman and CEO, Mr Wu Qingquan, established Jinjiang Xingquan in 1995, jointly with Mr Wu Qingquan's wife, Mdm Zhuang Hongji, and his brother, Mr Wu Lianfa, to engage in the manufacture of shoes and shoe soles for local and international shoe manufacturers. Mr Wu Qingquan was then the legal representative of, and held 60.0% equity in, Jinjiang Xingquan. Mr Wu Lianfa and Mdm Zhuang Hongji each held 30.0% and 10.0% equity interest in Jinjiang Xingquan, respectively.

Prior to the establishment of Jinjiang Xingquan, Mr Wu Qingquan had accumulated years of experience in the shoes industry through his involvement in Yanshang Shoe Factory. Yanshang Shoe Factory was set up in 1989, by the Villager Committee of Yanshang Village and headed by Mr Wu Qingquan's father, Mr Wu Shihu, to engage in the manufacture of shoes and rubber products. Mr Wu Qingquan was then in charge of procurement and sales.

In 1999, recognising the growing demand for shoe soles in the PRC and the profitability of the shoe sole business, Mr Wu Shihu, Mr Wu Lianfa and the Villager Committee of Yanshang Village founded Xingquan Footwear to manufacture shoe soles and took over the shoe sole manufacturing business of Yanshang Shoe Factory. Mr Wu Lianfa eventually bought over all the equity of Xingquan Footwear held by the Villager Committee of Yanshang Village in 2002.

In 2000, Xingquan Plastics was established by Mr Iao Ieok Chon, Mr Wu Qingquan's brother-in-law. Upon its establishment, Xingquan Plastics took over the shoe manufacturing business from Jinjiang Xingquan. Jinjiang Xingquan had since ceased its business and was deregistered while Xingquan Footwear wound down its shoe manufacturing operations and was subsequently involved in leasing its factory and land. Upon commencement of its business, Xingquan Plastics provided OEM services to shoe manufacturers engaged in the manufacture of completed shoes products. Our Group presently manufacture on OEM basis for owners of well-known international brands such as FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto through Addnice Sports.

In 2000, Xingquan Plastics also purchased four (4) sets of injection moulding machines which increased our shoe sole production capacity.

In 2001, we foresaw the potential growth and demand for products manufactured through the process of foam moulding and purchased five (5) sets of foam moulding machines. Shoe soles produced by foam moulding have greater elasticity, compared to injection moulded soles, and are suitable for production of higher end shoe products. With increasing popularity of foam moulded products, our Group continued, over the years, to expand our foam moulding production line.

In 2002, Xingquan Plastics started supplying shoe soles to manufacturers of well-known PRC brands. They presently include brands such as Xtep (特步), China Peak (匹克), 361° (三六一度) and Qiaodan (乔丹).

In 2003, Mr Wu Qingquan's sister, Mdm Ng Sio Peng, founded Addnice Sports to undertake the development, design, production and sale of "Addnice" brand shoe products.

3. SUMMARY (Cont'd)

The sale of shoe products under our "Addnice" brand commenced in 2004 with the launch of our shoe products in the PRC. In 2005, Addnice Sports took over the shoe business of Xingquan Plastics, while the latter focused on its shoe sole business. In 2005, our Group expanded its distribution within PRC as well as expanded its range of products to include sports and leisure apparels and accessories, which are manufactured by OEM suppliers.

With the launch of our own brand of products, our Group began focusing on the management of our "Addnice" brand. Between March 2006 and February 2008, our Group signed Miao Lijie, a captain of the PRC female basketball team and a player in the WNBA as spokesperson for our "Addnice" brand. Our efforts continued and between April 2007 and March 2009, we signed Jason Kaponov, a NBA player from the Toronto Raptors and back-to-back winner of the Foot Locker Three-Point Shootout for 2007 and 2008 to endorse our "Addnice" brand.

In 2006, Addnice Sports was awarded the Certificate for Product Exemption from Quality Surveillance Inspection (产品质量免检证书) for our products sold under the "Addnice" brand.

Since we introduced our "Addnice" brand of products, our "Addnice" brand has gained strong public recognition in the market. We have received various awards and affirmation in respect of our "Addnice" brand, such as PRC Famous Trademark (中国驰名商标), Fujian Famous Brand Product (福建名牌产品) and Quanzhou City Well-known Trademark (泉州市知名商标), which demonstrates the public recognition and acceptance we have gained for the high quality of our products. To protect the goodwill associated to our products, over the years, our Group has registered our tradenames and logos in the PRC. Further, in anticipation of potential markets which we may move into, we have also registered or applied for registration of our tradenames and logos in other countries such as Germany, Hong Kong, Macau, Malaysia and Taiwan, as well as various eastern and western European countries. For more details on our Group's trademarks, please refer to Section 7.20 of this Prospectus.

In 2006, our Group introduced the tagline "运动·自由境界" (which means "sporting freedom") to promote our Group's outdoor and urban leisure products, including shoes and apparels.

In 2008, we began to focus more on our Group's outdoor and urban leisure products in our efforts to position our Group in the outdoor shoe market of the footwear industry in China.

As a testimony to our quality control management, Xingquan Plastics was accredited with ISO9001:2000 by the Environment & Quality Assurance International Certification Center (EQA 国际认证中心) in 2002 for the scope of Production and Sales of Sports Shoes and Material For Shoes (运动鞋及鞋材的生产与销售) and Addnice Sports was accredited with ISO9001:2000 for the Products/Service: Design, Production and Service of GYM Shoes and Liefallow Shoes (运动鞋、休闲鞋系列产品的设计、生产和服务) by China United Certification Center (中联认证中心) in 2004 and with ISO14001:1996 (now ISO14001:2004) by the China United Certification Center in 2004 for its environmental management system for Design, Production and Correlative Management Activities of GYM Shoes and Liefallow Shoes (运动鞋、休闲鞋系列产品的设计、生产和相关管理活动). Please refer to Section 7.11 of this Prospectus for more information of our accreditations.

3. SUMMARY (Cont'd)

In 2008, our PRC subsidiaries were reorganised to be held under Addnice Holdings. Subsequently, in 2009, our Company acquired the entire share capital of Addnice Holdings for a purchase consideration of USD21.503 million which was satisfied entirely by the issuance of 21.503 million new shares of USD1.00 each in Xingquan International (“Consideration Shares”) (prior to the Share Split) at an issue price of USD1.00 per Consideration Share.

Our products are categorised into three key segments as follows:

(a) *Shoe Soles*, which comprise athletic shoe sole products designed for specific sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes;

(b) *Outdoor and Indoor Sports and Leisure Shoes*, which comprise outdoor sports shoes designed for specific outdoor and indoor sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes, marketed under our “Addnice” brand. We are also OEM for owners of international sports and leisure shoe brands such as FILA, J’Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto; and

(c) *Outdoor and Indoor Sports and Leisure Apparels and Accessories*, which comprise apparels for specific outdoor and indoor sporting activities such as running, tennis, basketball and mountain climbing and leisure and functional apparels such as t-shirts, polo shirts and windbreakers and accessories such as sport bags, caps, socks and head and wrist bands, designed for various outdoor and indoor sporting activities and marketed under our “Addnice” brand. Currently, our sports apparels and accessories are produced by external OEM suppliers.

Please refer to Sections 7 and 12 of this Prospectus for detailed information on our Group’s business and our Group.

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3. SUMMARY *(Cont'd)*

3.2 COMPETITIVE STRENGTHS AND FUTURE PLANS

3.2.1 *Competitive Strengths*

Our Directors believe that our competitive strengths are as follows:

- (a) Vertically integrated business model with strong manufacturing capabilities for shoe soles and shoes
- (b) Market positioning and competitive pricing
- (c) Established market presence and market recognition of our “Addnice” brand
- (d) Strong and effective marketing and promotional capabilities
- (e) Extensive distribution network of specialty and retail stores in over 1,400 strategic locations across PRC
- (f) Control of our sports value chain and commitment to product quality
- (g) Innovative product development and wide range of complementary quality products
- (h) Strong production capabilities
- (i) We have an experienced, dynamic and committed management team
- (j) We are strategically located in Quanzhou City, Fujian Province, one of PRC’s largest sports shoe manufacturing bases
- (k) Established good working relationships with our customers who include other well-established sports brands

Please refer to the Section 7.2 of this Prospectus for more details on our competitive strengths and advantages.

3.2.2 *Our Future Plans*

Our future plans for the continued growth of our business are as follows:

- (a) Marketing and advertising activities
- (b) Expand our sales and distribution network
- (c) Expand our production capacity
- (d) Expand our research and development capabilities

Please refer to the Section 6.9 of this Prospectus for more details on our future plans.

3. SUMMARY (Cont'd)

3.3 FINANCIAL INFORMATION

3.3.1 Proforma Consolidated Income Statements

We have prepared our proforma consolidated income statements for illustrative purposes only, based on the audited combined financial statements of our Group for the financial years and period under review. Our proforma consolidated income statements have been prepared in accordance with IFRS. The bases and accounting policies used for the purpose of preparing our proforma consolidated income statements are consistent with those adopted in the preparation of the audited combined financial statements of our Group for the financial years and period under review.

We advise you to read our audited combined income statements together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as disclosed in Section 8.3 of this Prospectus.

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3. SUMMARY (Cont'd)

	← Audited →						← Unaudited →		← Audited →	
	← FYE 2006 →		← FYE 2007 →		← FYE 2008 →		← 1H 2008# →		← 1H 2009 →	
	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000
Revenue	289,246	146,966	438,520	222,812	636,810	323,563	302,562	153,732	405,880	206,228
Cost of sales	(201,670)	(102,469)	(296,983)	(150,897)	(422,698)	(214,773)	(196,889)	(100,039)	(250,370)	(127,213)
Gross profit	87,576	44,497	141,537	71,915	214,112	108,790	105,673	53,693	155,510	79,015
Administrative expenses	(8,076)	(4,103)	(10,908)	(5,542)	(14,351)	(7,292)	(8,482)	(4,310)	(10,633)	(5,403)
Selling and distribution expenses	(18,270)	(9,283)	(32,496)	(16,511)	(54,745)	(27,816)	(30,406)	(15,449)	(36,246)	(18,417)
Other income	515	261	835	424	5,942	3,019	534	271	1,287	654
Operating profit	61,745	31,372	98,968	50,286	150,958	76,701	67,319	34,205	109,918	55,849
Finance cost	(1,744)	(886)	(3,060)	(1,555)	(3,550)	(1,804)	(1,723)	(875)	(2,171)	(1,103)
PBT	60,001	30,486	95,908	48,731	147,408	74,897	65,596	33,330	107,747	54,746
Taxation	(11,222)	(5,702)	(7,556)	(3,839)	(17,974)	(9,133)	(5,957)	(3,027)	(17,935)	(9,113)
PAT	48,779	24,784	88,352	44,892	129,434	65,764	59,639	30,303	89,812	45,633
Attributable to:										
Equity holder	48,779	24,784	88,352	44,892	129,438	65,766	59,639	30,303	89,815	45,634
Minority interest	-	-	-	-	(4)	(2)	-	-	(3)	(1)
	48,779	24,784	88,352	44,892	129,434	65,764	59,639	30,303	89,812	45,633
Depreciation	6,882	3,497	8,473	4,305	10,101	5,132	4,890	2,485	5,713	2,903
Amortisation	-	-	171	87	186	95	93	47	94	48
Interest expense	1,744	886	3,060	1,555	3,550	1,804	1,723	875	2,171	1,103
EBITDA	68,627	34,869	107,612	54,678	161,245	81,928	72,302	36,737	115,725	58,800
No. of Xingquan International Shares assumed in issue ⁽¹⁾ (000)	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130
Gross EPS ⁽²⁾ (RMB/RM)	0.28	0.14	0.45	0.23	0.69	0.35	⁽⁴⁾ 0.61	⁽⁴⁾ 0.31	⁽⁴⁾ 1.00	⁽⁴⁾ 0.51
Net EPS ⁽³⁾ (RMB/RM)	0.23	0.12	0.41	0.21	0.60	0.31	⁽⁴⁾ 0.55	⁽⁴⁾ 0.28	⁽⁴⁾ 0.83	⁽⁴⁾ 0.42
Gross profit margin (%)	30.3	30.3	32.3	32.3	33.6	33.6	34.9	34.9	38.3	38.3
Net profit margin (%)	16.9	16.9	20.2	20.2	20.3	20.3	19.7	19.7	22.1	22.1

Notes:

- # Unaudited and stated for comparative purposes only.
- (1) Being the number of Xingquan International Shares assumed in issue immediately prior to the Public Issue.
- (2) Computed based on the consolidated PBT divided by the number of Xingquan International Shares assumed in issue.
- (3) Computed based on the consolidated PAT divided by the number of Xingquan International Shares assumed in issue.
- (4) Annualised to 12 months for comparison purposes.

3. SUMMARY (Cont'd)

3.3.2 Proforma Consolidated Cashflow Statements of Our Group for the FYE 2008 and 1H 2009

We have prepared our proforma consolidated cashflow statements below for illustrative purposes only, based on the audited combined financial statements of our Group for the financial years and period under review. Our proforma consolidated cashflow statements have been prepared in accordance with IFRS. The bases and accounting policies used for the purpose of preparing our proforma consolidated cashflow statements are consistent with those adopted in the preparation of the combined audited financial statements of our Group for the financial years and period under review. The proforma consolidated cashflow statement for 1H 2009 has been prepared based on the assumption that the Listing Scheme has been completed.

We advise you to read the proforma consolidated cashflow statements together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as disclosed in Section 8.3 of this Prospectus.

	← FYE 2008 →		Minimum Scenario and assuming exercise of Over-Allotment Option ← 1H 2009 →		Maximum Scenario and assuming exercise of Over-Allotment Option ← 1H 2009 →	
	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000
CASHFLOWS FROM OPERATING ACTIVITIES						
PBT	147,408	74,897	107,747	54,746	107,747	54,746
Adjustments for:						
Depreciation of property, plant and equipment	10,101	5,132	5,713	2,903	5,713	2,903
Amortisation of land use rights	186	95	94	48	94	48
Interest expenses on bank borrowings	3,550	1,804	2,171	1,103	2,171	1,103
Negative goodwill	(4,720)	(2,398)	(518)	(263)	(518)	(263)
Interest income	(1,222)	(621)	(761)	(387)	(761)	(387)
Operating profit before working capital changes	155,303	78,909	114,446	58,150	114,446	58,150
Decrease/(increase) in inventories	388	197	(4,943)	(2,512)	(4,943)	(2,512)
Increase in trade and other receivables	(32,618)	(16,573)	(26,033)	(13,227)	(26,033)	(13,227)
Increase in trade and other payables	7,173	3,645	17,694	8,990	17,694	8,990
Cash generated from operations	130,246	66,178	101,164	51,401	101,164	51,401
Interest paid	(3,550)	(1,804)	(2,171)	(1,103)	(2,171)	(1,103)
Income tax paid	(14,266)	(7,249)	(14,674)	(7,455)	(14,674)	(7,455)
Interest received	1,222	621	761	387	761	387
Net cash generated from operating activities	113,652	57,746	85,080	43,230	85,080	43,230
CASHFLOWS FROM INVESTING ACTIVITIES						
Acquisition of subsidiary	(3,764)	(1,912)	-	-	-	-
Acquisition of minority interest	-	-	(458)	(233)	(458)	(233)
Purchase of property, plant and equipment	(9,112)	(4,630)	(80,076)	(40,686)	(262,534)	(133,393)
Acquisition of land use rights	(44)	(22)	-	-	-	-
Net cash used in investing activities	(12,920)	(6,564)	(80,534)	(40,919)	(262,992)	(133,626)

3. SUMMARY (Cont'd)

	←FYE 2008→		Minimum Scenario and assuming exercise of Over-Allotment Option ←1H 2009→		Maximum Scenario and assuming exercise of Over-Allotment Option ←1H 2009→	
	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000
CASHFLOWS FROM FINANCING ACTIVITIES						
Listing proceeds	-	-	284,562	144,586	472,924	240,293
Payment of listing expenses	-	-	(17,713)	(9,000)	(23,617)	(12,000)
Issue of shares	901	458	68	34	68	34
Dividend paid	(105,000)	(53,351)	(125,878)	(63,959)	(125,878)	(63,959)
Bank loan obtained	49,900	25,354	35,700	18,139	35,700	18,139
Repayment of bank loan	(49,200)	(24,998)	(34,200)	(17,377)	(34,200)	(17,377)
Fixed deposit pledged with bank	4,550	2,312	(370)	(188)	(370)	(188)
Advances from shareholders	5,822	2,958	51,878	26,359	51,878	26,359
Net cash (use in)/generated from financing activities	(93,027)	(47,267)	194,047	98,594	376,505	191,301
Net increase in cash and cash equivalents	7,705	3,915	198,593	100,905	198,593	100,905
Cash and cash equivalents at beginning of the financial year/period	66,810	33,946	74,515	37,861	74,515	37,861
Cash and cash equivalents at the end of the financial year/ period	74,515	37,861	273,108	138,766	273,108	138,766

3.3.3 *Proforma Consolidated Balance Sheet of Our Group as at 31 December 2008*

We have prepared our proforma consolidated balance sheets below for illustrative purposes only, based on audited combined balance sheet of our Group as at 31 December 2008 under review to show the effects of our Listing Scheme on the assumption that certain events had been effected on that date. Our proforma consolidated balance sheets below have been prepared in accordance with IFRS. The bases and accounting policies used for the purpose of preparing our proforma consolidated balance sheets are consistent with those adopted in the preparation of the audited combined financial statements of our Group for the years and period under review.

We advise you to read the proforma consolidated balance sheets together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as disclosed in Section 8.3 of this Prospectus.

3. SUMMARY (Cont'd)

Minimum Scenario

	As at date of incorporation RMB 000	Forma I After Acquisition RMB 000	Forma II After I and Share Split RMB 000	Forma III Public Issue RMB 000	Forma IV After III and utilisation of proceeds RMB 000	Forma V After IV and assuming full exercise of the Over- Allotment Option RMB 000
NON CURRENT ASSETS						
Property, plant and equipment	-	63,955	32,496	63,955	32,496	139,651
Land use rights	-	8,972	4,559	8,972	4,559	8,972
	-	72,927	37,055	72,927	37,055	148,623
CURRENT ASSETS						
Inventories	-	33,828	17,188	33,828	17,188	33,828
Trade and other receivables	-	135,078	68,633	135,078	68,633	135,078
Cash and bank balances	68	105,875	53,795	353,320	179,522	297,028
	68	274,781	139,616	522,226	265,343	465,934
CURRENT LIABILITIES						
Trade and other payables	-	141,967	72,133	141,967	72,133	141,967
Tax payable	-	9,220	4,685	9,220	4,685	9,220
Bank borrowing	-	51,400	26,116	51,400	26,116	51,400
	-	202,587	102,934	202,587	102,934	202,587
NET CURRENT ASSETS	68	72,194	36,682	319,639	162,409	263,347
NET ASSETS	68	145,121	73,737	392,566	199,464	411,970
EQUITY						
Share capital	68	146,805	74,593	187,660	95,351	193,788
Share premium	-	-	-	206,590	104,969	226,635
Reserves	-	(1,684)	(856)	(1,684)	(856)	(8,453)
Total equity	68	145,121	73,737	392,566	199,464	411,970
No of Xingquan International Shares in issue (000)	10	21,513	21,513	275,000	275,000	283,981
Net assets per ordinary share of:						
- USD1.00 each	6.82	6.74	3.42	-	-	-
- USD0.10 each	-	-	0.34	1.43	0.73	1.45

3. SUMMARY (Cont'd)

Maximum Scenario

	As at date of incorporation RMB 000	Proforma I After Acquisition RMB 000	Proforma I After Acquisition RM 000	Proforma II After I and Share Split RMB 000	Proforma II After I and Share Split RM 000	Proforma III After II and Public Issue RMB 000	Proforma III After II and Public Issue RM 000	Proforma IV After III and utilisation of proceeds RMB 000	Proforma IV After III and utilisation of proceeds RM 000	Proforma V After IV and assuming full exercise of the Over- Allotment Option RMB 000	Proforma V After IV and assuming full exercise of the Over- Allotment Option RM 000
NON CURRENT ASSETS											
Property, plant and equipment	-	63,955	32,496	63,955	32,496	63,955	32,496	260,423	132,321	322,109	163,664
Land use rights	-	8,972	4,559	8,972	4,559	8,972	4,559	8,972	4,559	8,972	4,559
	-	72,927	37,055	72,927	37,055	72,927	37,055	269,395	136,880	331,081	168,223
CURRENT ASSETS											
Inventories	-	33,828	17,188	33,828	17,188	33,828	17,188	33,828	17,188	33,828	17,188
Trade and other receivables	-	135,078	68,633	135,078	68,633	135,078	68,633	135,078	68,633	135,078	68,633
Cash and bank balances	68	105,875	53,795	105,875	53,795	517,113	262,745	297,028	150,920	297,028	150,920
	68	274,781	139,616	274,781	139,616	686,019	348,566	465,934	236,741	465,934	236,741
CURRENT LIABILITIES											
Trade and other payables	-	141,967	72,133	141,967	72,133	141,967	72,133	141,967	72,133	141,967	72,133
Tax payable	-	9,220	4,685	9,220	4,685	9,220	4,685	9,220	4,685	9,220	4,685
Bank borrowing	-	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116
	-	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934
NET CURRENT ASSETS	68	72,194	36,682	72,194	36,682	483,432	245,632	263,347	133,807	263,347	133,807
NET ASSETS	68	145,121	73,737	145,121	73,737	556,359	282,687	532,742	270,687	594,428	302,030
EQUITY											
Share capital	68	146,805	74,593	146,805	74,593	214,704	109,091	214,704	109,091	224,889	114,266
Share premium	-	-	-	-	-	343,339	174,452	325,691	165,485	377,192	191,653
Reserves	-	(1,684)	(856)	(1,684)	(856)	(1,684)	(856)	(7,653)	(3,889)	(7,653)	(3,889)
Total equity	68	145,121	73,737	145,121	73,737	556,359	282,687	532,742	270,687	594,428	302,030
No of Xingquan International Shares in issue (000)	10	21,513	21,513	215,130	215,130	314,630	314,630	314,630	314,630	329,555	329,555
Net assets per ordinary share of:											
- USD1.00 each	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-
- USD0.10 each	-	-	-	0.67	0.34	1.77	0.90	1.69	0.86	1.80	0.92

Please refer to Section 8 of this Prospectus for detailed information on our financial information.

3. SUMMARY (Cont'd)

3.4 DIVIDEND POLICY

It is our Directors' policy to recommend dividends to allow our shareholders to participate in the profits of our Group. However, our ability to pay dividends or make other distributions to our shareholders in the future years is subject to various factors such as having profits and excess funds, which are not required to be retained to fund our business.

The payment and amount of any dividends or distributions to our shareholders will be at the discretion of our Directors and will depend on factors stated in Section 8.8 of this Prospectus. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

Subject to the Bermuda Companies Act, our Company in general meeting may from time to time approve a dividend or other distribution but no dividend or distribution shall be declared in excess of the amount recommended by our Directors.

Subject to the factors outlined in Section 8.8 of this Prospectus, our Directors intend to recommend and distribute dividends of between 10% to 20% of our net profits distributable to our shareholders with respect to FYE 2010 onwards. Our Company will declare dividends, if any, in RM and make payment of the dividends in RM.

Information relating to taxes payable on our dividends is set out in Annexure D of this Prospectus. Please refer to Sections 5.2.6 and 5.4.6 for risks relating to payment of dividend.

No inference should or can be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in the future.

Please refer to Section 8.8 of this Prospectus for detailed information on our dividend policy.

3.5 DETAILS ON THE IPO

Public Issue:	Collectively, the Institutional Offering and the Retail Offering.
Institutional Offering:	Up to 90,000,000 Issue Shares to be offered at the Institutional Price, to be determined by way of bookbuilding, to the following: <ul style="list-style-type: none">(a) Malaysian institutional and selected investors; and(b) Foreign institutional and selected investors outside USA in reliance on Regulation S under the US Securities Act.
Retail Offering:	9,500,000 Issue Shares to be offered at the Retail Price to be made available for application by the Malaysian public, to be allocated via ballot.

3. SUMMARY (Cont'd)

Final Retail Price: The Retail Price is RM2.10 per Share. However, the Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date pursuant to a bookbuilding exercise. The Final Retail Price will be the lower of:

- (i) the Retail Price; and
- (ii) 95% of the Institutional Price

subject to rounding adjustments.

In the event the Final Retail Price is lower than the Retail Price, the difference will be refunded to the successful applicants pursuant to the Retail Offering, without any interest thereon. The refund in the form of cheque will be despatched to the successful applicants at their own risk.

Clawback and Reallocation:

The Retail Offering and Institutional Offering shall be subject to clawback and reallocation provisions. In the event of an over-subscription in the Retail Offering above 9,500,000 Issue Shares up to 13,750,000 Issue Share (assuming Minimum Scenario) or up to 15,731,500 Issue Shares (assuming Maximum Scenario) (representing 5.0% of our enlarged issued share capital), up to 4,250,000 Issue Shares (assuming Minimum Scenario) or up to 6,231,500 Issue Shares (assuming Maximum Scenario) from the Institutional Offering shall be clawed back and reallocated to the Retail Offering even though the Institutional Offering is over-subscribed. In the event of an over-subscription in the Retail Offering above 13,750,000 Issue Share (assuming Minimum Scenario) or 15,731,500 Issue Shares (assuming Maximum Scenario) and a corresponding under-subscription in the Institutional Offering, the Issue Shares may be clawed back from the Institutional Offering and allocated to the Retail Offering. If there is an under-subscription in the Retail Offering and there is a corresponding over-subscription in the Institutional Offering, the Issue Shares may be clawed back from the Retail Offering and allocated to the Institutional Offering. The clawback and reallocation shall not apply in the event of over-subscription in both the Retail Offering and the Institutional Offering except in the event there is an over-subscription in the Retail Offering above 9,500,000 but not exceeding 13,750,000 Issue Share (assuming Minimum Scenario) or 15,731,500 Issue Shares (assuming Maximum Scenario).

