management. In addition, they have extensive experience and professional knowledge in the PRC shoe industry. We believe that the depth and experience of our senior management team has contributed to the successful development of our business and the continuing commitment and contributions from our management team will spearhead our Group to the next phase of growth.

(x) We are strategically located in Quanzhou City, Fujian Province, one of PRC's largest sports shoe manufacturing bases

We are located in Quanzhou City, Fujian Province, one of PRC's largest sports shoe manufacturing bases. Our strategic location gives us easy access to labour and suppliers of raw materials which, in turn, allows us to lower our production costs and obtain timely delivery of our raw materials. In addition, our close proximity to shoe manufacturers and traders and other shoe and sportswear companies provides us the opportunity to tap into the region's shoe market for our shoe soles products and OEM products.

(xi) Established good working relationships with our customers who include other well-established sports brands

We have established good working relationships with our OEM customers, many of which are owners or manufacturers or Export Distributors for established sports brands including PRC brands such as Xtep (特步), China Peak (匹克), 361° (三六一度) and Qiaodan (乔丹) and international brands such as FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto. This has enabled us to have a good understanding of their production requirements, demands and workflow and hence allow us to better meet their expectations and demands. Our working relationship has enabled us to maintain customer loyalty as customers generally would prefer to engage and retain the services of suppliers who are able to meet their production requirements.

Our Group has also established a strong working relationship with our customers who are regional distributors of our "Addnice" products in the PRC. Our product development team will liaise with our PRC regional distributors for consumer feedback on our "Addnice" products. In addition, we support the regional distributors by overseeing the design, décor and scheme of the specialty stores and retail stores. This ensures that our products and brand image are displayed and exhibited in a consistent and uniformed manner. The PRC regional distributors are also invited to attend training sessions to familiarise themselves with our sale and marketing policies and procedures.

7.3 KEY MILESTONES AND ACHIEVEMENTS

Our key milestones and achievements are as follows:

Year	Key Milestone
1995	Jinjiang Xingquan was established 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.
1999	Xingquan Footwear was incorporated by Mr Wu Shihu, Mr Wu Lianfa and the Villager Committee of Yanshang Village to manufacture shoe soles and take over the shoe manufacturing business of Yanshang Shoe factory.
2000	Xingquan Plastics was incorporated by Mr Iao Ieok Chon, Mr Wu Qingquan's brother-in-law to carry out the shoe sole manufacturing business of Jinjiang Xingquan.
2000	Xingquan Plastics provided OEM services to shoe manufacturers engaged in the manufacture of completed shoe products

Year	Key Milestone
2000	Xingquan Plastics purchased four (4) sets of injection moulding machines which increased our shoe sole production capacity.
2001	Xingquan Plastics purchased five (5) sets of foam moulding machines which enabled us to manufacture higher end shoe products.
2002	Xingquan Plastics was accredited with ISO9001:2000 by the Environment & Quality Assurance International Certification Center (EQA 国际认证中心) 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)
2002	Xingquan Plastics started supplying shoe soles to manufacturers of well-known PRC brands. The presently include brands such as Xtep (特步), China Peak (匹克), 361° (三六一度) and Qiaodan (乔丹).
2003	Addnice Sports was incorporated by Mdm Ng Sio Peng to carry out the development, design, production and sale of "Addnice" brand shoe products concentrated on the sports and leisure shoe market.
2004	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) and with ISO14001:1996 (now ISO14001:2004) by the China United Certification Center 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）
2004	Commenced sale of shoe products under our "Addnice" brand.
2005	Addnice Sports took over the shoe business of Xingquan Plastics and expanded its range of products to include sports and leisure apparels and accessories, which are manufactured by OEM suppliers.
2006	Addnice China signed Miao Lijie, a captain of the PRC female basketball team and a player in the WNBA as spokesperson for our "Addnice" brand for the period between March 2006 and February 2008.
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.
2007	Addnice China 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 as spokesperson for our "Addnice" brand between April 2007 and March 2009.
2008	The contributed capital of Addnice China, Addnice Sports and Xingquan Plastics were acquired by Addnice Holdings while the contributed capital of Xingquan Footwear was acquired by Addnice Sports.
2009	Xingquan International acquired Addnice Holdings.

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7.4 PRINCIPAL BUSINESS ACTIVITIES

We are a sports and leisurewear enterprise based in Jinjiang City, 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 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

(e) ***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 aetivities and marketed under our "Addnice" brand. Currently, our sports and leisure apparels and accessories are produced by external OEM suppliers.

The principal activities of our Group are categorised as follows:

(i) ***Design, manufacture and sale of shoe soles***

Our shoe sole products comprise athletic shoe sole products designed for specific outdoor and indoor sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes. Our shoe soles products may be broadly categorised as follows:

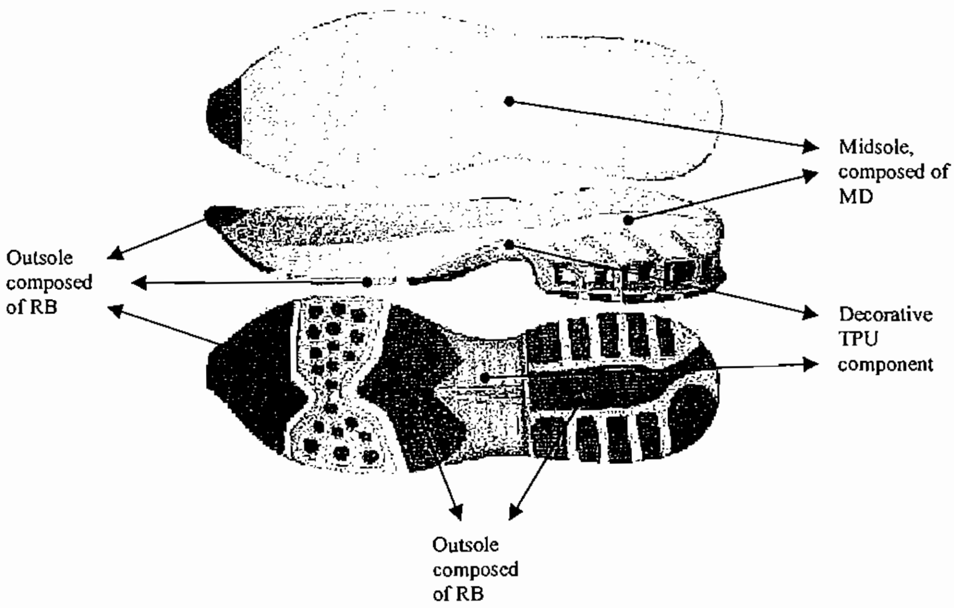
(a) Injection Moulding and Foam Moulding shoe soles

Shoe soles produced by the injection moulding process and the foam moulding process consist of MD midsoles making the shoe soles lightweight and elastic. Shoes soles with MD midsoles are suitable for use in shoes for high impact sports such as mountain climbing, basketball, tennis, running and leisure shoes.

Shoe soles with MD midsolcs produced by the injection moulding process are generally less flexible than those with MD midsoles produced by the foam moulding process and are more durable for activities requiring a stiffer sole to protect the feet of the wearer. Shoe solcs with MD midsoles produced by injection moulding process are typically fitted to shoes for mountain climbing and tennis.

Shoe soles with MD midsoles produced by the foam moulding process are lightweight and high in elasticity, suitable for use in shoes for higher impact sports such as basketball and running where shock reduction is a key functionality. Some leisure shoes are also produced using this process compared to RB soles for greater flexibility and higher level of comfort.

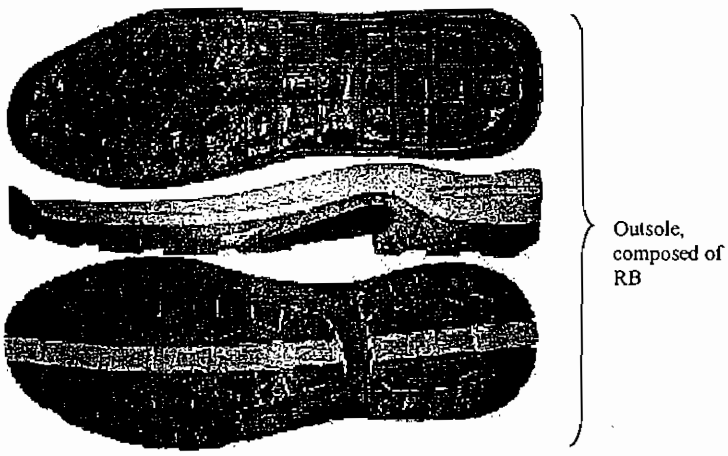
The following diagram illustrates the key components of our shoe sole produced via injection moulding process and foam moulding process:



(b) RB soles

RB soles are produced entirely from synthetic rubber. RB soles are skid-resistant and highly durable and possess anti-static and oil-proof properties. RB soles are used primarily for leisure shoes.

The following is a diagram of our RB sole unit:



Our products under this segment account for 29.2%, 22.3%, 20.7% and 21.5% of our revenue in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively.

Our shoe sole products are designed, manufactured and marketed and sold by our subsidiary, Xingquan Plastics to well-known PRC sports shoe manufacturers of PRC brands such as Xtep (特步), China Peak (匹克), 361° (三六一度) and Qiaodan (乔丹)

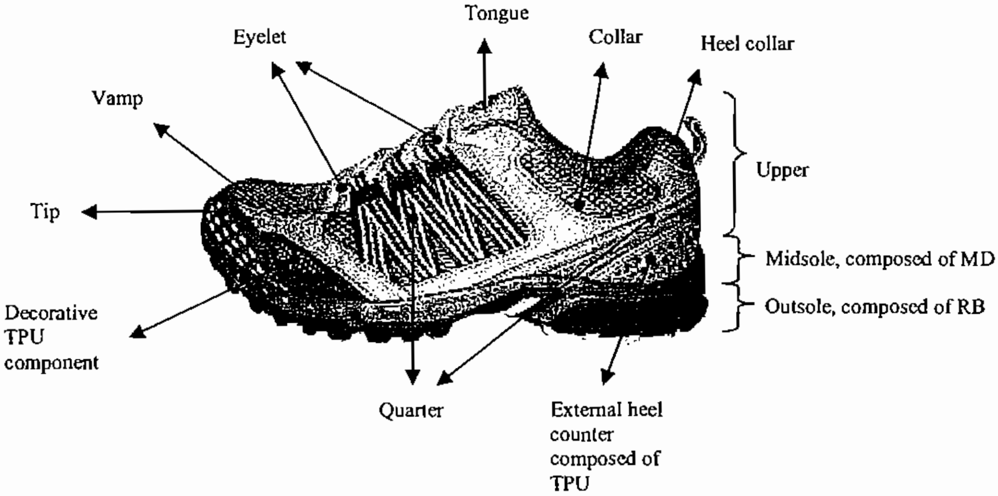
and also used by our subsidiary, Addnice Sports, in the manufacture of our sports and leisure shoes.

(ii) ***Design, manufacture and sale of sports and leisure shoes***

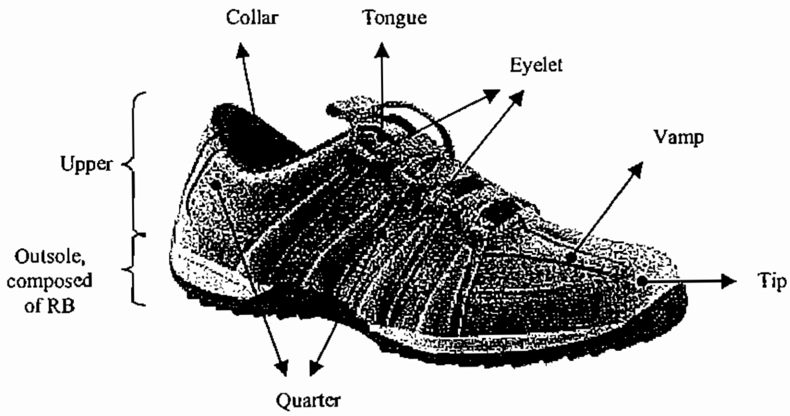
Our sports and leisure shoe products comprise outdoor sports shoes designed for specific outdoor sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure shoes, marketed under our "Addnice" brand. In addition, we are an OEM for owners of international sports and leisure shoe brands such as FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto. Our products under this segment account for 56.7%, 60.0%, 57.7% and 54.0% of our revenue in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively.

Our sports and leisure shoe products are designed and manufactured by our subsidiary, Addnice Sport and distributed by our Group's regional authorised distributors and direct retailers via specialty stores and retail stores.

The following diagram illustrates the key components of our sports shoe product:



The following diagram illustrates the key components of our leisure shoe product:



(iii) ***Design and sale of sports and leisure apparels and accessories***

Our 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 sporting activities and marketed under our "Addnice" brand. Our products under this segment account for 14.1%, 17.7%, 21.7% and 24.6% of our revenue in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively.

Our sports and leisure apparels and accessories are designed by us and produced by external OEMs.

Our products under the "Addnice" brand are distributed across 20 provinces, municipalities and autonomous regions within the PRC. Products which we manufacture as OEM are also distributed outside the PRC by our OEM customers. 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.

Our headquarters and manufacturing facilities are based in Quanzhou City, Fujian Province. As at the Latest Practicable Date, our aggregate production capacity for sports and leisure shoe products and shoe sole products amount to approximately 5.9 million and 14.0 million pairs per annum, respectively.

7.5 OUR PRODUCTION FACILITIES, CAPACITY AND UTILISATION RATE

As at the Latest Practicable Date, we manufacture only sports and leisure shoe products and shoe sole products. The manufacturing process of our sports apparel and accessories are outsourced to third party contract manufacturers.

Our production facilities are located in Quanzhou City, Fujian Province, PRC. Details of our facilities are set out below:

(i) Factory location and production area

Facilities/ type of products manufactured	**Location**	**Approximate built-up area** *(sq metres)*
Xingquan Plastics/ Shoe soles products	Houyang Industrial Zone, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	29,000
Addnice Sports/ Outdoor and indoor sports and leisure shoe products	Houyang Industrial Zone, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	16,000

Facilities/ type of products manufactured	Location	Approximate built-up area *(sq metres)*
Addnice Sports/ Outdoor and indoor sports and leisure shoe products	No 97, Maoxing Road, Fengze District, Quanzhou City, Fujian Province, PRC 362000	2,940

(ii) Our equipment and machineries

As at the Latest Practicable Date, our Group has the following material machinery and equipment for our business operations:

Machineries /Equipments	Quantity	Net Book Value (RMB'000)
Shoe soles		
Injection machines	4	5,018
Hydroic pressure foaming units machines	6	1,581
Foam moulding machines	13	2,210
Sulpherized hydroic machine	11	1,330
Rubber density build up machine	11	1,696
Sports and leisure shoes		
Sewing machine	799	996
Production line equipment	6	3,119
Foreside upper machine	26	2,356
High frequency machine	26	592
Shape punching and cutting machine	49	1,010
Pressing machine	12	1,035

(iii) Our capacities and utilisation

Our annual production capacities are derived based on the following assumptions:

(a) the production machines runs for 2 shifts totalling 16 hours per day; and

(b) we operate for approximately 330 days for sports and leisure shoes and 350 days for shoe soles a year after deducting public holidays and stoppages in production due to stock takes and maintenance of machinery.

The estimated annual production capacity and the output utilisation rates for the production (and sales volumes) of our sports and leisure shoe products and shoe soles for FYE 2006, FYE 2007, FYE 2008 and 1H 2009 are as follows:

Product Type	FYE 2006 000	FYE 2007 000	FYE 2008 000	1H 2008 000	1H 2009 000
Shoe soles					
Capacity (units)	12,540	12,980	14,000	7,320	7,320
Output (units)	7,321	8,943	10,906	5,225	7,304
Utilisation rate (%)	58.4%	68.9%	77.9%	71.4%	99.8%
	FYE 2006 000	**FYE 2007 000**	**FYE 2008 000**	**1H 2008 000**	**1H 2009 000**
Outdoor and indoor sports and leisure shoes					
Capacity (pairs)	3,960	5,120	5,940	2,970	2,970
Outpnt (pairs)	2,386	3,714	4,780	2,445	2,867
Utilisation rate (%)	60.3%	72.5%	80.5%	82.3%	96.5%

7.6 SEASONALITY

We do not experience any material seasonality in our business, as our Group's business operations are relatively stable throughout the year. Our regional authorised distributors and direct retailers are invited to our bi-annual sales fair in March and September eaeh year where we will showcase all of our new products. These distributors and retailers will then make their orders for the following two seasons (half year).

However, the sale of our products by the specialty stores and retail stores are subject to seasonality associated with the festive and/or sales seasons where consumers spend more. This includes Chinese New Year and Christmas festivities.

7.7 STAFF TRAINING

New factory workers undergo four (4) weeks of induetion training, which eomprises two (2) week introduetion to the Group and two (2) week practical on-the-job training. Such training is given to all our new factory workers to ensure that they familiarise themselves with our Group, our machinery operations and production processes.

We believe that our employees are key assets that play a pivotal role towards our continuous growth and we recognise the importance of retaining quality employees. It is our policy to encourage the development and training of our employees for the improvement of overall skill sets for the enhancement of productivity. We emphasise on training and development as an essential continuing process and to such extent, training for our existing factory workers are conducted internally on a quarterly basis by our Group. It includes on-the-job training and internal training courses.

We believe in motivating our employees by providing opportunities for progressive career growth, and as such, opportunities are given for employees to enhance their work performance in order to assume wider job responsibilities. Such staff training also enables our staff to strengthen their job skills, cultivate team spirit and improve produetion quality, efficiency and capacity.

To ensure that our products and brand are eonsistently marketed, our PRC regional distributors and direct retailers are invited to attend training sessions to familiarise them with our sale and marketing polieies and procedures. Periodic on-site inspections are conducted by our sales and marketing staff to ensure that our regional distributors and their retailers and our direct retailers comply with such policies and procedures.

Our staff training expenditure for the past three financial years has not been material.

7.8 RESEARCH AND PRODUCT DEVELOPMENT

Our Directors believe that constant innovation in developing new and improved products and production techniques is vital to our continuing success of our "Addnice" brand and to meet the changing needs of the market. Our product development department is headed by our deputy general managers, Ms Yang Hongmei, for shoes and Mr Wu Xiangdong, for shoe soles. As at the Latest Practicable Date, we have a total of 92 product development personnel.

Our target market comprise of consumers within the 20 to 45 age group. Therefore, our Group's product development efforts are focused on such consumers.

"Addnice" Shoes and Shoe Soles

To ensure that we are able to continuously develop and produce outdoor and indoor sports and leisure shoe and shoe sole products that meet the fashion trends and functional needs of our target market, members of our product development team will undertake the following activities:

(i) Reviewing fashion and sports magazines, industry journals and internet websites for latest trends in sports and leisure wear, including new technologies and functionalities;

(ii) Research and study shoe and shoe sole designs to cater for different foot shapes;

(iii) Liaising with PRC regional distributors and our OEM customers for consumer feedback on our products;

(iv) Attending international and local fashion events held in the PRC.

Through our emphasis on our product research and development, we have over the years developed our wide range of successful outdoor and indoor sports and leisure shoes and shoe soles to cater to our target consumers. Apart from the aesthetic design of our shoes, which include new design, colour, fabric and pattern, we also test certain raw materials and new shoe and shoe sole products for among others, durability, colour fastness, strength and flexibility. These tests form part of our research and development to ensure that our products are functional and meet our quality standards.

While there is no fixed plan or timetable for new products to be developed, our Group 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 shoe products, we also introduce a wide range of sports and leisure apparels and accessories under our "Addnice" brand totaling approximately 200 individual products.

Our research and development facilities include the following testing equipments and machineries:

Machineries /Equipment	**Purpose**
Shoe soles	
Tensile Tester	To test the glue fastness of the shoe soles
Compress Tester	To test the pressure of the midsole and sole

Machineries /Equipment	**Purpose**
Abrasion Tester	To test the abrasion durability of the shoe sole
Low Temperature Flexing Tester	To test the flexibility of shoe soles under low temperature
Electron Weighing Machine	To obtain accurate reading to identify wear on the shoe sole after abrasion testing
Water Proof Tester	To test the joints of the midsole and sole and the joint of the shoe sole with the shoe for leaks
Heat Tester	To test the heat endurance of the shoe sole
Resistance Flexing Tester	To test the flexibility of shoe soles
Sports and leisure shoes	
Crockmeter/ Rubbing Fastness Tester	To test the colour fastness of the shoe sole and fabrics/leather of the shoes by rubbing
Colour Fastness Tester*	To test colour fastness of the shoe sole and fabrics/leather of shoes by heat and humidity
Anti-Tear*	To test the strength of identified raw materials for fit for use in production
Colour Matching Cabinets*	To provide conducive environment to carry out more accurate colour matching after the colour fastness test

Note:

* *Machines/ equipment which are also used for the shoe soles*

Our product development expenditure mostly relates to costs of consumables for product prototypes and remuneration costs of our product development staff. 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.

The key product development steps undertaken by our product development team for our shoe and shoe soles products are as follows:

Product conceptualisation → Product prototype → Market introduction

(i) Product conceptualisation

Based on our research, our product development team will design the style and select the functionalities required of our shoe soles and shoes. Conceptualised products are produced regularly for review by our product development team. New designs are introduced at regular intervals to ensure that new products may be showcased at our bi-annual sales fair for the spring/summer and autumn/winter seasons. After review, certain products will be selected by our deputy general managers for further development. Once the design is finalised, a prototype will be produced.

(ii) **Product prototype**

Prototypes of selected products are produced for testing. Shoes and shoe soles undergo various tests such as wear and tear resistance, colour retention and temperature endurance to ensure the products are sufficiently durable against various atmospheric elements and are suitable for the purpose which they were designed for. Successful products will be introduced to our PRC regional distributors and direct retailers.