Please refer to Section 4 of this Prospectus for detailed information of our IPO.

3. SUMMARY (Cont'd)

3.6 UTILISATION OF PROCEEDS

The gross proceeds from the Public Issue amounting to RM125,727,000* (assuming Minimum Scenario) or RM208,950,000* (assuming Maximum Scenario) arising from the Institutional Offering of up to 90,000,000 Issue Shares at the Institutional Price and from the Retail Offering of 9,500,000 Issue Shares at the Retail Price are expected to be fully utilised for our core business in the following manner:

	Minimum Scenario RM 000	Maximum Scenario RM 000
Marketing and advertising activities	32,000	32,000
Expansion of our sales and distribution network	33,000	33,000
Expansion of our production capacity ⁽¹⁾	19,602	99,825
Expansion of our research and development capabilities	15,000	15,000
Working capital	17,125	17,125
Estimated listing expenses	9,000	12,000
Total gross proceeds	*125,727	*208,950

Note:

* We have assumed the Institutional Price is RM2.10 per Issue Share in arriving at this figure and that the Over-Allotment Option is not exercised. In the event the Over-Allotment Option is exercised in full, the extra proceeds from the Over-Allotment Option will be RM18,859,050 (assuming Minimum Scenario) or RM31,342,500 (assuming Maximum Scenario) (assuming the Institutional Price and Final Retail Price is RM2.10 per Issue Share). We intend to apply the extra proceeds to the expansion of our production capacity stated above and to defray additional listing expenses.

(1) We estimate that we will require approximately RMB260 million (approximately RM132.08 million based on the exchange rate of RM1:RMB0.5080 as at the Latest Practicable Date) for the expansion of our production capacity which includes, without limitation, construction of new buildings, equipments and machineries, which will be funded from the estimated net proceeds of between RM19.602 million (assuming Minimum Scenario) and RM99.825 million (assuming Maximum Scenario) from the IPO and internally generated funds and/or bank borrowings. If the need arises, as a temporary measure, we may consider outsourcing to third parties to cater for any excess demand.

Please refer to Section 4.11 of this Prospectus for detailed information on the utilisation of proceeds from our Public Issue.

3. SUMMARY (Cont'd)

3.7 RISK FACTORS

Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks of investment as summarised below. The following is not an exhaustive list of challenges that we currently face or that may develop in the future.

3.7.1 Risks relating to our Business and Operations

- (i) We operate in the highly competitive sports and leisure shoes, sports apparel and sports accessories industry;
- (ii) We are reliant on our “Addnice” brand and the image and quality associated with our brand;
- (iii) We are dependent on our regional distributors and direct retailers over whom we have limited control for sales of our products to consumers and to some extent the promotion of our “Addnice” brand;
- (iv) We may be unable to obtain additional capital for future expansion;
- (v) We may not be able to implement our plans to expand production capacity and improve production efficiency successfully;
- (vi) Loss of our management team or any failure to attract similarly qualified personnel in the future will adversely impact our business and growth prospects;
- (vii) Retailers of our “Addnice” products face increasing competition for retail locations and space;
- (viii) We are dependent on the supply and prices of raw materials for making our shoe sole and shoe products;
- (ix) We are dependent on our suppliers;
- (x) We may face labour shortages and rising labour costs in the PRC;
- (xi) We cannot assure you of the success of our business expansion or that we will be able to manage our business expansion and growth effectively;
- (xii) We face possible infringements of our intellectual property rights such as the counterfeiting of our “Addnice” brand in the market;
- (xiii) We may be subject to claims for infringement of third parties’ intellectual property rights;
- (xiv) We may be affected by complaints from consumers and negative publicity;
- (xv) We are vulnerable to the uncertain global economic outlook;
- (xvi) We may not be able to respond to changing fashion and market trends in a timely manner;
- (xvii) We may not have sufficient insurance coverage for certain events, in particular product liability claims;

3. SUMMARY (Cont'd)

- (xviii) We are exposed to the risk of non-renewal and revocation of permits and business licences;
- (xix) Our business operations may face significant disruptions;
- (xx) Historical financial performance should not be used as an indicator for our future financial performance;
- (xxi) The outbreak or threatened outbreak of any severe communicable disease in the PRC could, if uncontrolled, affect our business and financial performance; and
- (xxii) Occurrence of any acts of God, war and terrorist attacks may adversely and materially affect our business and operations.

3.7.2 Risks Relating to the PRC

- (i) Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business;
- (ii) Impact of new enterprise income tax law and cessation of tax incentives;
- (iii) Fluctuations in consumer spending caused by changes in macro economic conditions in the PRC may significantly affect our business and financial performance;
- (iv) Negative publicity on PRC products may adversely affect our business and profits;
- (v) Our operating results and financial conditions are highly susceptible to changes in PRC's political, economic and social conditions as our revenue is currently entirely derived from our operations in PRC;
- (vi) PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our Subsidiaries;
- (vii) Changes of laws and regulations relating to currency conversion in the PRC;
- (viii) New labour laws in the PRC may adversely affect our results of operations;
- (ix) We may be liable for the payment of additional social insurance contributions for our PRC employees; and
- (x) Difficulties may arise in relation to the commencement of any legal action in Malaysia or enforcement of a Malaysian judgement against our Group or management and different rights and protection accorded under different laws.

3. SUMMARY (Cont'd)

3.7.3 Risks Relating to Bermuda

- (i) Protection afforded under the Malaysian Code on Take-overs and Mergers 1998 is limited in the event of a take-over;
- (ii) Recognising Depositors holding Shares through Bursa Depository as our Members;
- (iii) Rights and protection accorded to our Shareholders may be different from those applicable to shareholders of a Malaysian incorporated company; and
- (iv) Changes in laws and regulations affecting our Company's Shares.

3.7.4 Risks Relating to Investment in Our Shares

- (i) Control by our existing Substantial Shareholders may limit your ability to influence the outcome of decisions requiring the approval of Shareholders;
- (ii) Our share price may be volatile and this may affect your investment in our Shares;
- (iii) Negative publicity may adversely affect our share price;
- (iv) There has been no prior market for our Shares and this offering may not result in an active or liquid market for these Shares;
- (v) Delay or failure in our Listing; and
- (vi) Payment of dividends.

3.7.5 Other Risks

- (i) Political, economic and social developments; and
- (ii) Forward-looking statements.

Please refer to Section 5 of this Prospectus for detailed discussion on the risks in investing in our Company.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING

Our IPO is subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares are expected to be allocated/ transferred in the manner described below.

4.1 OPENING AND CLOSING OF APPLICATION

The bookbuilding for the Institutional Offering has begun on 15 June 2009 and will close on 25 June 2009 at such times or on such other dates as the Sole Bookrunner in its absolute discretion may decide.

Application for the Issue Shares under the Retail Offering will open at 10.00 a.m. on 23 June 2009 and will remain open until 5.00 p.m. on 30 June 2009 or such other date or dates as our Directors and the Underwriter in its absolute discretion may decide.

In the event that the closing date and time for applications of either the Institutional Offering or the Retail Offering are extended, any new dates for the balloting, allotment of the Issue Shares and our Listing will be extended accordingly. We will announce any extension in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia.

4.2 INDICATIVE TIMETABLE

The following events are intended to take place on the following tentative dates:

Events	Date
Institutional Offering begins	15 June 2009
Issuance of Prospectus/Opening of Retail Offering	23 June 2009
Institutional Offering closes	25 June 2009
Price Determination Date	25 June 2009
Closing of Retail Offering	30 June 2009
Balloting of applications for the Issue Shares pursuant to the Retail Offering	2 July 2009
Allotment of Issue Shares to successful applicants	7 July 2009
Listing	10 July 2009

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

4.3 OUR IPO

4.3.1 The Public Issue

Our Company proposes to implement a public issue of up to 99,500,000 Issue Shares comprising the Retail Offering and Institutional Offering.

The Retail Offering comprises 9,500,000 Issue Shares available for application by the Malaysian public at Retail Price.

The Institutional Offering comprises up to 90,000,000 Issue Shares at Institutional Price, to be offered to:

- (i) Malaysian institutional and selected investors; and
- (ii) Foreign institutional and selected investors outside USA in reliance on Regulation S under the US Securities Act.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will be the lower of:

- (i) Retail Price; and
- (ii) 95% of the Institutional Price;

subject to rounding adjustments.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to the successful applicants pursuant to the Retail Offering, without any interest thereon. The refund in the form of cheque will be despatched to the successful applicants at their own risk.

The Retail Price per Issue Share, payable in full on application, is subject to refund of the difference in the event that the Final Retail Price is less than the Retail Price.

In summary, the Issue Shares will be allocated and allotted in the following Minimum Scenario and Maximum Scenario as determined by our Board, as set out below:

Categories	Minimum Scenario		Maximum Scenario	
	No. of Shares	% of enlarged share capital	No. of Shares	% of enlarged share capital
Malaysian public (via balloting)	9,500,000	^3.45	9,500,000	^3.02
Institutional Offering	50,370,000	18.32	90,000,000	28.61
Total	59,870,000	21.77	99,500,000	31.63

Note:

^ As part of SC's condition in its approval letter dated 4 May 2009, in the event there is an over-subscription in the Retail Offering, our Company is required to comply with the 5% balloting public offer portion even though the Institutional Offering is over-subscribed.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING *(Cont'd)*

The Minimum Scenario represents the minimum number of Issue Shares and corresponding amount of proceeds to be received by our Company arising from the Public Issue. This scenario will ensure that our Group meets its minimum funding objective and at the same time, comply with the public shareholding spread requirement. Based on the table above, the actual number of Issue Shares to be issued may vary depending on the demand by the institutional and selected investors for our Issue Shares under the Institutional Offering.

All the 9,500,000 Issue Shares available for application by the Malaysian Public under the Retail Offering have been fully underwritten. The Issue Shares under the Institutional Offering will not be underwritten since it is made via a bookbuilding exercise.

Details of the brokerage, placement fees, commission and others fees relating to the IPO are set out in Section 4.6 of this Prospectus.

4.3.2 Clawback and Reallocation

The Retail Offering and Institutional Offering shall be subject to clawback and reallocation provisions. In the event of an over-subscription in the Retail Offering above 9,500,000 Issue Shares up to 13,750,000 Issue Share (assuming Minimum Scenario) or up to 15,731,500 Issue Shares (assuming Maximum Scenario) (representing 5.0% of our enlarged issued share capital), up to 4,250,000 Issue Shares (assuming Minimum Scenario) or up to 6,231,500 Issue Shares (assuming Maximum Scenario) from the Institutional Offering shall be clawed back and reallocated to the Retail Offering even though the Institutional Offering is over-subscribed. In the event of an over-subscription in the Retail Offering above 13,750,000 Issue Share (assuming Minimum Scenario) or 15,731,500 Issue Shares (assuming Maximum Scenario) and a corresponding under-subscription in the Institutional Offering, the Issue Shares may be clawed back from the Institutional Offering and allocated to the Retail Offering. If there is an under-subscription in the Retail Offering and there is a corresponding over-subscription in the Institutional Offering, the Issue Shares may be clawed back from the Retail Offering and allocated to the Institutional Offering. The clawback and reallocation shall not apply in the event of over-subscription in both the Retail Offering and the Institutional Offering except in the event there is an over-subscription in the Retail Offering above 9,500,000 but not exceeding 13,750,000 Issue Share (assuming Minimum Scenario) or 15,731,500 Issue Shares (assuming Maximum Scenario).

4.3.3 Over-Allotment Option and Price Stabilisation Mechanism

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Malaysia. In Malaysia, the stabilisation price will not exceed the initial public offer price.

In connection with the IPO, the Stabilising Manager, on behalf of the Underwriter, may over-allot, in full or in part, Xingquan International Shares or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a period of 30 calendar days from the first day of trading of the Xingquan International Shares upon its listing on Bursa Securities ("Stabilising Period"). However, there is no obligation on the Stabilising Manager, to conduct any such stabilising action. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (*Cont'd*)

on expiry of the Stabilisation Period. Should stabilising transactions be effected in connection with the IPO, this will be at the absolute discretion of the Stabilising Manager. The number of Xingquan International Shares over-allotted will not be greater than the maximum number of Xingquan International Shares which may be issued upon exercise of the Over-Allotment Option, being 8,980,500 new Xingquan International Shares (assuming Minimum Scenario) or 14,925,000 new Xingquan International Shares (assuming Maximum Scenario), being 15% of the total number of Xingquan International Shares to be issued pursuant to the Public Issue. Further, the Over-Allotment Option will not be implemented if the amount of proceeds raised under the Public Issue is less than RM100 million.

Under the Malaysia Capital Markets and Services (Price Stabilisation Mechanism) Regulations 2008 ("Regulations"), a stabilising manager may take all or any of the following actions in respect of any relevant securities during the Stabilising Period (i) purchase any of the relevant securities; or (ii) offer or attempt to do anything in relation to the purchase; for the sole purpose of preventing or minimizing any reduction in the market price of the relevant securities.

Specifically, prospective applicants for and investors in our Public Issue should note that:

- the Stabilising Manager may, in connection with the stabilising action, maintain a long position in the Xingquan International Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilising Manager will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Xingquan International Shares;
- no stabilising action can be taken to support the price of the Xingquan International Shares for longer than the Stabilising Period. After this date, when no further stabilising action may be taken, demand for the Xingquan International Shares, and therefore the price of our Shares, could fall;
- the price of the Xingquan International Shares cannot be assured to stay at or above the Institutional Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Institutional Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Issue Shares.

For the purpose of covering any over-allotments, the Stabilising Manager will be entering into a securities lending agreement with Tai Zhen Xiang to borrow up to 14.925 million Xingquan International Shares ("Borrowed Shares") on the Price Determination Date. This will permit the Stabilising Manager to deliver the Borrowed Shares to subscribers in settlement of the over-allotment of Xingquan International Shares. The Stabilising Manager may satisfy its obligations pursuant to the securities lending agreement to return the Borrowed Shares to the lending shareholder by either (i) repurchasing the Xingquan International Shares on the market through stabilising actions executed at or below the Institutional Price; or (ii) by exercising the over-allotment option to buy from the Company up to 14.925 million new Xingquan International Shares at the Institutional Price; or a combination of the two, in each case in accordance with the provisions of the Regulations.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

4.4 SHARE CAPITAL

As at the date of this Prospectus, the details of our share capital are as follows:

	No. of Shares	USD
Authorised		
500,000,000 Shares	<u>500,000,000</u>	<u>50,000,000</u>
Issued and fully paid-up as at the date of this Prospectus	215,130,000	21,513,000
Minimum Scenario		
To be issued and fully paid-up pursuant to the Public Issue	<u>59,870,000</u>	<u>5,987,000</u>
Enlarged issued and fully paid-up share capital upon Listing	<u>275,000,000</u>	<u>27,500,000</u>
To be issued and fully paid-up pursuant to the Over-Allotment Option*	<u>8,980,500</u>	<u>898,050</u>
Enlarged issued and fully paid-up share capital upon Listing*	<u>283,980,500</u>	<u>28,398,050</u>
Maximum Scenario		
To be issued and fully paid-up pursuant to the Public Issue	<u>99,500,000</u>	<u>9,950,000</u>
Enlarged issued and fully paid-up share capital upon Listing	<u>314,630,000</u>	<u>31,463,000</u>
To be issued and fully paid-up pursuant to the Over-Allotment Option*	<u>14,925,000</u>	<u>1,492,500</u>
Enlarged issued and fully paid-up share capital upon Listing*	<u>329,555,000</u>	<u>32,955,500</u>

Note:

* *Assuming that the Over-Allotment Option is fully utilised*

Based on the Retail Price per Issue Share, the market capitalisation of our Company on the Main Board of Bursa Securities upon Listing will be between RM577,500,000 (assuming Minimum Scenario and assuming the Over-Allotment Option is not exercised) and RM692,065,500 (assuming Maximum Scenario and assuming the Over-Allotment Option is fully utilised).

4.5 CLASSES OF SHARES AND RANKINGS

As at the date of this Prospectus, we only have one (1) class of shares, being ordinary shares of USD0.10 each. The Issue Shares will, upon allotment and issue, rank equally in all respects with our other existing issued and paid-up ordinary shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date of allotment and issue of the Issue Shares.

Upon allotment and issue, and subject to any special rights attaching to any Shares that we may issue in the future, our Shareholders shall in proportion to the amount paid-up on the Shares held by them, be entitled to share in the profits paid out by us in the form of dividends and other distributions and any surplus in the event of our liquidation, in accordance with our Company's Bye-laws.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

At every general meeting, each of our Shareholders shall be entitled to vote in person or by proxy, and on a show of hands, every Shareholder present in person or by proxy or in the case of a Shareholder being a corporation, by its duly authorised representative shall have one (1) vote and on a poll, every one of our Shareholders present in person or by proxy or in the case of a Shareholder being a corporation, by its duly authorised representative shall have one (1) vote for each Share held by him or which he represents. A proxy may but need not be a member of our Company.

4.6 BROKERAGE, PLACEMENT FEE AND UNDERWRITING FEE

Brokerage is payable by us in respect of the Issue Shares under the Retail Offering, at the rate of 1.0% of the Final Retail Price per Issue Share under the Public Issue for all successful applications which bear the stamp of either CIMB, a member of Bursa Securities, a member of the Association of Banks in Malaysia, a member of Malaysian Investment Banking Association or the Issuing House. CIMB shall be entitled to charge brokerage commission to successful applicants under the Institutional Offering. For avoidance of doubt, brokerage commission under the Institutional Offering will not be payable by our Company.

As stipulated in the Underwriting Agreement dated 1 June 2009, the Underwriter has agreed to underwrite the 9,500,000 Issue Shares issued or offered under the Retail Offering at the rate of up to 3.5% of the Final Retail Price multiplied by 9,500,000 Issue Shares issued pursuant to the Retail Offering.

Our Company will pay the Sole Bookrunner a placement fee, selling commission and a discretionary fee of up to 3.5% of the amount equal to the Institutional Price multiplied by the actual number of Issue Shares placed pursuant to the Institutional Offering.

4.7 DETAILS OF THE UNDERWRITING AND LOCK-UP ARRANGEMENT

4.7.1 Underwriting

We have entered into an Underwriting Agreement dated 1 June 2009 with the Underwriter for the underwriting of the 9,500,000 Issue Shares to be issued under the Retail Offering.

Details of the Underwriting Agreement and underwriting commission are set out in Sections 4.6 and 15 of this Prospectus respectively.

4.7.2 Lock-up

In connection with the IPO, our Company and the Pre-IPO Investors, namely Lim Geok Tin, Tsang Ho Cha, Hong Kong Investments Group Limited, Situations (China) Investment Co Ltd and Sea Dragon Investments Limited have each entered into an agreement with the Sole Bookrunner that it will not, for a period beginning on the date of such agreement and ending on and including, the date that is 180 days after the date of Listing:

- (i) in the case of our Company, save for the matters contemplated under the Public Issue and Over-Allotment Option:
 - (a) issue, sell, offer to sell, contract or agree to sell, grant any option to purchase, allot, sell any option or contract to purchase or otherwise transfer or dispose (either conditionally or unconditionally or directly or indirectly) any Xingquan International Shares or any other securities of our Company (or any interest therein or in respect thereof), or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the

4. DETAILS OF OUR INITIAL PUBLIC OFFERING *(Cont'd)*

- foregoing or enter into any arrangement or arrangement to undertake any of the foregoing;
- (b) enter into any swap, transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Xingquan International Shares, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights of purchase, the foregoing, whether any such transaction is to be settled by delivery of Xingquan International Shares or such other securities, in cash or otherwise;
 - (c) publicly announce any intention to effect any transaction specified in (a) and (b) above.
- (ii) in the case of the Pre-IPO Investors:
- (a) sell, offer to sell, contract or agree to sell, hypothecate, pledge, mortgage, charge, assign, grant any option to purchase or obtain security over, or otherwise dispose of or agree to dispose of, directly or indirectly, any Xingquan International Shares or any other securities of the Company that are substantially similar to Xingquan International Shares (or any interest therein or in respect thereof), or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing;
 - (b) enter into any swap, transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Xingquan International Shares or any other securities of the Company that are substantially similar to Xingquan International Shares, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, whether any such transaction is to be settled by delivery of Xingquan International Shares or such other securities, in cash or otherwise;
 - (c) publicly announce any intention to effect any transaction specified in (a) and (b) above.

The Sole Bookrunner at its sole discretion will be permitted to release any of the securities subject to these lock-up arrangements at any time without notice.

4.8 OBJECTIVES OF OUR IPO

The objectives of our IPO are as follows:

- (i) to achieve a listing status for our Company;
- (ii) to enhance the stature of our Group to market our products and “Addnice” brand and expand our market position;
- (iii) to enable us to have access to the capital market for cost effective capital raising in order to give us the financial flexibility to pursue future growth opportunities;
- (iv) to provide an opportunity for the investing community, including the public to participate in our equity and continuing growth of our Company; and
- (v) to raise proceeds for the purposes stated in Section 4.11 of this Prospectus.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

4.9 BASIS OF ARRIVING AT THE RETAIL PRICE, FINAL RETAIL PRICE AND REFUND MECHANISM

4.9.1 Retail Price

With regard to the Retail Offering, applicants will pay an initial Retail Price of RM2.10 per Issue Share which was determined and agreed upon by our Directors, the Adviser and the Underwriter after taking into consideration the following factors:

(i) **Operating and financial history**

The Xingquan International Group recorded a proforma consolidated PAT of RMB129.43 (approximately RM65.76 million based on the exchange rate of RMB1: RM0.5081 as at 31 December 2008) for the FYE 2008. Based on its enlarged issued and paid-up share capital upon completion of the Listing Scheme of 275,000,000 Xingquan International Shares (assuming Minimum Scenario) or 314,630,000 Xingquan International Shares (assuming Maximum Scenario), Xingquan International Group's proforma consolidated net EPS is RMB0.47 (assuming Minimum Scenario) or RMB0.41 (assuming Maximum Scenario) (approximately RM0.24 or RM0.21 respectively based on the exchange rate of RMB1: RM0.5081 as at 31 December 2008). Further details of the Xingquan International Group's historical proforma consolidated financial information are outlined in Section 8 of this Prospectus.

(ii) **Proforma Consolidated NA per Share**

Assuming that the Listing Scheme was completed on 31 December 2008, Xingquan International Group's proforma consolidated NA per Xingquan International Share is RM0.69 (assuming Minimum Scenario) (after accounting for the estimated listing expenses of RM9 million) or RM0.86 (assuming Maximum Scenario) (after accounting for the estimated listing expenses of RM12 million). Further details of the Xingquan International Group's proforma consolidated financial information are outlined in Section 8 of this Prospectus.

(iii) **Our proforma PE multiple**

Assuming that the Listing Scheme was completed on 31 December 2008, the proforma consolidated net EPS of Xingquan International Group for FYE 2008 is RMB0.47 (assuming Minimum Scenario) or RMB0.41 (assuming Maximum Scenario) (approximately RM0.24 or RM0.21 respectively based on the exchange rate of RMB1: RM0.5081 as at 31 December 2008). The proforma PE multiple of Xingquan International Group is therefore 8.78 times (assuming Minimum Scenario) or 10.05 times (assuming Maximum Scenario) based on the Institutional Price of RM2.10 per Issue Share.

(iv) **Competitive strengths and advantages of our Group**

The competitive strengths and advantages of our Group as outlined in Section 7.2 of this Prospectus.

(v) **Prospects of the industry**

The overview and prospects of the industry of Xingquan International Group as outlined in Section 6.8 of this Prospectus.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will be the lower of:

- (i) Retail Price; and
- (ii) 95% of the Institutional Price;

subject to rounding adjustments.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to the successful applicants under the Retail Offering, without any interest thereon. Please refer to Section 4.9.3 of this Prospectus for further details on the refund mechanism.

Prospective retail investors should be aware that the Final Retail Price will not in any event be higher than the Retail Price of RM2.10 per Share nor lower than the par value of the Shares.

The Final Retail Price and the Institutional Price are expected to be announced within two (2) Market Days from the Price Determination Date in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia. In addition, all successful applicants will be given written notice of the Final Retail Price and the Institutional Price together with the notices of allotment.

4.9.2 Institutional Price

The number of Issue Shares under the Institutional Offering and the Institutional Price will be determined by a bookbuilding process wherein prospective institutional investors will be invited to bid for portions of the Institutional Offering by specifying the number of Issue Shares they would be prepared to acquire and the price they would be prepared to pay for the acquisition. The bookbuilding process commenced on 15 June 2009 and will end on 25 June 2009. Upon the completion of the bookbuilding process, the Institutional Price will be fixed via agreement between our Directors and the Sole Bookrunner.