(iii) **Market iutroduction**

New "Addnice" sports and leisure shoes are produced, and samples are introduced to our PRC regional distributors and direct retailers at our bi-annual sales fairs in March and September. At these bi-annual sales fairs, our PRC regional distributors and direct retailers will place orders for "Addnice" products. Based on demand and number of orders, selected "Addnice" sports and leisure shoes will be put into full production and launched to the market at the appropriate season.

"Addnice" Apparels and Accessories

Our Group is involved in the liaising and selection of our apparels and accessories by third party external designers. As with shoes and shoe soles, our product development team will carry out research from various sources on the current trends and functionalities of our target consumers. Based on our research, our product development team will liaise with our external designers on the style and functionalities required for our apparels and accessories. Once the designers have proposed the designs to us, we will select the designs we believe to be saleable and produce samples of these products which we will showcase at our bi-annual sales fairs in March and September each year. Samples which attract good responses from our distributors and direct retailers will be put into production. The manufacturing of these products are outsourced to our OEM suppliers. The sample products will be produced by our Group and distributed to our OEM suppliers together with the detailed specifications of the product and production/technique instructional manual to aid them in the mass production of our sports and leisure apparels and accessories product.

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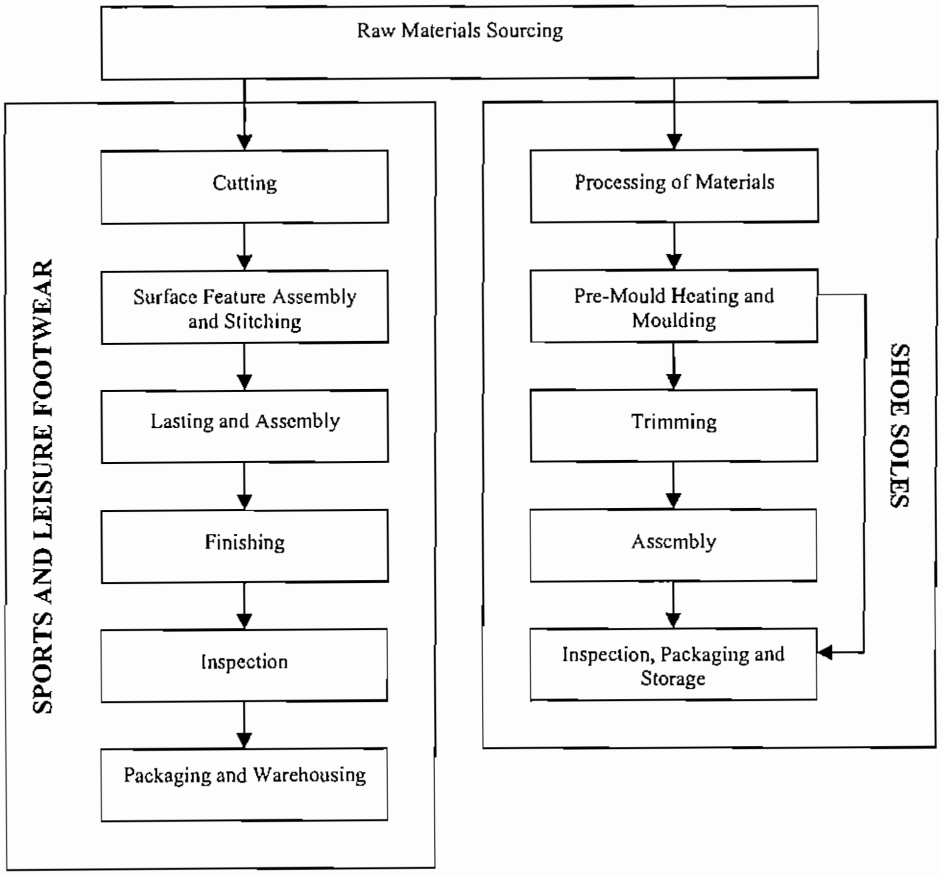
7.9 PROCESS FLOW OF OUR PRODUCTION

We set out below a generic flow chart depicting the major steps in our production proeesses for our sports and leisure shoes and shoe soles. The production of our sports and leisure apparels and accessories is outsourced to OEM suppliers.



Outdoor and Indoor Sports and Leisure Shoes

(i) Raw Materials Sourcing

Our purchasing department is responsible for sourcing the necessary raw materials for the manufacture of our shoe products. Raw materials for our sports and leisure shoes comprise shoe soles, glue, thread, TPU pellets, and fabrics such as suede, leather, nylon, mesh and miero fabric. The sole units of our shoc produets are predominantly produced by our Group. Shoe soles for shoes with low volume orders are gcnerally purchased from extcrnal shoe sole manufacturers. Our purchasing department is also responsible for liaising with our raw material suppliers and ensuring the quality of such raw materials. Raw materials that do not meet our specifications and requirements are returned to our suppliers to be replaced or rectified.

(ii) Cutting

Parts of the upper comprising the vamp, quarters and tongue are made of various fabrics such as suede, leather, nylon, mesh and micro fabric. Cutting involves the cutting of the fabric into different shapes according to the design specifications to form the vamp, quarters and tongue of the upper. Holes are also drilled into the quarters to form the eyelets of the upper.

(iii) Surface Feature Assembly and Stitching

Design features such as our "Addnice" logo are sewn onto, glued or imprinted onto the different parts of the upper. The vamp, quarters and tongue are then stitched together to form the main part of the upper. Various other components of the upper such as the tip and heel counter are stitched or glued together to form a completed upper and the shape of the shoe. The upper will also be laced before the lasting and assembly process.

(iv) Lasting and Assembly

During lasting, the upper is first stretched snugly over a shoe tree to mould the upper into its designed shape. The fabric at the lower part of the upper is then folded under an insole board and pinned to the insole board with nails. This process completes the upper and prepares it for assembly with the sole unit.

The completed upper is glued onto the sole unit during assembly. The completed but unfinished shoe is then pressed around the shoe tree using pressing machines to ensure that the sole unit is attached to the upper properly, after which the shoe tree is removed.

(v) Finishing

After the lasting process, finishing operations such as the insertion of insoles are carried out. Each pair of shoe is also cleaned and inspected for defects.

(vi) Packaging and Warehousing

The finished products are then packed and separated into boxes according to colours and sizes. The boxes are then packed into cartons and stored in our warehouses for our distributors and direct retailers to collect. We do not make deliveries to our customers.

Shoe Soles

(i) Raw Materials Sourcing

We purchase EVA base chemicals, TPU pellets and other raw materials such as glue and dye from our suppliers. Raw materials are inspected to ensure that our quality standards are met before they are used for production.

(ii) Processing of Raw Materials

For the production of MD midsoles through our injection moulding process and foam moulding process, the EVA base chemical is mixed before undergoing a granulation process whereby the EVA base chemical will be transformed into EVA pellets. If necessary, dye is added during the granulation process to produce colour required for the production.

For RB soles, various raw materials will undergo a preparation process whereby they are mixed and compressed together in accordance with a certain formula to attain the desired qualities. The preparation process also includes the mixing of the raw materials with dye to produce the desired colour. The processed raw material is then pressed into RB sheets and put through a cutting machine where the pre-moulded outsoles are cut from the sheets.

(iii) Pre-Mould Heating and Moulding

Prior to moulding, the moulds used in the production of MD midsoles via the injection moulding process and foam moulding process and RB soles will be heated up to specific temperatures.

For the production of MD midsoles via the injection moulding process, molten EVA pellets are injected into the pre-heated moulds to create the basic shape of the midsole.

For production of MD midsoles via the foam moulding process, molten EVA pellets go through a foaming process and formed into different sizes of midsoles for moulding. The pre-moulded midsoles are then loaded into the pre-heated moulds, where the midsoles are moulded into their final form.

For production of RB soles, the pre-moulded RB outsoles are loaded into the pre-heated moulds for moulding into their final form.

(iv) Trimming

All shoe soles undergo a trimming process whereby the excess materials forming outside the desired shape are trimmed off.

(v) Assembly

During the assembly process, various parts of the soles are glued together under a pre-determined temperature. This process is not necessary for RB soles.

Outsoles made of RB will be glued together with the MD midsoles to form a complete sole unit. Thereafter, the assembled shoe soles are placcd in a pressing machine to ensure they are firmly bonded.

(vi) Inspection, Packaging and Storage

The finished shoe sole products undergo final quality inspection to deteet defects and ensure compliance with our customers' rcquircments. Shoe soles that pass the final inspection are then packed, labelled and stored in our warehouse before being delivered to our customers or delivered to our shoe produetion line.

In addition to the aforementioned steps, we conduct quality control chccks at all stages of our production process. Please refer to Section 7.10 of this Prospeetus for further details of our quality assurance policy.

7.10 QUALITY ASSURANCE POLICY

We believe that the quality of our products is the key to our continued growth and success. As such, we place great emphasis on quality assurance.

Our quality control is overseen by our deputy general managers, Ms Yang Hongmei and Mr Wu Xiangdong, who are responsible for formulating and implementing the quality control policies of our Group. Our Company has set up a quality control programme with a view to establishing, implementing, maintaining and improving our quality management system throughout our entire operational process from R&D, production and sales to after-sales service. We have managed to maintain good business relationship with our customers by consistently supplying quality products.

As an attestation to the quality of our products, we were awarded the Certificate for Product Exemption from Quality Surveillance Inspection (产品质量免检证书) for the product – Travel Shoes of 135//16// under the brand of "Addnice" in 2006.

(i) Quality control procedure for shoes

To ensure that our products satisfy our quality standards and requirements, our Group stringently implements our quality assurance procedures, which include checks and tests conducted at various stages throughout the production process.

While we do not have any dedicated employees in charge of quality control process, our factory supervisors and managers are responsible to ensure that all products being manufactured are inspected by the relevant factory worker at each stage of the production process. Our production process is carried out in compliance with our quality management system and we have established the following quality assurance procedures:

(a) Incoming

We place strong emphasis on the quality of raw materials in order to ensure the quality of our products. As part of our procurement process, we select our suppliers in accordance with our internal quality assessment system, which takes into consideration factors such as product quality, pricing, reliability, reputation and their ability to meet required delivery schedules. We conduct visual inspections and/or random tests on samples for all incoming raw materials to ensure they conform to our specifications and quality standards. If the raw materials do not conform to our requirements, such raw materials are rejected and returned to the respective suppliers.

(b) In-process

We conduct our in-process checks to ensure that our products are inspected by the relevant factory worker at each stage of the production process to identify and correct defects at the earliest possible stage so as to minimise defects in our products and to complete the production in a timely and cost effective manner. In-process checks are carried out in accordance with our specifications and quality standards.

We also carry out regular maintenance, inspections and repairs to our machinery and equipment to ensure they are well maintained and in good working condition.

Our production personnel are trained regularly to be familiarised with the quality assurance procedures of the production process of our Group. Such training ensures that our in-process quality assurance procedures are strictly implemented.

(c) Finished products

All finished products are subject to final quality inspection to ensure that they are in good condition and conform to the specifications of our customers and our quality standards before being packed and sent to the warehouse for storage in preparation for delivery to our customers.

For FYE 2006, FYE 2007, FYE 2008 and up to the Latest Practicable Date, we have not received any major complaints or rejections from our customers with regards to our products and services.

(ii) Quality control for apparels and accessories

Our Group outsources the production of our sports and leisure apparels and accessories to our OEM suppliers. As with the production of shoes, we select our OEM suppliers in accordance with our internal quality assessment system, which takes into consideration factors such as product quality, finishing, pricing, reliability, reputation and their ability to meet our delivery schedules.

To ensure the quality of the products are met, our Group will produce trial or samples together with the detailed specifications of the product and production/technique instructional manual to aid our OEM suppliers in the mass production of our sports and leisure apparels and accessories 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 by way of visual inspection to ensure that the quality and finishing complies with our requirements and specifications.

7.11 AWARDS AND RECOGNITION

Our management's commitment to excellence, strong reputation of our Group, brands and products are evidenced by the numerous awards and accreditations.

The following are some of the major awards and accreditations which our Group has received:

Year	Awards and Accreditations	Awarding Authority	Recipient
2008	AA Class Credit Certificate valid from May 2008 to April 2009 (AA级信用等级证书)	福建中诚信信用评级咨询有限公司 *(translated as "Fujian Zhongchengxing Credit Rating Consultancy Co., Ltd")*	Xingquan Plastics
2007	"Addnice" as PRC Famous Trademark (中国驰名商标)	广西壮族自治区贺州市中级人民法院 *(translated as "Guangxi Zhuang Autonomous Region Hezhou City Intermediate People's Court")*	Xingquan Plastics
2007	Fujian Famous Brand Product for the product – travel shoes under the "Addnice" brand valid for a period of three (3) years (福建名牌产品)	福建省人民政府 *(translated as "People's Government of Fujian Province")*	Addnice Sports
2007	A Class Credit Certificate valid from July 2007 to June 2008 (A级信用等级证书)	福建中诚信信用评级咨询有限公司 *(translated as "Fujian Zhongchengxing Credit Rating Consultancy Co., Ltd")*	Addnice Sports

Year	Awards and Accreditations	Awarding Authority	Recipient
2006	Certificate for Product Exemption from Quality Surveillance Inspection for products which is Travel Shoes of 135//16// under the "Addnice" brand. The exemption is valid from December 2006 to Deeember 2009. (产品质量免检证书)	国家质量监督检验检疫总局 *(translated as "General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China")*	Addnice Sports
2006	Quanzhou City Well-known Trademark in relation to the "Addnice" trademark (泉州市知名商标)	泉州市知名商标认定委员会 *(translated as "Quanzhou City Well-known Trademark Certification Committee")*	Xingquan Plastics
2006	AA Class Credit Certificate valid from August 2006 to July 2007 (AA 级信用等级证书)	福建中诚信信用评级咨询有限公司 *(translated as "Fujian Zhongchengxing Credit Rating Consultancy Co., Ltd")*	Xingquan Plastics
2005	"Creditworthy" Unit for 2003 – 2004 ("守信用,重信用"单位 2003 -2004 年度)	晋江市人民政府 *(translated as "People's Government of Jinjiang City")*	Xingquan Plastics
2005	National Medium Size Industry Enterprise (全国中型工业企业)	晋江市统计局 *(translated as "Statistics Department of Jinjiang City")*	Xingquan Plastics
2004	Quality Management System Certification (质量管理体系认证证书) GB/T 19001-2000 idt ISO9001:2000 for the Products/Service: Design, Production and Service of GYM Shoes and Liefallow Shoes renewed on 1 August 2008 and will expire on 31 July 2011	中联认证中心 *(translated as "China United Certification Center")*	Addnice Sports

Year	Awards and Accreditations	Awarding Authority	Recipient
2004	Environmental Management System Certification (环境管理体系认证证书) GB/T 24001-2004 idt ISO14001: 2004 for the Design, Production and Correlative Management Activities GYM Shoes and Liefallow Shoes renewed on 1 August 2008 and will expire on 31 July 2011	中联认证中心 *(translated as "China United Certification Center")*	Addnice Sports
2004	AA Class Credit Certificate valid from July 2004 to June 2005 (AA 级信用等级证书)	福建中诚信信用评级咨询有限公司 *(translated as "Fujian Zhongchengxing Credit Rating Consultancy Co., Ltd")*	Xingquan Plastics
2003	Year 2003 Excellent Foreign Investment Enterprise in the country (in respect of credibility and financial position) (2003 年度全国外商投资"双优"企业)	中国外商投资企业协会 *(translated as "Organisation of China's Foreign Investment Entity")*	Xingquan Plasties
2002	Certificate of Assessment (质量体系认证证书) in respect of Quality Management System is in conformation with Standard ISO9001:2000 for the scope of Production of Sales of Sports Shoes and Material For Shoes （运动鞋及鞋材的生产 和销售） Valid from 20/7/2002 to 19/07/2005	EQA 国际认证中心 *(translated as "Environment & Quality Assurance International Certification Center")*	Xingquan Plastics

7.12 TARGET MARKET AND BRAND MANAGEMENT

Since we established our "Addnice" brand, our Group has focused on achieving market recognition for our brand as manufacturers of quality products.

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. We also intend to continue introducing quality products to the market as we believe that the association of our "Addnice" brand to quality products is crucial to building up the goodwill and reputation of our Group.

Our products are directed towards eonsumers within the age group of 20 to 45. Thus, we have positioned our "Addnice" brand as sophisticated and fashionable to cater to this target market and to distinguish our products from other sportswear manufacturers.

To further promote our "Addnice" brand, our Group previously obtained endorsements of sports celebrities for our "Addnice" products. 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.

To protect the goodwill associated to our products, over the years, our Group has registered our tradenames and logos in different countries such as China, 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.

As a testament of the popularity and market recognition of our "Addnice" brand, our business success and enterprise quality, we have received several awards and accreditations, details of which can be found in Section 7.11 of this Prospectus.

7.13 MARKETING AND DISTRIBUTION

(i) Marketing Activities

The sales and marketing department is led by Mr Cai Ningtai. He is responsible for data collection of marketing information, studying market trends and to formulate and strategising our Group's marketing and distribution efforts.

The main marketing activities undertaken by our Group are as follows:

(a) Advertising on various media

To promote our "Addnice" brand and products, we market and advertise through various medium including:

- television advertisements through central and local television stations from time to time;
- billboards in commercial districts;
- giant poster displays on exteriors of shopping malls;
- leaflets and pamphlets; and
- information on our Group and products on our Group website.

(b) Specialty and retail stores

Within the PRC, 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.

Our Addnice specialty stores are stores which sell only Addnice products exclusively whereas the retail stores are stores which sell only "Addnice' products but located in shopping malls together with other stores selling other brands.

To strengthen our brand image, we maintain creative control over the design, décor and scheme of the specialty stores and shelf space in specialty and retail stores to ensure that our products and brand image are displayed and exhibited in a consistent and uniformed manner. Our PRC regional distributors are required to obtain our approval for the locations of new specialty stores. To ensure we gain maximum exposure, our specialty stores are strategically located in populated and vibrant areas and places where the storefront may be prominently displayed.

To ensure that our products and "Addnice" brand are consistently marketed, our PRC regional distributors are invited to attend training sessions to familiarise themselves with our sale and marketing policies and procedures. Periodic on-site inspections are conducted by our sales and marketing staff to ensure that our regional distributors and their retailers comply with such policies and procedures.

(c) Organising and/or sponsoring outdoor sports related activities

Our Group previously obtained endorsements of sports celebrities to promote our "Addnice" products. Moving forward, our Directors intend to promote our "Addnice" brand by organizing and/or sponsoring outdoor sports related activities such as, among others, hiking and rock climbing activities. Our Directors believe that our Group will be able to garner significant brand exposure and increase the appeal of our products among our target consumers.

(d) Other marketing activities

In order to promote our branding, we have also engage external advertising and marketing companies to assist us with our advertising and marketing activities, including the activities carried out by us as disclosed in item (a) above.

Our Group organises bi-annual sales fairs in March and September for our PRC regional distributors and direct retailers every year to launch new products for our autumn/winter and spring/summer lines, respectively. This bi-annual sales fair showcases all our new products which we intend to launch.

(ii) Distribution channels

"Addnice" shoe and apparel and accessories products

Our "Addnice" shoe and apparel products are distributed through an extensive network comprising PRC regional distributors and direct retailers across 20 provinces, cities and autonomous regions in the PRC. Our PRC sales network is divided into various regions across the PRC. To ensure that our products and brand are consistently marketed, our regional distributors are invited to attend training sessions to familiarise them with our sale and marketing policies and procedures. Periodic on-site inspections are conducted by our sales and marketing staff to ensure that our regional distributors and their retailers comply with such policies and procedures.

We have 29 authorised regional distributors and 43 direct retailers across the PRC through which our "Addnice" branded products are distributed. "Addnice" products sold to our PRC authorised distributors or direct retailers are priced at a discount to our fixed retail price.

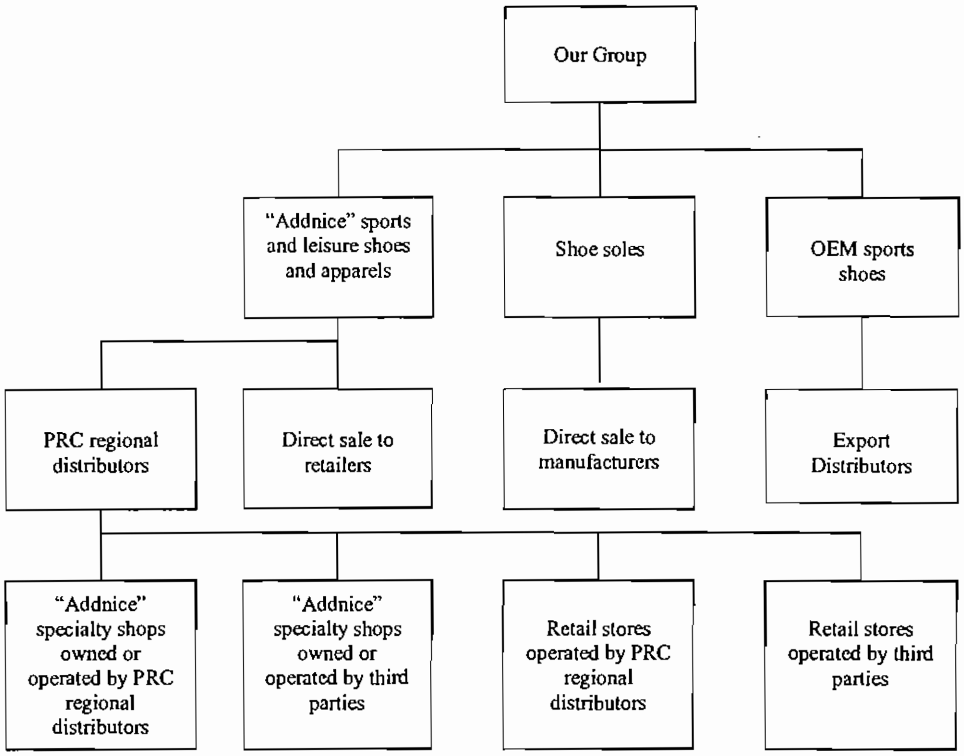
Our "Addnice" products are sold and marketed to end consumers through "Addnice" specialty stores owned or operated by our regional distributors, our direct retailers or third party retailers appointed by our regional distributors. "Addnice" specialty stores and retail stores are exclusive retail outlets that sell only our "Addnice" products. Our Group does not own or manage any of these stores, nor do we enter into any contractual relationships with third parties that sell our products through these stores.

"Addnice" products are acquired by third party retailers from our regional distributors at wholesale prices set by our regional distributors, whereas our "Addnice" products are sold to end consumers at a fixed retail price set by our Group.

Non "Addnice" products

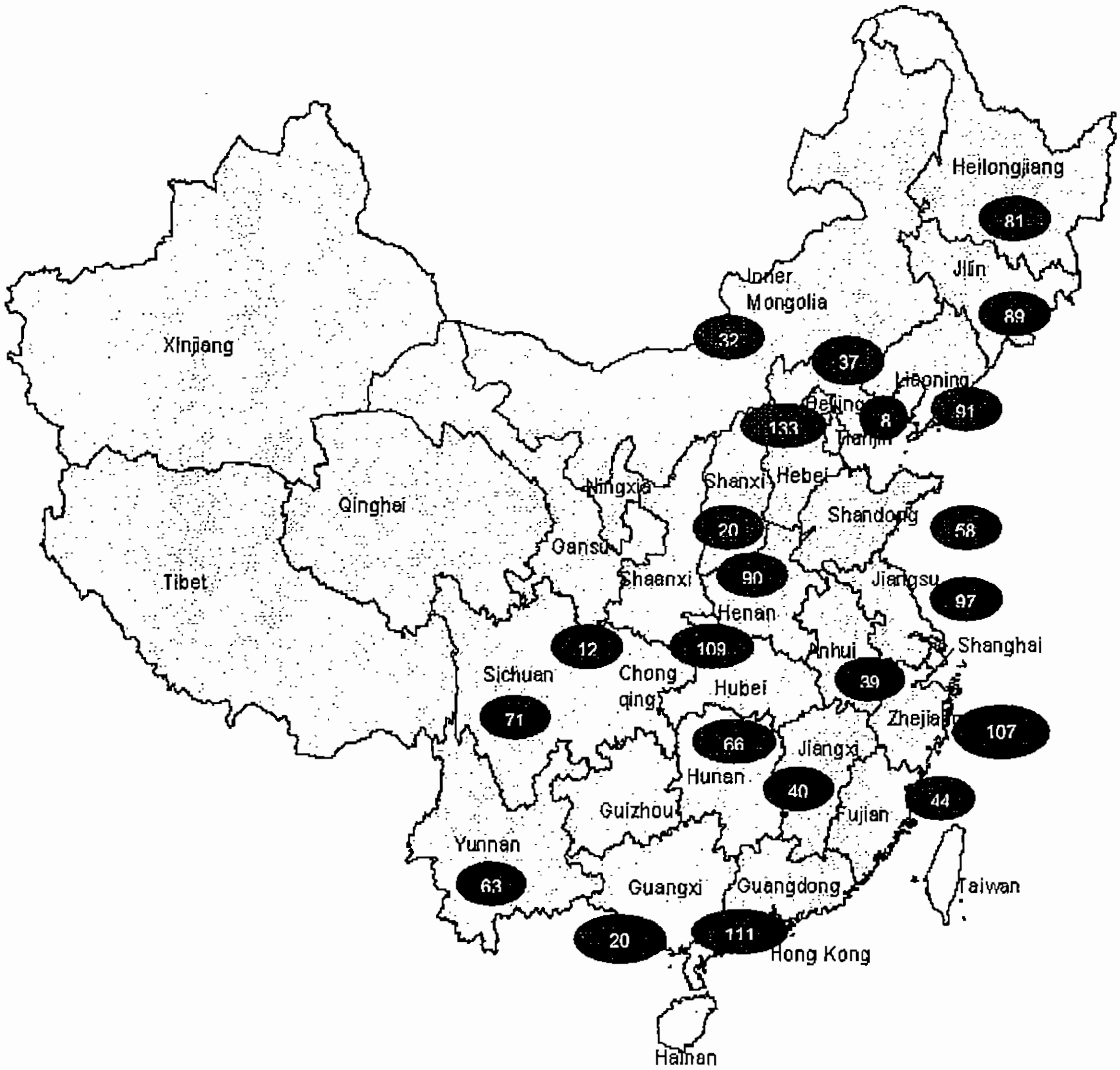
Our shoe sole products are used by Addnice Sports in its manufacture of sports and leisure shoes or sold directly to shoe manufacturers. Apart from that, we also sell our OEM shoe products through Export Distributors.

The following illustration sets out our main channels of distributions for our products:



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. For FYE 2008, our Group distributed our OEM shoe products to 20 Export Distributors. Since FYE 2008, up to the Latest Practicable Date, we have distributed our OEM shoe products to 20 Export Distributors.

The locations and the number of "Addnice" specialty shops and retail stores under such locations as at the Latest Practicable Date are summarised in the map and the table below:



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Province / City	Specialty stores	Retail stores	Total stores
Anhui	28	11	39
Beijing	24	13	37
Chongqing	10	2	12
Fujian	33	11	44
Guangdong	75	36	111
Guangxi	16	4	20
Hebei	81	52	133
Henan	56	34	90
Heilongjiang	51	30	81
Hubei	77	32	109
Hunan	47	19	66
Jilin	51	38	89
Jiangsu	65	32	97
Jiangxi	31	9	40
Liaoning	52	39	91
Inner Mongolia	21	11	32
Shandong	45	13	58
Shanxi	11	9	20
Sichuan	48	23	71
Tianjing	2	6	8
Yunnan	52	11	63
Zhejiang	78	29	107
Total	**954**	**464**	**1,418**

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7.14 MAJOR LICENCES, PERMITS AND APPROVALS

The major licences, permit and approvals of our Group, together with the conditions attached and status of compliance are as follows:

Approving authority	Recipient	Type of licence/ permit/ approval/ service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
Quanzhou AIC	Addnice Sports	Business License No. 350500400016097	21 January 2009/ 1 August 2003 to 31 July 2033*	(i) Must pass annual inspection; (ii) Must apply for reissue of licence in the event any of the registered information items has changed	Complied
	Xingquan Plastics	Business License No. 350500400011735	21 January 2009/ 31 January 2000 to 31 January 2030*		
	Addnice China	Business License No. 350500400038279	21 January 2009/ 7 March 2006 to 6 March 2036*		
Jinjiang AIC	Xingquan Footwear	Business License No. 350582100013280	22 October 2008/ 8 February 1999 to 8 February 2029*		
Jinjiang State Tax Bureau and Jinjiang Local Tax Bureau	Addnice Sports	Tax Registration Certificate No. 350582749087363	One-off approval from 21 September 2006/ none	(i) Must pass annual inspection; (ii) Must apply for reissue of certificate in the event any of the registered information items has changed	Complied
	Xingquan Plastics	Tax Registration Certificate No. 350582633904317	One-off approval from 21 September 2006/ none		
	Addnice China	Tax Registration Certificate No. 35058278219438X	One-off approval from 4 February 2009/ none		
	Xingquan Footwear	Tax Registration Certificate No. 350582705234384	One-off approval from 6 March 2009/ none		

Approving authority	Recipient	Type of licence/ permit/ approval/ service	Date of issuance/ validity	Equity and other major terms and conditions imposed	Status of compliance
SAFE, Jinjiang Branch	Addnice Sports	Foreign exchange Registration IC Chip Card No. 00024580 (replaced the former Foreign Exchange Certificate in August 2008 which was issued on 25 December 2003)	One-off approval from 25 December 2003/ none	(i) Must pass annual inspection; (ii) Must apply for reissue of IC Chip Card in the event any of the registered information items has changed	Complied
	Xingquan Plastics	Foreign exchange Registration IC Chip Card No. 00024492 (replaced the former Foreign Exchange Certificate in August 2008 which was issued on 6 June 2001)	One-off approval from 6 June 2001/ none		
	Addnice China	Foreign exchange Registration IC Chip Card No. 00024575 (replaced the former Foreign Exchange Certificate in August 2008 which was issued on 15 May 2006)	One-off approval from 15 May 2006/ none		

Note:

* *Business Operation Term*

7.15 TYPES, SOURCES AND AVAILABILITY OF RAW MATERIALS AND SERVICES

The raw materials for our shoe soles and shoe production such as EVA base chemicals, TPU pellets and fabrics such as suede, mesh, micro fabric and nylon are sourced from mainly suppliers located within Fujian Province, PRC where our production facilities are located. The raw materials which we use are generic industrial products which are readily available, especially in Fujian Province, PRC. As at the Latest Practicable Date, we do not rely solely on any single supplier for any one of our raw materials.

The prices for our raw materials are volatile and they differ from supplier to supplier. As such, our procurement team is tasked to source for the raw materials we require at the best price, after taking into consideration the quality and service level of our suppliers. As at the Latest Practicable Date, we have not been materially affected by the price volatility of our raw materials.

We also rely on several OEM suppliers for our sports and leisure apparels and accessories products. If any of our OEM suppliers are not able to manufacture to our requirements, we will be able to source the services of other OEM suppliers for our sports and leisure apparels and accessories products. Apart from pricing, we generally select our OEM suppliers after having considered their ability to meet our quality requirements and service level requirements.

7.16 DEPENDENCY ON CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, there is no single contract or arrangement that our Group is highly dependent on that could materially affect our business or profitability.

7.17 INTERRUPTIONS IN BUSINESS FOR THE PAST 12 MONTHS

There has not been any material interruption to our Group's business activities during the past 12 months.

7.18 MAJOR CUSTOMERS

Our "Addnice" sports and leisure shoe products, apparels and accessories are sold to PRC regional distributors and direct retailers. In turn, our "Addnice" products are sold and marketed to end-customers by the PRC regional distributors, direct retailers or third parties appointed by the PRC regional distributors through "Addnice" specialty stores which they own or operate. In addition, PRC regional distributors may distribute our "Addnice" products through retail stores owned by third parties.

Our shoe sole products are used by Addnice Sports in its manufacture of sports and leisure shoes or sold directly to shoe manufacturers. We distribute our OEM sports shoe products through Export Distributors.

As our Group has a diverse range of customers, we do not have any major customers who accounted for 10.0% or more of our Group's total revenue during any of the FYE 2006, FYE 2007, FYE 2008 and 1H 2009. As at the Latest Practicable Date, our business and profitability are not dependent on any one of our customers.

To the best of our Directors' knowledge, we are not aware of any information or arrangements which would lead to a cessation or termination of our current relationship with any of our major customers.

7.19 MAJOR SUPPLIERS

As our Group has a diverse range of suppliers, we do not have any major suppliers who accounted for 10.0% or more of our Group's total purchases during any of the FYE 2006, FYE 2007, FYE 2008 and 1H 2009. Our suppliers who accounted for 5.0% or more of our total purchases during any of the FYE 2006, FYE 2007, FYE 2008 and 1H 2009 are as follows:

Name of Supplier	Length of relationship	Supply	As a percentage of Group's purchases (%)			
			FYE 2006	FYE 2007	FYE 2008	1H 2009
石狮市三联服饰织造有限公司 *(translated as "Shishi Sanlian Clothing Weaves Co., Ltd")*	Since 2005	OEM apparels	4.00%	4.7%	7.6%	7.0%
晋江大森制衣有限公司 *(translated as "Jinjiang Dasen Garments Co., Ltd")*	Since 2005	OEM apparels	3.9%	4.2%	7.0%	6.4%

Name of Supplier	Length of relationship	Supply	As a percentage of Group's purchases (%)			
			FYE 2006	FYE 2007	FYE 2008	1H 2009
厦门弘业通商进出口有限公司 *(translated as "Xiamen Hongye Tongshang Imp. & Exp. Co., Ltd")*	Since 2005	Shoe sole raw materials	9.1%	7.6%	5.6%	5.8%
厦门市燕华楠工贸发展有限公司 *(translated as "Xiamen Yanhuanan Industry & Trade Development Co., Ltd")*	Since 2005	OEM apparels	4.7%	4.7%	5.6%	4.3%
泉州宝树包装有限公司 *(translated as 'Quanzhou Baoshu Packing Co., Ltd")*	Since 2001	Packing materials	5.0%	5.4%	5.0%	5.2%
晋江兰峰制革有限公司 *(translated as "Jinjiang Lanfeng Leather Making Co., Ltd")*	Since 2005	Shoes raw materials	2.9%	4.0%	2.6%	5.2%

To the best of our Directors' knowledge, we are not aware of any information or arrangements whieh would lead to a cessation or termination of our current relationship with any of our suppliers listed above.

7.20 INTELLECTUAL PROPERTIES

Our Group relies on a combination of copyright protection, trademark and domain name registration to establish and protect our intellectual property, brand name, logos and internet domain name.

(i) Copyright

Our Group's copyright is in relation to the content of our website and advertising materials such as our television advertisements, billboards, posters, brochures, leaflets and pamphlets.

(ii) Trademarks

Our Group has taken steps to protect its trademarks and logos in various jurisdictions by registering or applying for registration the trademarks/logos set out below in various classes:

addnice	addnice	艾耐斯
addnice 艾迪耐斯		艾耐斯 addnice
爱耐斯 addnice	addnice 艾迪耐斯	addnice 艾耐斯
		星泉 XINGQUAN
汤姆森 TANGMUSEN	约翰逊 YUEHANXUN	
XINGQUAN 星泉	addnice.net	addnice.cn
邓肯 D • KEN		

We are in the process of registering the following trademarks in the PRC which are pending approval by the Trademark Office of State Administration for Industry and Commerce ("Trademark Office") as at the Latest Practicable Date.

艾迪耐斯 艾迪®耐斯 爱耐斯

艾耐斯
addnice

ADDNICE addnice

(iii) Domain Name

Our domain name www.addnice.com.cn is registered under Addnice Sports.

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8. FINANCIAL INFORMATION

8.1 HISTORICAL PROFORMA CONSOLIDATED FINANCIAL INFORMATION

The following tables summarise our proforma consolidated financial information extracted from the audited combined financial statements of our Group for the FYE 2006 to 2008 and 1H 2009. The proforma consolidated financial information of our Group is provided for illustrative purposes only, after incorporating such adjustments considered necessary and assuming that the present structure of our Group has been in existence throughout the financial years and period under review, except for the financial information of Xingquan Footwear which was consolidated into the proforma financial information of our Group from FYE 2008 onwards based on the audited combined financial statements of our Group.

There has been no audit qualification on the audited combined financial statements for the financial years and period under review. The audited eombined financial statements for the FYE 2006, 2007 and 2008 were unqualified with an emphasis on the fact that the financial information of Xingquan International was not incorporated in the audited combined financial statements, as the Acquisition has not been completed and hence our Group was not in existence as at the date of the auditors' report. The audited combined finaneial statements for the financial years and period under review were prepared in aeeordance with IFRS and audited by Messrs. Foo Kon Tan Grant Thornton, Singapore and have been reviewed by our Reporting Accountants, Messrs SJ Grant Thornton. The audited combined financial statements consolidate the financial statements of all subsidiaries of Xingquan International during the financial years and period under review except for the financial statement of Xingquan Footwear which was only consolidated from FYE 2008 onwards as Xingquan Footwear was not under common eontrol of the major shareholders of Xingquan International prior to FYE 2008. The bases and aecounting policies used for the purpose of preparing our proforma consolidated financial information 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.

You should read the proforma eonsolidated financial information in conjunction with the management discussion and analysis of financial conditions and results of operations and the Reporting Aecountants' Letter on the Proforma Consolidated Financial Information as set out in Sections 8.2 and 8.3 of this Prospectus respectively.

Exchange rate

The proforma eonsolidated financial information of our Group are prepared in RMB.

As at the Latest Praetieable Date, the exchange rate between the RMB and the RM was RM0.5080 : RMB1. The table below sets out the high and low exchange rates for RMB/RM for each month during the 6 months prior to the Latest Practicable Date. The table below indicates the equivalent amount of RM for RMB1.00.

	RMB/RM	
	High	**Low**
December 2008	0.5325	0.5033
January 2009	0.5306	0.5049
February 2009	0.5427	0.5233
March 2009	0.5466	0.5281
April 2009	0.5353	0.5176
May 2009	0.5236	0.5059

The following table sets out, for each of the financial years and periods indicated, the average and closing exchange rates between RMB and RM. The average exchange rate between RMB and RM is calculated using the average of the exchange rates on the last day of each month during each financial year. Where applicable, the exchange rates in this table are used for our financial statements disclosed elsewhere in this Prospectus.

	RMB/RM	
	Average	**Closing**
FYE 2006	0.4525	0.4598
FYE 2007	0.4513	0.4526
FYE 2008	0.4825	0.4766
1H 2008	0.4539	0.4499
1H 2009	0.5066	0.5081

The exchange rates between RMB and RM as outlined above have been presented for information purposes only. The exchange rates should not be construed as a representation that these RMB amounts could have been or could be converted into RM at any particular rates, the rates above, or at all.

All figures stated in RMB are converted to RM, where applicable. The applied rate of exchange for FYE 2006 to FYE 2008 and 1H 2008 and 2009 is RM0.5081: RMB1.00 based on the exchange rate as at 31 December 2008.

8.1.1 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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8. FINANCIAL INFORMATION *(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.

8.1.2 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 audited combined 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.

			Minimum Scenario and assuming exercise of Over-Allotment Option		Maximum Scenario and assuming exercise of Over-Allotment Option	
	<——FYE 2008——>		<———1H 2009———>		<———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)
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

8.1.3 Proforma Consolidated Balance Sheets 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.

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8. FINANCIAL INFORMATION *(Cont'd)*

Minimum Scenario

	As at date of incorporation		Proforma I After Acquisition		Proforma II After I and Share Split		Proforma III After II and Public Issue		Proforma IV After III and utilisation of proceeds		Proforma V After IV and assnming full exercise of the Over-Allotment Option	
	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000
NON CURRENT ASSETS												
Property, plant and equipment	-	-	63,955	32,496	63,955	32,496	63,955	32,496	102,534	52,098	139,651	70,957
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	111,506	56,657	148,623	75,516
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	34	105,875	53,795	105,875	53,795	353,320	179,522	297,028	150,920	297,028	150,920
	68	34	274,781	139,616	274,781	139,616	522,226	265,343	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	34	72,194	36,682	72,194	36,682	319,639	162,409	263,347	133,807	263,347	133,807
NET ASSETS	68	34	145,121	73,737	145,121	73,737	392,566	199,464	374,853	190,464	411,970	209,323
EQUITY												
Share capital	68	34	146,805	74,593	146,805	74,593	187,660	95,351	187,660	95,351	193,788	98,465
Share premium	-	-	-	-	-	-	206,590	104,969	195,646	99,408	226,635	115,153
Reserves	-	-	(1,684)	(856)	(1,684)	(856)	(1,684)	(856)	(8,453)	(4,295)	(8,453)	(4,295)
Total equity	68	34	145,121	73,737	145,121	73,737	392,566	199,464	374,853	190,464	411,970	209,323
No of Xingquan International Shares in issue (000)	10	10	21,513	21,513	215,130	215,130	275,000	275,000	275,000	275,000	283,981	283,981
Net assets per ordinary share of:												
- USD1.00 eaeh	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-	-
- USD0.10 each	-	-	-	-	0.67	0.34	1.43	0.73	1.36	0.69	1.45	0.74

8. FINANCIAL INFORMATION *(Cont'd)*

Maximum Scenario

	As at date of incorporation		Proforma I After Acquisition		Proforma II After I and Share Split		Proforma III After II and Public Issue		Proforma IV After III and utilisation of proceeds		Proforma V After IV and assuming full exercise of the Over-Allotment Option	
	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	RM 000	RMB 000	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	34	105,875	53,795	105,875	53,795	517,113	262,745	297,028	150,920	297,028	150,920
	68	34	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	34	72,194	36,682	72,194	36,682	483,432	245,632	263,347	133,807	263,347	133,807
NET ASSETS	68	34	145,121	73,737	145,121	73,737	556,359	282,687	532,742	270,687	594,428	302,030
EQUITY												
Share capital	68	34	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	34	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	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

8.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our Group's financial condition and results of operations for the 3 FYE 2008 and 1H 2008 and 1H 2009 should be read in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and Accountants' Report, together with the notes, assumptions and bases thereto, as set out in Sections 8.3 and 9 of this Prospectus.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties and reflect our current views with respect to future events and financial performance. Our Group's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those stated on the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in the Risk Factors under Section 5 of this Prospectus.

8.2.1 Overview

Our Company was incorporated in Bermuda under 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.

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.

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 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.

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 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 the Consideration Shares (prior to the Share Split) at an issue price of USD1.00 per Consideration Share.

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(i) Revenue

For the financial years and periods under review, our Group's revenue is made up of sales of shoe soles, outdoor and indoor sports and leisure shoes and apparels and accessories as follows:

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

(b) Outdoor and indoor sports and leisure shoes comprise athletic footwear designed for specific sporting activities such as running, tennis, basketball and mountain climbing as well as leisure footwear marketed under our "Addnice" brand. We are also OEM for owncrs of international sports and leisure footwear brands such as FILA, Kappa, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto; and

(c) Outdoor and indoor sports and leisure apparels and accessories comprise apparels for specific 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, wrist and head band, designed for various sporting activities and marketed under our "Addnice" brand. Currently, our apparels and accessories are produced by external OEMs located in Guangdong province and Fujian province.