4.9.3 Refund Mechanism

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded without any interest thereon. The refund in the form of cheques will be despatched by ordinary mail to the address stated in the Application Form or to the address as stated in the Bursa Depository records for applications made via the Electronic Share Application and Internet Share Application, of the successful applicants under the Retail Offering, within ten (10) Market Days from the final ballot of the application, at the successful applicants' own risk.

Prior to the IPO, there has been no trading market for our Shares within or outside Malaysia. You should also note that the market price of our Shares upon the Listing is subject to the vagaries of market forces and other uncertainties. You are reminded to consider carefully the risk factors as set out in Section 5 of this Prospectus.

4.10 MINIMUM SUBSCRIPTION

The minimum subscription for the Public Issue shall be 59,870,000 Issue Shares representing 21.77% of the 275,000,000 Shares being our enlarged issued and paid-up share capital based on Minimum Scenario. The amount to be raised from the Public Issue is estimated at RM125,727,000 assuming the minimum subscription of 59,870,000 Issue Shares from the Public Issue are fully subscribed at the Retail Price. The minimum subscription amount has been determined based on the minimum estimated level of funds to be raised from the IPO and the number of shares required to meet the minimum public shareholding spread.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

The completion of the Retail Offering and Institutional Offering are inter-conditional and are subject to the minimum subscription of 59,870,000 Issue Shares from the Public Issue.

If the Issue Shares are not allotted pursuant to the IPO, monies paid in respect of any application for the Issue Shares will be returned in full without interest and if such monies are not returned in full within fourteen (14) days after we become liable to do so, then the officers of our Company, shall be jointly and severally liable to return such monies in full with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period until the full refund is made.

4.11 UTILISATION OF PROCEEDS

The gross proceeds from the Public Issue amounting to RM125,727,000* (assuming Minimum Scenario) or RM208,950,000* (assuming Maximum Scenario) arising from the Institutional Offering of up to 90,000,000 Issue Shares at the Institutional Price and from the Retail Offering of 9,500,000 Issue Shares at the Retail Price are expected to be fully utilised for our core business in the following manner:

	Estimated time for utilisation	Minimum Scenario RM '000	Maximum Scenario RM '000
Marketing and advertising activities ⁽¹⁾	24 months	32,000	32,000
Expansion of our sales and distribution network ⁽²⁾	24 months	33,000	33,000
Expansion of our production capacity ⁽³⁾	24 months	19,602	99,825
Expansion of our research and development capabilities ⁽⁴⁾	24 months	15,000	15,000
Working capital ⁽⁵⁾	12 months	17,125	17,125
Estimated listing expenses ⁽⁶⁾	6 months	9,000	12,000
Total gross proceeds		*125,727	*208,950

Notes:

* We have assumed the Institutional Price is RM2.10 per Issue Share in arriving at this figure and that the Over-Allotment Option is not exercised. In the event the Over-Allotment Option is exercised in full, the extra proceeds from the Over-Allotment Option will be RM18,859,050 (assuming Minimum Scenario) or RM31,342,500 (assuming Maximum Scenario)(assuming the Institutional Price and Final Retail Price is RM2.10 per Issue Share). We intend to apply the extra proceeds to the expansion of our production capacity stated above and to defray additional listing expenses.

(1) Our Group proposes to use part of the proceeds arising from the issue of the Issue Shares to fund our marketing and advertising activities of our products including, without limitation, television advertisements, billboards in commercial districts, giant poster displays on exteriors of shopping malls and organising and/or sponsoring outdoor sports related activities. If the actual expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual expenses are lower than budgeted, the excess will be used for working capital purposes. Any amount of proceeds not utilised within a period of twenty four (24) months will be reallocated for use as working capital of our Group.

(2) Our Group proposes to use part of the proceeds arising from the issue of the Issue Shares to fund the expansion of our sales and distribution network such as penetrating into other provinces and cities by increasing the number of distributors and direct retailers to indirectly increase the number of specialty and retail stores. To that extent we will be advertising in various media for third parties to become our distributors or direct retailers, or become third party owners of our specialty/retail stores. If the actual expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual expenses are lower than budgeted, the excess will be used for working capital purposes. Any amount of proceeds not utilised within a period of twenty four (24) months will be reallocated for use as working capital of our Group.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

- (3) We estimate that we will require approximately RMB260 million (approximately RM132.08 million based on the exchange rate of RM1:RMB0.5080 as at the Latest Practicable Date) for the expansion of our production capacity which includes, without limitation, construction of new buildings, equipments and machineries, which will be funded from the estimated net proceeds of between RM19.602 million (assuming Minimum Scenario) and RM99.825 million (assuming Maximum Scenario) from the IPO and internally generated funds and/or bank borrowings. If the need arises, as a temporary measure, we may consider outsourcing to third parties to cater for any excess demand. We have ear-marked an existing piece of land (approximately 66,666 sq metres) which we hope to successfully bid for during a public auction which shall be paid from internally generated funds. If we fail in our bid, we shall identify other land of suitable size and location for our expansion. We intend to build a new factory with a production floor area of approximately 55,000 sq metres on this piece of land to expand our current and future production capacity. We are targeting to gradually increase our production capacity for shoes and shoe sole products from approximately 5.9 million and 14.0 million pairs per annum to approximately 10.0 million and 28.0 million pairs per annum respectively. If the actual expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual expenses are lower than budgeted, the excess will be used for working capital purposes. Any amount of proceeds not utilised within a period of twenty four (24) months will be reallocated for use as working capital of our Group.
- (4) Our Group proposes to use part of the proceeds arising from the issue of the Issue Shares to fund our research and development capabilities including, without limitation to obtain more equipment and machineries for research and development and to expand the number of employees in our research and development department. If the actual expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual expenses are lower than budgeted, the excess will be used for working capital purposes. Any amount of proceeds not utilised within a period of twenty four (24) months will be reallocated for use as working capital of our Group.
- (5) The utilisation of proceeds for working capital purposes shall be primarily used to finance our Group's daily operational activities such as purchase of raw materials and purchasing from our OEM suppliers and will be utilised within twelve (12) months from the date of Listing.
- (6) *Estimated Expenses of the IPO*

The expenses of our IPO are estimated to be RM12 million and will comprise the following:

	<i>Minimum Scenario RM</i>	<i>Maximum Scenario RM</i>
<i>Professional fees</i>	3,490,000	3,490,000
<i>SC fees (RM50,000 + 0.05% of the paid-up capital in RM based on the exchange rate of USD:RM3.70 on 27 February 2009)</i>	120,968	120,968
<i>Underwriting commission (9,500,000 Xingquan International Shares x RM2.10 x 3.5%*)</i>	*698,250	*698,250
<i>Brokerage fee (9,500,000 Xingquan International Shares x RM2.10 x 1.0%)</i>	199,500	199,500
<i>Placement fee (50,370,000 Xingquan International Shares (Minimum Scenario)/90,000,000 Xingquan International Shares(Maximum Scenario) x RM2.10 x 3.5%*)</i>	*3,702,195	*6,615,000
<i>Issuing house fees and expenses</i>	150,000	150,000
<i>Printing of prospectus, application forms and envelopes</i>	200,000	200,000
<i>Bursa Securities fees (initial listing and annual listing fees)</i>	79,636	89,207
<i>Registration of prospectus with the SC and lodgement of prospectus with the Registrar of Companies</i>	5,000	5,000
<i>Advertisement and publicity</i>	200,000	200,000
<i>Miscellaneous</i>	154,451	232,075
TOTAL	9,000,000	12,000,000

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (Cont'd)

Note:

* *The placement fee and underwriting commission has been assumed to be the maximum of 3.5% respectively.*

We expect to fully utilise the proceeds from the Public Issue to defray estimated expenses of the IPO within six (6) months from the date of Listing.

If the actual listing expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted, the excess will be used for working capital purposes.

4.12 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS

Our utilisation of the proceeds from the Public Issue is expected to have a financial impact on our Group as follows:

(a) Increased capacity

Part of our proceeds is intended to be allocated towards the expansion of our production capacity including, without limitation the purchase of new or upgrading of existing equipments and machineries. Once our expansion is completed, we expect that our increased production capacity will contribute positively towards our revenue and profits.

(b) Increased marketing and advertising

Part of our proceeds is intended to be allocated towards increased marketing and advertising activities. We expect that with greater marketing and advertising activities carried out, the presence of our "Addnice" brand will grow accordingly and result in increased sales and demand for our "Addnice" products. With the potential increase in sales and demand for our "Addnice" products, the revenue and profits of our Group are expected to also increase in tandem.

(c) Expansion of sales and distribution network

Part of the proceeds is intended to be allocated to fund the expansion of our sales and distribution network into other provinces and cities as well as increasing the number of specialty and retail stores through our distributors or direct retailers. We expect that the increase in the number of specialty and retail stores in various locations across China will result in positive contributions to the revenue and profits of our Group.

(d) Enhancement of Capital Structure

With an increase in our shareholders funds, our gearing is expected to drop. It is our objective to minimise our gearing to enable our Group to have the flexibility to expand our operations and to raise financing as and when attractive opportunities arise.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING *(Cont'd)*

4.13 TRADING AND SETTLEMENT IN SECONDARY MARKET

Upon listing and quotation on Bursa Securities, our Issue Shares that are being offered in the IPO will be traded through Bursa Securities and settled by book-entry settlement through CDS, which will be effected in accordance with the Rules of Bursa Depository for the operation of CDS accounts, as amended from time to time and the provisions of the SICDA. Accordingly, we will not deliver share certificates to subscribers for our Issue Shares. Bursa Depository operates the CDS.

Depositors holding our Shares are required under the rules of Bursa Depository to maintain CDS accounts, either directly in their name or through authorised nominees. Persons whose names appear in the Record of Depositors maintained by Bursa Depository which is entered in the register of members of our Company at our registered office in Bermuda and the branch register of the Company at our branch office in Malaysia will be recognised as our members in respect of the number of Shares credited to their respective Securities Accounts.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's CDS account being debited with the number of Shares sold and the buyer's CDS account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for our Shares that are settled on a book-entry basis, although there is a nominal transfer fee of RM10.00 payable for each transfer not transacted on the market.

All Shares held in CDS accounts may not be withdrawn from CDS except in the following instances:

- (i) to facilitate a share buy-back;
- (ii) to facilitate conversion of debt securities;
- (iii) to facilitate company restructuring process;
- (iv) where a body corporate is removed from the Official List of Bursa Securities;
- (v) to facilitate a rectification of any error; and
- (vi) in any other circumstances determined by Bursa Depository from time to time, after consultation with SC.

Trading of shares of companies listed on Bursa Securities is normally done in "board lots" of 100 Shares. Investors who desire to trade less than 100 shares shall trade under the odd lot board. Settlement of trades done on a "ready" basis on Bursa Securities generally takes place on the third (3rd) Market Day following the transaction date, and payment for the securities is generally settled on the third (3rd) Market Day following the transaction date.

It is expected that the Shares offered in the IPO will not commence trading on Bursa Securities until approximately ten (10) days after the balloting date. Subscribers of the Shares will not be able to sell or otherwise deal in the Shares (except by way of book-entry transfer to other CDS accounts in circumstances which do not involve a change in beneficial ownership) prior to the commencement of trading on Bursa Securities.

5. RISK FACTORS

Before investing in our Shares, you should pay particular attention to the fact that we, and to a large extent our activities, are subject to the legal, regulatory and business environment in PRC. Our business is subject to a number of factors, many of which are outside our control. Before making an investment decision, you should carefully consider, along with the other matters in this Prospectus, the risks and investment considerations set out below. The risks and investment considerations set out below and in Section 8.7.2 of this Prospectus are not an exhaustive nor exclusive list of the challenges that we currently face or may develop in the future that may have a significant impact on our current and future performance. Additional risks, whether known or unknown, may in the future have a material adverse effect on us or our Shares.

5.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

5.1.1 We operate in the highly competitive sports and leisure shoes, sports apparel and sports accessories industry

We believe the sports and leisure shoes, sports apparel and sports accessories industry is highly competitive in PRC and globally. Industry players compete with one another based on, among others, brand loyalty, product variety, product design, product quality, price and services. There are no strong barriers to entry for new competitors to enter the market and competitors may position their brands at the same level as us and target the same market segment as us.

Some of our competitors have greater financial, marketing, distribution and production resources than our Group. Some of our competitors' brand names have also achieved greater brand and market awareness and recognition which may enable them to capture a larger market share in our targeted market. With the accession of PRC to the World Trade Organisation, changes and developments in the retail market may be volatile and unpredictable and entry of more international competitive brands may further intensify the competition in PRC. There is no assurance that we can or will continue to compete effectively with our existing or new competitors in light of the constantly changing and competitive market environment. Our failure to remain competitive may have a material adverse impact on our business and financial performance. Please refer to Section 7.2 of this Prospectus for further details on our competitive strengths and advantages.

5.1.2 We are reliant on our "Addnice" brand and the image and quality associated with our brand

We believe that brand image and recognition is one of the key factors in consumers' purchasing decisions for sportswear products. We market and sell our products under our "Addnice" brand which we believe is critical to our success in the PRC sportswear market. Our marketing efforts are concentrated on enticing and maintaining our target consumers, which are mainly consumers between 20 to 45 years of age. Future sales of our products will depend in part on increasing brand recognition for our products among consumers and our ability to protect our "Addnice" brand from third party usage or counterfeit which may adversely affect the reputation and goodwill associated with our "Addnice" brand. We have also in the past obtained the endorsement of sports celebrities, to promote our "Addnice" brand of products by being our spokespersons and may in the future obtain further endorsements from other public figures or celebrities. As such, we are in part dependent on the public perception of these public figures or celebrities, over which we have no control. We are also reliant on our regional authorised distributors and direct retailers as well as the specialty stores and retail stores under our distributors to maintain the goodwill of our "Addnice" brand. Any negative publicity or perception of our brand, image or spokesperson, whether in PRC or internationally, or failure to effectively protect or promote and maintain the image of, and quality associated with, our "Addnice" brand may have a material adverse effect on the ability of our specialty stores and retail stores to make sales which may indirectly lead to reduced sales from us to our regional distributors and direct retailers which will have a material adverse effect on our business and financial performance.

5. RISK FACTORS (Cont'd)

In mitigating our risks set out above, we have developed certain other marketing strategies to promote the brand recognition for our products. We intend to promote our "Addnice" brand by organising and/or sponsoring outdoor sports related activities, such as, among others, hiking and rock climbing. There can be no assurance that any of our new marketing strategies will be successful or that our current marketing strategies will continue to be successful. We have also taken steps to ensure that the quality of our products are competitive or above that of our competitors. Please refer to Sections 7.13 and 7.10 respectively of this Prospectus for details of our marketing strategies and quality assurance. We have in place certain internal criteria for appointing our distributors or retailers. We further conduct joint due diligence together with our distributors prior to them appointing their retailers for specialty stores and retail stores. Despite all these steps taken by our Group, there can be no assurance that any of these steps will be sufficient or successful in ensuring that none of the risks mentioned above will eventuate.

5.1.3 *We are dependent on our regional distributors and direct retailers over whom we have limited control for sales of our products to consumers and to some extent the promotion of our "Addnice" brand*

Our "Addnice" specialty stores and retail stores are owned and managed by third parties over which we have no control. As such, we are wholly reliant on our regional distributors and direct retailers to distribute our products and through whom we conduct all of our current sales. Sales of our "Addnice" brand products account for 58.3%, 68.0%, 71.3% and 73.2% of our revenue in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively. As at the Latest Practicable Date, we have appointed 29 authorised regional distributors and 43 direct retailers to distribute our "Addnice" products. Our "Addnice" products are sold via 954 "Addnice" specialty stores and 464 retail stores totaling 1,418 point of sales. As we rely on and will continue to rely on our regional distributors and direct retailers to distribute our products, our future success is dependent on the growth of our distributors and their ability to grow their network of specialty stores and retail stores.

Some of our distributors concentrate on specific provinces only. As our Group enters into distributorship agreements with our distributors for a term of one year only, there is no guarantee that any of our distributors will renew their distributorship agreements with us on mutually acceptable terms or that they will not terminate their distributorship agreements with us. In such event, we may not be able to identify and replace the distributor with another new distributor in a timely manner, or that the new replacement distributor may be able to manage or set up a similar network of specialty stores and/or retail stores. Further, our distributors are not obliged to continue to place orders with us at the same level as before or at all. If any of our regional distributors or direct retailers substantially reduce their purchases from us, or otherwise fail to renew or terminate their agreements with us, we may suffer a significant loss of sales and our business, financial condition and results of operation may be adversely affected. To mitigate our dependency on our distributors and direct retailers, we continually look to expand our network of distributors and direct retailers. As at the Latest Practicable Date, none of our distributors or direct retailers contributes to more than 5% of our revenue. As such, our financial dependency on them to an extent is mitigated.

We also rely on third party retailers over whom we have no control and with whom we do not have any direct contractual relationship with. Our ability to ensure their adherence to our retail policies, which includes, among others, operational requirements, such as sales and marketing policies and procedures, customer service, store image and pricing, is limited and dependent on the effective management/enforcement by our distributors. As such, there is no assurance that our current procedures and efforts for controlling our retail policies are sufficient to ensure the success of, or to prevent negative publicity or perception of our brand and image.

Our products are sold to our distributors and direct retailers at standardised factory price which is at a discount to the fixed retail price which is set by us. Under our contracts with our

5. RISK FACTORS (Cont'd)

distributors and direct retailers, all our products are to be sold by the specialty and retail stores at our fixed retail price. However, there can be no assurance that the individual specialty stores or retail stores will not aggressively discount our products below the fixed retail price to end customers. If a substantial number of specialty stores or retail stores adopt this habit, it may lead to a decrease in the market value of our brand, adversely affect our image or result in an unfavorable public perception of the quality of our products and create ill will amongst the other specialty stores and retail stores, which may have a material adverse effect on our business, brand, prospects and ultimately, our financial condition.

5.1.4 *We may be unable to obtain additional capital for future expansion*

The future expansion and development of our business require significant additional capital. Failure to raise the required capital in the future on acceptable terms, or at all, may limit our expansion and growth which, in turn, may affect our ability to compete.

If additional funds are raised through the issue of new Shares or convertible debt securities, the percentage shareholding of each of our Shareholders will be reduced. Further, such new Shares or convertible debt securities may have rights, preferences or privileges senior to those of existing Shareholders.

Additional debt financing, on the other hand, will increase our total interest expenses and may limit our ability to pay dividends as well as increase our vulnerability to general adverse economic and industry conditions. Debt financing will also require us to dedicate a substantial portion of our cash flow to the repayment of debt, thereby reducing the available cash flow to fund capital expenditure, working capital requirements and other general corporate purposes and limit our flexibility in planning for, or reacting to, changes in our business and industry. In the event that financing is needed and we are unable to obtain additional financing on acceptable terms or at all, our business, financial condition and results of operations may be adversely affected.

5.1.5 *We may not be able to implement our plans to expand production capacity and improve production efficiency successfully*

As demand for our products is presently on an increasing trend, we have been increasing our production output and our production capacity in the past years. Increasing our production capacity will enable us to achieve better economies of scale for our production costs as well as better prices when purchasing raw materials. As part of the utilisation of proceeds for the IPO, we intend to expand our production capacities of our sports and leisure shoe products and shoe sole products from approximately 5.9 million and 14.0 million pairs per annum, respectively to approximately 10.0 million and 28.0 million pairs per annum. There can be no assurance that our current or future plans to expand and improve our production facilities will be successful or will meet our expectations. If we are unsuccessful in our plans, we may not be able to meet the demand for our products and/or may become less competitive than our competitors. Our business and operations may be materially and adversely affected which will lead to decreased or stagnant profitability. In addition, any delays or increase in cost for any of our expansion and/or improvement plans may have an adverse and material effect on our Group's business and operations as well as our cash flow and profitability. In mitigating this risk, our management generally keeps abreast with current production methods and processes and equipment available to the market. We also keep track of the utilisation of our production capacities and increase our production capacities prior to us reaching our maximum capacity. There can be no assurances that the steps being implemented by us will always be successful in mitigating such risks or that we will have the financial capacity to implement any future expansion or improvements. In such event, our ability to stay competitive or to meet the demand of our products will be affected and may lead to a material and adverse effect on our profitability.

5. RISK FACTORS (Cont'd)

5.1.6 *Loss of our management team or any failure to attract similarly qualified personnel in the future will adversely impact our business and growth prospects*

We attribute our success to the leadership and contributions of our management team which mainly comprises our Executive Chairman, Mr Wu Qingquan and our Key Management.

We believe that our continued and future success is therefore dependent to a large extent on our ability to retain our key management personnel who are responsible for formulating and implementing our business strategies, business development and daily management and operations. For further details on the qualifications of our management team, please refer to the Section 13 of this Prospectus. There is high demand for such qualified and experienced personnel and the search for personnel with the relevant skills set and experience can be time consuming. In addition, we may need to offer higher compensation and other benefits in order to attract and retain such key management personnel. The loss of our key management personnel without suitable and timely replacements may adversely affect our business and financial performance. As such, efforts have been made to groom younger members of the senior management to take on more responsibilities as part of our management succession planning which is further elaborated in Section 13.2.5 of this Prospectus. Our Board will also take the necessary steps to identify suitable replacements in the event of any departures of our key management personnel.

5.1.7 *Retailers of our "Addnice" products face increasing competition for retail locations and space*

In recent years, retailers of our "Addnice" products have faced increasing competition for suitable retail locations and space for "Addnice" specialty stores and other retail locations respectively to merchandise and sell our "Addnice" products. Such competition is expected to continue into the future. As such, such retailers may incur more costs (for example, in paying higher rental costs to secure preferred locations) or be unable to find commercially optimal locations to sell its products. In such events, the business and financial performance of these retailers may be adversely affected, which may in turn, adversely affect the business and financial performance of our distributors and/or our Group. Further, any shortages in retail locations and space may adversely affect our growth prospects.

5.1.8 *We are dependent on the supply and prices of raw materials for making our shoe sole and shoe products*

Our total cost of materials for our shoe sole products accounted for 58.0%, 61.6%, 62.7% and 66.3% of our total cost of sales in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively, while our total cost of materials for our shoe products accounted for 70.7%, 73.2%, 75.0% and 74.2% of our total cost of sales in the same periods. Our shoe sole and shoe manufacturing operations depend on obtaining adequate supplies of raw materials on a timely basis and of a particular quality. We purchase all our raw materials on an order-by-order basis and have no long-term contracts with any of our suppliers. The prices and supply of some of our main raw materials such as EVA base chemicals, TPU pellets and fabrics such as suede, mesh, micro fabric and nylon are, among others, subject to market volatility, market supply and demand conditions and governmental regulations. A reduction in the supply of any main raw materials may lead to an increase in costs or result in disruptions to our planned procurement and/or production schedules. Our Group neither hedges our exposure to the fluctuations in commodity prices nor enters into any long-term raw material purchase contracts.

In the event that we are unable to secure adequate supplies of raw materials at competitive prices and/or on a timely basis for our production needs, or there are significant fluctuations in the prices of raw materials, our business and financial performance may be adversely affected.

In the event that we decide to source for alternative raw materials, we may experience difficulty in obtaining such substitutable raw materials on a timely basis or of a quality required by us and the cost of such raw materials may increase due to increased industry

5. RISK FACTORS *(Cont'd)*

demand. If we are unable to pass on the increased costs to our customers, our business and financial performance may be adversely affected.

However, to date, we have not faced any difficulties in obtaining our raw materials nor has there been any material increase in raw material price which have had any material adverse effect on our operations or financial position.

5.1.9 *We are dependent on our suppliers*

Our purchases from our top five suppliers (who include certain OEM suppliers for our sports and leisure apparels and accessories) for each of the FYE 2006, FYE 2007, FYE 2008 and 1H 2009 accounted in aggregate for approximately 26.8%, 26.6%, 30.8% and 29.7% of our total purchases, respectively. There is no assurance that we will be able to reduce our dependence on these suppliers over time or be able to source for alternative suppliers who can supply the required products to us with the same level of quality on a timely basis. If our suppliers of our raw materials are unable to deliver the required products to us in accordance with the quality we require or on time, our production operations may be affected which will have a material and adverse effect on our operations and financial performance.

Any problems with our OEM suppliers' production facilities or operations could result in product defects or failure to produce adequate number of products meeting our quality standard. In such event, we could be required to recall our products previously dispatched, delay delivery of our products or be unable to supply our products at all. Product defect or poor quality products could also adversely affect our image, reputation and brand name. As such, our Group has in place quality control procedures which also include ad hoc inspection of our OEM supplier's premise to ensure that our products are being produced in accordance to our quality standards and in accordance with our production/technique instructional manual. Please see Section 7.10(ii) of this Prospectus for more details on our quality control for apparels and accessories. There can be no assurances that the mitigating steps taken by our Group to minimise our risks on dependency on our suppliers will be sufficient or will be successful in mitigating such risks. Any such failures of our mitigating steps may result in our business, operations and financial performance being materially and adversely affected.

We have not entered into any long term contracts with our suppliers. Instead, we enter into separate purchase contracts for each order. These purchase contracts will set out among others, the price, purchase quantity, specifications of the products and delivery terms. Further, the length of relationship with some of our suppliers is relatively short, ie, since 2005. There can be no assurance that our existing suppliers will continue to supply to us or continue to supply us on similar terms as in the past. There can be no assurance that we will be able to identify other suppliers to supply us with the raw materials or OEM products at the quality standards and timely manner which we require. Hence, if any of our suppliers refuse to, discontinue or are unable to provide us with the raw materials or OEM products at the quantities and quality which we required, our business, operations and subsequently financial performance may be materially and adversely affected.

However, our risk is to an extent mitigated as our shoe sole and shoe products consist of a wide variety of raw materials which limits our exposure to any single supplier of our Group. Further as there are a large number of OEM suppliers and suppliers for our raw materials in Fujian Province, we are able to obtain our supplies from alternative suppliers should the need arise.

5.1.10 *We may face labour shortages and rising labour costs in the PRC*

The shoe industry is labour intensive. Labour costs in the PRC have been experiencing an upward trend in the past few years and there is no assurance that the cost of labour in the PRC will not continue to increase in the future or that we will be able to offset such increase in labour cost against corresponding increases in the prices of our products. In the event that we

5. RISK FACTORS *(Cont'd)*

fail to pass on increasing labour costs to our customers, our business and financial performance may be adversely affected.

We are dependent on our production workers and a general shortage of production workers in may have a bearing on our business and growth prospects. Our employees are permanent fixed term contract employees. Presently, approximately 58% of our production workers have been with our Group for at least three (3) year or more. While efforts have been made to attract new production workers and to retain our existing production workers, there can be no assurance that we will be effective in attracting new or retaining our existing production workers. Any loss of our production workers or inability of our Group to recruit new production workers may have a material and adverse impact on our business operations and/or our growth prospects.

5.1.11 We cannot assure you of the success of our business expansion or that we will be able to manage our business expansion and growth effectively

We intend to expand our business by, among others, expanding our production capacities and facilities and our market presence and distribution network in existing as well as new markets. Please refer to Section 6.9 of this Prospectus for further details on our future plans.

Our expansion plans involve a number of risks, including but not limited to capital expenditures incurred in respect of the costs of setting up new production facilities, costs of working capital tied up in inventories, costly research and development with low or no returns, increased marketing and promotional expenses as well as other working capital requirements. Whilst we may utilise significant resources in our business expansion plans, there is no assurance that we will be successful in increasing our market share or revenue through such business expansion. Any failure to do so may lead to a material adverse effect on our business and financial performance.

Further, to manage any future growth of our operations and personnel resulting from our business expansion, we must improve and effectively utilise our existing operational, management, marketing and financial systems and successfully recruit, hire, train and manage additional personnel. Our failure to manage our business expansion and growth may materially and adversely affect our business and financial performance.

5.1.12 We face possible infringements of our intellectual property rights such as the counterfeiting of our "Addnice" brand in the market

Our primary intellectual property rights include our "Addnice" brand, which we have registered in the PRC, Germany, Hong Kong, Macau, Malaysia and Taiwan, as well as various eastern and western European countries. For further details of our trademarks, please refer to Section 7.20 of this Prospectus for details of our intellectual properties.

We consider the recognition of our trademark to be vital in the sale of our products and effective enforcement of intellectual property rights is important for the protection of our interests as we consider the recognition of our trademark to be vital in the sales of our products. Unauthorised use of our trademark may damage the brand recognition and reputation of our Group. Although we have registered or have applied for the registration of our trademarks, it may be possible for third parties to unlawfully pass off their products as ours or to infringe our copyright in the design and/or manufacture of their products. We depend to a significant extent on PRC laws as well as the laws in the various jurisdictions which we have registered or are applying for registration of our trademarks for the protection of our intellectual property rights. In the event that third parties infringe upon our intellectual property rights in respect of our trademark by unlawfully passing off their products as our products, imitating or using our trademark without authorisation from us, we may face considerable difficulties and costly litigation in order to fully protect these intellectual property rights, which may adversely affect our reputation, business and financial performance.

5. RISK FACTORS *(Cont'd)*

5.1.13 *We may be subject to claims for infringement of third parties' intellectual property rights*

As at the Latest Practicable Date, we are not aware of any violations or infringements of intellectual property rights of third parties by our Group. Apart from our in-house designers for our sports and leisure shoe and shoe sole products, we currently rely on third party external designers to assist us in designing our sports and leisure apparels and accessories. We run the risk that our in-house designers may inadvertently infringe on third party intellectual property rights. In addition, when we accept a design from our external designer, such design may have infringed on third party intellectual property rights. While it is not the intention of the management of the Group to violate or infringe on any third party intellectual property rights, we cannot give any assurance that our products do not and will not infringe other registered trademarks or intellectual property rights belonging to third parties in the future, with such risk increasing as we continue to expand and diversify our product mix. As such, we may be subject to legal proceedings and claims relating to such alleged infringement. In the event of any claims or litigation involving alleged infringement of the intellectual property rights of third parties, whether with or without merit, it could result in a diversion of our management time and resources and our business operations may be materially and adversely affected. In the event of a successful claim against us arising out of such proceedings, we may be subject to substantial monetary liability which may materially affect our reputation and the continued sale of the affected products and consequently, our business and financial performance.

5.1.14 *We may be affected by complaints from consumers and negative publicity*

We may be the subject of complaints, whether valid or invalid, from consumers with regard to the quality of our products. We may also be affected by factors such as negative publicity resulting from the publication of industry findings, research reports and health concerns concerning our products (regardless of their accuracy or validity). Such complaints and negative publicity may adversely affect our brand image and the sales of our products which may adversely affect our business and financial performance. As such, we have established a research and development team which among others, conduct testing on our new products to ensure, among others, durability of our products and to minimise product and design flaws. We also have in place our quality assurance policy to ensure our products are manufactured with quality in mind. Please refer to Sections 7.8 and 7.10 of this Prospectus for details on our research and product development as well as our quality assurance policy.

5.1.15 *We are vulnerable to the uncertain global economic outlook*

Our business is, to a large extent, subject to the general economic conditions in PRC market. Factors such as the demand of the consumers in PRC market for sports and leisure shoes and apparels and market expectation on future demand can affect our business operations. A recession in the global economy, such as that being brought about or threatened by the global financial crisis, could have an adverse impact on the overall demand for our products in PRC, which can, in turn, adversely affect our performance and profitability. There is no assurance that the factors which have contributed to the success of our Group in the past will continue to occur in the future. Our business performance, future plans and operations will inevitably be adversely affected if these conditions deteriorate in the future. In the event that there are major changes in the global economic conditions and such changes directly or indirectly affect the PRC market and demand for our products, our profitability may be affected.

5.1.16 *We may not be able to respond to changing fashion and market trends in a timely manner*

We believe our success depends in part on our ability to stay abreast of fashion and market trends in the sports and leisurewear industry, as well as our ability to anticipate and react to such dynamic and evolving trends in a timely manner. As such, we continually launch new product lines to broaden our customer base and appeal with a view of increasing our revenue.

5. RISK FACTORS (Cont'd)

We have 92 personnel in our product development department who are responsible for keeping track of fashion and market trends and developing new designs for our sports and leisure shoe and shoe sole products. The launch and development of each new product line involves considerable time and resource commitment. In addition, we continuously liaise with our external designers for our sports and leisure apparels and accessories to obtain new designs for each season. There is no assurance that we will be able to react effectively to changing consumer preferences and tastes (as a result of changing fashion and market trends) and produce designs which will appeal to our target market or that any new product line that we launch in the future will be commercially viable or successful. If we are unable to successfully adjust and respond to changes in consumer tastes and preferences and consistently design, produce or sell commercially viable products, the demand for our products may decrease and our business and financial performance may be adversely affected.

5.1.17 We may not have sufficient insurance coverage for certain events, in particular product liability claims

We have maintained certain insurance coverage, such as all risk insurance, which covers our fixed assets and inventory. However, as at the Latest Practicable Date, we do not maintain any insurance policies against product liability claims. Under the Product Quality Law of the PRC (中华人民共和国产品质量法), if a product causes property damage or personal injury, manufacturers and sellers of the product are liable for property damage or personal injuries caused by the product. In addition, the Protection of the Rights and Interests of Consumers Law of the PRC (中华人民共和国消费者权益保护法) protects the rights of consumers in respect of safety of person and property in the purchase and use of goods and services and AIC is authorised to impose penalties on these manufacturers and sellers. While we do not sell our products directly to consumers, under the foregoing laws, we may be subject to claims from consumers alleging injuries, health complications or other negative side effects from the use of our products. In the event that we are faced with any significant product liability claims or any other form of adverse event where we have insufficient or no insurance coverage, our business and financial performance may be materially and adversely affected. Even if our Group is able to successfully defend such claims, there can be no assurance that customers will not lose confidence in our Group's products, thereby adversely affecting the business and reputation of our Group. A product liability claim, even without merit, could result in our Group incurring significant expenses and substantial time and efforts of our management in defending and proving such claim to be without merit. As at the Latest Practicable Date, we are not aware of any product liability claims made against us nor has there been any product liability claims made against us since the commencement of our business. We are of the opinion that any such claims in PRC are remote. However there can be no assurance that we will not face any claims from consumers alleging injuries, health complications or other negative side effects from the use of our products in the future and that such claims will not have a material and adverse impact on our Group's business, branding or financial condition.

5.1.18 We are exposed to the risk of non-renewal and revocation of permits and business licences

As a pre-requisite for carrying on our business in the PRC, we are required to obtain certain permits and business licences from various governmental authorities. Details of our permits, approvals and business licences are set out in Section 7.14 of this Prospectus. As at the date of this Prospectus, we have obtained all material permits, approvals and business licences for our business operations. However, some of these permits, approvals and business licences are subject to periodic inspection as well as fulfilment of conditions imposed by the relevant government authorities, and the standards of compliance required in relation thereto may from time to time be subject to changes.

Revocation of our permits, licences and certificates will have a material adverse effect on our operations as we will not be able to carry on our business without such permits, licences and certificates being granted or renewed. In such an event, our business and financial performance may be adversely affected. In addition, it may be costly for us to comply with any subsequent modifications of, additions or new restrictions to, these compliance standards.

5. **RISK FACTORS (Cont'd)**

Should there be any subsequent modifications of, or additions or new restrictions to, the current compliance standards, we may incur additional costs to comply with the new or modified standards which may adversely affect our business and financial performance.

5.1.19 *Our business operations may face significant disruptions*

Our production facilities are located in Quanzhou City, Fujian Province, PRC. While our production is labour intensive, it is also semi-automated. As such, our production processes may be interrupted by system disruptions arising from disruption of electricity supply or machinery breakdown. Such disruptions may cause production downtime and delay in the delivery of products to our customers. In addition, floods, earthquakes or other natural disasters and other calamities or emergencies such as breakout of fire and other crisis may also disrupt or cause a cessation in production at our production facilities, and can result in significant damage to our inventory and our production facilities. In the event that we experience any major system disruptions or any major machine breakdown, floods, earthquakes, natural disasters, fire breakouts, energy crisis and any other emergency risk which significantly disrupt our business operations, our business and financial performance may be materially and adversely affected. In mitigating some of these risks, we conduct regular servicing on our machinerics and equipments to minimise our risks of equipment or machinery breakdown. Further, in the event of a power failure, we have a backup diesel generator which has sufficient output to run our production facilities. There can be no assurance that the steps taken by us to mitigate such risks will be sufficient or successful. In such instances our business operations and financial performance may be materially and adversely affected

5.1.20 *Historical financial performance should not be used as an indicator for our future financial performance*

While our profit after taxation for the FYE 2006, FYE 2007, FYE 2008 and 1H 2009 was RMB48,779,000, RMB88,352,000, RMB129,434,000 and RMB89,812,000 respectively, there can be no assurance that we will continue to maintain our profitability if our cost increases as a result of, among others, increased labour, manufacturing, raw materials or logistic costs. Our profitability may also be adversely affected if we must, in the face of increasing competition, provide more favourable terms to our distributors, such as product rebates or higher sales discounts. In addition, if we are unable to maintain our brand recognition and a positive public perception of our brand, we may not be able to price our products at the level they are priced at. Should any factors which increase our costs eventuate, our profitability may be materially and adversely affected and our future financial performance may not be sustainable at the profit levels recorded in the past.

5.1.21 *The outbreak or threatened outbreak of any severe communicable disease in the PRC could, if uncontrolled, affect our business and financial performance*

The outbreak, or threatened outbreak, of any severe communicable disease such as Severe Acute Respiratory Syndrome, avian influenza, commonly known as bird flu and influenza A(H1N1), could materially and adversely affect overall business sentiments and the environment in the PRC. This, in turn, could materially and adversely affect domestic consumption, labour supply and possibly the overall economic growth of the PRC. Our Group's revenue is currently derived mainly from our PRC operations and any labour shortage or slowdown in the domestic consumer market in the PRC could materially and adversely affect our business and financial performance.

In addition, if any of our employees or the employees of our suppliers is affected by any severe communicable disease or if our employees or the employees of our suppliers are required to be kept under quarantine, our day-to-day operations may be adversely affected and this could in turn adversely affect our business and financial performance.

5. RISK FACTORS *(Cont'd)*

5.1.22 *Occurrence of any acts of God, war and terrorist attacks may adversely and materially affect our business and operations*

Acts of God, such as natural disasters which are beyond our control, may materially and adversely affect the economy, infrastructure and livelihood of the local population. Our business and financial performance may be materially and adversely affected should such acts of God occur. We cannot give any assurance that any war, terrorist attacks or other hostilities in any part of the world, potential, threatened or otherwise, will not, directly or indirectly, have a material and adverse effect on our business and financial performance.

5.2 RISKS RELATING TO THE PRC

5.2.1 *Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business*

Our business operations in the PRC are governed by the PRC legal system. The PRC legal system is a codified system comprising written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investments. As the PRC economy is developing at a faster pace than its legal system, some degree of uncertainty exists as to whether, and how, existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes.

Precedents on the interpretation, implementation and enforcement of PRC laws and regulations are currently limited and the decisions of the PRC courts do not bind the same in subsequent cases. As such, we cannot predict to a reasonable degree of certainty the outcome of any disputes which we may have with our distributors, direct retailers and/or suppliers. Even in cases where judgements are granted in our favour, we may be unable to enforce them if the other party does not have the means to satisfy the judgement. In the event that we fail to obtain judgement or are unable to enforce judgments, we may not be able to recover the judgement debt, which we would have otherwise been entitled to. Accordingly, our business and financial performance may be affected.

For further information on the salient PRC laws and the regulations, please refer to Section 11 of this Prospectus.

5.2.2 *Impact of new enterprise income tax law and cessation of tax incentives*

On 16 March 2007, the National People's Congress of the PRC promulgated the Enterprise Income Tax Law of the People's Republic of China, which took effect on 1 January 2008 and supersedes both the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law ("FIE Tax Law") and the Provisional Regulations on Enterprise Income Tax of the PRC. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprise.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% had their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

5. RISK FACTORS (Cont'd)

Addnice Sports and Addnice China are entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years starting from its first profitable year of operations. Addnice Sports's first profitable year for purposes of determining its tax holiday period commenced in calendar year ended 31 December 2006, which had a significant positive effect on our PAT during the FYE 2006, FYE 2007 and FYE 2008. Addnice China was inactive during FYE 2006, FYE 2007 and FYE 2008 and preferential tax treatment has commenced from 1 January 2008. We expect that upon expiry of the preferential tax treatment from enterprise income tax currently enjoyed by Addnice Sports, other considerations aside, our Group's tax payment will increase from 1 January 2011 onwards.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income, including dividends received. We cannot rule out the risk that our Subsidiaries which are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprise according to the New Tax Law by the PRC taxation authorities. In such an event, our financial performance may be materially and adversely affected and consequently, the value of the investment in our Shares may be adversely and materially affected.

5.2.3 *Fluctuations in consumer spending caused by changes in macro economic conditions in the PRC may significantly affect our business and financial performance*

Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, where all of our revenues have been generated in the past and are expected to be generated in the 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. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy, where the PRC's nominal GDP was estimated by the National Bureau of Statistics to have grown at a CAGR of approximately 11.8% from 1997 to 2008. We can provide no assurance that the PRC will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our prospects and operating results.

5.2.4 *Negative publicity on PRC products may adversely affect our business and profits*

Negative publicity on the safety of products made in the PRC, such as the recent melamine contamination of PRC milk products as well as allegations of PRC-manufactured toys containing high level of toxic lead paint and PRC-made clothes containing dangerous levels of formaldehyde, may generally affect the demand for PRC goods. Any negative publicity on PRC products, whether relating to our industry or otherwise, may affect our customers' sales in general. For example, we face the risk that our OEM customers who export to overseas market may decide to source the products we manufacture for them from other suppliers outside of the PRC. In addition, with increasing affluence among the PRC population, end consumers may also decide to purchase imported products as oppose to local brands as a general precaution resulting from any negative publicity on PRC products. This, in turn, may adversely affect our business and profits.

5. RISK FACTORS *(Cont'd)*

5.2.5 *Our operating results and financial conditions are highly susceptible to changes in PRC's political, economic and social conditions as our revenue is currently entirely derived from our operations in PRC*

Since 1978, the PRC government has undertaken various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and adjustment process may consequently have a material impact on our operations in PRC or a material adverse impact on our financial performance. Our business and financial performance may be adversely affected by changes in PRC's political, economic and social conditions and by changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

5.2.6 *PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our Subsidiaries*

All of our PRC Subsidiaries are WFOEs. In the PRC, foreign investment enterprises ("FIE"), which include WFOEs, are subject to the PRC rules and regulations on currency conversion. The SAFE regulates the conversion of the RMB into foreign currencies. Currently, FIEs are required to apply to SAFE for "Foreign Exchange Registration IC Chip Card for FIEs". With such registration certifications (which need to be inspected annually), FIEs are then allowed to open foreign currency accounts including the "basic account" and "capital account". Currently, conversion within the scope of the "basic account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, and securities) still requires the approval of SAFE.

Our significant assets are mainly our interests in our PRC Subsidiaries. The ability of our Subsidiaries to pay dividends or make other distributions to us may be restricted by PRC foreign exchange control restrictions. We cannot assure you that the relevant regulations will not be amended or reinterpreted to our disadvantage and that the ability of our Subsidiaries to distribute dividends to us will not be adversely affected.

5.2.7 *Changes of laws and regulations relating to currency conversion in the PRC*

Under the present system of a unified floating exchange rate system largely based on market supply and demand, the People's Bank of China publishes a daily exchange rate for the RMB based on the previous day's dealings in the inter-bank foreign exchange market. Under this unified floating exchange rate system, fluctuations in the exchange of the RMB against other currencies are, to a certain extent, subject to market forces. Moreover, there is no assurance that the RMB will not be subject to administrative or legislative intervention by the PRC government or adverse market movements. A devaluation or a depreciation of the RMB may adversely affect the amount of dividends or other distributions received by our Shareholders as well as affect any foreign currency obligations we may have. A revaluation or an appreciation of the RMB on the other hand may affect the amount of funds that we receive in RMB from fund raising activities outside the PRC as well as increased competition from imported/international shoe brands. There can be no assurances that there will not be any material and/or volatile fluctuations in the RMB, the occurrence of which may affect our ability to compete, our financial position, the amount of dividends/ distribution our Shareholders may receive, and the amount we may receive from fund raising activities outside the PRC.

5. **RISK FACTORS (Cont'd)**

5.2.8 *New labour laws in the PRC may adversely affect our results of operations*

As at the Latest Practicable Date, we had 3,008 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law namely, (the Labour Contract law of the PRC) (the "New Labour Law") which became effective 1 January 2008.

The New Labour Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based on seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results or operations could be adversely affected.

5.2.9 *We may be liable for the payment of additional social insurance contributions for our PRC employees*

Under the "Interim Regulation on the Collection and Payment of Social Insurance Premiums", "Regulation on Labour Injury Insurance" and local regulations on maternity insurance, our PRC subsidiaries are required to make contributions towards certain social insurance plans for the benefit our PRC employees. The "Interim Regulation on the Collection and Payment of Social Insurance Premiums", "Regulation on Labour Injury Insurance" and local regulations on maternity insurance also require such contributions to be made for all employees. Prior to February 2009, we had not made full contributions for all of our employees. As such, we did not fully comply with the requirements under the relevant regulations. While we have since February 2009 complied with the relevant regulations, there can be no assurance that the relevant authorities will not take enforcement action against us to make full contributions for all previous outstanding social insurance payments (which amount to approximately RMB5.66 million or RM2.88 million based on the exchange rate of RM1:RMB0.5080 as at the Latest Practicable Date) and/or penalise us. In such an event, our financial position may be materially adversely affected. However, we have obtained an undertaking and indemnity from our Substantial Shareholders, namely Tai Zhen Xiang, Mdm Ng Sio Peng and Mr Iao Ieok Chon to indemnify us in full for all previous outstanding social insurance payments and/or penalties which may be imposed on us for the periods prior to February 2009.

5.2.10 *Difficulties may arise in relation to the commencement of any legal action in Malaysia or enforcement of a Malaysian judgement against our Group or management and different rights and protection accorded under different laws*

Our Subsidiaries as well as our Group's operations and significant assets are located outside Malaysia. Our management team comprises mainly persons who are non-residents of Malaysia and whose substantial assets are located outside Malaysia.

Accordingly, Shareholders may encounter difficulties in effecting service of process in Malaysia for commencement of a legal action against our Group or management team, or the enforcement of a Malaysian judgement against the assets of our Group or our management team.

In addition, the Malaysian Companies Act may provide shareholders of Malaysian incorporated companies rights and protection for which there may be no corresponding or similar provisions under PRC laws and regulations.

5. RISK FACTORS *(Cont'd)*

5.3 RISKS RELATING TO BERMUDA

5.3.1 *Protection afforded under the Malaysian Code on Take-overs and Mergers 1998 is limited in the event of a take-over*

There are presently no Bermuda laws or regulations of general application which will require persons who acquire significant holdings in our Shares to make take-over offers for our Shares or to notify us. In addition, the Malaysian Code on Take-over and Mergers 1998 ("Code") does not apply to companies incorporated outside Malaysia. Accordingly, as our Company is incorporated in Bermuda, the Code will not apply to take-over offers for our Company.

To enable our shareholders to have comparable protection to the Code, we have amended our Bye-laws to include Bye-law 168, which provides that for so long as our Shares are listed on the Designated Stock Exchange (as defined in the Bye-laws), which includes Bursa Securities, the provisions of Division 2 of Part IV of the Malaysian Securities Commission Act 1993 and the Code, or their respective statutory modifications or re-enactment or successor for the time being in force, shall apply, *mutatis mutandis*, to all take-over offers for our Company.

Bye-law 168 will, due to its binding effect on our Members, require our Members who make take-over offers in respect of our Shares to comply with the Code. However, it is uncertain whether this will be effective in securing compliance with the Code. A person (including a corporation) who is not our Member will not be bound to comply with our Bye-laws. In this connection, this may affect you because in the event that a person (not being one of our Members), whether alone or together with parties acting in concert with him, acquires or gains control of more than 33% of our Shares, you may not be offered an opportunity to sell your Shares to such person at the price he had paid for those Shares.

In addition, although Bye-law 168 of our Bye-laws will, due to its binding effect on our Members, require each Member to notify us upon acquiring a substantial shareholding in our Company or of any change in the percentage level of his substantial shareholding, this cannot be enforced by our Company in respect of persons who are not our Members because Bye-law 168 only binds our Members.

Each of our ultimate Substantial Shareholders, Mdm Ng Sio Peng and Mr Iao Ieok Chon and Tai Zhen Xiang (which is held by Mdm Ng Sio Peng and Mr Iao Ieok Chon) has undertaken to the Company and the SC that, as long as he/it continues to be a Substantial Shareholder, he/it will endeavour to persuade potential offerors in connection with a take-over offer for our Company to comply with the requirements of the Code.

The aforementioned shall not preclude the rights of the SC or any other relevant authorities, if any, from time to time, to impose on or enforce against a Member and/or any person (including a corporation) who is not our Member, the requirements and obligations of Division 2 of Part IV of the Malaysian Securities Commission Act 1993 and the Code, or their respective statutory modifications or re-enactment or successor for the time being in force.

5.3.2 *Recognising Depositors holding Shares through Bursa Depository as our Members*

Under the Bermuda Companies Act, only those persons who agree to become members of a Bermuda company and whose names are entered on the register of members of such a company are considered members of the Bermuda company. Depositors are recognized as Members by virtue of their names being contained in the Record of Depositors entered in the register of members of our Company at our registered office in Bermuda and the branch register of our Company at our branch office in Malaysia, and hence accorded the full rights of membership, such as voting rights, the right to appoint proxies, or the right to receive shareholders' circulars, proxy forms, annual reports, prospectuses and takeover documents. Our Depositors (holding our Shares jointly with Bursa Depository or its nominee) will be recognized as Members as long as the Record of Depositors is entered in the register of

5. RISK FACTORS *(Cont'd)*

members and branch register of our Company. For so long as the shares of our Company are listed on Bursa Securities, our Company is required to procure that a copy of the Record of Depositors is obtained from the Bursa Depository at the close of each market day and entered in our Company's register of members and branch register. In the event a Depositor is not named in the Record of Depositors entered in our register of members or branch register, *prima facie*, such Depositor will not be recognized as a Member of our Company. Our Shares will be deposited with Bursa Depository as deposited securities and the share certificate in respect of any deposited security held jointly by a Depositor and Bursa Depository or its nominee shall be issued in the name of, and delivered to Bursa Depository or its nominee and no share certificate will be issued to the Depositor. Nor shall you be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

5.3.3 *Rights and protection accorded to our Shareholders may be different from those applicable to shareholders of a Malaysian incorporated company*

We are incorporated in Bermuda as an exempted company under the Bermuda Companies Act. The Malaysian Companies Act may provide shareholders of Malaysian incorporated companies rights and protection for which there may be no corresponding or similar provisions under the Bermuda Companies Act. As such, if you invest in our Shares, you may or may not be accorded the same level of shareholder rights and protection that a shareholder of a Malaysian incorporated company may be accorded under the Malaysian Companies Act.