Revenue is recognised upon the delivery and acceptancc of our products by our customers. We generally do not allow for any sales returns by our customers unless due to product quality matters. However, prior to the delivery and acceptance of our products, our customers may still cancel their orders. If our products do not meet the stipulated quality standard, our customers may return the products to us for rectification and/or replacement. Wc have not experienced any material complaints and cancellation of orders from our customers for the financial years and periods under review. Nonetheless, as part of our customer service and inventory management practice, we actively monitor our salcs and inventory levels of the products sold to customers and assist to manage our customers' inventory levels by redistributing their excess inventories to other customers.

8. FINANCIAL INFORMATION *(Cont'd)*

The table below sets out the number of units sold, average selling price and contribution to revenue for each product of our Group for the respective financial years and periods under review:

In RMB

Total units sold and contribution to revenue	Audited									Unaudited			Audited		
	FYE 2006			FYE 2007			FYE 2008			1H 2008			1H 2009		
	Total units sold 000	Revenue RMB 000	%	Total units sold 000	Revenue RMB 000	%	Total units sold 000	Revenue RMB 000	%	Total units sold 000	Revenue RMB 000	%	Total units sold 000	Revenue RMB 000	%
Shoe soles (number of pairs)	5,385	84,589	29.2	5,584	97,973	22.3	7,013	131,516	20.6	3,072	61,525	20.3	4,850	87,100	21.4
Outdoor and indoor sports and leisure shoes (number of pairs)	2,364	164,014	56.7	3,671	263,006	60.0	4,834	367,294	57.7	2,405	180,586	59.7	2,736	219,012	54.0
Outdoor and indoor sports and leisure apparels and accessories (number of pieces)	917	40,643	14.1	1,871	77,541	17.7	3,455	138,000	21.7	974	60,451	20.0	2,151	99,768	24.6
		289,246	100.0		438,520	100.0		636,810	100.0		302,562	100.0		405,880	100.0

8. FINANCIAL INFORMATION *(Cont'd)*

In RM

Total units sold and contribution to revenue	Audited									Unaudited			Audited		
	FYE 2006			FYE 2007			FYE 2008			1H 2008			1H 2009		
	Total units sold 000	Revenue RM 000	%	Total units sold 000	Revenue RM 000	%	Total units sold 000	Revenue RM 000	%	Total units sold 000	Revenue RM 000	%	Total units sold 000	Revenue RM 000	%
Shoe soles (number of pairs)	5,385	42,980	29.2	5,584	49,780	22.3	7,013	66,823	20.6	3,072	31,261	20.3	4,850	44,256	21.4
Outdoor and indoor sports and leisure shoes (number of pairs)	2,364	83,336	56.7	3,671	133,633	60.0	4,834	186,622	57.7	2,405	91,756	59.7	2,736	111,280	54.0
Outdoor and indoor sports and leisure apparels and accessories (number of pieces)	917	20,650	14.1	1,871	39,399	17.7	3,455	70,118	21.7	974	30,715	20.0	2,151	50,692	24.6
		146,966	100.0		222,812	100.0		323,563	100.0		153,732	100.0		206,228	100.0

Our revenue has increased substantially during the financial years and periods under review. Total revenue increased from RMB289.2 million in FYE 2006 to RMB438.5 million in FYE 2007, and subsequently to RMB636.8 million in FYE 2008, representing an annual growth rate of 51.6% and 45.2% respectively. Between 1H 2008 and 1H 2009, revenue increased by RMB103.3 million or 34.1% from RMB 302.6 million in the 1H 2008 to RMB405.9 million in the 1H 2009. The overall increasing trend can be mainly attributed to increasing sales volume of our "Addnice" shoes, apparels and accessories as a result of our increasing number of distribution channels and distribution reach, rising affluence and consumer demand in the PRC and the success of our product research and development, branding, marketing and sales strategies in our selected target markets. In addition, in the financial years and periods under review, our Group has obtained the endorsement of local and international sports figures which served to enable our Group to garner significant brand exposure and increase the appeal of our products among our target consumers. 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, an 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.

The rising demand for sportswear in the PRC is in line with the increasing disposal income of the Chinese population in recent years. The increasing trend in the annual apparel and shoe consumption per urban household denotes that Chinese consumers are more willing to spend money on apparels and shoes. In addition, with the increase in purchasing power of the Chinese, Chinese consumers are better able to afford to purchase sportswear. Sport shoes are no longer functional but doubling up as fashionable general leisureware. Further, 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 demand for sportswear with the hosting of future international sports events by the PRC. Events that will be hosted by China include the East Asian Games in Hong Kong in 2009, the 16th Asian Games in Guangzhou in 2010 and World University Games in 2011.

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

The larger increase in sales of our outdoor and indoor sports and leisure apparels and accessories segment as compared to our shoe soles and shoes segments were mainly due to strong market demand during the financial years and periods under review. In view of the generally more attractive gross profit margins for the apparels and accessories products, we have leveraged on our already well-recognised "Addnice" brand and existing distribution network across the PRC to further develop and grow our complementary range of "Addnice" apparels and accessories business.

Revenue analysis by distribution network

Total revenue breakdown by our four main distribution channels for our "Addnice" products and shoe sole products for the financial years and periods under review are as follows:

In RMB

Revenue by distribution channel	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%
- PRC regional distributors	112,932	39.1	206,199	47.0	310,101	48.7	150,229	49.7	225,662	55.6
- Direct sale to retailers	55,608	19.2	92,117	21.0	144,026	22.6	66,088	21.8	71,302	17.6
- OEM sales	36,117	12.5	42,232	9.6	51,167	8.0	24,720	8.2	21,816	5.4
- Direct sale to manufacturers*	84,589	29.2	97,972	22.4	131,516	20.7	61,525	20.3	87,100	21.4
Total revenue	**289,246**	**100.0**	**438,520**	**100.0**	**636,810**	**100.0**	**302,562**	**100.0**	**405,880**	**100.0**

In RM

Revenue by distribution channel	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RM 000	%	RM 000	%	RM 000	%	RM 000	%	RM 000	%
- PRC regional distributors	57,381	39.1	104,770	47.0	157,562	48.7	76,331	49.7	114,659	55.6
- Direct sale to retailers	28,254	19.2	46,805	21.0	73,180	22.6	33,580	21.8	36,229	17.6
- OEM sales	18,351	12.5	21,458	9.6	25,998	8.0	12,560	8.2	11,085	5.4
- Direct sale to manufacturers*	42,980	29.2	49,779	22.4	66,823	20.7	31,261	20.3	44,255	21.4
Total revenue	**146,966**	**100.0**	**222,812**	**100.0**	**323,563**	**100.0**	**153,732**	**100.0**	**206,228**	**100.0**

Note:

* *Direct sale to manufacturers is a distribution channel for shoe sole products only.*

Our "Addnice" products are distributed via two main channels, namely (i) PRC regional distributors; and (ii) direct retailers across 20 provinces, cities and autonomous regions in the PRC. The PRC regional distributors are distributors who distribute our "Addnice" products to "Addnice" specialty shops and retail stores. The specialty shops are exclusive retail outlets that sell only our "Addnice" products and are owned or operated by either the PRC regional distributors or third party retailers appointed by the PRC regional distributors. Similarly, the retail stores are operated by either the PRC regional distributors or third party retailers. Please refer to the section 7.13(ii) of this Prospectus for further details on our distribution channels.

In addition, we are also an OEM for third party European shoe brands through export distributions.

Our shoe sole products are either used by Addnice Sports to manufacture our indoor and outdoor sports and leisure shoes or sold directly to shoe manufacturers of various brands such as Xtep, China Peak, 361° and Qiaodan.

The increase in sales via PRC regional distributors and direct retailers in the financial years and periods under review is in line with increase in the sales of outdoor and indoor sports and leisure shoes, apparels and accessories during the same period.

The expansion of our distribution network across our target markets in the PRC forms the core of our sales strategy for our "Addnice" products. The total number of retail locations of our Group in the PRC grew from 409 in FYE 2006 to 1,349 in 1H 2009. The significant growth of retail locations contributed to the growth of our Group's sales volumes during the same period.

Our "Addnice" products were retailed at the following locations in the financial years and periods under review:

	Number of regional distributors and retail locations of "Addnice" products				
	FYE 2006	**FYE 2007**	**FYE 2008**	**1H 2008**	**1H 2009**
Regional distributors	22	28	29	27	29
Retail locations					
Via PRC regional distributors					
- "Addnice" specialty stores	271	521	828	631	894
- Other retail stores	106	253	372	312	412
	377	774	1,200	943	1,306
Via direct sale to retailers	32	42	43	43	43
Total retail locations	**409**	**816**	**1,243**	**986**	**1,349**

Our "Addnice" products are only distributed and sold within the PRC.

8. FINANCIAL INFORMATION *(Cont'd)*

Breakdown of our Group's revenue by subsidiaries is as follows:

	FYE 2006			FYE 2007			FYE 2008			1 H 2008			1 H 2009		
	RMB 000	RM 000	%	RMB 000	RM 000	%	RMB 000	RM 000	%	RMB 000	RM 000	%	RMB 000	RM 000	%
Xingquan Plastics															
Outdoor and indoor sports and leisure shoes	10,334	5,251	8.3	-	-	-	-	-	-	-	-	-	-	-	-
Shoe soles	113,901	57,873	91.7	149,752	76,089	100.0	195,761	99,466	100.0	96,246	48,903	100.0	129,089	65,590	100.0
Total	124,235	63,124	100.0	149,752	76,089	100.0	195,761	99,466	100.0	96,246	48,903	100.0	129,089	65,590	100.0
Addnice Sports															
Outdoor and indoor sports and leisure shoes	153,680	78,085	79.1	263,006	133,633	77.2	367,294	186,622	72.7	180,586	91,756	74.9	219,012	111,280	68.7
Outdoor and indoor sports and leisure apparels and accessories	40,643	20,651	20.9	77,541	39,399	22.8	138,000	70,118	27.3	60,450	30,715	25.1	99,768	50,692	31.3
Total	194,323	98,736	100.0	340,547	173,032	100.0	505,294	256,740	100.0	241,036	122,471	100.0	318,780	161,972	100.0
Grand total	318,558	161,860		490,299	249,121		701,055	356,206		337,282	171,374		447,869	227,562	
Less:															
Inter-company transactions:															
Shoe soles	(29,312)	(14,894)		(51,779)	(26,309)		(64,245)	(32,643)		(34,720)	(17,642)		(41,989)	(21,334)	
Total	**289,246**	**146,966**		**438,520**	**222,812**		**636,810**	**323,563**		**302,562**	**153,732**		**405,880**	**206,228**	

Our Group's revenue is derived from Addnice Sports and Xingquan Plastics for the financial years and periods under review. Addnice Sports' revenue is derived mainly from the manufacturing and sale of outdoor and indoor sports and leisure shoes, apparels and accessories whilst Xingquan Plastics' revenue is derived mainly from the manufacturing and sale of shoe soles. The shoe segment business of Xingquan Plastics was transferred to Addnice Sports in FYE 2006.

(ii) **Cost of Sales**

We set out below the breakdown of our cost of sales by product segments for the financial years and periods under review:

In RMB

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%
Shoe soles										
Raw materials, direct labour and manufacturing overheads	65,918	32.7	75,088	25.3	96,450	22.8	44,348	22.5	61,941	24.7
Outdoor and indoor sports and leisure shoes										
Raw materials, direct labour and manufacturing overheads	105,801	52.4	163,806	55.1	224,419	53.1	107,208	54.5	120,474	48.2
Outdoor and indoor sports and leisure apparels and sports accessories										
Subcontracting cost	29,951	14.9	58,089	19.6	101,829	24.1	45,333	23.0	67,955	27.1
Grand Total	201,670	100.0	296,983	100.0	422,698	100.0	196,889	100.0	250,370	100.0

In RM

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RM 000	%	RM 000	%	RM 000	%	RM 000	%	RM 000	%
Shoe soles										
Raw materials, direct labour and manufacturing overheads	33,493	32.7	38,152	25.3	49,006	22.8	22,533	22.5	31,472	24.7
Outdoor and indoor sports and leisure shoes										
Raw materials, direct labour and manufacturing overheads	53,758	52.4	83,230	55.1	114,027	53.1	54,472	54.5	61,213	48.2
Outdoor and indoor sports and leisure apparels and sports accessories										
Subcontracting cost	15,218	14.9	29,515	19.6	51,740	24.1	23,034	23.0	34,528	27.1
Grand Total	102,469	100.0	150,897	100.0	214,773	100.0	100,039	100.0	127,213	100.0

Our cost of sales for shoe soles and shoes comprise mainly raw material, direct labour and manufacturing overheads. As the manufacturing of apparels and accessories are outsourced to external OEMs, the cost of sales for these products comprises only subeontracting costs charged by the OEMs.

Shoe soles

Raw material costs for our shoe soles comprise mainly the cost of EVA base chemicals, TPU pellets and other raw materials such as glue and dye. The above raw materials are obtained from a number of suppliers located in Fujian province and are typically purchased in bulk. We did not experience any significant fluctuation in the prices of raw materials during the financial years and periods under review.

Direct labour costs comprise mainly salaries and wages and other staff-related costs of workers who are directly involved in the manufacturing of shoe soles and are dependent on factors such as the number of employees, production volume, the industry level of wages and labour conditions. There was an increasing trend of direct labour cost per unit of shoe sole as a result of gradual hikes in average labour cost per employee of approximately between 10%-15% per annum during the financial years and periods under review. However, the increasing labour costs did not have a significant impact on the cost of shoe sole as a result of economies of scale arising from the increasing production volume during the same financial years and periods under review.

Manufacturing overheads comprise other costs which are directly related to manufacturing such as utility expenses, depreciation charge of plant and machinery, cost for research and product development, rentals and costs of miscellaneous materials and consumables used in manufacturing.

Outdoor and indoor sports and leisure shoes

Raw material costs for our sports and leisure shoe products comprise mainly costs of glue, thread, TPU pellets and fabrics such as suede, leather, nylon, mesh and micro fabric. These matcrials are obtained from a number of suppliers located in Fujian province and are typically purchased in bulk. We did not experience any significant fluctuation in the prices of materials during the financial years and periods under review.

Direct labour costs comprise mainly salaries and wages and other staff-related costs of workers who are directly involved in the manufacturing of outdoor and indoor sports and leisure shoes and are dependent on factors such as the numbcr of employees, production volume, the industry level of wagcs and labour conditions. There was a decreasing trend of dircct labour cost per pair of shoes as a result of economics of scale achieved from increasing production volume for our shoe products during the financial years and pcriods under review, although these effects were partly offset by the gradual hikes in average labour costs per employee of approximately between 10%-15% per annum during the same financial years and periods under review.

Manufacturing overheads comprise other costs which are directly related to manufacturing such as utility expenses, depreciation charge of plant and machinery, cost for research and product development, rentals and costs of miscellaneous materials and consumables used in manufacturing.

Outdoor and indoor sports and leisure apparels and accessories

Subcontracting costs for our apparels and accessories accounted for 14.9%, 19.6%, 24.1% and 27.1% of our cost of sales in FYE 2006, FYE 2007, FYE 2008 and 1H 2009 respectively. These subcontracting costs comprise mainly costs of materials and production charged by our third party OEMs to whom we subcontract the manufacture of our "Addnice" outdoor and indoor sports and leisure apparels such as T-shirts, polo shirts, shorts, windbreakers and track-suits and accessories such as sports bags, caps, socks, wrist and head band. The increasing trend in subcontracting cost for our apparels and accessories was in tandem with the significant growth in revenue of our apparels and accessories product segments.

(iii) Gross profit margin

We categorise our products into three product segments, namely shoe soles, outdoor and indoor sports and leisure shoes, apparels and accessories. Breakdown of our gross profit and gross profit margin for each of these product segments are set out below:

In RMB

	<—Audited				—>		<—Unaudited—>		<—Audited—>	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
Gross Profit	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**
Shoe soles	18,671	21.3	22,885	16.2	35,066	16.4	17,177	16.3	25,159	16.2
Outdoor and indoor sports and leisure shoes	58,213	66.5	99,200	70.1	142,875	66.7	73,378	69.4	98,538	63.3
Outdoor and indoor sports and leisure apparels and accessories	10,692	12.2	19,452	13.7	36,171	16.9	15,118	14.3	31,813	20.5
Totals	87,576	100.0	141,537	100.0	214,112	100.0	105,673	100.0	155,510	100.0

In RM

	<—Audited				—>		<—Unaudited—>		<—Audited—>	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
Gross Profit	**RM 000**	**%**	**RM 000**	**%**	**RM 000**	**%**	**RM 000**	**%**	**RM 000**	**%**
Shoe soles	9,487	21.3	11,628	16.2	17,817	16.4	8,728	16.3	12,784	16.2
Outdoor and indoor sports and leisure shoes	29,578	66.5	50,403	70.1	72,595	66.7	37,284	69.4	50,067	63.3
Outdoor and indoor sports and leisure apparels and accessories	5,432	12.2	9,884	13.7	18,378	16.9	7,681	14.3	16,164	20.5
Totals	44,497	100.0	71,915	100.0	108,790	100.0	53,693	100.0	79,015	100.0

Gross Profit Margin	<------ FYE 2006	Audited FYE 2007	------> FYE 2008	Unaudited 1H 2008	Audited 1H 2009
	%	%	%	%	%
Shoe soles	22.1	23.4	26.7	27.9	28.9
Outdoor and indoor sports and leisure shoes	35.5	37.7	38.9	40.6	45.0
Outdoor and indoor sports and leisure apparels and accessories	26.3	25.1	26.2	25.0	31.9
Overall gross profit margin	30.3	32.3	33.6	34.9	38.3

Our overall gross profit margin improved from 30.3% in FYE 2006 to 32.3% in FYE 2007. This was mainly attributed by (i) change in sales mix due to relatively higher growth in sales of our shoe segment as compared to our shoe sole segment whereby shoe products generally enjoy better gross profit margins than shoe sole products; (ii) an increase in gross profit margin of our shoe segment, which improved from 35.5% in FYE 2006 to 37.7% in FYE 2007. Our overall gross profit margin improved from 32.3% in FYE 2007 to 33.6% in FYE 2008. This was mainly attributed by (i) an increase in gross profit margin of our shoe segment, which improved from 37.7% in FYE 2007 to 38.9% in FYE 2008; and (ii) an increase in gross profit margin of our shoe sole segment, which improved from 23.4% in FYE 2007 to 26.7% in FYE 2008. Overall gross margin further improved in 1H 2009 driven mainly by the improvement in per unit selling price of outdoor and indoor sports and leisure shoes and sport apparels as well as the reduction in the per unit cost of sales of shoe soles and shoes. Further discussions on the gross profit margins of the individual product segments are set out below.

<u>Shoe soles</u>

Gross profit margin of shoe sole segment increased from 22.1% in FYE 2006 to 23.4% in FYE 2007. The improvement in gross profit margin is due to an increase of RMB1.8 or 11.5% in the average selling price of shoe sole from RMB15.7 in FYE 2006 to RMB17.5 in FYE 2007. Gross profit margin of shoe sole segment further improved from 23.4% in FYE 2007 to 26.7% in FYE 2008. The improvement was mainly due to the increase of RMB1.20 or 6.8% in average selling price of shoe sole from RMB17.6 in FYE 2007 to RMB18.8 in FYE 2008. However, the improvement in selling price was partly offset by the increase in the cost of raw materials which increased in tandem with the price of oil. Gross profit margin further improved to 28.9% in 1H 2009 mainly duc to the decrease in the per unit cost of sales as a result of cconomies of scale.

Indoor and outdoor sports and leisure shoes

Gross profit margin of shoe segment increased from 35.5% in FYE 2006 to 37.7% in FYE 2007. The improvement in gross profit margin of our shoe segment was mainly due to the increase in overall average selling price of our shoe products from RMB69.4 in FYE 2006 to RMB71.6 in FYE 2007 and the decrease in the cost of sales per pair of shoe from RMB44.8 in FYE 2006 to RMB44.6 in FYE 2007 due to the decrcase in per unit cost of sales as a result of economies of scale. Gross profit margin of shoe segment furthcr improved from 37.7% in FYE 2007 to 38.9% in FYE 2008 mainly due to the increase of RMB4.4 or 6.1% per pair in average selling price of our shoe products from RMB71.6 in FYE 2007 to RMB76.0 in FYE 2008.

Gross margin of shoes in the 1H 2009 improves significantly from 38.9% in FYE 2008 to 45.0%in 1H 2009 mainly due to the incrcase in average selling price per pair of shoe from RMB76.0 in FYE 2008 to RMB80.0 in 1H 2009.

Indoor and outdoor sports and leisure apparel and accessories

Gross profit margin of sports apparel and accessories segment decreased from 26.3% in FYE 2006 to 25.1% in FYE 2007. This is mainly due to the decrease in the averagc selling price of apparels and accessorics from RMB44.3 in FYE 2006 to RMB41.5 in FYE 2007 as more items with lower profit margins were sold in FYE 2007. However, gross profit margin increased slightly from 25.1% in FYE 2007 to 26.2% in FYE 2008. The improvement in gross profit margin was mainly due to dccrease of RMB1.6 in average cost per unit from RMB31.1 to RMB29.5. However, the increase was partly offset by the decrease in average selling price of RMB1.5 or 3.6% from RMB41.4 in FYE 2007 to RMB39.9 in FYE 2008. Gross margin further improved to 31.9% in 1H 2009 mainly due to the improvement in average selling price of apparels and accessories from RMB39.9 per unit in FYE 2008 to RMB46.4 pcr unit in 1H 2009.

Growth in production capacity

The breakdown of production capacity and output of shoe soles and shoes are as follows:

	FYE 2006 000	FYE 2007 000	FYE 2008 000	1H 2008 000	1H 2009 000
Shoe soles					
Capacity (pairs)	12,540	12,980	14,000	7,320	7,320
Output (pairs)	7,321	8,943	10,906	5,225	7,304
Utilisation rate (%)	58.4%	68.9%	77.9%	71.4%	99.8%

	FYE 2006 000	FYE 2007 000	FYE 2008 000	1H 2008 000	1H 2009 000
Outdoor and indoor sports and leisure shoes					
Capacity (pairs)	3,960	5,120	5,940	2,970	2,970
Output (pairs)	2,386	3,714	4,780	2,445	2,867
Utilisation rate (%)	60.3%	72.5%	80.5%	82.3%	96.5%

8. FINANCIAL INFORMATION *(Cont'd)*

Both our production facilities for shoe soles and shoes are located in Quanzhou City in Fujian Province in the PRC in three (3) separate plants. We increase the production output of our Group on an annual basis by commissioning new equipment, machineries and/or production lines to cater for the expansion of our sales.

(iv) Administrative expenses

In RMB

	Audited						Unaudited		Audited	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%
Items										
Depreciation	100	1.2	154	1.4	332	2.3	91	1.1	533	5.0
Insurance	100	1.2	50	0.5	93	0.6	-	0.0	26	0.3
Rental	951	11.8	1,091	10.0	1,402	9.8	611	7.2	567	5.3
Staff cost	4,775	59.2	6,356	58.3	8,106	56.5	5,674	66.9	6,684	62.9
Others	2,150	26.6	3,257	29.8	4,418	30.8	2,106	24.8	2,823	26.5
Grand total	**8,076**	**100.0**	**10,908**	**100.0**	**14,351**	**100.0**	**8,482**	**100.0**	**10,633**	**100.0**

In RM

	Audited						Unaudited		Audited	
	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RM 000	%	RM 000	%	RM 000	%	RM 000	%	RM 000	%
Items										
Depreciation	51	1.2	78	1.4	169	2.3	46	1.1	271	5.0
Insurance	51	1.2	25	0.5	47	0.6	-	0.0	13	0.3
Rental	483	11.8	554	10.0	712	9.8	311	7.2	288	5.3
Staff cost	2,426	59.2	3,230	58.3	4,119	56.5	2,883	66.9	3,396	62.9
Others	1,092	26.6	1,655	29.8	2,245	30.8	1,070	24.8	1,435	26.5
Grand total	**4,103**	**100.0**	**5,542**	**100.0**	**7,292**	**100.0**	**4,310**	**100.0**	**5,403**	**100.0**

Depreciation expenses relate mainly to the depreciation charges of our machineries and plant, property and equipments.

Insurance expenses relate to insurance premium incurred to insure the office building, office furniture and fixtures and equipments.

The rental expenses relate to rental charges for our factory buildings.

Staff expenses comprise payroll for administrative personnel comprise salaries and welfare benefits (include social security, medical, unemployment, accident and birth insurance which are required by law) of our managerial, accounting and administrative personnel.

Other expenses comprise mainly (i) telecommunication expenses; (ii) office supplies; (iii) traveling expenses which include hotel accommodation, transportation allowances; (iv) entertainment expenses which were expenses incurred by the management for business entertainment; (v) repair and maintenance expenses which comprise mainly electrical work repairs, renovation and repairs to the office building and facilities (vi) labor union expenses which relate to a compulsory fee for all the companies in Quanzhou City, Fujian Province payable to the labour union fund. The labour union fund is centralised and managed by the PRC Labour Department and is used to fund its daily operation and (vii) amortisation expenses for land use rights.

(v) **Selling and distribution expenses**

In RMB

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		**FYE 2007**		**FYE 2008**		**1H 2008**		**1H 2009**	
	RMB 000	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**
Items										
Postage and telephone	531	2.9	697	2.1	778	1.4	386	1.3	385	1.1
Sample cost	505	2.8	541	1.7	671	1.2	341	1.1	422	1.2
Marketing expenses	15,774	86.3	29,207	89.9	50,642	92.5	28,409	93.4	34,015	93.8
Staff cost	688	3.8	805	2.5	1,006	1.9	488	1.6	531	1.5
Others	772	4.2	1,246	3.8	1,648	3.0	782	2.6	893	2.4
Grand total	**18,270**	**100.0**	**32,496**	**100.0**	**54,745**	**100.0**	**30,406**	**100.0**	**36,246**	**100.0**

In RM

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		**FYE 2007**		**FYE 2008**		**1H 2008**		**1H 2009**	
	RM 000	**%**	**RM 000**	**%**	**RM 000**	**%**	**RM 000**	**%**	**RM 000**	**%**
Items										
Postage and telephone	270	2.9	354	2.1	395	1.4	196	1.3	196	1.1
Sample cost	256	2.8	275	1.7	341	1.2	173	1.1	214	1.2
Marketing expenses	8,015	86.3	14,840	89.9	25,732	92.5	14,435	93.4	17,283	93.8
Staff cost	350	3.8	409	2.5	511	1.9	248	1.6	270	1.5
Others	392	4.2	633	3.8	837	3.0	397	2.6	454	2.4
Grand total	**9,283**	**100.0**	**16,511**	**100.0**	**27,816**	**100.0**	**15,449**	**100.0**	**18,417**	**100.0**

Postage and telephone expenses comprise mainly the postage and courier expenses, office telephone, mobile phone charges and other communication charges incurred by our sales personnel.

Sample cost comprises the cost of our finished goods which are shoe and sole samples given out to our PRC regional distributors, retailers and other shoe manufacturers prior to the actual launch of the products.

Marketing expenses comprise mainly (i) media advertising costs, including costs of advertisements on television, radio, newspapers and magazines; (ii) costs of engaging our brand ambassadors; (iii) other marketing expenses such as cost of promotional activities and materials such as posters, banners, billboards, hand books and gifts; and (iv) Distributors' marketing incentives which are paid by the our Group to the PRC regional distributors as an incentive upon they achieve the sales targets. The incentives are calculated based on specific percentages of sales levels upon achieving the respective levels of sales targets.

Staff cost comprises salaries, social security fees and employment insurance for our sales and marketing personnel.

Other expenses comprise mainly (i) office supplies; (ii) traveling expenses which include hotel aceommodation, transportation allowances; (iii) entertainment expenses which were expenses incurred by the management for business entertainment; and (iv) depreciation expenses on office equipment related to the sales department

(vi) **Other income**

In RMB

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		**FYE 2007**		**FYE 2008**		**1H 2008**		**1H 2009**	
Items	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**
Interest income	515	100.0	835	100.0	1,222	20.6	534	100.0	761	59.1
Negative goodwill	-	-	-	-	4,720	79.4	-	-	518	40.3
Others	-	-	-	-	-	-	-	-	8	0.6
Grand total	**515**	**100.0**	**835**	**100.0**	**5,942**	**100.0**	**534**	**100.0**	**1,287**	**100.0**

In RM

	<——Audited				——>		<—Unaudited—>		<—Audited—>	
	FYE 2006		**FYE 2007**		**FYE 2008**		**1H 2008**		**1H 2009**	
Items	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**	**RMB 000**	**%**
Interest income	261	100.0	424	100.0	621	20.6	271	100.0	387	59.1
Negative goodwill	-	-	-	-	2,398	79.4	-	-	263	40.3
Others	-	-	-	-	-	-	-	-	4	0.6
Grand total	**261**	**100.0**	**424**	**100.0**	**3,019**	**100.0**	**271**	**100.0**	**654**	**100.0**

Other income mainly consists of interest ineome from deposit in bank. The negative goodwill in FYE 2008 and 1H 2009 relates to the acquisition of 90% and the remaining 10% interest in Xingquan Footwear respectively.

(vii) **PBT margin**

The table below sets forth the PBT margin of our Group for the respeetive financial years and periods under review:

	<———Audited———>			Unaudited	Audited
	FYE 2006	**FYE 2007**	**FYE 2008**	**1H 2008**	**1H 2009**
	%	%	%	%	%
PBT margin	20.7	21.9	23.2	21.7	26.5

The PBT margin inereases steadily from 20.7% in FYE 2006 to 26.5% in 1H 2009 mainly due to the improvement in gross profit margins of our shoe soles, outdoor and indoor sports and leisure shoes, apparels and accessories during the same period. Please refer to section 8.2.1(iii) for further analysis on the gross profit margins of the above product segments.

8.2.2 Review of Past Performance

(i) **1H 2009 compared to 1H 2008**

Revenue

Our revenue increased by RMB103.3 million or 34.1% from RMB302.6 million in 1H 2008 to RMB405.9 million in 1H 2009 mainly due to a higher sales volume across all of our product segments. In addition, the average selling price of our shoe products increased from RMB75.1 in the 1H 2008 to RMB80.1 in the 1H 2009. The increase in revenue is spurred by increasing consumer demand in the PRC and the success of our product development, branding, marketing and sales strategies. Particularly, the increase in sales volume of our "Addnice" products was mainly driven by our increased penetration in the PRC markets as we expanded our distribution network. The number of retail locations of our "Addnice" products increased from 986 retail locations (comprising 943 via PRC regional distributors and 43 via direct sales to retailers) in 1H 2008 to 1,349 retail locations (comprising 1,306 via PRC regional distributors and 43 via direct sales to retailers) in the 1H 2009. At the same time, our sales as OEM to international brands decreased by RMB2.9 million or 11.7% from RMB24.7 million in 1H 2008 to RMB21.8 million in 1H 2009 as we shift our focus to selling our own "Addnice" brand products.

Cost of sales

In line with the 34.1% increase in our revenue from 1H 2008 to the 1H 2009, our cost of sales increased by RMB53.5 million or 27.2% from RMB196.9 million in 1H 2008 to RMB250.4 million in 1H 2009. The increase in cost of sales for each product segment was also gencrally in line with the increase in revenue and salcs volume across all product segments.

Other income

Our other income increased by RMB0.8 million from RMB0.5 million in the 1H 2008 to RMB1.3 million in the 1H 2009 mainly due to the RM0.5 million negative goodwill arising from the acquisition of 10% interest in Xingquan Footwear as well as the increase in interest incomc from our bank deposits which were being pledged to secure banking facilities to provide short-term financing for trade payables.

Administrative expenses

Administrative expenses increased by RMB2.1 million from RMB8.5 million in the 1H 2008 to RMB10.6 million in the 1H 2009 mainly due to in the staff cost as a result of as a result of the hiring of more administrative staff to meet the needs of our increased business activities.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB5.8 million from RMB30.4 million in the 1H 2008 to RMB36.2 million in the 1H 2009 mainly due to increase in incentives given to PRC regional distributors by RMB7.0 million from RMB10.9 million in 1H 2008 to RMB17.9 million in 1H 2009 in line with the increase in sales via PRC regional distributors. In addition, the increase is also due to increase in cost incurred for promotion and marketing activities and sales fair from RMB17.5 million in the 1H 2008 to RM16.1 million in 1H 2009. The above increase is partly offset by the decrease of RM4.4 million in advertisement expenses.

Finance costs

Our finance costs increase by RMB0.5 million from RMB1.7 million in the 1H 2008 to RMB2.2 million in the 1H 2009 in tandem with the increase in our borrowings.

PBT

PBT increased by RMB42.1 million from RMB65.6 million in the 1H 2008 to RMB107.7 million in the 1H 2009 in line with the increase in the sales.

Taxation

Our Group recorded a tax expense of RMB17.9 million in the 1H 2009 as compared to income tax expense of RMB6.0 million recorded in the 1H 2008. The increase in tax expense is mainly due to Addnice Sports being exempted from tax in the 1H 2008 but was subject to 50% relief from the state corporate income tax for 1H 2009 i.e. a reduced tax rate of 12.5%.

Based on the Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises, Addnice Sports, Addnice China and Xingquan Plastics 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 their first profitable year of operation. Addnice Sports is exempted from the state corporate income tax for its first two profitable calendar years of operation (i.e. from 1 January 2006 to 31 December 2007) and thereafter, is entitled to a 50% relief from the state corporate income tax for the third to fifth consecutive years (i.e. from 1 January 2008 to 31 Deeember 2010).

Addnice China commenced its 5-year tax holiday from 1 January 2008. Xingquan Plastics has fully utilised its tax incentives and was subject to the full state corporate income tax during the financial years and periods under review

PAT

PAT increased by RMB30.2 million from RMB59.6 million in the 1H 2008 to RMB89.8 million in the 1H 2009 which is in line with the increase in PBT.

There was no material impact of fluctuations of foreign exchange, interest rates or commodity prices on our operating profits in the 1H 2008 and 1H 2009. None of our foreign currency exposure and investments, where applicable, were hedged by currency borrowings or other hedging instruments during the 1H 2008 and 1H 2009.

(ii) FYE 2008 compared to FYE 2007

Revenue

Our revenue increased by RMB198.3 million or 45.2% from RMB438.5 million in FYE 2007 to RMB636.8 million in FYE 2008. The increase in revenue was mainly due to increase in sales volume across all product segments and also in the increase in average selling price of shoe soles, outdoor and indoor sports and leisure shoes and apparels. Particularly, the increase in sales volume of our "Addnice" products were mainly driven by our increased penetration in the PRC markets as we expanded our distribution network. The number of retail locations of our "Addnice" products increased from 816 retail locations (comprising 774 via PRC regional distributors and 42 via direct sales to retailers) in FYE 2007 to 1,243 retail locations (comprising 1,200 via PRC regional distributors and 43 via direet sales to retailers) in FYE 2008. In addition, the "Addnice" brand was further enhanced when 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. At the same time, our OEM sales increased by RMB9.0 million or 21.3% from RMB42.2 million in FYE 2007 to RMB51.2 million in FYE 2008. There is also an increase in sales of shoe soles from RMB98.0 million in FYE 2007 to RMB131.5 million in FYE 2008 due the increase in sales to few of the major owners of brands such as Xtep, China Peak, 361° and Qiaodan. In addition, sales of apparel increased by RMB58.3 million or 79.2% from RMB73.6 million in FYE 2007 to RMB131.9 million in FYE 2008 due to the increased recognition of the "Addnice" brand in the apparel segment.

Cost of sales

In line with the 45.2% increase in our revenue from FYE 2007 to FYE 2008, our cost of sales increased by RMB125.7 million or 42.3% from RMB297.0 million in FYE 2007 to RMB422.7 million in FYE 2008. The increase in cost of sales for each product segment was also generally in line with the increase in revenue and sales volume across the respective product segments.

Other income

Our other income increased by 637.5% from RMB0.8 million in the FYE 2007 to RMB5.9 million in the FYE 2008 mainly due to the recognition of negative goodwill of RMB4.7 million arising from the acquisition of Xingquan Footwear in FYE 2008.

Administrative expenses

Administrative expenses increased by 32.1% from RMB10.9 million in the FYE 2007 to RMB14.4 million in the FYE 2008 mainly due to an increase in our staff related expenses by RMB1.7 million from RMB6.4 million in FY2007 to RMB8.1 million in FY2008 as a result of the hiring of more administrative staff to meet the needs of our increased business activities.

Selling and distribution expenses

Our selling and distribution expenses increased by 68.3% from RMB32.5 million in the FYE 2007 to RMB54.7 million in the FYE 2008 mainly due to increase in distributors' incentive by RMB8.7 million from RMB10.6 million in FYE 2007 to RMB19.3 million in FYE 2008 in line with the increase in sales via PRC regional distributors, and the increase in marketing and advertising expenses by RMB12.8 million from RMB18.6 million in FYE 2007 to RMB31.4 million in FYE 2008 as a result of more advertisements made in the period under review.

Finance costs

Our finance costs for the FYE 2008 increase by 16.1% from RMB3.1 million in the FYE 2007 to RMB3.6 million in the FYE 2008 mainly due to increase in bank borrowings.

PBT

PBT increased by 53.7% from RMB95.9 million in the FYE 2007 to RMB147.4 million in the FYE 2008. This is in line with the higher revenue arising from our business activities and the improvement in gross profit margin. As our administrative expenses are generally in the nature of fixed indirect overheads and/or fixed cost, the increase in revenue and gross profit margin resulted in a more than proportionate increase in our profit before tax from FYE 2007 to FYE 2008. As a result, our profit before tax margin increased from 21.9% in FYE 2007 to 23.2% in FYE 2008.

Taxation

Our Group recorded a tax expense of RMB18.0 million in the FYE 2008 as compared to income tax expense of RMB7.6 million in the FYE 2007. The increase in tax expense is in line with the increase in pre-tax profit. In addition, the effective tax rate increased from 7.9% in FYE 2007 to 12.2% in FYE 2008 mainly due to the fact that Addnice Sports was exempted from income tax in FYE 2007 but was subject to a corporate tax of 12.5% in second half of FYE 2008.

PAT

PAT increased by 46.4% from RMB88.4 million in the FYE 2007 to RMB129.4 million in the FYE 2008 which is in line with the increase in PBT.

There was no material impact of fluctuations of foreign exchange, interest rates or commodity prices on our operating profits in the FYE 2007 and FYE 2008. None of our foreign currency exposure and investment, where applicable, were hedged by currency borrowings or other hedging instruments during the FYE 2007 and FYE 2008.

(iii) FYE 2007 compared to FYE 2006

Revenue

Our Group's revenue for the FYE 2007 increased by 51.6% from RMB289.3 million in the FYE 2006 to RMB438.5 million in the FYE 2007. The increase in revenue was contributed by the increase in sales volume of all product segments due to increasing consumer demand in the PRC and the success of our product development, branding, marketing and sales strategies.

The above increases in sales volume were mainly driven by our increased penetration in the PRC markets as we expanded our distribution network. The number of retail locations of our "Addnice" products increased from 409 retail locations (comprising 377 via PRC regional distributors and 32 via direct sales to retailers) in FYE 2006 to 816 retail locations (comprising 774 via PRC regional distributors and 42 via direct sales to retailers) in FYE 2007. As a result of the increase in retail locations and the increased recognition of the "Addnice" brand, revenue growth was particularly significant in the outdoor and indoor sports and leisure shoes, apparels and accessories segment which recorded growth of 60.4% and 90.8% respectively in FYE 2007 from FYE 2006. In addition, the "Addnice" brand was further enhanced when 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, an 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. At the same time, we were able to increase our OEM sales to by RMB6.1 million or 16.9% from RMB36.1 million in FYE 2006 to RMB42.2 million in FYE 2007.

Cost of sales

Our Group's cost of sales for the FYE 2007 increased by 47.2% from RMB201.7 million in the FYE 2006 to RMB297.0 million in the FYE 2007. The increase in cost of sales was generally in line with increase in revenue and sales volume across all product segment.

Other income

Our other income increased by 60.0% from RMB0.5 million in the FYE 2006 to RMB0.8 million in the FYE 2007 mainly due to the increase in interest income from our bank deposits which were pledged to secure banking facilities to provide short-term financing for trade payables.

Administrative expenses

Administrative expenses increased by 34.6% from RMB8.1 million in the FYE 2006 to RMB10.9 million in the FYE 2007. There were generally no significant fluctuations in the various expense items under administrative expenses between FYE 2006 and FYE 2007.

Selling and distribution expenses

Our selling and distribution expenses increased by 77.6% from RMB18.3 million in the FYE 2006 to RMB32.5 million in the FYE 2007 mainly due to the increase in marketing expenses. The increase was mainly attributable to (i) an increase in exhibition expenses of RMB0.9 million or 32.1% from RMB2.8 million in FYE 2006 to RMB3.7 million in FYE 2007, (ii) an increase in new market exploration expenses of RMB7.0 million or 127.3% from RMB5.5 million in FYE 2006 to RMB12.5 million in FYE 2007, and (iii) an increase in incentives given to PRC regional distributors of RMB5.8 million or 120.8% from RMB4.8 million in FYE 2006 to RMB10.6 million in FYE 2007. The increase in the above incentive was directly related to an increase in our new sales network and growing sales volume.

Finance costs

Our finance costs for the FYE 2007 increased by 82.3% from RMB1.7 million in the FYE 2006 to RM3.1 million in the FYE 2007 mainly due to higher interest costs arising from additional bank borrowings.

PBT

PBT increased by 59.8% from RM60.0 million in the FYE 2006 to RMB95.9 million in the FYE 2007. The increase in PBT was mainly due to an increase in revenue and gross profit, which were partly offset by the corresponding increase in selling and distribution expenses.

Taxation

Our Group's tax expense decreased from RMB11.2 million in the FYE 2006 to RMB7.6 million in the FYE 2007. The decrease is mainly due to higher effective tax rate of Addnice Sports in FYE 2006 vis-à-vis FYE 2007 as Addnice Sports only starts to enjoy full tax exemption in the second half of FYE 2006 and was entitled to a full year tax exemption in FYE 2007.

PAT

PAT increased by 81.1% from RMB48.8 million in the FYE 2006 to RMB88.4 million in the FYE 2007 which is in line with the increase in profit before taxation.

There was no material impact of fluctuations of foreign exchange, interest rates or commodity prices on our operating profits in the FYE 2006 and FYE 2007. None of our foreign currency exposure and investments, where applicable, were hedged by currency borrowings or other hedging instruments during the FYE 2006 and FYE 2007.