We have set out in Annexure A of this Prospectus a summary of certain provisions under the Bermuda company law, in Annexure B of this Prospectus a summary of the memorandum of association and selected Bye-laws of our Company and in Annexure C, a summary of the comparison between the companies law and regulations in Bermuda and Malaysia. Each of the summaries is not intended to be and does not constitute legal advice and any person wishing to have advice on the differences between the Bermuda Companies Act and the Malaysian Companies Act and/or the laws of any jurisdiction with which he is not familiar is recommended to seek independent legal advice. Copies of the memorandum of association and the Bye-laws of our Company are available for inspection at such place and time as set out in Section 19.8 of this Prospectus.

5.3.4 *Changes in laws and regulations affecting our Company's Shares*

To facilitate our listing on Bursa Securities, our Bye-laws were amended to comply with SICDA, rules of Bursa Depository and other relevant laws, rules and regulations in Malaysia where applicable to our Company. In the event of any changes to such laws, rules and regulations governing our Company in connection with its listing on Bursa Securities, the Bye-laws may have to be amended to ensure continued compliance with the relevant laws, rules and regulations to facilitate our continued listing on Bursa Securities. Our Company will endeavour to take all reasonable steps to ensure such compliance including amending our Bye-laws (subject to such amendments not contravening the laws of Bermuda). However, there can be no assurance that we will be able to succeed in amending our Bye-laws in a timely manner or that we will be able to obtain the approval of our Members at our general meeting for such amendments. In the event we are not able to or be successful in amending our Bye-laws to comply with changes to such laws, rules and regulations governing our Company for its listing on Bursa Securities, our Company may be subject to fines, penalties, reprimands and other liabilities and our Shares may potentially be suspended and/or de-listed from Bursa Securities. Further, in the event our Bye-laws are amended in such a way that is inconsistent with SICDA, rules of Bursa Depository and other applicable laws, rules and regulations in Malaysia, our Company apart from being possibly subject to fines, penalties and reprimands and other liabilities may also be suspended and/or de-listed from Bursa Securities.

5. RISK FACTORS *(Cont'd)*

5.4 RISKS RELATING TO INVESTMENT IN OUR SHARES

5.4.1 *Control by our existing Substantial Shareholders may limit your ability to influence the outcome of decisions requiring the approval of Shareholders*

Upon the Listing, we anticipate that our substantial shareholders, namely Mdm Ng Sio Peng and Mr Iao Ieok Chon will own 179,569,011 Shares representing between 54.49% (assuming Maximum Scenario and the Over-Allotment Option is fully utilised) and 65.30% (assuming Minimum Scenario and assuming the Over-Allotment Option is not exercised) of the enlarged issued and paid-up share capital of our Company, via Tai Zhen Xiang. These substantial shareholders, acting together, would be able to significantly influence the outcome of our corporate proposals which require the vote of shareholders of our Company unless they are required to abstain from voting by law and/or by the relevant authorities.

Nevertheless, as a step towards good corporate governance, we have appointed three (3) Independent Directors and set up an Audit Committee to ensure that, *inter-alia*, all future transactions involving related parties are entered into on an arm's length basis, or normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not to the detriment of our minority shareholders.

5.4.2 *Our share price may be volatile and this may affect your investment in our Shares*

The market price of our Shares could be affected by numerous factors, including:

- (i) general market, political and economic conditions;
- (ii) trading liquidity of our Shares;
- (iii) changes in earnings estimates and recommendations by financial analysts;
- (iv) changes in market valuations of listed shares in general and other securities exchanges' shares in particular;
- (v) changes in government policy, legislation or regulation; and
- (vi) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of our Shares.

The Malaysian, regional and global equity markets have experienced price and volume volatility that have affected the share prices of many companies. Share prices of many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Such fluctuations in price may adversely affect the market price of our Shares.

5.4.3 *Negative publicity may adversely affect our share price*

Negative publicity involving our Group, any of our Directors, key management personnel or Substantial Shareholders may adversely affect the market perception or the stock performance of our Company, whether or not it is justified. Some examples are unsuccessful attempts in joint ventures, takeovers or involvement in insolvency proceedings.

5. RISK FACTORS *(Cont'd)*

5.4.4 *There has been no prior market for our Shares and this offering may not result in an active or liquid market for these Shares*

There is currently no prior trading market for our Shares within or outside Malaysia. There can be no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell their Shares or the prices at which holders would be able to sell their Shares. While the SC has approved the IPO and given approval for our Listing, there can be no assurance that our Shares will be accepted for listing and quotation on the anticipated date by Bursa Securities. We have applied to Bursa Securities for the listing of and quotation for the entire enlarged share capital of our Company on the Main Board of Bursa Securities. In the event that our Shares are not admitted to the Official List within six (6) weeks from the date of the Prospectus and the Issue Shares have not been issued to the applicants, we will return the monies paid in respect of any application for Shares without interest within fourteen (14) days after our Company becomes liable to do so.

Our Shares could also trade at prices lower than the Retail Price depending on many factors, including prevailing economic, political and financial conditions in Malaysia, our operating results and the market for similar securities. Neither we nor the Underwriter have any obligation to create a market for our Shares. There can be no assurance that we will be able to maintain our Listing.

5.4.5 *Delay or failure in our Listing*

The occurrence of certain events, including the following, may cause a delay in or termination of our Listing:

- (i) the identified investors failing to subscribe to the portion of Shares intended to be placed to them;
- (ii) the Underwriter exercising its right pursuant to the underwriting agreement to discharge itself from its obligations thereunder;
- (iii) our Company is unable to meet the minimum subscription for the Issue Shares as set out in Section 4.10 of this Prospectus after Clawback and Reallocation;
- (iv) our Company being unable to meet the minimum public spread requirements of the Bursa Securities at the point of listing; or
- (v) any force majeure event(s) which are beyond our control before our Listing.

After the Issue Shares have been allocated to successful applicants and credited into the applicants' CDS Accounts, which would occur prior to the anticipated date for our Listing, it may not be possible to recover monies paid in respect of these Issue Shares from us in the event the admission and the commencement of trading on the Main Board of Bursa Securities do not occur. Delays in the admission and the commencement of trading in shares on the Main Board of Bursa Securities have also occurred previously.

In respect of Issue Shares following their allotment and issue, a return of monies to all holders of Shares may be effected by way of a reduction of capital by our Company pursuant to the relevant provisions of the Bermuda Companies Act. A capital reduction would require the approval of our Shareholders and a notice of the proposed reduction to be published in Bermuda not less than 15 and not more than 30 days before the date on which the reduction of the share capital is to have effect. The statutory requirement for the publication of the notice cannot be waived nor can the period be shortened. Alternatively, our Company may opt to cancel issued Issue Shares and repay application monies to applicants, subject to compliance with the Bermuda Companies Act and the applicable Malaysia laws. In such an event, our Company will purchase Issue Shares at (in the case of Issue Shares issued pursuant to the

5. RISK FACTORS *(Cont'd)*

Retail Offering) the Final Retail Price or (in the case of Issue Shares issued pursuant to the Institutional Offering) the Institutional Price (as the case may be). There can be no assurance that monies can be recovered within a short period of time in such circumstances.

5.4.6 *Payment of dividends*

We are a holding company incorporated in Bermuda and operate our core business through our subsidiaries in PRC. Therefore, the availability of funds to us to pay dividends or make other distributions to our Shareholders depends upon dividends or other distributions received from our subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including International Financial Reporting Standards. PRC laws also require foreign invested enterprises 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 or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and 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.

Our ability to pay dividends or make other distributions to our Shareholders are also subject to the future financial performance and cashflow position of our Group. There is no assurance that our Company will be able to distribute dividends to our Shareholders as a result of the abovementioned factors. Accordingly, our historical dividend distribution should not be used as a reference or basis to determine the level of dividends that may be declared and paid by us in the future. There is also no assurance that we will be able to record profits and have sufficient funds above our funding requirements, other obligations and business plans to declare dividends to our Shareholders. Please refer to Section 8.8 of this Prospectus for details on our Company's dividend policy.

5.5 OTHER RISKS

5.5.1 *Political, economic and social developments*

We are subject to political and social developments in countries which we operate or have business relationships in. Any adverse political and social developments in those countries may lead to political or social instability which may materially and adversely affect our business, financial condition, operations and prospects. These include, but are not limited to outbreak of disease, risks of war, riots, demonstrations, protests, nationalisation, renegotiation or nullification of existing contracts and arrangements, inflation and global economic downturn. We may also be affected by changes in governmental policies such as changes in interest rates and methods of taxation, currency exchange controls and changes in regulations or other legal, administrative, political, economic or social developments resulting in a more restrictive environment for our business operations including, without limitation, the industry there becoming highly regulated, rising costs of operations or even increased competition.

There can be no assurance that any changes to these factors will not have an adverse effect on our business and financial performance. The success of the IPO also depends to a certain extent on the prevailing market conditions which can be unpredictable and volatile.

5. RISK FACTORS (Cont'd)

5.5.2 *Forward-looking Statements*

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives of the Management for future operations, are forward-looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such factors include, *inter-alia*, general economic and business conditions, competitions, the impact of new laws and regulations affecting us and the industry, changes in interest/profit rates and changes in foreign exchange rates.

In light of these uncertainties, the inclusion of such forward-looking statement in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS

6.1 OVERVIEW OF CHINA'S ECONOMY

China is one of the largest and among the most heavily populated countries in the world. One of Converging Knowledge Pte Ltd's sources forecasts the country's population to rise to 1.41 billion by 2012.

Chinese cities are classified by a "tier-system" – there are four tiers. City tiers are basically defined by both population size and the average income earned. Converging Knowledge Pte Ltd notes that there is, however, no official income range which can precisely determine which city falls under which tier.

For example, first-tier cities would include Beijing and Shanghai, Guangzhou and Shenzhen, while second-tier cities would include cities such as Chongqing, Nanjing and Chengdu. Third-tier cities would include cities such as Changzhou, Wuxi and Ningbo.

The Middle Class – an important target consumer group

Apart from a huge population, the Chinese economy also has one of the fastest growth rates in the world. The rapid economic growth creates a growing emerging middle class. Converging Knowledge Pte Ltd's source described this consumer segment as "the most important target consumer group for consumer goods companies who want to secure long-term success in the country".

Converging Knowledge Pte Ltd's source reported that China's middle class increased by 22.1% to 80 million in January 2007, from 65.50 million in January 2005. Converging Knowledge Pte Ltd's source expects this segment of middle class to increase to 700 million by 2020.

Gravitation toward second-tier cities

The growth of the middle class group is seen to be expanding into the second tier cities and satellite cities near the first tier cities. The demand for luxury products has been rapidly growing in second tier cities, thus attracting top international luxury lines that are increasingly focusing on these new markets. This highlights the rapidly growing purchasing power of smaller cities in China and their appetite for high-end products.

Sports participation grows with increasing consumer affluence

Increasing consumer affluence and the Government's active encouragement for a greater level of sports participation in China, is assisting an increase in demand for sports. The recently concluded Beijing Olympics has also heightened the level of awareness of sports amongst the Chinese. Converging Knowledge Pte Ltd's source had, in an article dated November 2006, anticipated that 500 million people will participate in some form of sports and exercise by 2010. The estimated figure will represent 36.2% of the Chinese population.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(i) GDP

The GDP of China rose at a double-digit rate for the review period from 2004 to 2008. With the onset of the economic crisis, China's GDP growth dipped from 13.0% to 9.0%. Please refer to Figure 1 below:

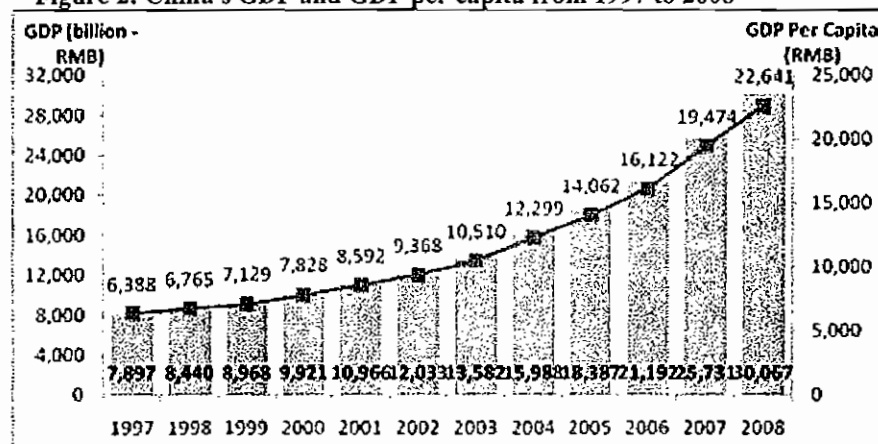
Figure 1: Overview of China's GDP performance from 2004 to 2008

	2004	2005	2006	2007	2008
GDP (billion yuan)	15,988	18,387	21,192	25,731	30,067
GDP growth ^	10.1%	10.4%	11.6%	13.0%	9.0%
GDP per capita (yuan)	12,299	14,062	16,122	19,474	22,641

(a) Historical and Forecast GDP Growth

From 1997 to 2008, China's GDP has been growing at a CAGR of 11.8% per annum. Figure 2 below illustrates the growth in the GDP and GDP Per Capita of China from 1997 to 2008.

Figure 2: China's GDP and GDP per capita from 1997 to 2008



GDP Growth from 1997 to 2007, a result of fuelling domestic consumption

GDP growth of China from 1997 to 2007 can be attributed mainly to the continual efforts by the Chinese government to rebalance its economy. The Chinese government has been spurring domestic consumption, with the aim of reducing over dependence on exports and investments. The Chinese government plans to improve the state provision of pensions, healthcare and education in the long run. This measure is necessary in order to reduce the incentive for the Chinese people to save, and increase their willingness to spend.

Slowdown in 2008 GDP growth due to slowing foreign trade

China's GDP growth in 2008 was an approximate 4%-point decline from that of 2007. Slowing foreign trade as a result of the escalating global economic crisis has curtailed China's economic growth. In response to the deteriorating global economy, China announced a RMB4 trillion (USD586 billion) fiscal stimulus

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

package to boost China's economy through domestic demand. Domestic demand would be boosted through loosened credit conditions, massive infrastructure spending program, tax cuts and employment growth. The fiscal package of RMB4 trillion accounts for 12.6% of China's estimated GDP in 2009. Considered highly aggressive among other countries, China's fiscal package aims to shield China's GDP growth from the global slowdown through 2010.

About China's stimulus package

China's RMB4 trillion-stimulus package has been described as "a package of capital spending plus income and consumption support measures", as well as "the largest economic stimulus effort ever undertaken by the Chinese government". Spending of the stimulus package is said to be spread over two years.

It has been reported that the stimulus would cover 10 areas, including the following:

- ◆ Upgrading infrastructure, particularly roads, railways, airports and the power grid;
- ◆ Raising rural incomes via land reform; and
- ◆ Social welfare project such as affordable housing and environmental protection.

The package is also said to include some of the disaster reconstruction spending from the abnormally severe weather of 2008's winter, the Sichuan earthquake in May 2008, as well as other natural disasters. In addition, it ties together many policy initiatives already underway as China's leaders try to close the income gap between the rich coastal cities and the poorer interior countryside.

Further to the stimulus package, China has also eased its monetary policy. Lending limits on commercial banks are reported to have been lifted. A change in the way value-added tax is administered would provide tax cuts, which is reported to account for USD17.5 billion of the package's total.

In one media article, Chinese Premier Wen Jiabao said that China's package fit into the following five categories:

1. Enlarging domestic demand;
2. Adjusting and boosting industry;
3. Technological upgrading;
4. Building up a more comprehensive social welfare system; and
5. Stabilising the fiscal market to bolster the economy.

Out of the RMB4 trillion, a total of RMB600 billion (USD88 billion dollars) would be used to speed up technological upgrades, while another RMB850 billion (USD124 billion) would be earmarked for advancing medical care reforms.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

The first batch of the RMB4 trillion investment, worth RMB100 billion, was allocated in the fourth quarter of 2008. The second batch, totalling RMB130 billion (USD19 billion) is reported to have been launched in February 2009.

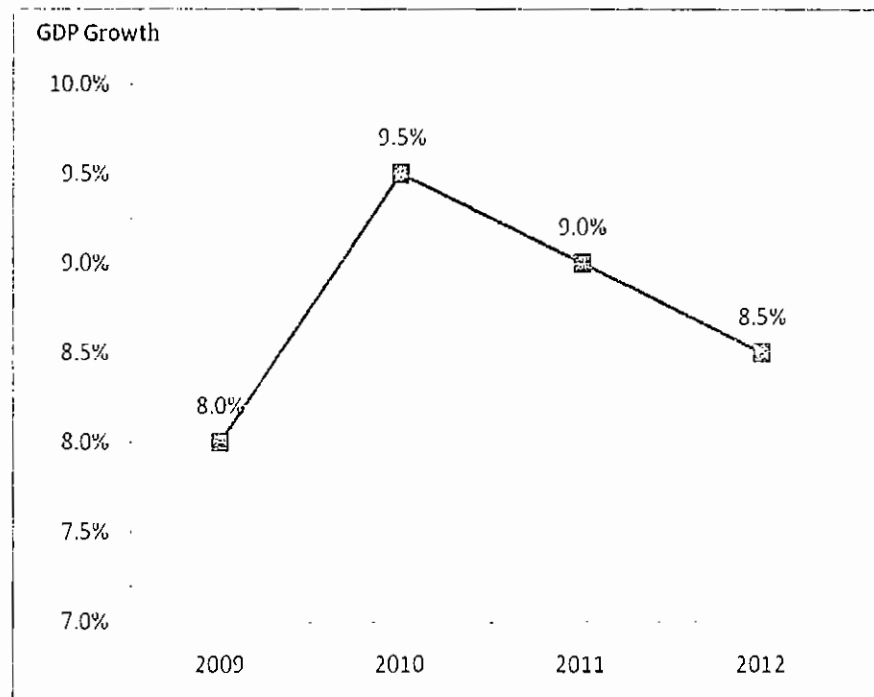
Of the first investment allocation of RMB100 billion, it is reported that RMB10 billion would be spent on housing projects for low-income families, RMB34 billion on rural infrastructure projects, RMB25 billion on large infrastructure projects such as railways, roads and airports, RMB13 billion on grassroots health, education and cultural projects, RMB12 billion on energy conservation and environment protection projects, and the remaining RMB6 billion on innovation and industrial restructuring.

According to Converging Knowledge Pte Ltd's source, the second batch of investment would include spending RMB28 billion to provide housing for low-income earners and RMB31.5 billion for public facilities, such as electricity, water and road construction in rural areas. The source also said that RMB17 billion would be allocated to health and education sectors, RMB11 billion to environmental protection projects, RMB15 billion to economic restructuring, and the remaining RMB27.5 billion to unspecified big infrastructure projects.

China's GDP growth forecast of declining trend

According to the latest forecast released by Converging Knowledge Pte Ltd's source, China's GDP growth rate is forecast to fall from 9.0% in 2008 to 8.0% in 2009. Thereafter, China's GDP will pick up gradually to reach 8.5% in 2012. Overall, China's GDP is on a declining trend. Please see Figure 3 below.

Figure 3: China's GDP growth forecast



China's economy is beginning to respond quickly to the economic stimulus package which saw large injections of liquidity into the domestic economy since late 2008. This was a response to the wider global economic crisis, and reversed the deliberate slowing down of the economy by the Chinese

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

government in 2007, which was meant to avoid overheating in the economy. The stimulus package has already helped to slow the decline in manufacturing growth of output and orders. The second half of 2009 is expected to see accelerated growth. Although there was talk of recession in China, a recession would mean negative growth over at least three quarters, whereas China has continued to see positive growth, and only a significant slowdown in that growth over the last quarter of 2008. Forecasts for China's GDP vary widely, but Converging Knowledge Pte Ltd's source forecasts that growth in GDP in China will about the 8% mark in 2009.

Private consumption continues to be seen as major growth driver

Private consumption growth in 2009 is expected to slow as unemployment level increases, consumer confidence weakens and the boost to rural incomes seen in 2008 disappears. Despite these, the fiscal boost should support positive growth in private consumption through 2010.

With increasing purchasing power among Chinese consumers, especially among the emerging middle class, private consumption is seen as a major driver for the growth of the Chinese economy in the future. China was reported to have 'room to tap more domestic consumption' and as such, China would continue to focus on its domestic consumption amidst the global crisis.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(b) Breakdown of GDP contribution by industries, where available

Figure 4: China's GDP segmentation growth

GDP by Industries (billion RMB)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Primary Industry	1,444	1,482	1,477	1,494	1,578	1,654	1,738	2,141	2,307	2,404	2,863	3,400
Secondary Industry	3,754	3,900	4,103	4,556	4,951	5,390	6,244	7,390	8,736	10,316	12,480	14,618
Tertiary Industry	2,699	3,058	3,387	3,871	4,436	4,990	5,600	6,456	7,343	8,472	10,388	12,049
Total	7,897	8,440	8,968	9,921	10,966	12,033	13,582	15,988	18,387	21,192	25,731	30,067

Notes:

- ◆ *Primary Industry: Agriculture, forestry, animal husbandry and fishery*
- ◆ *Secondary Industry: Mining, manufacturing, production and supply of electricity, gas and water, construction*
- ◆ *Tertiary Industry: Transport, storage and post, information transmission, computer services and software, wholesale and retail trade, hotels and catering services, financial intermediation, real estate, leasing and business services, scientific research, technical services and geologic prospecting, management of water conservancy, environment and public facilities, services to households and other services, education, health, social security and social welfare, culture, sports and entertainment, public management and social organisations*

Compared to 2007, China's GDP increased by RMB4,336 billion. The secondary industry led with the fastest growth of RMB2,138 billion. This is followed by the tertiary industry (RMB1,661 billion) and the primary industry (RMB 537 billion).

(Source: *Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd*)

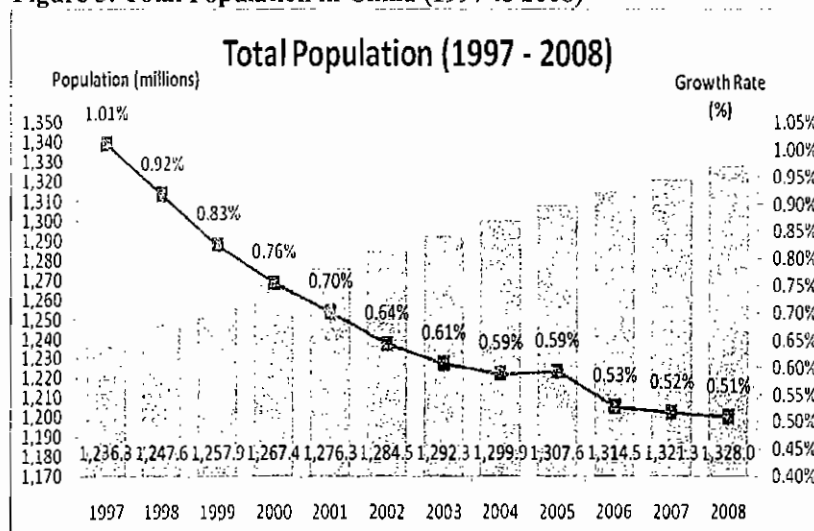
6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(ii) Population

(a) Historical and Forecast Total Population and Growth Rate

China is one of the most heavily populated countries in the world, with a total population of 1.33 billion in 2008. Population growth year-on-year for China was approximately 0.7% for the period from 1997 to 2008. Please refer to the Figure 5 below.

Figure 5: Total Population in China (1997 to 2008)



Different industry players have derived different forecast figures of China's population. One of Converging Knowledge Pte Ltd's sources forecast that the Chinese population would reach 1,408.7 million by 2012. Another of Converging Knowledge Pte Ltd's sources expected the Chinese population to reach 1,408.8 million by 2050. The average growth rate for the Chinese population is 0.6%.

Converging Knowledge Pte Ltd's source believes that estimates for the total population of China are higher than official statistics, as official population statistics are almost certainly underestimated due to problems with data gathering methods, mistrust of being registered into government data, especially in rural areas and fear of reprisals for breach of the One Child Policy meaning that many "extra" children go uncounted. Based upon this premise, we estimate that the population of China in 2008 was 1.36 billion, forecast to rise to 1.42 billion by 2013.