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8.3 **REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

(Prepared for inclusion in this Prospectus)

GrantThornton

REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION
(Prepared for inclusion in this Prospectus)

Date: 2 June 2009

SJ Grant Thornton (AF:0737)
Level 11, Faber Imperial Court
Jalan Sultan Ismail,
P. O. Box 12337
50774 Kuala Lumpur, Malaysia

T +6 (03) 2692 4022
F +6 (03) 2691 5229
www.gt.com.my

The Board of Directors
Xingquan International Sports Holdings Limited
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Dear Sirs,

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED
AND ITS SUBSIDIARY COMPANIES
PROFORMA CONSOLIDATED FINANCIAL INFORMATION

We have reviewed the presentation of the Proforma Consolidated Financial Information of Xingquan International Sports Holdings Limited ("Xingquan International" or "the Company") and its subsidiary companies: Addnice Holdings Limited ("Addnice Holdings"), Addnice (China) Co., Ltd. ("Addnice China"), Fujian Aidinaisi Sports Goods Co., Ltd ("Addnice Sports"), Xingquan (Fujian) Shoes Plastics Co., Ltd ("Xingquan Plastics") and Fujian Province Jinjiang Xingquan Footwear Material Co., Ltd ("Xingquan Footwear") (collectively known as "Xingquan International Group" or "the Group") for the financial years ended 30 June 2006 to 2008 and financial period ended 31 December 2008, together with the notes and assumptions thereto, as set out in this Prospectus, which we have stamped for the purpose of identification, in connection with the listing of and quotation for the entire enlarged issued and fully paid-up share capital of Xingquan International on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Proforma Consolidated Financial Information have been prepared for illustrative purposes only on the basis of assumptions as set out below and after making certain adjustments to show that:-

i) the financial results of Xingquan International Group for the financial years ended 30 June 2006 to 2008 and financial period ended 31 December 2008 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years/period being reported on, except for the financial results of Xingquan Footwear which was only consolidated from 30 June 2008 onwards as Xingquan Footwear was not under common control of the major shareholders of Xingquan International prior to FYE 2008;

ii) the financial position of Xingquan International Group as at 31 December 2008 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the acquisition, share split, public issue, utilisation of listing proceeds and over-allotment option; and

GrantThornton

iii) the cash flows of Xingquan International Group for the financial period ended 31 December 2008 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial period ended 31 December 2008, adjusted for the acquisition, share split, public issue, utilisation of listing proceeds and over-allotment option.

The combined financial information of Xingquan International Group for the financial period ended 31 December 2007 was not audited and is included for comparison purpose only.

The Proforma Consolidated Financial Information, because of its nature, may not give a true picture of Xingquan International Group's actual financial results, financial position and cash flows. Further, such information does not predict the Group's future financial position, results and cash flows.

It is the sole responsibility of the Directors of Xingquan International Group to prepare the Proforma Consolidated Financial Information in accordance with the requirements of the Prospectus Guidelines in respect of Public Offerings issued by the Securities Commission. Our responsibility is to form an opinion as required by the Prospectus Guidelines on the Proforma Consolidated Financial Information and our report is given to you solely for this, and no other purpose.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Proforma Consolidated Financial Information, nor do we accept responsibility for such reports or opinions beyond that is owed to those to whom those reports or opinions were addressed by us at the date of their issue.

Our work, which involved no independent examination of any of the underlying financial information, primarily to compare the Proforma Consolidated Financial Information with the audited combined balance sheets, combined income statements, combined statements of changes in equity and combined cash flow statements, a summary of significant accounting polices and other explanatory notes of Xingquan International Group ("audited Combined Financial Statements"), considering the evidence supporting the adjustments and discussing the Proforma Consolidated Financial Information with the Directors of Xingquan International Group.

In our opinion, the Proforma Consolidated Financial Information together with the accompanying notes which are provided solely for illustrative purposes only,

(a) have been properly compiled on a basis of preparation as stated in the notes thereto; such basis is consistent with the accounting policies adopted by Xingquan International Group in the audited Combined Financial Statements;

(b) the adjustments are appropriate for the purposes of the Proforma Consolidated Financial Information; and

(c) the audited Combined Financial Statements used in the preparation of the Proforma Consolidated Financial Information were prepared in accordance with International Financial Reporting Standards ("IFRS").

GrantThornton

This letter is not to be reproduced, referred to in any other document, or used or relied upon for any other purpose without our prior written consent.

Yours faithfully,

SJ GRANT THORNTON
NO. AF: 0737
CHARTERED ACCOUNTANTS

HOOI KOK MUN
NO: 2207/01/10(J)
PARTNER OF THE FIRM

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

(Incorporated in Bermuda under Companies Act 1981 of Bermuda - Company Registration No: 42756)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia – Malaysia Branch Registration No: 995177-V)

AND ITS SUBSIDIARY COMPANIES

Basis of preparation of Proforma Consolidated Financial Information

1. The Proforma Consolidated Financial Information have been prepared to illustrate that:-

   a) the financial results of Xingquan International Group for the financial years ended 30 June ("FYE") 2006 to 2008 and financial period ended 31 December ("FPE") 2008 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years/period being reported on, except for the financial results of Xingquan Footwear which was only consolidated from 30 June 2008 onwards as Xingquan Footwear was not under common control of the major shareholders of Xingquan International prior to FYE 2008;

   b) the financial position of Xingquan International Group as at 31 December 2008 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the acquisition, share split, public issue, utilisation of listing proceeds and over-allotment option; and

   c) the cash flows of Xingquan International Group for the FPE 2008 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the FPE 2008, adjusted for the acquisition, share split, public issue, utilisation of listing proceeds and over-allotment option.

2. The Proforma Consolidated Financial Information has been prepared based on the audited Combined Financial Statements of Xingquan International and its subsidiary companies for the FYE 2006 to 2008 and FPE 2008 using the bases and the accounting principles consistent with those adopted in the audited Combined Financial Statements, after giving effect to the proforma adjustments which is considered appropriate.

3. For illustrative purposes, it was assumed that the acquisitions of Addnice Holdings Limited ("Addnice Holdings"), Addnice (China) Co., Ltd ("Addnice China"), Fujian Aidinaisi Sports Goods Co., Ltd ("Addnice Sports"), Xingquan (Fujian) Shoes Plastics Co., Ltd ("Xingquan Plastics") and Fujian Province Jinjiang Footwear Material Co., Ltd ("Xingquan Footwear"), which collectively known as Addnice Holdings Group, which were completed subsequent to the FPE 2008 took place prior to 1 July 2005 in arriving at the proforma consolidated financial results for the FYE 2006 to 2008 and FPE 2008.

4. The Proforma Consolidated Financial Information have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial position, results and cash flows of Xingquan International Group.

5. The audited Combined Financial Statements for the FYE 2006 to 2008 and FPE 2008 were prepared in accordance with International Financial Reporting Standards ("IFRS").

6. The financial information of Xingquan International Group is measure using the currency of the primary economic environment in which the Group operates. The functional currency of the Group is China Renminbi.

Stamped for the purpose of identification on:
02 JUN 2009
SJ Grant Thornton

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

(Incorporated in Bermuda under Companies Act 1981 of Bermuda - Company Registration No: 42756)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia –
Malaysia Branch Registration No: 995177-V)

AND ITS SUBSIDIARY COMPANIES

(i) PROFORMA CONSOLIDATED INCOME STATEMENTS

The Proforma Consolidated Income Statements of Xingquan International Group for the past three (3) FYE 2006 to 2008 and FPE 2008 are provided for illustrative purposes extracted from the audited Combined Financial Statements of Xingquan International Group assuming that Xingquan International Group has been in existence throughout the financial years/period under review, except for the financial information of Xingquan Footwear which was only consolidated from FYE 2008 onwards as Xingquan Footwear was not under common control of the major shareholders of Xingquan International prior to FYE 2008. Adjustments were made to the Proforma Consolidated Income Statements to account for retrospective effects of the acquisition of Addnice Holdings Group which were completed subsequent to the FPE 2008.

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2007 @		31 December 2008	
	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
Gross profit	87,576	44,497	141,537	71,915	214,112	108,790	105,673	53,693	155,510	79,015
Profit before depreciation, amortisation, interest expenses and taxation	68,627	34,869	107,612	54,678	161,245	81,928	72,302	36,737	115,725	58,800
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 expenses	(1,744)	(886)	(3,060)	(1,555)	(3,550)	(1,804)	(1,723)	(875)	(2,171)	(1,103)
Profit before taxation but after depreciation, amortisation and interest expenses	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)
Profit after taxation	48,779	24,784	88,352	44,892	129,434	65,764	59,639	30,303	89,812	45,633
Profit before taxation attributable to										
Equity holders	60,001	30,486	95,908	48,731	147,412	74,899	65,596	33,330	107,750	54,747
Minority interest	-	-	-	-	(4)	(2)	-	-	(3)	(1)
	60,001	30,486	95,908	48,731	147,408	74,897	65,596	33,330	107,747	54,746
Profit after taxation attributable to										
Equity holders	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
Gross profit margin (%)	30.28	30.28	32.28	32.28	33.62	33.62	34.93	34.93	38.31	38.31
PBT margin (%)	20.74	20.74	21.87	21.87	23.15	23.15	21.68	21.68	26.55	26.55
PAT margin (%)	16.86	16.86	20.15	20.15	20.33	20.33	19.71	19.71	22.13	22.13
Number of ordinary shares of USD 0.10 each assumed to be issued ('000)	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130	215,130
Gross earnings per share ("EPS")*	0.28	0.14	0.45	0.23	0.69	0.35	0.61^	0.31^	1.00^	0.51^
Net EPS*	0.23	0.12	0.41	0.21	0.60	0.31	0.55^	0.28^	0.83^	0.42^

* Based on enlarged share capital of 215,130,000 shares (number of ordinary shares in issue after the completion of the Acquisition and share split but before the Public Issue.)

^ Annualised to 12 months for comparison purposes.

@ The income statement for the financial period ended 31 December 2007 is unaudited and is included for comparison purposes only.

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XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

(Incorporated in Bermuda under Companies Act 1981 of Bermuda - Company Registration No: 42756)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia – Malaysia Branch Registration No: 995177-V)

AND ITS SUBSIDIARY COMPANIES

(i) PROFORMA CONSOLIDATED INCOME STATEMENTS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED INCOME STATEMENTS

1. The Proforma Consolidated Income Statements have been prepared based on the audited Combined Financial Statements of Xingquan International for the past three (3) FYE 2006 to 2008 and FPE 2008.

2. There were no extraordinary or exceptional items in all the financial years/period under review.

3. Xingquan International Group's results have been restated through appropriate consolidation adjustments to eliminate inter-company transactions under the existing group structure.

4. In preparing this report, we have converted all figures stated in China Renminbi (RMB), Hong Kong Dollar (HKD) and United States Dollar (USD) to Ringgit Malaysia (RM).

   The applied rates of exchange for all the FYE 2006 to 2008 as well as FPE 2007 and 2008 under review are USD1: RMB6.8240, RMB1: RM0.5081, HKD1: RM0.4474 and USD1: RM3.4674 respectively based on the exchange rate as at 31 December 2008.

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XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

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AND ITS SUBSIDIARY COMPANIES

(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (MINIMUM SCENARIO)

The Proforma Consolidated Balance Sheets of Xingquan International as at 31 December 2008 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Proforma Consolidated Balance Sheets on the assumption that these transaetions were completed on 31 December 2008.

	At date of incorporation		Proforma I		Proforma II		Proforma III		Proforma IV		Proforma V	
	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000
Share capital	68	34	146,805	74,593	146,805	74,593	187,660	95,351	187,660	95,351	193,788	98,465
Share premium	-	-	-	-	-	-	206,590	104,969	195,646	99,408	226,635	115,153
Reserve	-	-	(1,684)	(856)	(1,684)	(856)	(1,684)	(856)	(8,453)	(4,295)	(8,453)	(4,295)
Total shareholders' equity	68	34	145,121	73,737	145,121	73,737	392,566	199,464	374,853	190,464	411,970	209,323
Represent by:-												
NON CURRENT ASSETS												
Property, plant and equipment	-	-	63,955	32,496	63,955	32,496	63,955	32,496	102,534	52,098	139,651	70,957
Land use rights	-	-	8,972	4,559	8,972	4,559	8,972	4,559	8,972	4,559	8,972	4,559
Total non-current assets	-	-	72,927	37,055	72,927	37,055	72,927	37,055	111,506	56,657	148,623	75,516
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	34	105,875	53,795	105,875	53,795	353,320	179,522	297,028	150,920	297,028	150,920
Total current assets	68	34	274,781	139,616	274,781	139,616	522,226	265,343	465,934	236,741	465,934	236,741

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8. FINANCIAL INFORMATION *(Cont'd)*

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AND ITS SUBSIDIARY COMPANIES

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(iii) PROFORMA CONSOLIDATED BALANCE SHEETS (MINIMUM SCENARIO) (CONT'D)

	At 31 December 2008		Proforma I		Proforma II		Proforma III		Proforma IV		Proforma V	
	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000
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 borrowings	-	-	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116
Total current liabilities	-	-	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934
NET CURRENT ASSETS	68	34	72,194	36,682	72,194	36,682	319,639	162,409	263,347	133,807	263,347	133,807
	68	34	145,121	73,737	145,121	73,737	392,566	199,464	374,853	190,464	411,970	209,323
Number of shares issued ('000 unit)	10	10	21,513	21,513	215,130	215,130	275,000	275,000	275,000	275,000	283,981	283,981
	RMB	RM	RMB	RM	RMB	RM	RMB	RM	RMB	RM	RMB	RM
NET ASSETS PER ORDINARY SHARE OF :-												
- USD 1.00 each	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-	-
- USD 0.10 each	-	-	-	-	0.67	0.34	1.43	0.73	1.36	0.69	1.45	0.74
NET TANGIBLE ASSETS PER ORDINARY SHARE OF:-												
- USD 1.00 each	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-	-
- USD 0.10 each	-	-	-	-	0.67	0.34	1.43	0.73	1.36	0.69	1.45	0.74

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8. FINANCIAL INFORMATION *(Cont'd)*

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED

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AND ITS SUBSIDIARY COMPANIES

(iv) PROFORMA CONSOLIDATED BALANCE SHEETS (MAXIMUM SCENARIO)

The Proforma Consolidated Balance Sheets of Xingquan International as at 31 December 2008 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Proforma Consolidated Balance Sheets on the assumption that these transactions were completed on 31 December 2008.

	At date of incorporation		Proforma I		Proforma II		Proforma III		Proforma IV		Proforma V	
	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000
Share capital	68	34	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
Reserve	-	-	(1,684)	(856)	(1,684)	(856)	(1,684)	(856)	(7,653)	(3,889)	(7,653)	(3,889)
Total shareholders' equity	68	34	145,121	73,737	145,121	73,737	556,359	282,687	532,742	270,687	594,428	302,030
Represent by:-												
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
Total non-current assets	-	-	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	34	105,875	53,795	105,875	53,795	517,113	262,745	297,028	150,920	297,028	150,920
Total current assets	68	34	274,781	139,616	274,781	139,616	686,019	348,566	465,934	236,741	465,934	236,741

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(v) PROFORMA CONSOLIDATED BALANCE SHEETS (MAXIMUM SCENARIO) (CONT'D)

	At 31 December 2008		Proforma I		Proforma II		Proforma III		Proforma IV		Proforma V	
	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000	RMB' 000	RM'000
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 borrowings	-	-	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116	51,400	26,116
Total current liabilities	-	-	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934	202,587	102,934
NET CURRENT ASSETS	68	34	72,194	36,682	72,194	36,682	483,432	245,632	263,347	133,807	263,347	133,807
	68	34	145,121	73,737	145,121	73,737	556,359	282,687	532,742	270,687	594,428	302,030
Number of shares issued ('000 unit)	10	10	21,513	21,513	215,130	215,130	314,630	314,630	314,630	314,630	329,555	329,555
	RMB	RM	RMB	RM	RMB	RM	RMB	RM	RMB	RM	RMB	RM
NET ASSETS PER ORDINARY SHARE OF :-												
- USD 1.00 each	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-	-
- USD 0.10 each	-	-	-	-	0.67	0.34	1.77	0.90	1.69	0.86	1.80	0.92
NET TANGIBLE ASSETS PER ORDINARY SHARE OF:-												
- USD 1.00 each	6.82	3.47	6.74	3.42	-	-	-	-	-	-	-	-
- USD 0.10 each	-	-	-	-	0.67	0.34	1.77	0.90	1.69	0.86	1.80	0.92

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AND ITS SUBSIDIARY COMPANIES

(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1. The Proforma Consolidated Balance Sheets have been prepared based on the audited Combined Financial Statements of Xingquan International as at 31 December 2008 and using the merger method of accounting for Xingquan International Group.

2. The Proforma Consolidated Balance Sheets together with notes thereon, have been prepared based on accounting principles and bases consistent with those adopted in the preparation of audited Combined Financial Statements of Xingquan International to illustrate the Consolidated Balance Sheets of Xingquan International Group assuming that all the transactions mentioned below had taken place on 31 December 2008:-

Proforma I: Acquisition

Acquisition of the entire issued and paid-up capital of Addnice Holdings comprising 1 share of HKD1.00 each representing 100% equity interest in Addnice Holdings for a total purchase consideration of USD21,503,000 to be satisfied entirely by the issuance of 21,503,000 new ordinary shares of USD1.00 each in Xingquan International at an issue price of US1.00 per share.

Proforma II: Share Split

After Proforma I and Share Split to subdivide the existing par value of ordinary shares of Xingquan International from USD1.00 per share to USD0.10 per share ("Xingquan International Share") after the Acquisition.

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AND ITS SUBSIDIARY COMPANIES

(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

2. (cont'd):-

Proforma III: Public Issue

After Proforma II and Public Issue of up to 99,500,000 new Xingquan International Shares comprising the retail offering and institutional offering.

The retail offering comprises 9,500,000 new Xingquan International Shares available for application by the Malaysian Public at an issue price of RM2.10 per Xingquan International Share.

The institutional offering comprises at least 50,370,000 ("Minimum Scenario") and up to 90,000,000 ("Maximum Scenario") new Xingquan International Shares at an issue price to be determined by way of bookbuilding, to be offered to:-

(i) Malaysia institutional and selected investors; and
(ii) Foreign institutional and selected investors outside the United States of America in reliance on Regulation S under United States Securities Act of 1993.

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 (in the case of Minimum Scenario) or up to 15,731,500 Issue Shares (in the case of Maximum Scenario) (representing 5.0% of Xingquan International Group's enlarged issued share capital), up to 4,250,000 Issue Shares (in the case of Minimum Scenario) or up to 6,231,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of Maximum Scenario).

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AND ITS SUBSIDIARY COMPANIES

(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

2. (cont'd):-

Proforma IV: Utilisation of Listing Proceeds

After Proforma III and The gross proceeds from the Public Issue amounting to RM125,727,000 (RMB247,445,000)* (based on Minimum Scenario) or RM208,950,000 (RMB411,238,000)* (based on 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 Xingquan International Group's core business in the following manner:-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
Marketing and advertising activities	62,980	32,000	62,980	32,000
Expansion of sales and distribution network	64,948	33,000	64,948	33,000
Expansion of production capacity	38,579	19,602	196,468	99,825
Expansion of research and development activities	29,521	15,000	29,521	15,000
Working capital	33,704	17,125	33,704	17,125
Estimated listing expenses	17,713	9,000	23,617	12,000
	247,445	125,727	411,238	208,950

Note:

* *The Institutionol 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 from RM18,859,050 (Minimum Scenario) and up to RM31,342,500 (Maximum Scenorio); assuming the Institutional Price and Final Retail Price is RM2.10 per Issue Share. The extra proceeds are applied to the expansion of production capacity ond to defray additional listing expenses.*

The listing expenses are estimated at RM9,000,000 (RMB17,713,000) and RM12,000,000 (RMB23,617,000) and will be set off against the share premium account and reserve account, in the respective minimum and maximum scenario.

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(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

2. (cont'd):-

Proforma V: Over-allotment Option

After Proforma IV and exercising the 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 Share on Bursa Securities, to subscribe for 8,980,500 (Minimum Scenario) up to an aggregate of 14,925,000 (Maximum Scenario) new Xingquan International Shares, being 15% of the total number of Xingquan International Shares pursuant to the Public Issue at an issue price of RM2.10 per Xingquan International Share, solely for the purpose of covering over-allotment of Xingquan International Share (if any).

3. The movement of the issued and paid up share capital of Xingquan International Group is as follows:-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
At date of incorporation	68	34	68	34
Acquisition	146,737	74,559	146,737	74,559
As per Proforma I	146,805	74,593	146,805	74,593
Share Split	-	-	-	-
As per Proforma II	146,805	74,593	146,805	74,593
Public Issue	40,855	20,758	67,899	34,498
As per Proforma III	187,660	95,351	214,704	109,091
Utilisation of Listing Proceeds	-	-	-	-
As per Proforma IV	187,660	95,351	214,704	109,091
Over-allotment Option	6,128	3,114	10,185	5,175
As per Proforma V	193,788	98,465	224,889	114,266

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(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

4. The movement of the share premium account is as follows:-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
At date of incorporation/As per Proforma I to II	-	-	-	-
Public Issue	206,590	104,969	343,339	174,452
As per Proforma III	206,590	104,969	343,339	174,452
Utilisation of Listing Proceeds - listing expenses	(10,944)	(5,561)	(17,648)	(8,967)
As per Proforma IV	195,646	99,408	325,691	165,485
Over-allotment Option	30,989	15,745	51,501	26,168
As per Proforma V	226,635	115,153	377,192	191,653

5. The movement of the reserve is as follows:-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
(i) Merger deficit				
At date of incorporation	-	-	-	-
Acquisition	(79,495)	(40,391)	(79,495)	(40,391)
As per Proforma I, II, III, IV and V	(79,495)	(40,391)	(79,495)	(40,391)
(ii) Retained earnings				
At date of incorporation	-	-	-	-
Acquisition	65,444	33,251	65,444	33,251
As per Proforma I, II and III	65,444	33,251	65,444	33,251
Utilisation of Listing Proceeds- listing expenses	(6,769)	(3,439)	(5,969)	(3,033)
As per Proforma IV and V	58,675	29,812	59,475	30,218

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(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

5. The movement of the reserve is as follows (cont'd):-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
(iii) Statutory reserve				
At date of incorporation	-	-	-	-
Acquisition	12,371	6,286	12,371	6,286
As per Proforma I, II, III, IV and V	12,371	6,286	12,371	6,286
(iv) Currency fluctuation reserve				
At date of incorporation	-	-	-	-
Acquisition	(4)	(2)	(4)	(2)
As per Proforma I, II, III and V	(4)	(2)	(4)	(2)
Total				
At date of incorporation	-	-	-	-
Acquisition	(1,684)	(856)	(1,684)	(856)
As per Proforma I, II and III	(1,684)	(856)	(1,684)	(856)
Utilisation of Listing Proceeds - listing expenses	(6,769)	(3,439)	(5,969)	(3,033)
As per Proforma IV and V	(8,453)	(4,295)	(7,653)	(3,889)

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(Incorporated in Bermuda under Companies Act 1981 of Bermuda - Company Registration No: 42756)
(Registered as a foreign company in Malaysia under Companies Act 1965 of Malaysia – Malaysia Branch Registration No: 995177-V)

AND ITS SUBSIDIARY COMPANIES

(ii) PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

6. Costs of an initial public offering (Listing expenses)

The listing expenses of this initial public offering involved both issuing new shares and a stock market listing. These listing expenses are accounted for as follows:-

a) incremental costs that are directly attributable to issuing new shares are deducted from equity (share premium)

b) costs that relate to stock market listing or are otherwise not incremental and directly attributable to issuing new shares are recorded as an expense in the income statement.