China's population growth rate is slowing, due to the following reasons:

- The government's enforcement of its One Child Policy (one single child per household);
- High population base due to the increase in life span from improved healthcare and living standards; and
- Young urban couples starting a family at a later stage of their lives, choosing first to enjoy a higher disposable income due to rising salaries.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

(b) **Historical and Forecast Urban Population and Growth Rate**

Urban population continues to expand

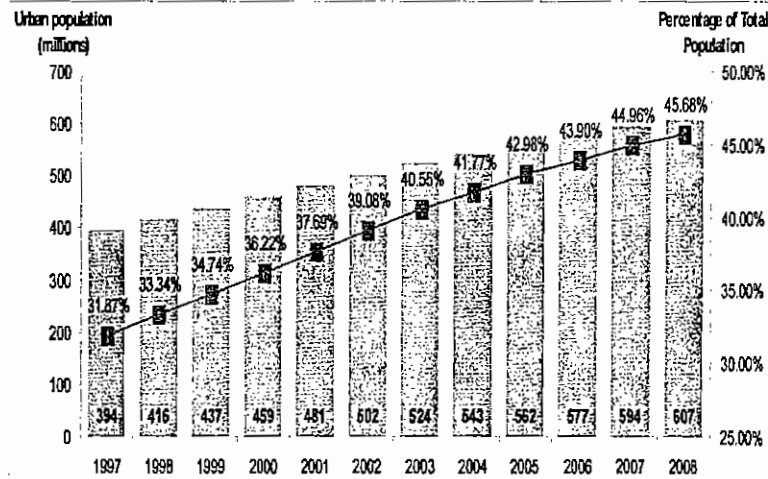
The urban population of China continues to expand from large-scale migration from rural areas. The influx of population to urban cities from the rural areas can be attributed to the pursuit of better opportunities in employment (higher paying jobs or higher growth potential for businesses), education and living environment.

Construction of smaller towns and cities fuels urbanisation

Apart from large-scale rural-urban migration, urbanisation has advanced rapidly due to the construction of many smaller towns and cities by the Chinese government. Coupled with the country's policy of diversifying from agricultural activities, many rural residents have migrated to the larger cities as migrant employees performing unskilled work.

From 1997, the urban population in China increased by 54.1% to 607 million in 2008. The urban population in 2007 accounted for approximately 45.7% of the total population in China. Please refer to Figure 6 below.

Figure 6: Absolute and Relative Growth of Urban Population in China (1997 to 2008)



In a recent research released in March 2008, Converging Knowledge Pte Ltd's source projected that China's urban population is likely to grow by 350 million to 926 million by 2025. Out of the 926 million, 240 million will be migrants. China's urban population could attain one billion by 2030.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

(c) **Urban Population Breakdown by Age and Historical**

Population of 10 to 44 years of Age

From 2003 to 2006, an average of 56.88% of the Chinese population fell under the age range of 10 to 44 years. Please refer to Figure 7, below.

Figure 7: Population of 10 to 44 years old

	2003	2004	2005	2006
10 to 14 years old	112,240	103,771	1,353,263	89,136
15 to 19 years old	104,716	109,259	1,443,484	105,023
20 to 24 years old	80,596	79,604	1,036,723	76,160
25 to 29 years old	93,892	88,490	1,110,290	74,110
30 to 34 years old	123,497	117,954	1,445,908	93,398
35 to 39 years old	123,252	122,574	1,651,487	113,952
40 to 44 years old	91,467	100,595	1,475,539	115,781
Total Sample Population	1,260,498	1,253,065	16,985,766	1,192,666
Percentage	57.89%	57.64%	56.03%	55.97%

Note:

Figures for each year were derived from different sample size. Official data for the age segment, 10 to 44 years, for the year 2007 is not available as at the date of the Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd. For 2005's figures, the official source relied upon by Converging Knowledge Pte Ltd stated that they used a "National Sample Survey on 1% of Population".

Converging Knowledge Pte Ltd notes that data provided prior to 2003 does not have a breakdown of demographics by ages, which is relevant to its research.

The total number of people under the age group of 10 to 44 years fell to 55.97% in 2006, from 57.89% in 2003. This is primarily due to the one child policy, which impacts the lower age segment in the above-mentioned age group. In spite of the declining trend, the population of people in the 10 to 44 year age group in China accounts for more than 657 million people.

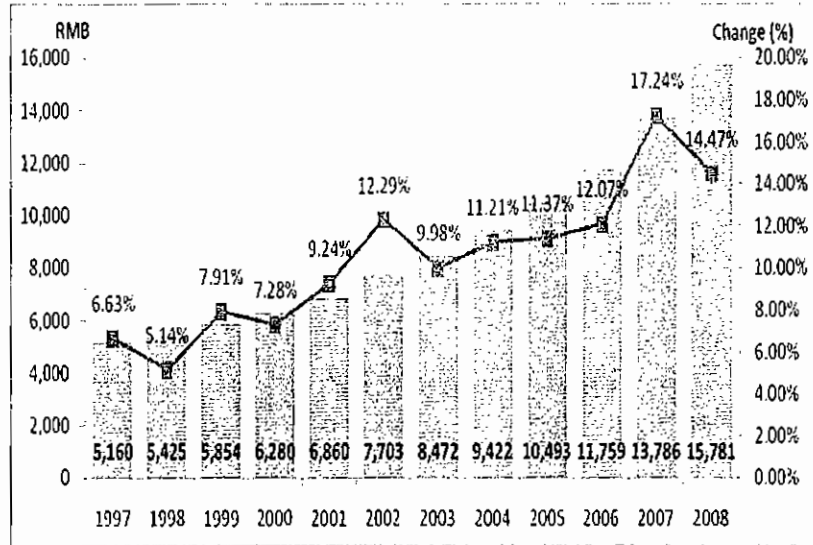
(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(iii) Per Capita Annual Disposable Income

Figure 8 below shows the per capita annual disposable income of urban households in China from 1997 to 2008. The figure below shows an increasing trend in the per capita disposable income of the urban population.

Figure 8: Per Capita Annual Disposable Income of Urban Households in China from 1997 to 2008



From 1997 to 2008, per capita disposable income of the urban population tripled to RMB15,781.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(a) Income Disparity between Provinces

Income disparity is growing not only between urban and rural areas, but also within urban areas in China. The figure below contrasts income gap among eastern, western and central provinces in China.

Figure 9: Per Capita Annual Disposable Income of Urban Households in China by Regions from 1997 to 2006

Per Capita Annual Income of Urban Households in Various Regions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
National Average	5,160	5,425	5,854	6,280	6,860	6,030	8,472	9,422	10,493	11,759
Beijing	7,813	8,472	9,183	10,350	11,578	10,285	13,883	15,638	17,653	19,978
Tianjin	6,608	7,111	7,650	8,141	8,959	7,192	10,313	11,467	12,639	14,283
Hebei	4,959	5,085	5,365	5,661	5,985	5,069	7,239	7,951	9,107	10,305
Shanxi	3,990	4,099	4,343	4,724	5,391	4,711	7,005	7,903	8,914	10,028
Inner Mongolia	3,945	4,353	4,771	5,129	5,536	4,860	7,013	8,123	9,137	10,358
Liaoning	4,518	4,617	4,899	5,358	5,797	5,343	7,241	8,008	9,108	10,370
Jilin	4,191	4,207	4,480	4,810	5,340	4,974	7,005	7,841	8,691	9,775
Heilongjiang	4,091	4,269	4,595	4,913	5,426	4,462	6,679	7,471	8,273	9,182
Shanghai	8,439	8,773	10,932	11,718	12,883	10,464	14,867	16,683	18,645	20,668
Jiangsu	5,765	6,018	6,538	6,800	7,375	6,043	9,262	10,482	12,319	14,084
Zhejiang	7,359	7,837	8,428	9,279	10,465	8,713	13,180	14,546	16,294	18,265
Anhui	4,599	4,770	5,065	5,294	5,669	4,737	6,778	7,511	8,471	9,771
Fujian	6,144	6,486	6,860	7,432	8,313	6,632	10,000	11,175	12,321	13,753
Jiangxi	4,071	4,251	4,721	5,104	5,506	4,549	6,901	7,560	8,620	9,551
Shandong	5,191	5,380	5,809	6,490	7,101	5,596	8,400	9,438	10,745	12,192
Henan	4,094	4,219	4,532	4,766	5,267	4,505	6,926	7,705	8,668	9,810
Hubei	4,673	4,826	5,213	5,525	5,856	5,609	7,322	8,023	8,786	9,803
Hunan	5,210	5,434	5,815	6,219	6,781	5,575	7,674	8,617	9,524	10,505
Guangdong	8,562	8,840	9,126	9,762	10,415	8,988	12,380	13,628	14,770	16,016
Guangxi	5,110	5,412	5,620	5,834	6,666	5,413	7,785	8,690	9,287	9,899
Hainan	4,850	4,853	5,338	5,358	5,839	5,460	7,259	7,736	8,124	9,395
Chongqing	5,323	5,467	5,896	6,276	6,721	6,360	8,094	9,221	10,243	11,570
Sichuan	4,763	5,127	5,478	5,894	6,360	5,413	7,042	7,710	8,386	9,350
Guizhou	4,442	4,565	4,934	5,122	5,452	4,598	6,569	7,322	8,151	9,117
Yunnan	5,558	6,043	6,179	6,325	6,798	5,828	7,644	8,871	9,266	10,070
Tibet	-	-	6,909	7,426	7,869	6,952	8,765	9,106	9,431	8,941
Shaanxi	4,001	4,220	4,654	5,124	5,484	5,378	6,806	7,492	8,272	9,268
Gansu	3,592	4,010	4,475	4,916	5,383	5,064	6,657	7,377	8,087	8,921

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Per Capita Annual Income of Urban Households in Various Regions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Qinghai	3,999	4,240	4,703	5,170	5,854	5,043	6,745	7,320	8,058	9,000
Ningxia	3,837	4,112	4,473	4,912	5,544	5,105	6,530	7,218	8,094	9,177
Xinjiang	4,845	5,001	5,320	5,645	6,395	5,636	7,174	7,503	7,990	8,871

We note that annual average urban household income in China is increasing but at differing rates by region. Shanghai's annual average urban household income increased by RMB12,229 over the 10 year period from 1997 to 2006. Gansu's, on the other hand, increased by RMB5,329 over the same period. The increase in Shanghai's annual average urban household income doubled that of Gansu.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(iv) Retail Sales Value

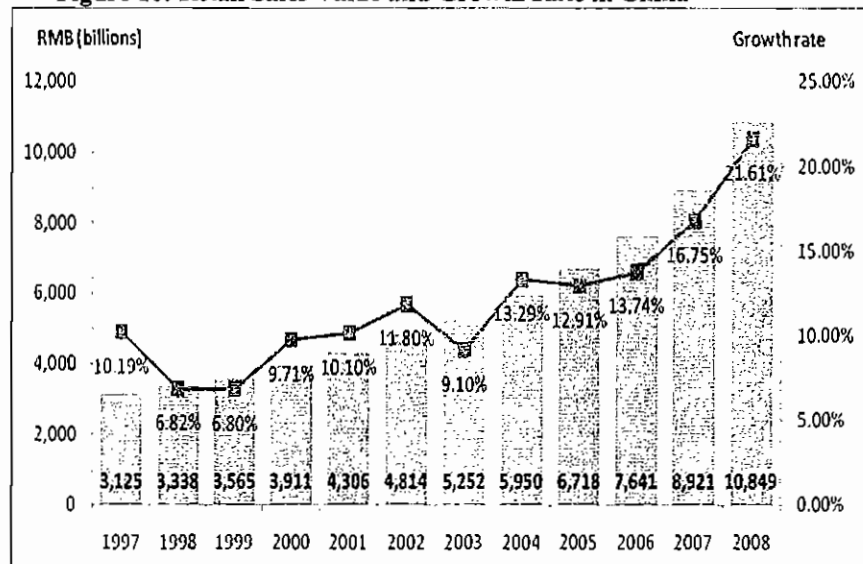
With the ease of restriction on private enterprises in China, competition among companies in China is increasing. As an example, the government allows private enterprises to raise more capital for investment by floating on the stock market.

The increase in competition between the private sectors benefits consumers in terms of cost savings and product awareness. This helps enhance private consumption, which in turn, manifests itself through strong retail sales growth.

From 1997 to 2008, retail sales in China increased by approximately RMB7.72 trillion. In 2008, retail sales in China reached RMB10.8 trillion. Figure 10 below shows an increasing growth momentum.

(a) Historical Retail Sales Value and Growth Rate

Figure 10: Retail Sales Value and Growth Rate in China



Robust retail sales growth can also be attributed to strong income growth among the Chinese population in both urban and rural areas. Retail sales growth in China is forecast to remain positive and to reach RMB12.81 trillion in 2010.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS *(Cont'd)*

6.2 INDUSTRY OVERVIEW, DIFFERING SEGMENTS AND POSITIONING OF OUR COMPANY

(i) Outdoor Sports Industry Overview

Outdoor shoes and apparel represent a single, but growing, segment of the entire sportswear industry. This segment refers to sportswear with at least one of the following characteristics:

- Used for extreme, or more physically exertive sports such as hiking, mountain climbing and hunting;
- Made to withstand different and harsher weather conditions;
- Made of different materials from regular athletic wear, for example materials which are easier to maintain and of thicker soles, and
- Have an 'outdoor feel', be it in design or make.

The outdoor sports industry is reported to be a "sunrise" industry as more and more Chinese take up outdoor sports. This industry is reported to be one of the country's fastest growing industries. In 2006, China's outdoor sports wholesale market totalled RMB1.15 billion (USD147 million). In 2007, it reached as high as RMB1.59 billion (USD218 million), an increase of 38.36% from 2006.

According to data furnished by one of Converging Knowledge Pte Ltd's sources, China's outdoor sports clothing and equipment sales volume reached RMB0.1 billion (USD12 million) five years ago. By 2007, this figure reached RMB2.6 billion (USD356 million). Another noticeable progression in this industry is that five years ago, there were more than 400 professional outdoor supply dealers, and more than 290 professional outdoor supply shops. By 2007, the number has grown to 2,125 professional outdoor supply dealers, and more than 1,500 professional outdoor supply shops. An industry expert expressed that as China's outdoor market grows with maturity, China would rapidly become the world's largest high-end outdoor supply market. Yet, according to another of Converging Knowledge Pte Ltd's sources, China's sales of outdoor supplies is expected to reach RMB4.5 billion to RMB6.0 billion (USD658 million to USD878 million) by 2010.

According to a survey on China's outdoor industry for 2007 conducted by one of Converging Knowledge Pte Ltd's source, the retail value of China's outdoor market for 2007 is worth RMB3.78 billion (USD518 million).

Research revealed over 1,000 sportswear players in the Chinese market. The survey conducted by Converging Knowledge Pte Ltd's source indicated over 200 active outdoor sports brands. This implies that not all sportswear players in the Chinese market are involved in the outdoor sports segment. The survey conducted by Converging Knowledge Pte Ltd's source also indicated that the Chinese outdoor sports market is mainly dominated by foreign brands. Furthermore, interviews revealed that The North Face and Columbia have the strongest footprints among the foreign brands.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

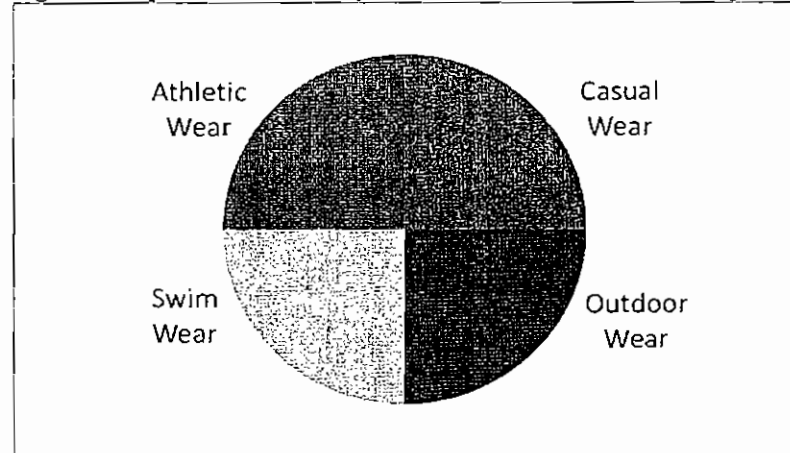
(ii) Differing Segments

(a) Product Category

By product category, we refer to the different types of products available under or are used as sportswear. Sportswear is traditionally functional. This means that different sportswear cater to different sports. However, sportswear has evolved throughout the years to become more fashionable.

By product type, sportswear is divided into four categories, as follows:

Figure 11: Sportswear Industry: The Four Broad Product Categories



Note:

The purpose of this figure is to show the four broad product segments of the sportswear industry. Although the figure is divided into four equal quadrants, note that the division is not representative of the market share of each product segment.

The four broad categories of sportswear are defined as follows:

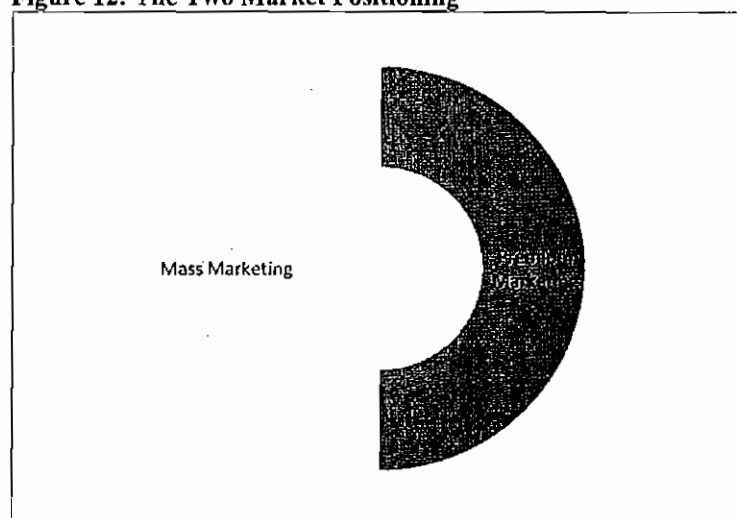
Product Category	Definition
Athletic wear	Sports attire and shoes used for non-extreme land sports, such as jogging, running, basketball and soccer.
Swimwear	Sports attire and shoes used for water sports.
Outdoor wear	Sports attire and shoes with at least one of the following characteristics: <ul style="list-style-type: none"> ▪ Used for extreme, or more physically exertive sports such as hiking, mountain climbing and hunting; ▪ Made to withstand different and harsher weather conditions; ▪ Made of different materials from regular athletic wear, for example materials which are easier to maintain and of thicker soles; and ▪ Have an 'outdoor feel', be it in design or make.
Casual wear	Sports attire and shoes which are used as fashion wear.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(b) Market Positioning

Market positioning refers to the process by which marketers or marketing companies try to create an image of their products by determining their target market, pricing, brand and distribution model. The markets can be segmentalised to premium market, mass market and unbranded market, which includes OEM. Addnice and a majority of the local players have positioned themselves in the mass market segment while most of the international players concentrate in the premium market. The Addnice brand is positioned to target consumers within the age group of 20 to 45. The last category – OEM – refers to sportswear manufacturers who place little or no focus on brand-building and/ or produce for other established brands.

Figure 12: The Two Market Positioning



Note:

The purpose of this figure is to show the two broad market segments of the sportswear industry. Although the figure is divided into two equal segments, note that the division is not representative of the market share of each market segment.

In China, there are also numerous local sportswear companies which are involved in the manufacture of unbranded sportswear. Such companies engage in no, or little, promotional activities as the sportswear they sell are priced to cater to the lower-income groups, or price-sensitive consumers whereby brand premium and quality hold little importance to them. Note that further insights on this “unbranded” segment are not covered in the Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd as the focus is on sportswear companies with a brand focus.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(iii) Market Positioning of the Company within the Outdoor Sports Industry

Figure 13: Market Positioning of Addnice within Industry Structure

Product Category		
Athletic wear	adidas, Li Ning, Nike	361°, Addnice , Anchao, Anta, Athletic, Double Star, Deerhui, Eratat, Erke, Leisu, Meike, Peak, Qiaodan, Xdlong, Xtep, Yeli, Z-Do
Swimwear	adidas, Li Ning, Nike	
Outdoor wear	adidas, Aigle, Columbia, Hanwag, Li Ning, Nike, North Face, Ozark, Timberland	Addnice , AILE, Kolumb, Leisu, Ozark, Tread, Xdlong, Z-Do
Casual wear	adidas, Li Ning, Nike, Timberland	361°, Addnice , AILE, Anchao, Anta, Double Star, Deerhui, Eratat, Erke, Kolumb, Leisu, Meike, Peak, Qiaodan, Tread, Xdlong, Xtep, Yeli,
Market positioning	Premium Marketing	Mass Marketing

Note:

The names of the brands appearing above are presented in alphabetical order.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6.3 COMPETITION AND MARKET SIZE AND SHARE

(i) Industry Players and competition

(a) Competitive Intensity

Current Number of Local Sportswear Manufacturers

In China, most manufacturers of sportswear are located along the coastal provinces of Fujian (福建省) and Guangdong (广东省), with Fujian province taking the lead with the most number of manufacturers. In Fujian Province, the cities of Jinjiang (晋江市) and Putian (莆田市) are amongst the world's largest sports shoe manufacturing bases.

Jinjiang was reported to house approximately 4,000 footwear enterprises in 2007 and had an annual output of approximately two billion pairs of shoes.

Putian is home to over 1,680 footwear enterprises. In 2007, Putian produced 400 million pairs of footwear, of which over 300 million pairs are exported.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Historical Number of Local Sportswear Manufacturers

Please refer to Figure 20 in Section 6.4(i)(b) of this Prospectus for the increase in the number of outdoor segment players from 2006 to 2007.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(b) Operators in the Industry

Names and Number of Major Local and Foreign Sportswear Manufacturers

Interviews with industry sources revealed over 1,000 local sportswear brands in China. Most of these sportswear brands originate from Jinjiang and Putian and cater to the mass market segment.

The majority of the domestic sportswear companies gain their manufacturing experience by providing OEM support to international brands such as Nike and adidas. In recent years, some of these domestic sportswear companies have moved on to successfully develop their own sportswear brands. A handful of these domestic sportswear companies are listed on stock exchanges. Examples include Beijing Li Ning Sports Goods, Anta Group (Fujian), Fujian Hongxing Erke Sports Group and China Eratat Sports Fashion Limited.

Please refer to Figure 14 below for the various domestic sportswear brands available in the market. Please note that the list is not exhaustive as the Chinese market is filled with different brands. It would, therefore, not be possible to keep track of all the different brands in the market.

Figure 14: China's domestic brands for sports shoes

Brand	Company
361°	361° (Fujian) Sports Goods Co
Addnice	Xingquan International Sports Holdings Limited
AILE	AILE Sports Goods
Anchao	Quanzhou Anchao Shoes Industry Co Ltd
Anta	Anta Group (Fujian)
Athletic	Quanzhou Athletic Shoes & Garment
Bangdeng	Fujian Nananshi Bangdeng Footwear Co. Ltd
Deerhui	Fujian Jinjiang Deerhui Footwear Co Ltd
Double Star	Double Star Group
Eratat	China Eratat Sports Fashion Limited
Erke	Fujian Hongxing Erke Sports Group
Gold Apple	Aiqi (Fujian) Footwear Co. Ltd
Guirenniao	Guirenniao (Fujian) Shoes & Plastics Co. Ltd
Leisu	Guohui Footwear Co. Ltd
Li-Ning/Z-Do	Beijing Li Ning Sports Goods
Meike	Fujian Meike Sports Leisure Co. Ltd
Mingle	Mingle (China) Co. Ltd
Peak	Fujian Peak Group Co., Ltd
Qiaodan	Qiaodan (China) Co., Ltd
Xdlong	Xdlong International Company Limited
Xtep	Quanshou Sanxing Sports Goods
Yeli	China Sports International Limited

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

Most of the mass market players target the mid-price range, from RMB200 to RMB500.

Interviews with domestic sportswear companies in this mid-range pricing revealed that the prices of sportswear have been adjusted upwards recently in lieu of improved brand image.

Low price positioning companies include the likes of OEMs and unbranded sportswear. Industry sources revealed that one could purchase a pair of sports shoes without any form of branding for as low as RMB50.

Industry sources also informed that price competition is keen in China; the average selling price for a pair of sports shoes is RMB200 and below. The sales volume of sports shoes selling within this price range is high due to the current consumer spending level in China.

Production Volume

In 2005, China was the leader in footwear production. China accounted for 62.0% of the global footwear production in 2005. China engages mainly in OEM products.

In a recent report published by one of Converging Knowledge Pte Ltd's sources, China is the world's largest footwear producer and the world's largest footwear exporter. China produced more than 10 billion pairs of shoes in 2007. That is approximately 70% of the world's total output.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(ii) Market Share and Size

(a) Market Share and Size of Sportswear Industry

Market share of sportswear in China

In 2007, domestic sportswear companies in China overtook international brands, which included brands such as Nike and adidas, in terms of overall sportswear market share. Note that market share of the Chinese sportswear industry in 2008 is not yet publicly available as at the date of the Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd. Please refer to Figure 15 below.

Figure 15: Market Share of China's Sportswear Industry in 2007



As per the chart above, domestic companies in China held a total market share of 52.0% in 2007. This is an increase of 10.0% from the 42.0% held by the domestic companies in 2005. Two major domestic brands by sales, Li Ning and Anta, held a total market share of 16.7%. Mass market brands, or otherwise known as other lesser known brands, accounted for 31.9% of the sportswear market share in China.

Market size of sportswear in China

Market size estimates

Based on the research conducted by Converging Knowledge Pte Ltd, the estimated value of the sportswear market in China in 2007 is approximately USD4.93 billion.

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

(b) Outdoor Shoes and Apparel as a Segment of Sportswear

According to a survey on China's outdoor industry for 2007 conducted by one of Converging Knowledge Pte Ltd's sources, the retail value of China's outdoor market for 2007 is worth RMB3.78 billion (USD518 million). This indicates that China's outdoor market for 2007 constitutes 10.5% of the country's sportswear industry.

Major Brands and Manufacturers in the Outdoor Segment

China's outdoor segment is currently dominated by foreign brand names. However, interviews revealed that The North Face and Columbia have the deepest footprints in the Chinese market. Although mentioned as among the major brands, Timberland is often noted as a brand for outdoor casual wear, rather than outdoor professional functional wear.