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(iii) STATEMENT OF ASSETS AND LIABILITIES

The following is a proforma group statement of assets and liabilities of Xingquan International Group prepared based on the audited Combined Financial Statements of Xingquan International as at 31 December 2008.

The proforma group statement of assets and liabilities is prepared for illustrative purpose only, to show the effects of all the transactions stated in Note 2 to the statement of assets and liabilities. The statement should be read in conjunction with the notes thereto.

	Note	---------Proforma Group----------			
		Minimum Scenario and assuming exercise of Over-Allotment Option		Maximum Scenario and assuming exercise of Over-Allotment Option	
		RMB'000	RM'000	RMB'000	RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	4	139,651	70,957	322,109	163,664
Land use rights	5	8,972	4,559	8,972	4,559
Total non-current assets		148,623	75,516	331,081	168,223
CURRENT ASSETS					
Inventories	6	33,828	17,188	33,828	17,188
Receivables	7	135,078	68,633	135,078	68,633
Cash and bank balances	8	297,028	150,920	297,028	150,920
Total current assets		465,934	236,741	465,934	236,741
CURRENT LIABILITIES					
Payables	9	141,967	72,133	141,967	72,133
Tax payable		9,220	4,685	9,220	4,685
Bank borrowing	10	51,400	26,116	51,400	26,116
Total current liabilities		202,587	102,934	202,587	102,934
NET CURRENT ASSETS		263,347	133,807	263,347	133,807
		411,970	209,323	594,428	302,030
SHARE CAPITAL	11	193,788	98,465	224,889	114,266
SHARE PREMIUM	12	226,635	115,153	377,192	191,653
RESERVE	13	(8,453)	(4,295)	(7,653)	(3,889)
		411,970	209,323	594,428	302,030

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

1. FINANCIAL RISK MANAGEMENT OBJECTIVES - POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 30 June 2006, 2007, 2008 and 31 December 2008, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables, other receivables, trade payables, bills payables, accrued liabilities, other payables and borrowings.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group typically gives the existing customers credit terms of 60 days. In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new customers, the sales and marketing department will prepare credit proposals for approval by the general manager. The Group has significant concentration of credit risk as the Group's top ten customers in aggregate formed 25.1%, 25.3%, 32.3%, 30.0% of the trade receivables balance as at 30 June 2006, 2007, 2008 and 31 December 2008 respectively.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The provision for impairment loss is based upon a review of the expected collectibles of all trade and other receivables.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)

The aging analysis of trade receivables past due but not impaired is as follows:

	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Past due less than 30 days	541	275	731	371	1,962	997	515	262
Past due 31 to 60 days	3	2	-	-	53	27	-	-
	544	277	731	371	2,015	1,024	515	262

There is no impairment loss recognised in the combined income statements as all the receivables were subsequently received.

(ii) Liquidity risk

Liquidity is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirement in the short and long term. The bank borrowings for the years ended 30 June 2006 to 2008 and financial period ended 31 December 2008 have maturity period of less than 1 year from the respective balance sheet date.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objectives of market risk management are to manage and control market risk exposures within acceptable parameters.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)

(iii) Market risk (cont'd)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi. Accordingly, the Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from short-term bank borrowings. The Group does not have investment in other financial assets. The Group's policy is to maintain all its borrowings on a fixed rate basis.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The audited Combined Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") including related Interpretations.

2.2 Basis of preparation of audited Combined Financial Statements

The Group has early adopted IFRSs and Interpretations which are effective for accounting period beginning on or after 1 January 2007 for the preparation of the audited Combined Financial Statements of the Group. IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing the audited Combined Financial Statements. The audited Combined Financial Statements.

The accounting policies set out below have been applied consistently to all periods presented in the audited Combined Financial Statements. The accounting policies have been applied consistently by the Group.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

On 1 January 2007, the Group adopted the new or revised IFRS and Interpretations that are mandatory for application on that date. This includes the following which are relevant to the Group:

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
IFRS 7	Financial Instruments: Disclosure
IFRIC 8	Scope of IFRS 2
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of the above IFRS and Interpretations did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements. IFRS 7 and the complimentary amended IAS 1 introduce new disclosures relating to financial instruments and capital respectively.

At the date of this report, the following new and amended IFRSs and Interpretations were issued but not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements
IAS 1	Presentation of Financial Statements - Amendments Relating to Disclosure of Puttable Financial Instruments and Obligations arising on Liquidation
IAS 23 (Revised)	Borrowing Costs – Comprehensive Revision to Prohibit Immediate Expensing
IAS 27	Consolidated and Separate Financial Statements – Consequential Amendments Arising from Amendments to IFRS 3
IAS 27 (Amendment)	Cost of An Investment on First-Time Adoption
IAS 28	Investments in Associates – Consequential Amendments Arising from Amendments to IFRS 3
IAS 31	Interests in Joint Ventures – Consequential Amendments Arising from Amendments to IFRS 3
IAS 32	Financial Instruments: Presentation – Amendments Relating to Puttable Financial Instruments and Obligation Arising on Liquidation
IAS 39	Financial Instruments : Recognition and Measurement – Amendments for Eligible Hedged Items
IFRS 1	First-time Adoption of IFRC – Amendment Relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

IFRS 2	Share-based Payment – Amendment Relating to Vesting Conditions and Cancellations
IFRS 3	Business Combinations – Comprehensive Revision on Applying the Acquisition Method
IFRS 7	Financial Instruments: Disclosures – Amendments Relating to Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 8	Operating Segments
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	Defned Benefit Assets and Minimum Funding Requirements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
Annual Improvement Process	Improvements to IFRSs 2008

The management does not anticipate that the adoption of the above IFRSs (including consequential amendments) and Interpretations will result in any material impact to the financial statements in the period of initial application, except for IAS 1 (Revised) and IFRS 8 as indicated below.

<u>IAS 1 (Revised)</u>

The revised Standard requires:

- changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;
- components of comprehensive income to be excluded from statement of changes in equity;
- items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income) ;
- presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

The revisions also include changes in the titles of some of the financial statements primary statements.

The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of comprehensive income.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

IFRS 8

IFRS 8 replaces IAS 14 Segment Reporting. In doing so, it extends the scope of segment reporting. It requires the identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. It requires amongst others, reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements and an explanation of how segment profit or loss and segment assets are measured for each reportable segment.

The group will apply IFRS 8 from 1 January 2009 and provide comparative information that conforms to the requirements of IFRS 8. The Group expects the new operating segments to be significantly different from business segments currently disclosed and expects more information to be disclosed under IFRS 8.

The Combined Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with IFRS.

The preparation of the audited Combined Financial Statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial years and financial period.

Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and period are discussed below:

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Key sources of estimation uncertainty

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. Management estimated the useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amounts of the Group's property, plant and equipment as at 30 June 2006, 2007, 2008, and 31 December 2008 were RMB47,336,000, RMB56,467,000, RMB65,288,000 and RMB63,955,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Income tax

The Group has exposure to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgements which are expected to have a significant effect on the amounts recognised in the financial statements.

Impairment of trade receivables

The Group's management assesses the collectibility of trade receivables. This estimate is based on the credit history of the Group's customers and the current market condition. Management assesses the collectibility of trade receivables at the balance sheet date and makes the provision, if any.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Subsidiaries and audited Combined Financial Statements

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are excluded from the date that control ceases.

Shares in subsidiary are stated at cost less allowance for impairment losses, if any, on an individual subsidiary basis.

For acquisition of subsidiaries under common control, the identifiable assets and liabilities were accounted for at their carrying values, in a manner similar to the pooling-of-interest method of consolidation.

For acquisition of subsidiaries that is not under common control, the purchase method of accounting is adopted. The cost of such acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value on the date of the acquisition, irrespective of the extent of minority interest. Please refer to the paragraph "Goodwill' for the accounting policy on goodwill on acquisition of subsidiaries.

In preparing the Combined Financial Statements, transactions, balances and unrealised gains on transactions between the combining entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good thc losses. When the subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Subsidiaries and audited Combined Financial Statements (cont'd)

(i) Subsidiaries (cont'd)

On acquisition of minority-interest, the difference between the consideration and fair value of the share of the net assets acquired is recognised as goodwill or negative goodwill.

(ii) Basis of preparation under common control business combination

A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The Acquisition that resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of IFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the audited Combined Financial Statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs are included in the audited Combined Financial Statements of the Group as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the Group. Therefore, the Group acquired the assets, liabilities and equity of the combining entities or businesses at the carrying amounts as if such audited Combined Financial Statements had been prepared by the controlling party including adjustments required for conforming to the Group's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the audited Combined Financial Statements of the Group.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Subsidiaries and audited Combined Financial Statements (cont'd)

(ii) Basis of preparation under common control business combination (cont'd)

The Group applies a policy of treating transactions with minority interests, as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recognised in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the Group's incremental share of the fair value of identifiable net assets of the subsidiary.

Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Where the cost of an acquisition is less than the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference ("negative goodwill") is recognised directly in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Property, plant and equipment (cont'd)

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5-10 years
Mould equipment	5 years
R&D equipment	5-10 years
Buildings	20 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of the Group's property, plant and equipment and intangible assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises unless the asset is carried at revalued amount, in which case, such impairment loss is charged to equity.

For the purpose of impairment testing, the recoverable amount (i.e the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit to which the asset belongs.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Financial assets

Financial assets which are under the scope of IAS 39, other than hedging instruments, can be divided into the following categories: financial assets at fair value through income statement, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through income statement is not revocable.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

De-recognition of financial assets occurs when the right to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the assets. At each of the balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised.

Other than loans and receivables, the Group does not have any financial assets at fair value through income statement, held-to-maturity investments or available-for-sale financial assets.

Trade and other receivables

Receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liabilities

The Group's financial liabilities include trade and other payables and borrowings. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. All interest related charges are recognised as "finance costs" in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Financial liabilities (cont'd)

Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in first-out method. Net realisable value is calculated as the actual or estimated selling prices less all further costs of completion and the estimated costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likehood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material.

All provision are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

In cases where the possible outflow of economic resources as a result of present obligations is considered impossible or remote, or the amount to be provided for cannot be measured reliably, no contingent liability is recognised in the balance sheet, unless assumed in the course of a business combination.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes on the following bases:

(i) Sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) Interest income, on a time-proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Corporate income tax is provided at rates applicable to an enterprises in the PRC on income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Income tax (cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The Group's sale of goods in the PRC is subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the balance sheet.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contribution.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information are presented in Renminbi and Ringgit Malaysia.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

The results and financial positions of the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised as separate component of equity.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company/Group; (2) has an interest in the Company that gives it significant influence over the Company/Group; or (3) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefits plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Financial instrument

Financial instruments carried on the balance sheets include cash and cash equivalents, all receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the proceeds to the extent that they are incidental costs directly attributable to the equity transaction.

Retained earnings include all current and prior period results as determined in the income statements.

Cash and cash equivalents

For the purpose of the Combined Cash Flow Statements, cash and cash equivalents comprise cash on hand and in bank and fixed deposits with a short maturity period of generally at three months, less bank overdrafts which are repayable on demand.

Segment reporting

A segment is a distinguishable component of the Group to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

Inter-company pricing is determined on an arm's length basis. Segment result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Land use rights

Land used rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the cost of land use rights, using the straight-line method, over the period of the grant of 50 years, which is the lease term. Land use rights represent up-front payments to acquire long-term interests in the usage of land.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

3. SCHEME

As an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Xingquan International, Xingquan International Group undertook the flotation exercise that was approved by the Securities Commission ("SC") on 4 May 2009. The flotation exercise involves the following:-

(i) **Acquisition**

Acquisition of the entire issued and paid-up capital of Addnice Holdings comprising 1 share of HKD1.00 each representing 100% equity interest in Addnice Holdings for a total purchase consideration of USD21,503,000 to be satisfied entirely by the issuance of 21,503,000 new ordinary shares of USD1.00 each in Xingquan International at an issue price of USD1.00 per share.

The above acquisition was completed on 1 June 2009.

(ii) **Share Split**

Share Split to subdivide the existing par value of ordinary shares of Xingquan International from USD1.00 per share to USD0.10 per share after the Acquisition.

The above share split was completed on 1 June 2009.

(iii) **Public Issue**

Public Issue of up to 99,500,000 new Xingquan International Shares comprising the retail offering and institutional offering.

The retail offering comprises 9,500,000 new Xingquan International Shares available for application by the Malaysian Public at an issue price of RM2.10 per Xingquan International Shares.

The institutional offering comprises at least 50,370,000 ("Minimum Subscription") and up to 90,000,000 ('Maximum Subscription") new Xingquan International Shares at an issue price to be determined by way of bookbuilding, to be offered to:-

(i) Malaysia institutional and selected investors; and
(ii) Foreign institutional and selected investors outside the United States of America in reliance on Regulation S under United States Securities Act of 1993.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

3. SCHEME (CONT'D)

(iii) Public Issue (cont'd)

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 (in the case of Minimum Scenario) or up to 15,731,500 Issue Shares (in the case of Maximum Scenario) (representing 5.0% of Xingquan International Group's enlarged issued share capital) up to 4,250,000 Issue Shares (in the case of Minimum Scenario) or up to 6,231,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of Maximum Scenario).

(iv) Listing

In conjunction with the Flotation Exercise (defined below), Xingquan International seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital comprising up to 329,555,000 Xingquan International Shares (including up to 14,925,000 Xingquan International Shares pursuant to the Over-allotment Option) on the Main Board of Bursa Malaysia Securities Berhad.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

3. SCHEME (CONT'D)

(v) Utilisation of Listing Proceeds (cont'd)

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
Marketing and advertising activities	62,980	32,000	62,980	32,000
Expansion of sales and distribution network	64,948	33,000	64,948	33,000
Expansion of production capacity	38,579	19,602	196,468	99,825
Expansion of research and development activities	29,521	15,000	29,521	15,000
Working capital	33,704	17,125	33,704	17,125
Estimated listing expenses	17,713	9,000	23,617	12,000
	247,445	125,727	411,238	208,950

Note:

* *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 from RM18,859,050 (Minimum Scenario) and up to RM31,342,500 (Maximum Scenario); assuming the Institutional Price and Final Retail Price is RM2.10 per Issue Share. The extra proceeds are applied to the expansion of production capacity and to defray additional listing expenses.*

The listing expenses are estimated at RM9,000,000 (RMB17,713,000) and RM12,000,000 (RMB23,617,000) and will be set off against the share premium account and reserve account, in the respective minimum and maximum scenario.

(vi) Over-allotment Option

After Proforma IV and exercising the 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 Share on Bursa Securities, to subscribe for 8,980,500 (Minimum Scenario) up to an aggregate of 14,925,000 (Maximum Scenario) new Xingquan International Shares, being 15% of the total number of Xingquan International Shares pursuant to the Public Issue at an issue price of RM2.10 per Xingquan International Share, solely for the purpose of covering over-allotment of Xingquan International Share (if any).

[Acquisition, Share Split, Public Issue, Listing and Over-allotment Option are collectively referred to as Flotation Exercise]

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

4. PROPERTY, PLANT AND EQUIPMENT

(i) Minimum Scenario

	Plant and machinery		Furniture, fixtures and office equipment		Mould equipment		R&D equipment		Buildings		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Proforma Group												
Cost												
Addition through acquisition of subsidiary companies	54,946	27,918	1,486	755	38,889	19,760	1,385	704	10,310	5,238	107,016	54,375
Additions [Note 3 (v)] *	75,696	38,461	-	-	-	-	-	-	-	-	75,696	38,461
Carried forward	130,642	66,379	1,486	755	38,889	19,760	1,385	704	10,310	5,238	182,712	92,836
Accumulated depreciation												
Addition through acquisition of subsidiary companies	20,955	10,647	798	405	20,284	10,306	432	220	592	301	43,061	21,879
Net carrying amount	109,687	55,732	688	350	18,605	9,454	953	484	9,718	4,937	139,651	70,957

* The additions consist of RMB38,579,000 (RM19,602,000) through Listing Proceeds and RMB37,116,808 (RM18,859,050) through Over-allotment Option.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(ii) Maximum Scenario

	Plant and machinery		Furniture, fixtures and office equipment		Mould equipment		R&D equipment		Buildings		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Proforma Group												
Cost												
Addition through acqnisition of subsidiary companies	54,946	27,918	1,486	755	38,889	19,760	1,385	704	10,310	5,238	107,016	54,375
Additions [Note 3 (v)] *	258,154	131,168	-	-	-	-	-	-	-	-	258,154	131,168
Carried forward	313,100	159,086	1,486	755	38,889	19,760	1,385	704	10,310	5,238	365,170	185,543
Accumulated depreciation												
Addition through acqnisition of subsidiary companies	20,955	10,647	798	405	20,284	10,306	432	220	592	301	43,061	21,879
Net carrying amount	292,145	148,439	688	350	18,605	9,454	953	484	9,718	4,937	322,109	163,664

* The additions consist of RMB196,468,000 (RM99.825.000) through Listing Proceeds and RMB61,685,692 (RM31,342,500) through Over-allotment Option.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

5. LAND USE RIGHTS

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Cost	9,423	4,788
Accumulated amortisation	(451)	(229)
Net carrying amount	8,972	4,559

6. INVENTORIES

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Raw materials	12,392	6,296
Finished goods	16,191	8,227
Work in progress	5,245	2,665
	33,828	17,188

7. RECEIVABLES

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Trade receivables	126,509	64,279
Deposits	4,190	2,129
Prepayments	4,379	2,225
Total receivables	135,078	68,633

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

8. CASH AND BANK BALANCES

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Cash and cash equivalents	273,108	138,766
Fixed deposit - pledged	23,920	12,154
	297,028	150,920

Cash and bank balances are denominated in the following currencies:-

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Renminbi	105,770	53,741
Others	105	54
Ringgit Malaysia (assumed remaining listing proceeds after utilisation of listing proceeds)	191,153	97,125
	297,028	150,920

9. PAYABLES

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Trade payables	21,131	10,737
Bill payables	64,750	32,899
VAT payables	6,014	3,056
Salary payables	6,639	3,373
Deposits from distributors	1,450	737
Amount due to shareholders	11,122	5,651
Accruals	30,861	15,680
	141,967	72,133

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

10. BORROWINGS

	Proforma Group Minimum and Maximum Scenario	
	RMB'000	RM'000
Short term bank loans - secured	51,400	26,116

11. SHARE CAPITAL

	Proforma Group			
	Minimum Scenario		Minimum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
Issued and fully paid:-				
Ordinary shares of USD1.00 each	68	34	68	34
Issued pursuant to the acquisition of subsidiary	146,737	74,559	146,737	74,559
Subdivision of shares, at USD0.10 each	146,805	74,593	146,805	74,593
Public issue, at USD0.10 each	40,855	20,758	67,899	34,498
Exercise of the Over-allotment	6,128	3,114	10,185	5,175
289,925,000 ordinary shares of USD0.10 each	193,788	98,465	-	-
329,555,000 ordinary shares of USD0.10 each	-	-	224,889	114,266

12. SHARE PREMIUM

	Proforma Group			
	Minimum Scenario		Minimum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
Arising from public issue	206,590	104,969	343,339	174,452
Listing expenses	(10,944)	(5,561)	(17,648)	(8,967)
Arising from Over-allotment Option	30,989	15,745	51,501	26,168
	226,635	115,153	377,192	191,653

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13. RESERVES

	Proforma Group			
	Minimum Scenario		Maximum Scenario	
	RMB'000	RMB'000	RMB'000	RM'000
Merger deficit	(79,495)	(40,391)	(79,495)	(40,391)
Retained earnings	58,675	29,812	59,475	30,218
Statutory reserve	12,371	6,286	12,371	6,286
Currency fluctuation reserve	(4)	(2)	(4)	(2)
	(8,453)	(4,295)	(7,653)	(3,889)

14. CONTINGENT LIABILITIES

The Group issued corporate guarantees to financial institutions for bank borrowings of third parties amounted to RMB37,000,000 (RM18,800,000).

15. COMMITMENTS

(a) Operating lease commitments

The Group leases offices, warehouses and factory under non-cancellable operating lease arrangements. The leases have varying terms and the total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

	31 December 2008	
	RMB'000	RM'000
Not later than one year	3,961	2,013
Later than one year and not later than five years	15,514	7,883
Later than five years	10,372	5,270
Total	29,847	15,166

Lease payments after 1 January 2010 for certain factory leases will be revised to reflect market rentals.

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15. COMMITMENTS (CONT'D)

(b) Capital commitments

i. As at 31 December 2008, the Group has unpaid capital contribution in Addnice China amounting to HKD57,500,000 (approximately RMB50,629,000 or RM25,724,595).

ii. As at 31 December 2008, the Group has unpaid capital commitment in respect of the acquisition of land use rights for the construction of the Group's new factory at 惠安城南创业园 amounting to RMB10,000,000 (RM5,081,000).