During the course of the research by Converging Knowledge Pte Ltd, they also interviewed industry players to establish the major local brands and manufacturers in the Chinese market. The most common local brand name raised during the course of the interviews was Tread. Other local brand names mentioned was Addnice, Ozark and Kolumb.

The following section compares the market share of the top three international outdoor brands versus Tread, Addnice, Ozark and Kolumb.

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Market share of outdoor shoes and apparels in China

Based on China's outdoor retail value of RMB3.78 billion as compiled by one of Converging Knowledge Pte Ltd's sources, the market share of the seven outdoor segment players based on their estimated 2007 revenue are as follows:

Figure 16: Market Share by Sales of the Major Outdoor Segment Players for 2007

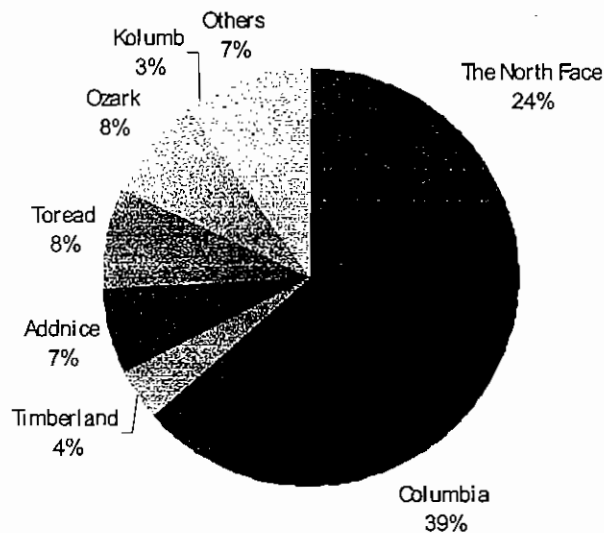


Figure 16 shows that Columbia and The North Face are the leading brands in the outdoor segment in China, with respective market shares of 39% and 24% in 2007. Research indicates that domestic brand names have begun to develop a strong presence in China's outdoor segment. In 2007, Toread and Ozark registered respective market shares of 8% each. They are followed closely by Addnice, with its market share of 7%. The market share computed above is based on the estimated 2007 revenue of the respective companies for the respective brands and does not break down the revenue to the specific product type. Of the brands listed above, all except for Addnice and Timberland also sell outdoor equipment.

Market size is "an estimate" as market share is derived from the revenues obtained through interviews with some of the more popular brand names. Other than Addnice, the revenues "are estimates". Market share is therefore an estimate because both market size and revenues are estimates.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

6.4 DEMAND AND ITS DEPENDENCIES

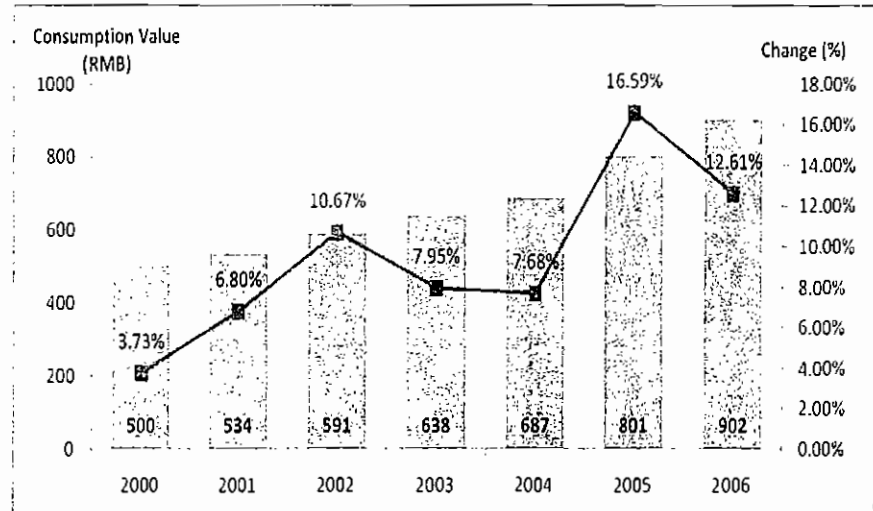
(i) Historical and Forecast Demand

(a) Demand Conditions

The rise in disposable income of the Chinese population has changed the consumption patterns of households. The annual apparel and footwear consumption per household in China has increased by 80.4% over a six-year period from 2000 to 2006. This represents a CAGR of 10.3%.

Historical and Forecast Annual Apparel and Footwear Consumption with Growth Rate

Figure 17: Annual Apparel and Footwear Consumption per Urban Household



Note:

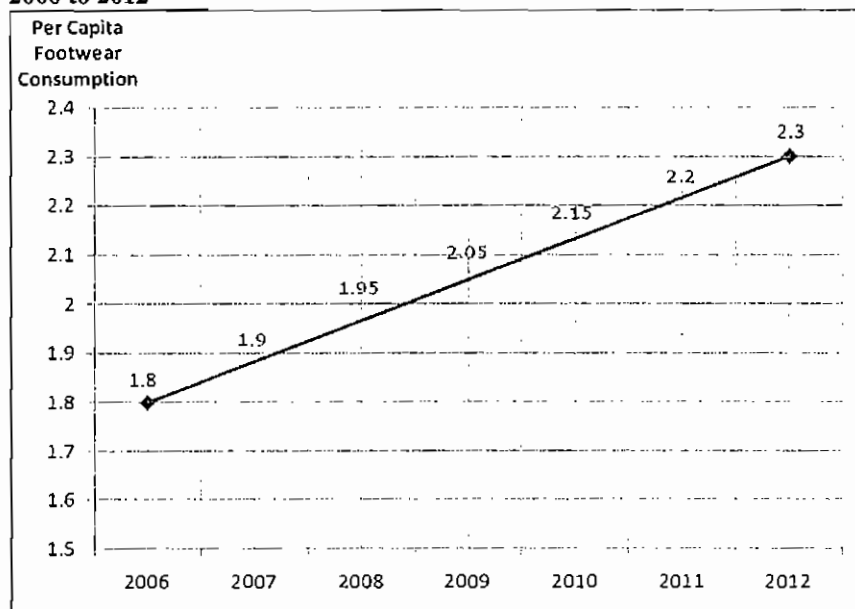
Statistics for the year 2007 and 2008 are not available as at the date of the Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd. Data prior to 2000 is not available.

The increasing trend in the annual consumption of apparel and footwear per urban household indicates that Chinese consumers, especially the younger generation, are willing to spend money on apparel and footwear. This may be attributed to the changing mindset regarding their desire for status and as such, are more forthright in flaunting their new wealth.

Converging Knowledge Pte Ltd's source reported that in 2006, per capita footwear consumption in China was 1.8 pairs per annum. It was also projected that per capita footwear consumption in China will reach 2.3 pairs per annum by 2012. This represents a growth of 27.8% over the six year period. Please refer to Figure 18 below.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Figure 18: Growth of per capita footwear consumption for China from 2006 to 2012



Note:

The figure above is derived based from a straight line assumption. Per capita footwear consumption for 2007, 2008, 2009, 2010 and 2011 are approximate estimates based on the graph.

Historical and Forecast Annual Exports of Footwear Apparel with Growth Rate

In a recent report published by Converging Knowledge Pte Ltd's source, China is the world's largest footwear producer and the world's largest footwear exporter. China produced more than 10 billion pairs of shoes in 2007, or 70% of the world's total output.

Please refer to the figure below for statistics of footwear exported by China as tabulated by one of Converging Knowledge Pte Ltd's sources.

Figure 19: Export of footwear from 2005 to 2007

	2005	2006	2007	2008
Exports of Footwear (USD billion)	19.05	21.81	25.31	29.66

Note:

Statistics for previous years are not available

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

China exported USD29.66 billion worth of footwear in 2008. This is an increase of 17.2%, as compared to 2007. In spite of the increase in exports in 2008, a media article reported that export of footwear, especially to Europe, has declined as a result of the economic crisis. According to Converging Knowledge Pte Ltd's source, export of footwear from January 2008 to July 2008 declined by 1.7%, compared to the same period in the previous year.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(b) Demand and Supply of Outdoor Shoes and Apparel

Interviews revealed that demand for outdoor shoes and apparel is on the rise in the Chinese market due to the following reasons:

- Increasing numbers of Chinese consumers appreciating and embracing outdoor sports; and
- Higher disposable incomes among the Chinese consumers, which make outdoor shoes and apparel more affordable.

Due to the higher technological make-up of outdoor shoes and apparel, outdoor wear is generally priced higher than the average sportswear. For example, an ordinary windbreaker may be priced less than RMB1,000 as opposed to a high performance one which may cost as much as RMB4,000. Interviews further revealed that due to higher prices of outdoor wear, the average age of consumers for outdoor wear tend to be older, ranging from late 20s to their 30s.

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6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

According to a survey on China's outdoor industry for 2007 conducted by one of Converging Knowledge Pte Ltd's sources, there are 230 active brands in China's outdoor market in 2007. Out of these 230 brands, 95 (approximately 41.3%) are local brands and the remaining 135 (approximately 58.7%) are foreign brands. Please see Figure 20 below:

Figure 20: Comparison between Local and Foreign Outdoor Brands

Category	2006	2007	% Change
Active Outdoor Brands in China	176	230	30.7
Clothing	27	25	(7.4)
Whole line	35	54	54.3
Shoes	25	39	56.0
Gear and others	89	112	25.8
Local Outdoor Brands	67	95	41.8
Clothing	22	20	(9.1)
Whole line	12	28	133.3
Shoes	9	11	22.2
Gear and others	24	36	50.0
Foreign Outdoor Brands	109	135	23.9
Clothing	5	5	0.0
Whole line	23	26	13.0
Shoes	16	28	75.0
Gear and others	65	76	16.9

Note:

Products related to snow sports, fishing and hunting, mountain biking activities are not reported in this survey.

Whole line – the entire range of a specific brand or brands are available in the stated market.

Based on the above-mentioned figure, the total number of active outdoor brands increased by 30.7% in 2007. Local outdoor brands constitute a larger part of this increase. In 2007, the number of active local outdoor brands rose by 41.8%, compared with 23.9% for foreign outdoor brands.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(c) Growth and Development Trends

Outdoor sports culture – a growing way of life

Outdoor sports, outdoor culture, as well as the outdoor industry have increasingly caught the attention of and acceptance by the people. More and more people are consciously pursuing leisure, fashion, and healthy, environmentally friendly and natural way of life.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS *(Cont'd)*

Sports Tourism

Since sports tourism started in China in 1994, the country's revenue from sports tourism has been growing at an annual rate of 30% to 40%.

Beijing Olympic Games 2008 draws attention to outdoor sports

The Beijing Olympic Games 2008 not only set off a national fitness craze, but it also drew increasing attention to outdoor sports.

Sportswear manufacturers entering the outdoor casual segment

In the course of the research by Converging Knowledge Pte Ltd, they understood that not all existing sportswear manufacturers have entered the outdoor sportswear segment. Most of the major sportswear players are currently still focused on the production and/ or marketing of athletic and casual sportswear.

Their research indicates that major sportswear players with an outdoor sportswear line tend to focus on the outdoor casual segment, rather than the high performance range. Interviews with industry players revealed that some major sportswear players opine that the outdoor sportswear segment is still at the infant stage and that they do not anticipate this segment to see high growth, as compared to the general sportswear segment in the near future. Note, however, that players in the outdoor segment think otherwise and have predicted double digit growth in the outdoor segment.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(ii) Demand and Supply Dependencies

(a) Demand Dependency

Focus on Healthy Lifestyle

The Chinese government has been educating and promoting the benefits of a healthy lifestyle to the Chinese population. The Chinese government is reported to have invested approximately RMB800 million per annum into the sports industry in a bid to promote a healthy lifestyle. With rising medical expenses, as well as the recent various forms of viral epidemics such as Severe Acute Respiratory Syndrome and A(H1N1), the Chinese have become more health conscious, such that they have embraced physical activities.

The recent Beijing Olympics 2008 served as a platform for China to demonstrate its athletic achievement to the world: China won 100 medals – 51 golds, 21 silvers and 28 bronzes. This has further stimulated the nation's ambition to be recognized as a 'strong country in sports', which, in turn, acts as a catalyst for the growth of China's sportswear market.

Coupled with Chinese athletes gaining recognition and popularity in the international arena for their athletic achievements, China's sportswear market is further invigorated. One such prominent Chinese athlete is Yao Ming, who plays professional basketball for the Houston Rockets in the US.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS *(Cont'd)*

In China, the achievement of China's national sports teams reinforces China's national identity and national pride.

Sporting Events

The recent Beijing Olympics 2008 has helped to strengthen China's economy. It was reported that 4.0% of China's GDP was derived from the Beijing Olympics 2008. With the success of the Beijing Olympics 2008, we can expect further promotion of the sports culture, increase in the participation rate in sports, and the demand for sportswear products with the hosting of future international sports events by China.

Events that will be hosted by China include East Asian Games in Hong Kong in 2009, the 16th Asian Games in Guangzhou in 2010 and World University Games in 2011.

Educated/ Affluent Customers

With the increase in the purchasing power of the Chinese, Chinese consumers are better able to afford to purchase sportswear. Sports shoes are no longer functional, but doubling up as fashionable general leisurewear. Chinese consumers are now more fashion conscious, where design of merchandise has become a major factor in their choice.

Consumers today are becoming increasingly aware of the specific functionality of sporting goods, particularly shoes. Consumers prefer to wear the 'right type of sports shoes' for the intended sports. For instance, when playing basketball, consumers wear basketball shoes instead of wearing any other type of sports shoes.

Consumers are becoming more demanding in their choice of purchase, with the rise of their knowledge and understanding of sportswear. Today, consumers in general pay more attention to product quality, technology content, and factors in the after-sales service. Consumers will choose goods that suit their practical needs and represent value for money.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(b) Supply Dependencies

Labour

China passed a new labour contract law in January 2008 requiring employers to provide written contracts to employees and limit the use of term contracts. The new law also demands that employers pay for social security, insurance premiums and overtime pay. It also ensures higher compensation for workers in the event of termination by employers. With stricter labour regulations, shoe manufacturers in China incur additional costs to hire and retain labourers.

Employers also find it harder to attract workers from 'rural China'. Government at provincial, municipal and even city levels of provinces compete to attract investments and workers to the area of their jurisdiction. They aim to improve the economic conditions of the area under their jurisdiction, other than creating jobs for their own residents. The increase in

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

local job opportunities results in fewer Chinese leaving their hometown to look for work.

An article reported that rural migrant workers in Guangdong, China, were not satisfied with their low pay and sweatshop conditions. Apart from unsatisfactory pay and working conditions, many of these migrant workers are not returning to their original employment in Guangdong. Instead, the migrant workers move to new places that offer them better opportunities. The article also reported that there are a growing number of opportunities in their home towns and the nearby cities.

Raw Materials

OEM sportswear manufacturers are usually very dependent on a few major clients. As such, OEM sportswear manufacturers lack the bargaining power to pass the higher operating costs incurred to their end customers. Profit margins of OEM manufacturers are further dampened when they would have to absorb any cost increases during the contractual period.

In 2008, the increasing costs incurred by shoe manufacturers have resulted in the shutting down and relocation of approximately 15% of shoe manufacturers. These shoe manufacturers are mainly small shoe making enterprises.

Sportswear manufacturers that sell their own brand of sportswear may be able to offset increases in raw material prices with the increase in per unit selling price of their sportswear products. For instance, in the financial records of Addnice, it indicates that the company experienced an increase in the costs of its raw materials during the financial years 2006 to 2008. Per unit cost of shoe sole material of the company rose by 20.0% from 2006 to 2008. However, these increases were partly offset by the increase in the per unit selling price of Addnice sports shoes. Although Addnice is not spared from rising raw material costs, it is noteworthy that Addnice's OEM sales for sports shoes of the business have been following a declining trend. As at the financial year 2008, its OEM sales for sports shoes business accounted for 8.0% of its sales.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS *(Cont'd)*

6.5 SUBSTITUTE PRODUCTS AND SERVICES

Footwear and apparel are basic necessities. Hence, the threat of substitutes to this market is limited. However, there is a significant degree of substitution between segments. For example, sportswear is often regarded as a substitute for other forms of traditional footwear type.

Although sportswear is essentially produced and worn for a specific functional sport, substitute products for sportswear are aplenty due to the inadequate knowledge of the Chinese consumers on the different functionalities of sportswear.

According to a survey conducted by one of Converging Knowledge Pte Ltd's sources, only 14.6% of the consumers paid attention to the functionalities of sports shoes. 48.5% did not attach importance to the sports injury function of sports shoes, and 50.1% of consumers wear sports shoes intended for different types of sports.

Due to this lack of awareness of sportswear science, sportswear is regarded by the Chinese consumers to be highly substitutable.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6.6 INDUSTRY RELIANCE AND VULNERABILITY TO IMPORTS

In general, the reliance and vulnerability of China's sportswear industry to imports has been decreasing throughout the years. This is largely because a large percentage of the world's shoes are produced in China. China has been touted as the world's largest shoe production base and exporting country. According to a media article, China's shoe industry consists of more than 30,000 enterprises, employs more than four million people in its workforce, and produces in excess of 10 billion pairs of shoes.

Interviews, however, revealed that the outdoor wear segment of China's sportswear industry is still highly reliant and vulnerable to imports. This is because the industry is still at its infancy. Although some local producers of outdoor wear possess the technological expertise to produce outdoor wear, we understand, through interviews, that a large percentage of the higher performance brands of outdoor wear are still being imported.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

6.7 LEGISLATION, POLICIES AND INCENTIVES

There are no specific legislations or policies governing the sportswear or footwear production industry in China. However, they enjoy certain incentives as detailed below. Note that some of the highlights below pertain to shoes in general and not specifically to sports shoes.

Incentives

Financial Incentives

In Jinjiang, Fujian Province, new shoe enterprises are awarded the following one-time financial incentives upon fulfilment of the stated conditions:

Figure 21: Financial Incentives

Financial Incentive	Conditions
RMB100,000	Annual sales of more than RMB30 million, with annual tax exceeding RMB1 million.
RMB200,000	Annual sales of more than RMB50 million, with annual tax exceeding RMB2 million.
30% of the new annual tax value	Annual tax exceeding RMB2 million, with annual tax increase of more than 20%.

Grants

New shoe companies will be given tax grants of 50%, 30% and 20% for the first three years.

Rent

Shoe companies that commit to a one-time rental of five or more stores, with a lease period of three years, will be given a one-time incentive of RMB50,000.

Others

Shoe enterprises stand to enjoy a number of other incentives such as corporate tax relief, and others such as value-added tax, enterprise income tax, personal income tax, property tax, urban land use tax. The enterprises also stand to enjoy exemption from paying management and registration fees to the Trade and Industry Department.

The first foot shape database in China

In 2007, the Sport Equipment Research and Development Base of China Institute of Sport Science ("CISS") was launched in Fujian Sidelong Sporting Goods Co., Ltd in Jinjiang. This represents the second cooperative effort between Jinjiang and the General Administration of Sport of China. This programme was initiated to collect data on foot shapes of all people nationwide so that experts on shoe mechanics can set up the first foot shape database in China. Such database will become the first "Chinese standard" for sports shoes.

Collaboration between the National Testing Centre of Footwear (Jinjiang) with RSscan & RS Lab

Departments within the Jinjiang Government have been vigorously promoting its national industry – the sportswear industry. For the first time, it is involved in the functional design of sports shoes, with the aim of promoting the upgrading of the footwear industry, technological innovation and upgrading the technological R&D level of sports shoes of Jinjiang and its surrounding areas.

The National Testing Centre of Footwear (Jinjiang), in collaboration with RSscan & RS Lab, launched a footwear biomechanics laboratory, as well as cooperative efforts in basic areas of sports shoe technical designs. RSscan & RS Lab will assist the National Testing of Footwear (Jinjiang) in achieving international standards of sports shoes biomechanics laboratory design,

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

high-end sports shoes functional biomechanical testing standards evaluation methodology training, as well as basic functional designs of sports shoes.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

6.8 INDUSTRY OUTLOOK AND PROSPECTS

(i) Industry Outlook in China

The outdoor sports industry is reported to be a “sunrise” industry as more and more Chinese take up outdoor sports. This industry is reported to be one of the country’s fastest growing industries. In 2006, China’s outdoor sports wholesale market totalled RMB1.15 billion (USD147 million). In 2007, it reached as high as RMB1.59 billion (USD218 million), an increase of 38.36% from 2006.

According to data furnished by one of Converging Knowledge Pte Ltd’s sources, China’s outdoor sports clothing and equipment sales volume reached RMB0.1 billion (USD12 million) five years ago. By 2007, this figure reached RMB2.6 billion (USD356 million). Another noticeable progression in this industry is that five years ago, there were more than 400 professional outdoor supply dealers, and more than 290 professional outdoor supply shops. By 2007, the number has grown to 2,125 professional outdoor supply dealers, and more than 1,500 professional outdoor supply shops. An industry expert expressed that as China’s outdoor market grows with maturity, China would rapidly become the world’s largest high-end outdoor supply market. Yet, according to another of Converging Knowledge Pte Ltd’s sources, China’s sales of outdoor supplies is expected to reach RMB4.5 billion to RMB6.0 billion (USD658 million to USD878 million) by 2010.

This increase can be attributed to the following growth drivers:

(a) Growing popularity of apparel sportswear

In the course of Converging Knowledge Pte Ltd’s research, they found no official data depicting the breakdown of the sportswear market in China. However, they have noted that the sportswear market in China is broadly classified into two groups, namely functional sportswear and apparel sportswear.

Functional sportswear emphasises technological innovation. Functional sportswear appeals to sports enthusiasts who are keen on improving their performance. Apparel sportswear also refers to fashion wear and it appeals mostly to fashion conscious youth who desire to follow the latest “look good” fashion trend.

With the increasing trend of Chinese consumers wearing sportswear as general leisurewear, various shoe-making manufacturers are turning to venture more into sports apparel as their business model. One major reason could be attributed to the higher gross profit margins generated by sports apparel.

(b) Healthy Lifestyle and Fitness as a Status Symbol

The Chinese government emphasises healthy lifestyle among the Chinese population, via active education and promotion of such benefits. Coupled with the rising costs of medical care in China, and the threat of viral epidemics such as Severe Acute Respiratory Syndrome and A(H1N1), the

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Chinese population in general, has become more health conscious. As such, more and more Chinese have turned to exercising, which increases the demand for sportswear in China.

In addition, personal fitness and adventure sports are the fastest growing sports as they are normally associated with status symbol. There has been an increasing trend of urban, middle class people in China signing up for gym memberships and working out under the guidance of personal trainers.

With the increase in the popularity of adventure sports, more Chinese consumers are spending on outdoor equipment. In 2007, Chinese consumers spent approximately RMB2.6 billion. This is a significant increase, as compared to RMB100 million spent in 2002. It is projected that sales of outdoor equipment will reach RMB4.5 billion to RMB6.0 billion in 2010.

(c) Sporting Events

With major sporting events held and to be held in China, the Chinese population has actively participated in sports. In 2008, China hosted the Beijing Olympics and most recently, the 2009 FIS Tour De Ski China. The F1 Chinese Grand Prix was held in Shanghai from 17 -19 April 2009. We can expect the participation rate to increase with the further promotion of the sports culture by the Chinese government. This increased participation will, in turn, increase the demand for sportswear products as China hosts more of such international sports events. China will be hosting the Badminton China Masters Super Series 2009 in mid September 2009, whereas the ATP Masters 1000 will be held in Shanghai in October 2009.

Participation in outdoor sports increased throughout the years and is expected to experience continued growth. Since 1999, the number of outdoor sports clubs registered at the China Mountaineering Association is reported to have doubled each year. By early 2005, there were more than 230 registered clubs with thousands of members.

(d) Increasing level of disposable income

As the Chinese population becomes more educated and knowledgeable, they seek better quality sportswear. In addition, rising levels of disposable income means that Chinese consumers are prepared to pay for quality.

One of the key trends in 2008 is the rise of emerging middle class who wish to purchase "affordable luxuries in second tier and satellite cities around the first tier cities". Spending patterns will, therefore, steer from unbranded goods to branded ones, in tandem with the rising disposable incomes of the middle class consumers. Sportswear, which was previously regarded as a functional good, is gradually seen as fashion wear, which may raise the perceived status of the wearer. Its popularity will, therefore, rise as middle class consumers have better propensities to indulge in their wants, rather than needs.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

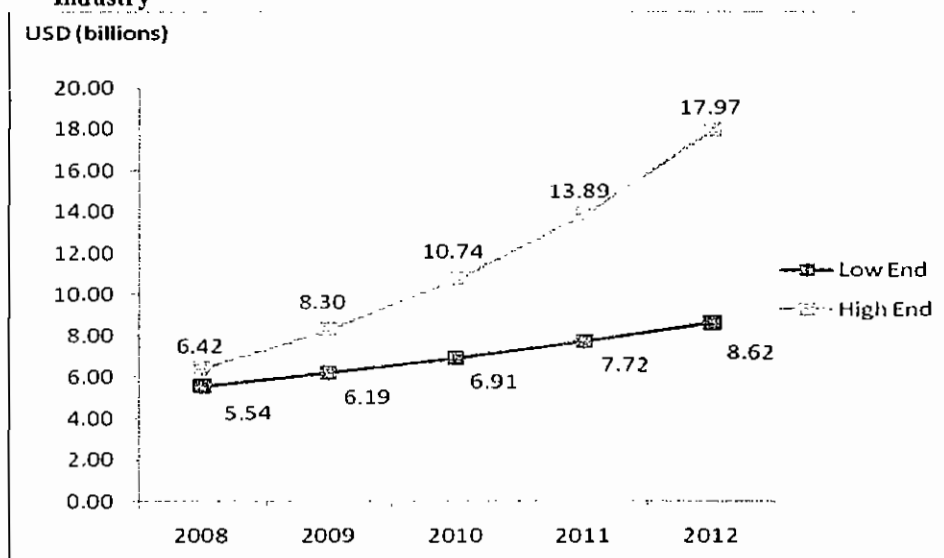
6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

(ii) Industry Prospects

Based on research conducted by Converging Knowledge Pte Ltd, the growth rate estimation ranges from 11.7% to 15.8% as the CAGR for China's sportswear market and ranges from 27.0% to 42.0% as the CAGR for China's outdoor sports market.

Further, as China's sportswear market in 2007 is estimated at USD4.93 billion. Based on the above mention growth rate estimation which ranges from 11.7% to 15.8% as the CAGR for China's sportswear market, the market size forecasts of China's sportswear industry from 2008 to 2012 are as follows:

Figure 22: Market Size Forecasts for 2008 to 2012 of China's Sportswear Industry



(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

There was no market size forecast for 2008 to 2012 for China's outdoor sports market available at the time the Report on Sportswear Industry in China, 2009 was prepared by Converging Knowledge Pte Ltd. However, the estimated growth rate for China's outdoor sports market is higher than that of China's sportswear market in general. This, coupled with the favourable industry outlook as highlighted in Section 6.8(i) of this Prospectus, the prospects for the Company is favourable.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (*Cont'd*)

6.9 OUR GROUP'S PROSPECTS AND FUTURE PLANS

(i) Our Group's Prospects

Our Group's prospects are favourable in light of the following contributing factors:

- Our competitive strengths and advantages as detailed in Section 7.2 of this Prospectus;
- Favourable outlook of the sportswear industry as well as the outdoor sports market as detailed in Section 6.8 of this Prospectus;
- Our critical success factors as detailed below:

(a) Critical Success Factors

Distribution of Retail Network in China

Due to the geographical size of China, distribution of sports shoes and apparel is undertaken through various means such as, among others, distributors, franchises, directly managed retail outlets, retail counters, general sports shops and shop-in-shops.

In order to reach out to its target clientele, retail sports outlets of different market players are seen mushrooming throughout various parts of China.

Research shows that players in the outdoor segment have a smaller distribution outreach as compared to their general sportswear counterparts. This may be due to the fact that the outdoor segment in China is still at its infant stage. International brand name, Columbia, is reported to have established more than 400 points of sales in the country. The North Face, on the other hand, has a smaller distribution network in China, with approximately 300 points of sales followed by Timberland which has approximately 100 point of sales. Xingquan International, marketer of the Addnice brand of outdoor sports shoes and apparel, has the largest number of point of sales in China among the major outdoor segment players in the market. As at 31 December 2008, Xingquan International boasts more than 1,300 points of sales, which is more than three-folds larger than that of domestic competitor, Tread. Ozark and Kolumb have more than 200 and close to 200 point of sales respectively.

Geographical Spread

One of Converging Knowledge Pte Ltd's sources reported that apparent regional disparities in sports participation. Northern urban Chinese engage in more sporting activities compared to the other regions in China. The frequency of the Chinese population in a particular region engaging in sports is a major deciding factor for a sportswear company if they should set up a retail outlet in that area.

Industry sources disclosed that retail outlet expansion is more evident in the northern part of China. The inland of Northern China is considered an underpenetrated sportswear market segment with less competition. In addition, operating costs for setting up retail outlets in the inland of Northern China is lower, as compared to the cities near or at the coastal regions. Industry sources added that second tier and third tier cities offer greater growth potential in the near future.

6. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS *(Cont'd)*

Northern China also presents a lot of opportunities for outdoor segment players like Xingquan International and Ozark. Unlike coastal areas, the northern part of China has a wider variety of landscapes and harsher weather conditions. People living in the northern region would have greater opportunities to engage in outdoor sports, thus creating a natural demand for outdoor goods. Xingquan International has identified the existence of such opportunities in the northern region, and has established a concentration of point of sales within the North-eastern part of the country.

The fast expansion of the mid to high end market is expected due to the increasing levels of purchasing power and higher channel penetrations. This, in turn, boosts sales in the second and third tier cities.

(Source: Report on Sportswear Industry in China, 2009 prepared by Converging Knowledge Pte Ltd)

(ii) **Future Plans**

We intend to adopt the following future plans as set out below:

(a) **Marketing and advertising activities**

We believe that brand image in the sportswear market is instrumental to the success of our products and as such, we will continue to place emphasis on building our Group's brand image. To promote greater awareness of our "Addnice" brand and products, our Group will continue to focus on and increase our marketing activities through various channels including, without limitation, television advertisements, billboards in commercial districts, giant poster displays on exteriors of shopping malls and organising and/or sponsoring outdoor sports related activities. Details of our marketing activities are set out in Section 7.13 of this Prospectus.

We intend to utilise approximately RM32 million of our estimated net proceeds from the IPO for our marketing and advertising activities. Please also see Section 4.11 of this Prospectus for more details.

(b) **Expand our sales and distribution network**

We intend to expand our sales and marketing network in the PRC by increasing the number of "Addnice" specialty stores and retail stores. To this extent, we intend to penetrate into other provinces and cities which we do not yet have a presence as well as strengthen our presence in provinces and cities which we have already penetrated. To achieve this, we intend to appoint more distributors and direct retailers. We will be advertising in various media for third parties to become our distributors or direct retailers, or become third party owners of our specialty/retail stores as well as encourage our existing distributors and direct retailers to set up or procure the setting up of more specialty stores and retail stores.

We intend to utilise approximately RM33 million of our estimated net proceeds from the IPO for the above expansion. Please also see Section 4.11 of this Prospectus for more details.

6. **INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

(c) Expand our production capacity

We intend to expand our production capacity for our shoes and shoe sole products by constructing new facilities and investing in additional machinery and equipment to be installed in such new facilities.

We estimate that we will require approximately RMB260 million (approximately RM132.08 million based on the exchange rate of RM1:RMB0.5080 as at the Latest Practicable Date) for the expansion which includes, buildings, equipments and machineries, which will be funded from the estimated net proceeds of RM19.602 million (assuming Minimum Scenario) or RM99.825 million (assuming Maximum Scenario) from the IPO and internally generated funds and/or bank borrowings. We have earmarked an existing piece of land (approximately 66,666 sq metres) which we hope to successfully bid for during a public auction which shall be paid from internally generated funds. If we fail in our bid, we shall identify other land of suitable size and location for our expansion. We intend to build a new factory with a production floor area of approximately 55,000 sq metres on this piece of land to expand our current and future production capacity. Based on our business development and market demand for our services, we intend to carry out the expansion gradually over a period of time after the completion of our new facilities. We expect to commence construction of our new facilities in the second half of 2009 which is expected to be completed in 2011.

Upon completion of the expansion, we expect our production capacity for shoes and shoe sole products to increase from approximately 5.9 million and 14.0 million pairs per annum to approximately 10.0 million and 28.0 million pairs per annum respectively.

Please also see Section 4.11 of this Prospectus for more details.

(d) Expand our research and development capabilities

We believe constant innovation in developing new products that are well-received by our target consumers is vital to our continuing success. We plan to intensify our research and development efforts to develop new outdoor and indoor sports and leisure shoes, shoe soles, apparels and accessories. This will enable us to meet the changing demands of our end consumers.

To enable us to implement our plans, we intend to strengthen our research and development capability by recruiting new personnel and enhancing our existing research and development team.

We intend to utilise approximately RM15 million from the estimated net proceeds of the IPO to fully fund the expansion of our research and development capabilities. Please also see Section 4.11 of this Prospectus for more details.

7. BUSINESS OF OUR GROUP

7.1 HISTORY AND BUSINESS OVERVIEW

Our Company was incorporated in Bermuda under the Bermuda Companies Act on 15 December 2008 as an exempted company limited by shares under the name of Xingquan International Sports Holdings Limited. On 11 February 2009, our Company was registered in Malaysia as a foreign company. Our Company commenced business on 1 June 2009.

Our Company's principal activities are investment holding and provision of management services and our Group is principally engaged in the manufacturing of shoe soles and shoes and sales of shoe soles, shoes, apparels and accessories. The principal activities of our subsidiaries are as follows:

Name	Date and place of incorporation	Principal activities/ <i>(Intended principal activities)*</i>
Addnice Holdings	20 March 2008 Hong Kong	Investment Holdings <i>(no change)</i>
Addnice China	7 March 2006 PRC	Inactive <i>(Manufacturing of shoes and sales of shoes, apparels and accessories)</i>
Addnice Sports	1 August 2003 PRC	Manufacturing of shoes and sales of shoes, apparels and accessories. <i>(inactive)</i>
Xingquan Plastics	31 January 2000 PRC	Manufacturing and sales of shoe soles <i>(no change)</i>
Xingquan Footwear	8 February 1999 PRC	Lease of factory and land <i>(no change)</i>

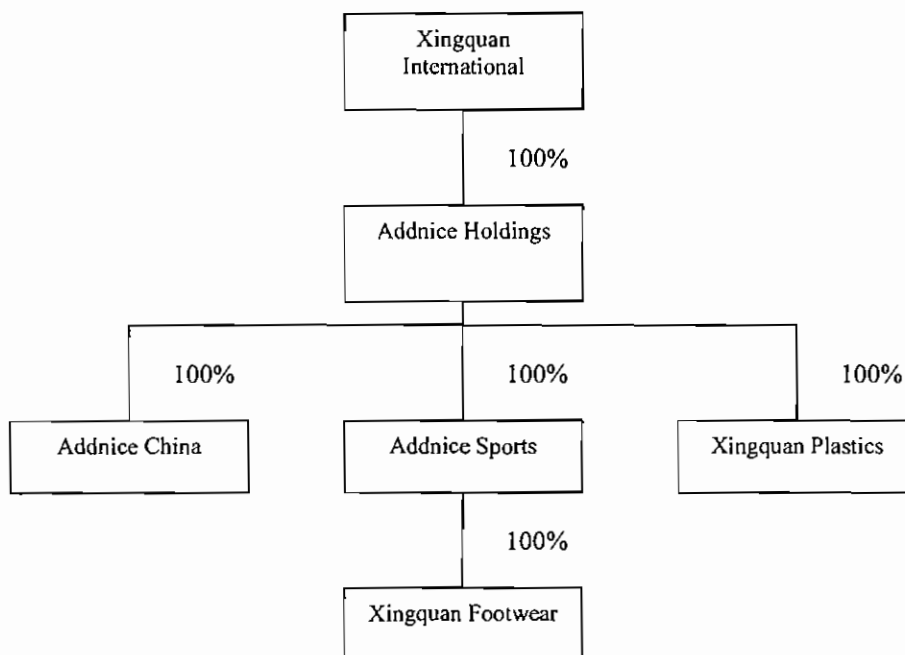
Note:

* *We intend to change the current principal activities of our subsidiaries as disclosed above by 2011 in order to benefit from tax incentives presently available to us. Please refer to Section 5.2.2 of this Prospectus for the tax incentive available to us and the corresponding risk relating thereto.*

As at the date of this Prospectus, we have an authorised share capital of USD50,000,000 comprising 500,000,000 Shares whilst our issued and paid-up share capital is USD21,513,000 comprising 215,130,000 Shares.

7. **BUSINESS OF OUR GROUP (Cont'd)**

Our Group structure can be depicted as follows:



Our history may be traced back to 1995 when our Executive Chairman and CEO, Mr Wu Qingquan, established Jinjiang Xingquan in 1995, jointly with Mr Wu Qingquan's wife, Mdm Zhuang Hongji, and his brother, Mr Wu Lianfa, to engage in the manufacture of shoes and shoe soles for local and international shoe manufacturers. Mr Wu Qingquan was then the legal representative of, and held 60.0% equity in, Jinjiang Xingquan. Mr Wu Lianfa and Mdm Zhuang Hongji each held 30.0% and 10.0% equity interest in Jinjiang Xingquan, respectively.

Prior to the establishment of Jinjiang Xingquan, Mr Wu Qingquan had accumulated years of experience in the shoes industry through his involvement in Yanshang Shoe Factory. Yanshang Shoe Factory was set up in 1989, by the Villager Committee of Yanshang Village and headed by Mr Wu Qingquan's father, Mr Wu Shihu, to engage in the manufacture of shoes and rubber products. Mr Wu Qingquan was then in charge of procurement and sales.

In 1999, recognising the growing demand for shoe soles in the PRC and the profitability of the shoe sole business, Mr Wu Shihu, Mr Wu Lianfa and the Villager Committee of Yanshang Village founded Xingquan Footwear to manufacture shoe soles and took over the shoe sole manufacturing business of Yanshang Shoe Factory. Mr Wu Lianfa eventually bought over all the equity of Xingquan Footwear held by the Villager Committee of Yanshang Village in 2002.

In 2000, Xingquan Plastics was established by Mr Iao Ieok Chon, Mr Wu Qingquan's brother-in-law. Upon its establishment, Xingquan Plastics took over the shoe manufacturing business from Jinjiang Xingquan. Jinjiang Xingquan had since ceased its business and was deregistered while Xingquan Footwear wound down its shoe manufacturing operations and was subsequently involved in leasing its factory and land. Upon commencement of its business, Xingquan Plastics provided OEM services to shoe manufacturers engaged in the manufacture of completed shoes products. Our Group presently manufacture on OEM basis for owners of well-known international brands such as FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto through Addnice Sports.

7. BUSINESS OF OUR GROUP (Cont'd)

In 2000, Xingquan Plastics also purchased four (4) sets of injection moulding machines which increased our shoe sole production capacity.

In 2001, we foresaw the potential growth and demand for products manufactured through the process of foam moulding and purchased five (5) sets of foam moulding machines. Shoe soles produced by foam moulding have greater elasticity, compared to injection moulded soles, and are suitable for production of higher end shoe products. With increasing popularity of foam moulded products, our Group continued, over the years, to expand our foam moulding production line.

In 2002, Xingquan Plastics started supplying shoe soles to manufacturers of well-known PRC brands. They presently include brands such as Xtep (特步), China Peak (匹克), 361° (三六一度) and Qiaodan (乔丹).

In 2003, Mr Wu Qingquan's sister, Mdm Ng Sio Peng, founded Addnice Sports to undertake the development, design, production and sale of "Addnice" brand shoe products.

The sale of shoe products under our "Addnice" brand commenced in 2004 with the launch of our shoe products in the PRC. In 2005, Addnice Sports took over the shoe business of Xingquan Plastics, while the latter focused on its shoe sole business. In 2005, our Group expanded its distribution within PRC as well as expanded its range of products to include sports and leisure apparels and accessories, which are manufactured by OEM suppliers.

With the launch of our own brand of products, our Group began focusing on the management of our "Addnice" brand. Between March 2006 and February 2008, our Group signed Miao Lijie, a captain of the PRC female basketball team and a player in the WNBA as spokesperson for our "Addnice" brand. Our efforts continued and between April 2007 and March 2009, we signed Jason Kapon, a NBA player from the Toronto Raptors and back-to-back winner of the Foot Locker Three-Point Shootout for 2007 and 2008 to endorse our "Addnice" brand.

In 2006, Addnice Sports was awarded the Certificate for Product Exemption from Quality Surveillance Inspection (产品质量免检证书) for our products sold under the "Addnice" brand.

Since we introduced our "Addnice" brand of products, our "Addnice" brand has gained strong public recognition in the market. We have received various awards and affirmation in respect of our "Addnice" brand, such as PRC Famous Trademark (中国驰名商标), Fujian Famous Brand Product (福建名牌产品) and Quanzhou City Well-known Trademark (泉州市知名商标), which demonstrates the public recognition and acceptance we have gained for the high quality of our products. To protect the goodwill associated to our products, over the years, our Group has registered our tradenames and logos in the PRC. Further, in anticipation of potential markets which we may move into, we have also registered or applied for registration of our tradenames and logos in other countries such as Germany, Hong Kong, Macau, Malaysia and Taiwan, as well as various eastern and western European countries. For more details on our Group's trademarks, please refer to Section 7.20 of this Prospectus.

In 2006, our Group introduced the tagline "运动.自由境界" (which means "sporting freedom") to promote our Group's outdoor and urban leisure products, including shoes and apparels.

In 2008, we began to focus more on our Group's outdoor and urban leisure products in our efforts to position our Group in the outdoor shoe market of the footwear industry in China.

As a testimony to our quality control management, Xingquan Plastics was accredited with ISO9001:2000 by the Environment & Quality Assurance International Certification Center (EQA 国际认证中心) in 2002 for the scope of Production and Sales of Sports Shoes and Material For Shoes (运动鞋及鞋材的生产和销售) and Addnice Sports was accredited with ISO9001:2000 for the Products/Service: Design, Production and Service of GYM Shoes and

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Liefallow Shoes (运动鞋、休闲鞋系列产品的设计、生产和服务) by China United Certification Center (中联认证中心) in 2004 and with ISO14001:1996 (now ISO14001:2004) by the China United Certification Center in 2004 for its environmental management system for Design, Production and Correlative Management Activities of GYM Shoes and Liefallow Shoes (运动鞋、休闲鞋系列产品的设计、生产和相关管理活动). Please refer to Section 7.11 of this Prospectus for more information of our accreditations.

In 2008, our PRC subsidiaries were reorganised to be held under Addnice Holdings. Subsequently, in 2009, our Company acquired the entire share capital of Addnice Holdings for a purchase consideration of USD21.503 million which was satisfied entirely by the issuance of 21.503 million new shares of USD1.00 each in Xingquan International ("Consideration Shares") (prior to the Share Split) at an issue price of USD1.00 per Consideration Share.

7.2 COMPETITIVE STRENGTHS AND ADVANTAGES

Our Directors believe that our competitive strengths and advantages are as follows:

(i) **Vertically integrated business model with strong manufacturing capabilities for shoe soles and shoes**

We have developed a vertically integrated business that combines our shoe sole production process with our shoe manufacturing process. By manufacturing a substantial number of our own shoe soles for our shoes, we are able to lower production costs through our integrated business model and ensure that the quality of our products is consistently in accordance with our stringent quality control standards. In addition, having a vertically integrated business model also allows our Group to reduce the lead time for the development and production of our shoe products, thereby giving us an advantage over our competitors in the introduction of new shoe products into the market.

(ii) **Market positioning and competitive pricing**

While there are many players in the shoe industry, we have positioned ourselves in the sports shoe industry in particular the outdoor shoe market. Some of the international brands in the outdoor market are brands such as Timberland, North Face and Colombia, while the local brands include Tread, Ozark and Kolumb. As we have the capability to manufacture quality outdoor shoes, we are able to tap into this niche market which our local competitors have yet to aggressively tap into. As most of the players in the outdoor shoe market are predominantly international brands and are priced at a premium, we are able to compete effectively due to our relatively lower price structure.

(iii) **Established market presence and market recognition of our "Addnice" brand**

Since the "Addnice" brand was founded in 2003, we have successfully built up the "Addnice" brand as a manufacturer of quality sports and leisure shoes, apparels and accessories in the PRC. We believe that brand image in the sportswear market is instrumental to the success of our products and as such, we will continue to place emphasis on building our Group's brand image via our marketing activities. Please refer to Section 7.13 of this Prospectus for details of our marketing activities. To protect the goodwill associated with our products, our Group has registered our tradenames and logos. For more details on our Group's trademarks, please refer to Section 7.20 of this Prospectus.

In addition, we have received various awards and affirmation in respect of our "Addnice" brand, such as PRC Famous Trademark (中国驰名商标), Fujian Famous

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Brand Product (福建名牌产品) and Quanzhou City Well-known Trademark (泉州市知名商标), which demonstrates the strong public recognition and acceptance we have gained for our products. We believe that with such recognition, our Group is able to leverage on the strength of our “Addnice” brand to attract and retain our customers as well as consumers.

(iv) **Strong and effective marketing and promotional capabilities**

To promote our “Addnice” brand, we have adopted a strategy of maximizing our exposure in a variety of media, such as, among others, through television advertisements through central and local television stations from time to time, billboards in commercial districts, giant poster displays on exteriors of shopping malls and other media. We believe that these marketing and promotional activities effectively raise our brand awareness and recognition, in particular among our target consumers aged between 20 and 45. In addition, between March 2006 and February 2008, our Group signed Miao Lijie, a captain of the PRC female basketball team and a player in the WNBA as spokesperson for our “Addnice” brand. Our efforts continued and between April 2007 and March 2009, we signed Jason Kapono, a NBA player from the Toronto Raptors and back-to-back winner of the Foot Locker Three-Point Shootout for 2007 and 2008 to endorse our “Addnice” brand. Please refer to Section 7.13 of this Prospectus for further details of our marketing activities.

(v) **Extensive distribution network of specialty and retail stores in over 1,400 strategic locations across PRC**

Our products under “Addnice” brand are distributed across 20 provinces, municipalities and autonomous regions within the PRC through an extensive sales network. As at the Latest Practicable Date, we have appointed 29 authorised regional distributors and 43 direct retailers to distribute our “Addnice” products. Our “Addnice” products are sold via 954 “Addnice” specialty stores and 464 retail stores totaling 1,418 point of sales. Specialty stores are strategically located in populated and vibrant areas with high concentration of crowds which allows our Group to enhance the exposure and reach of our “Addnice” products while the retail stores are located inside shopping malls. For more details on our Group’s distributor’s network of specialty and retail stores, please refer to Section 7.13 of this Prospectus.

(vi) **Control of our sports value chain and commitment to product quality**

As we manufacture all our shoes, we are able to control the quality of our products from the production development stage to the manufacture of our sports and leisure shoe products and shoe soles products. For the raw materials which are purchased and the components of the sports and leisure shoe products which are outsourced to third parties, we will, upon receipt of such products, carry out stringent quality control checks on them to ensure that they meet our requirements.

Quality control procedures are also included in our production processes, starting from the receipt of raw materials and continuing throughout the manufacturing process. Also, to ensure that the quality of our products is maintained throughout the production process, our factory workers are required to undergo a series of induction training. Please refer to Section 7.10 of this Prospectus for further details of our quality control process. Our stringent quality control policies and procedures ensure that we manufacture products with consistent quality. In this regard, we were accredited with the internationally recognised ISO 9001:2000 certification for Addnice Sports in 2004 which was subsequently renewed in 2008.

In 2006, Addnice Sports was awarded the Certificate for Product Exemption from Quality Surveillance Inspection (产品质量免检证书) for our products sold under the “Addnice” brand.

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The production for our apparels and accessories are outsourced to our OEM suppliers. To ensure the quality of our apparels and accessories products, our Group will produce trial or samples together with the detailed specifications of the product and production/technique instructional manual to aid the OEM suppliers in the mass production of these products. Representatives of our Group will periodically conduct ad hoc site visits to our OEM suppliers to check the quality of the products being produced and the finished products will be randomly sampled to ensure that the quality and finishing complies with our requirements and specifications.

(vii) Innovative product development and wide range of complementary quality products

Sports and leisure shoes are subject to fashion trends which can change rapidly. We recognise that product design and development is paramount in ensuring our competitiveness in the sports fashion market. As at the Latest Practicable Date, we have a dedicated team of 92 personnel in our product development department to ensure that we keep up with latest trends and designs suitable for our target consumers. Our product development personnel monitors market trends in the PRC and keeps abreast with the latest international fashion trends from various sources such as industry journals, magazines and internet websites.

Currently, our product development department successfully design and produces approximately 50 to 60 new shoe products and approximately 40 to 50 new shoe sole products each year which are introduced for our spring/summer and autumn/winter season line up. To complement our range of "Addnice" shoe products, we also sell a wide range of sports and leisure apparels and accessories under our "Addnice" brand.

For FYE 2006, FYE 2007, FYE 2008 and 1H 2009 our Group spent approximately RMB2,851,000, RMB3,339,000, RMB5,249,000 and RMB3,117,000, respectively, on product development.

(viii) Strong production capabilities

Our Group has the capability to produce our shoe soles via injection moulding process and foam moulding process. Our foam moulding process produces MD midsoles which have greater elasticity. Shoes with MD midsoles made via foam moulding process are generally more flexible and comfortable compared to shoes produced via injection moulding process due to the soft and flexible properties of the MD midsole. MD midsoles produced by injection moulding process are typically fitted to shoe soles for mountain climbing and tennis whereas MD midsoles produced by foam moulding process are typically fitted to shoe soles for running, basketball and leisure shoes. In the PRC, not many of our competitors are able to produce shoe soles utilizing the foam moulding process. Apart from investing in specific equipments and machineries, the production workers would require certain technical know-how in order to produce quality MD midsoles via the foam moulding process.

(ix) We have an experienced, dynamic and committed management team

Our Executive Chairman and CEO, Mr Wu Qingquan, has over 20 years of experience in the shoe industry and he has played a pivotal role in the growth and development of our Group. His experience, drive and passion for our business have been instrumental to our Group's success to date. He has conceptualised and implemented the various strategies that led our Group to its current position in our industry.

Mr Wu Qingquan is ably supported by our senior management team, whom are experienced in sales and marketing, manufacturing, quality control and financial