16. SIGNIFICANT RELATED PARTY TRANSACTIONS

	FPE 2008	
	RMB'000	**RMB'000**
Sales of goods to a company in which a director has an interest in	97	49

17. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date other than the approval obtained from the SC, completion of Acquisition and Share Split as mentioned in Note 3 and events below.

i. Xingquan International had on 10 February 2009 received the sum of US$10,000 in cash from Tai Zhen Xiang Holdings Limited as the payment for the 10,000 ordinary shares of US$1.00 each in the capital of the Company issued by the Company to Tai Zhen Xiang Holdings Limited on 6 February 2009.

ii. On 1 June 2009, the Company acquired the entire issued and paid-up share capital of Addnice Holdings comprising 1 share of HKD1.00 each from Sheng Xiang Shun Holdings Limited for a consideration of USD21.503 million which are satisfied entirely by the issuance of 21.503 million new shares at an issue price of USD1.00 per share.

Arising from the above restructuring exercise, the combined statement of changes in equity for the FPE 2008, assuming the restructuring exercise had occurred on 31 December 2008 would be as follows:-

	Equity attributable to the equity holders of the Company											
	Share capital		Statutory reserve		Merger reserve		Currency translation reserve		Retained profits		Total equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Balance at 31 December 2008 (Audited)	*	*	12,371	6,286	67,242	34,166	(4)	(2)	65,444	33,252	145,053	73,702
Issue of shares	68	34	-	-	-	-	-	-	-	-	68	34
Arising from restructuring exercise	147,044	74,713	(12,371)	(6,286)	(69,233)	(35,177)	4	2	(65,444)	(33,252)	-	-
	147,112	74,747	-	-	(1,991)	(1,011)	-	-	-	-	145,121	73,736

* Amount less than RMB1,000/RM1,000

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

17. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONT'D)

(iii) Subsequent to the FPE 2008, Xingquan Plastics discharged corporate guarantees amounting to RMB5,000,000 (RM2,540,500). The balance of RMB32,000,000 (RM16,259,200) relate to a repayment guarantee provided to Quanzhou Commercial Bank, Jinjiang branch ("Quanzhou Bank") by Xingquan Plastics for the maximum facility of RMB10,000,000 (RM5,081,000) from 20 August 2007 to 20 August 2009 and RMB4,000,000 (RM2,032,400) from 24 August 2008 to 24 August 2009 provided by Quanzhou Bank to Fujian Kebi Sports Products Co., Ltd ("Fujian Kebi") and RMB18,000,000 (RM9,145,800) from 26 August 2008 to 26 February 2010 provided by China Construction Bank, Jingjiang branch ("China Construction Bank") to Quanzhou Baoshu Packing Co., Ltd ("Baoshu"). The potential exposure to Xingquan Plastics is RMB32,000,000 (RM16,259,200). As Xingquan Plastics was unable to procure the discharge of these repayment guarantees as at the date of the audited report, Fujian Kebi and Baoshu have each placed with Xingquan Plastics a sum equal to the sum currently drawndown by them respectively pursuant to their respective facilities granted by Quanzhou Bank and China Construction Bank to cover any potential call on the guarantees of such sum by Quanzhou Bank and China Construction Bank. In addition, Xingquan Plastics has obtained from Fujian Kebi and Baoshu and their respective banks as mentioned above irrevocable undertakings not to drawdown or allow a drawdown, respectively, without the written consent of Xingquan Plastics, the balance available pursuant to their respective facilities. Xingquan Plastics has also obtained an indemnity from the major shareholders of the Company i.e.Tai Zhen Xiang, Ng Sio Peng and Iao Ieok Chon should any payments be required to be made by Xingquan Plastics pursuant to these repayment guarantees as a result of a breach of the undertakings procured from Fujian Kebi, Baoshu and/or their respective banks.

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NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)

18. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all financial assets and liabilities with a maturity of less than one year approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

19. NET TANGIBLE ASSETS AND NET ASSETS PER ORDINARY SHARE

Based on the proforma group statement of assets and liabilities of Xingquan International Group as at 31 December 2008, the proforma net tangible assets ("NTA") and net assets ("NA") per share is calculated as follows:-

	Proforma Group			
	Minimum Scenario and assuming exercise of Over-Allotment Option		Maximum Scenario and assuming exercise of Over-Allotment Option	
	RMB'000	RM'000	RMB'000	RM'000
Proforma NTA as per group statement of assets and liabilities	411,970	209,323	594,428	302,030
Proforma NA as per group statement of assets and liabilities	411,970	209,323	594,428	302,030
Total number of fully issued and paid-up ordinary share of USD0.10 each assumed to be issued	283,981	283,981	329,555	329,555
Proforma NTA per ordinary share of USD0.10 each	1.45	0.74	1.80	0.92
Proforma NA per ordinary share of USD0.10 each	1.45	0.74	1.80	0.92

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(iv) PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following is the proforma consolidated cash flow statement of Xingquan International Group prepared for illustrative purpose based on the audited Combined Financial Statements of Xingquan International for the financial period ended 31 December 2008 assuming that Xingquan International Group has been existence throughout the financial period under review.

Period ended	30 June 2008		31 December 2008 Minimum Scenario and assuming exercise of Over-Allotment Option		31 December 2008 Maximum Scenario and assuming exercise of Over-Allotment Option	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before taxation	147,408	74,897	107,747	54,746	107,747	54,746
Adjustments for:-						
Amortisation of land use rights	186	95	94	48	94	48
Depreciation of property, plant and equipment	10,101	5,132	5,713	2,903	5,713	2,903
Interest expenses on bank borrowings	3,550	1,804	2,171	1,103	2,171	1,103
Interest income	(1,222)	(621)	(761)	(387)	(761)	(387)
Negative goodwill	(4,720)	(2,398)	(518)	(263)	(518)	(263)
Operating profit before working capital changes	155,303	78,909	114,446	58,150	114,446	58,150
Changes in working capital:-						
(Increase)/Decrease 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 received	1,222	621	761	387	761	387
Interest paid	(3,550)	(1,804)	(2,171)	(1,103)	(2,171)	(1,103)
Tax paid	(14,266)	(7,249)	(14,674)	(7,455)	(14,674)	(7,455)
Net cash from operating activities	113,652	57,746	85,080	43,230	85,080	43,230
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of subsidiary	(3,764)	(1,912)	-	-	-	-
Acquisition of minority interest	-	-	(458)	(233)	(458)	(233)
Purchase of property, plant and equipment						
- by working capital	(9,112)	(4,630)	(4,380)	(2,225)	(4,380)	(2,225)
- by listing proceeds	-	-	(75,696)	(38,461)	(258,154)	(131,168)
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)

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(iv) PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

Period ended	30 June 208		31 December 2008 Minimum Scenario and assuming exercise of Over-Allotment Option		31 December 2008 Minimum Scenario and assuming exercise of Over-Allotment Option	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Listing proceeds						
- by public issue	-	-	247,445	125,727	411,238	208,950
- by over-allotment option	-	-	37,117	18,859	61,686	31,343
Payment of listing expenses	-	-	(17,713)	(9,000)	(23,617)	(12,000)
Issuance of shares						
- by Xingquan International	-	-	68	34	68	34
- by Addnice Holdings	901	458	-	-	-	-
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 deposits pledged with bank	4,550	2,312	(370)	(188)	(370)	(188)
Advance from shareholders	5,822	2,958	51,878	26,359	51,878	26,359
Net cash (used in)/ from financing activities	(93,027)	(47,267)	194,047	98,594	376,505	191,301
CASH AND CASH EQUIVALENTS						
Net changes	7,705	3,915	198,593	100,905	198,593	100,905
Brought forward	66,810	33,946	74,515	37,861	74,515	37,861
Carried forward (Note 8)	74,515	37,861	273,108	138,766	273,108	138,766

The Proforma Consolidated Cash Flow Statement has been prepared based on the audited Combined Financial Statements of Xingquan International as at 31 December 2008, with the assumption that Acquisition, Public Issue as well as the Over-allotment Option have been completed.

The Proforma Consolidated Cash Flow Statement has been prepared based on accounting principles and basis consistent with those normally adopted in the preparation of audited Combined Financial Statements of Xingquan International Group.

end of report

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8.4 LIQUIDITY AND CAPITAL RESOURCES

8.4.1 Working Capital

Our Group's principal source of liquidity is through internal cash generated from our operations and various credit facilities from the financial institutions. As at Latest Practicable Date, our Group has deposits, cash and bank balances of RMB140.2 million (including deposits placed with licensed banks of approximately RMB17.4 million have been pledged to licensed bank guarantee facility and to secure credit facility granted to our Group) and total borrowings of RMB61.2 million.

The proforma consolidated cashflow statements of our Group for the FYE 2008 and 1H 2009 are as follows:

	<——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
Net cash generated from operating activities	113,652	57,746	85,080	43,230	85,080	43,230
Net cash used in investing activities	(12,920)	(6,564)	(80,534)	(40,919)	(262,992)	(133,626)
Net cash (used 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 the beginning of the financial year	66,810	33,946	74,515	37,861	74,515	37,861
Cash and cash equivalents at the end of the financial year	74,515	37,861	273,108	138,766	273,108	138,766

A significant portion of our cash and cash equivalents are held in RMB while the rest are held in HKD and USD. For further information on the legal and financial restrictions on the ability of our subsidiaries to transfer funds to Xingquan International in the form of cash dividends, loans or advances, please refer to Annexure D for the experts' report pertaining to policies on foreign investments and repatriations of profits applicable to the PRC, Hong Kong and Bermuda respectively. In particular, kindly note that in the PRC, foreign investment enterprises ("FIE") are not allowed to transfer funds abroad in foreign exchange to its investors in the form of loan or advances. Subject to the above and the legal and financial requirements set out in Annexure D, our Directors are of the opinion that there are no economic restrictions on the ability of our subsidiaries to transfer funds to Xingquan International in the form of cash dividends, loans or advances and are therefore confident that we can meet our cash obligations.

Net cash generated from operating activities

For the FYE 2008, we generated net cashflow before working capital changes of RMB155.3 million. After accounting for the increase in trade and other receivables of RMB32.6 million, increase in trade and other payables of RMB7.2 million, the decrease in inventories of RMB0.4 million, income tax paid of RMB14.3 million, interest paid of RMB3.6 million and interest received of RMB1.2 million, our net cash generated from operating activities was RMB113.7 million. The increase in trade and other receivables is in line with the growth of our revenue.

For the 1H 2009, we generated net cashflow before working capital changes of RMB114.4 million. After accounting for the increase in trade and other receivables of RMB26.0 million, increase in trade and other payables of RMB17.7 million, the increase in inventories of RMB4.9 million, income tax paid of RMB14.7 million, net interest paid of RMB2.2 million and interest received of RMB0.8 million, our net cash generated from operating activities was RMB85.0 million.

Net cash used in investing activities

For the FYE 2008, the net cash used in investing activities RMB12.9 million was mainly attributed to the following:

(i) acquisition of subsidiary of RMB3.8 million;

(ii) acquisition of plant, property and equipment of RMB9.1 million; and

(iii) acquisition of land use rights of RMB0.04 million.

For the 1H 2009, the net cash used in investing activities of RMB80.5 million (Minimum Scenario) or RMB263.0 million was mainly attributed to the following:

(i) acquisition of plant, property and equipment of RMB80.0 million (Minimum Scenario) or RMB262.5 million (Maximum Scenario); and

(ii) acquisition of minority interest in Xingquan Footwear of RMB0.5 million.

Net cash used in/generated from financing activities

The net cash used in financing activities for the FYE 2008 of RMB93.0 million was mainly attributable to payment of dividend of RM105.0 million.

The net cash generated from financing activities for the 1H 2009 of RMB194.0 million (Minimum Scenario) or RMB376.5 million (Maximum Scenario) was mainly attributable to the proceeds from IPO of RMB284.6 million (Minimum Scenario) or RMB472.9 million (Maximum Scenario) and repayment of advances from shareholders of RMB51.9 million and payment of dividend of RMB125.8 million.

Our Board is of the opinion that after taking into consideration the existing level of cash and cash equivalents, the banking facilities available, the expected funds to be generated from our operations and the gross proceeds from the Public Issue, our Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

8.4.2 Borrowings

As at the Latest Practicable Date, our total outstanding borrowings (all of which are interest bearing) are as follows:

	Minimum Scenario		Maximum Scenario	
	RMB 000	RM 000	RMB 000	RM 000
Long-term borrowings				
- Term loan	-	-	-	-
	-	-	-	-
Short-term borrowings				
- Term loan (secured)	61,200	**31,096	61,200	**31,096
	61,200	31,096	61,200	31,096
Total borrowings	61,200	31,096	61,200	31,096
Gearing ratio* (times)	0.15	0.15	0.10	0.10

Notes:

* *Computed based on total borrowings as at Latest Practicable Date divided by our Group's proforma shareholders' funds as at 31 December 2008 of RMB412.0 million (Minimum Scenario) or RMB594.4 million (Maximum Scenario) upon completion of the Listing Scheme and assuming the utilisation of certain proceeds of the IPO and the Over-Allotment Option have been effected.*

** *Translated base on the exchange rate of RM0.5081 : RMB1 as at 31 December 2008.*

We have not defaulted on any payments of interest and/or principal sums on any borrowings throughout the FYE 2008 and 1H 2009 and up to the date of this Prospectus.

We do not have any foreign borrowings. Save as disclosed above, we do not have any other loan capital outstanding or loan capital created but unissued mortgages or charges outstanding.

We are not in breach of any terms and conditions or covcnants associated with credit arrangement or bank loan whieh can materially affect the corporation's financial position and results or business operations, or the investment by holders of securities in our Group.

8.4.3 Capital Expenditure

Our Group's capital expenditure for the FYE 2006, 2007 and 2008 and 1H 2008 and 2009 respectively are as follow:

	<—Proforma					—>	<—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**
Buildings	-	-	-	-	500	254	-	-	-	-
Plant & machinery	5,587	2,839	9,705	4,931	1,831	930	698	355	1,080	549
Furniture, fixtures and office equipment	872	443	307	156	5	3	5	3	-	-
R&D equipment	581	295	303	154	-	-	-	-	-	-
Land use rights	-	-	9,316	4,733	44	22	-	-	-	-
Mould equipment	6,401	3,252	7,289	3,704	6,776	3,443	3,593	1,825	3,300	1,676
Total	13,441	6,829	26,920	13,678	9,156	4,652	4,296	2,183	4,380	2,225

For the financial years and periods under review, our Group's capital expenditure was concentrated primarily on land, machineries and mould equipment in line with our effort to upgrade and improve our production capacity.

8.4.4 Material Commitments

As at the Latest Practicable Date, our Group has material commitments for capital expenditure of RMB60.6 million as follows:

	RMB 000	**RM 000**
Land for new factory [(1)]	10,000	5,081
Unpaid capital contribution in Addnice China [(2)]	50,629	25,725
	60,629	30,806

Notes:

(1) *As at the Latest Practicable Date, the land premium of the land anticipated to be paid by Addnice China is RMB14,000,000. The estimated amount of RMB14,000,000 is payable on a one-off basis. As Addnice China has placed a total of RMB4,000,000 as a guarantee deposit for the bidding process, the remaining amount payable should Addnice China be successful in its bid is estimated to be RMB10,000,000 which Addnice China intends to fund with internally generated funds. Please note that the final amount payable may vary as the land will be acquired via a bidding process. In the event Addnice China is not successful in its bid, Addnice China will be refunded the guarantee deposit placed.*

(2) *The unpaid capital contribution in Addnice China is denominated in HKD i.e. HKD57,500,000 and is translated to RMB and RM at the exchange rates as at 31 December 2008 of HKD1: RMB0.8805 and HKD1:RM0.4474 respectively.*

The above material commitment would be financed by our internally generated funds.

As at the Latest Practicable Date, our total loan facilities available is RMB106.5 million, out of which only RMB61.2 million has been utilised. Coupled with our healthy cashflows from operating activities, our Directors expect that we should have the necessary funds available to fund the abovementioned material capital commitments.

8.4.5 Contingent Liabilities

As at the Latest Practicable Date, savcd as disclosed below, our Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on our profit or net assets.

Xingquan Plastics provided a repayment guarantee for the maximum facility of RMB10,000,000 from 20 August 2007 to 20 August 2009 and RMB4,000,000 from 24 August 2008 to 24 August 2009 to Fujian Kebi Sports Products Co., Ltd ("Fujian Kebi") borrowed from Quanzhou Commercial Bank, Jinjiang branch.

Xingquan Plastics also provided a repayment guarantee for the maximum facility of RMB18,000,000 from 26 August 2008 to 26 February 2010 to Quanzhou Baoshu Packing Co., Ltd ("Baoshu") borrowed from China Construction Bank, Jinjiang branch.

The potential exposure to Xingquan Plastics from these two repayment guarantees amounts to RMB32,000,000. As Xingquan Plastics is unable to procure the discharge of these repayment guarantees prior to the issuance of this Prospectus, Fujian Kebi and Baoshu have each placed with Xingquan Plastics a sum equal to the sum currently drawndown by them respectively pursuant to their respective facilities to cover any potential call on their respective guarantees. In addition, Xingquan Plastics has obtained from Fujian Kebi and Baoshu and their respective banks as mentioned above irrevocable undertakings from each of them not to drawdown or allow a drawdown, respectively without the written consent of Xingquan Plastics, the balances available pursuant to their respective facilities. In any event, Xingquan Plastics has obtained an indemnity from the Promoters should any payments be required to be made by Xingquan Plastics pursuant to these repayment guarantees as a result of a breach of any of the undertakings procured from Fujian Kebi, Baoshu and/or their respective banks.

8.4.6 Material Litigation

Neither we nor our subsidiaries are engaged in any litigation or arbitration, either as plaintiff or defendant which will have a material effect on our financial position and our Directors do not know of any proceedings pending or threatened or any fact likely to give rise to any proceedings which might materially and adversely affect our position or business.

8.4.7 Key Financial Ratios of our Group

The key financial ratios of our Group based on our latest audited combined financial statements for the 1H 2009 are as follows:

Trade receivable	:	RMB126.5 million
Trade receivable turnover period	:	Approximately 51.8 days
Trade payable	:	RMB21.1 million
Trade payable turnover period	:	Approximately 12.1 days
Inventory turnover period	:	Approximately 22.9 days

Further details on the key financial ratios are set out in Section 9 of this Prospectus.

8.4.8 Off-Balance Sheet Arrangements

Our Group does not have any off-balance sheet arrangements which are reasonably likely to have a current or future material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, capital expenditures or capital resources.

8.4.9 Financial Risk Management Objectives and Policies

Our Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage our Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, our Group employs a conservative strategy regarding its risk management. As our Group's exposure to market risk is kept at a minimum level, our Group has not used any derivatives or other instruments for hedging purposes. Our Group does not hold or issue derivative financial instruments for trading purposes.

As at 30 June 2006, 2007 and 2008 and 31 December 2008, our Group's financial instruments mainly consist of cash and bank balances, trade receivables, other receivables, trade payables, bills payables, accrued liabilities, other payables and borrowings.

(i) Credit risk

Credit risk is the risk of financial loss to our Group if a customer fails to meet its contractual obligations, and arises principally from our Group's trade and other receivables.

Trade receivables

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Our Group typically gives the existing customers credit terms of 60 days. In deciding whether credit shall be extended, our Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new customers, the sales and marketing department will prepare credit proposals for approval by the general manager. Our Group has significant concentration of credit risk as our Group's top ten customers in aggregate formed 25.1%, 25.3%, 32.3%, 30.0% of the trade receivables balance as at 30 June 2006, 2007 and 2008 and 31 December 2008 respectively.

Our Group performs ongoing credit evaluation of our customers' financial condition and requires no collateral from our customers. The provision for impairment loss is based upon a review of the expected collectibles of all trade and other receivables.

(ii) Liquidity risk

Liquidity risk is the risk that our Group will eneounter difficulty in raising funds to meet commitments associated with financial instruments. Our Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirement in the short and long term. The bank borrowings for FYE 2006, 2007 and 2008 and 1H 2009 have maturity periods of less than 1 year from the respective balance sheet date.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

Our Group carries out its business in the PRC and most of the transactions are denominated in RMB. Accordingly, our Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of our Group's financial instruments will fluctuate because of changes in market interest rates.

Our Group's exposure to interest rate risk arises primarily from short-term bank borrowings. Our Group does not have investment in other financial assets. Our Group's policy is to maintain all its borrowings on a fixed rate basis.

Our Group's bank loans bear effective interest rates of 5.52%, 6.09%, 6.89% and 8.64% per annum during the FYE 2006 to 2008 and 1H 2009 respectively. The carrying amounts of interest-bearing bank borrowings are denominated in RMB.

Bank borrowings subject to fixed interest rates are contractually repriced at intervals of 12 months. The other financial instruments of our Group are not subject to significant interest rate risk.

Fluctuation in the interest rate of bank borrowings did not have an impact on our Group's net profits for FYE 2006, 2007 and 2008 and 2008 and 1H 2009.

8.5 CAPITALISATION AND INDEBTEDNESS

The following information should be read in conjunction with the Reporting Accountants' Letter on Proforma Consolidated Financial Information and Accountants' Report set out in Sections 8.3 and 9 of this Prospectus respectively.

The table below sets out the cash and cash equivalents as well as capitalisation and indebtedness of our Group:

(i) based on our proforma consolidated balance sheet as at 31 December 2008 (after adjustments for the Acquisition and Share Split); and

(ii) as adjusted for the net proceeds from the Public Issue and intended use of the proceeds from the Public Issue and Over-Allotment Option.

	Proforma Group As at 31 December 2008		**Proforma Group After IPO and utilisation of proceeds and exercise of Over Allotment Option**			
			Minimum Scenario		**Maximum Scenario**	
	RMB 000	**RM 000**	**RMB 000**	**RM 000**	**RMB 000**	**RM 000**
Cash and cash equivalents	105,875	53,795	297,028	150,920	297,028	150,920
Indebtedness						
Current						
- Bank loans (secured and guaranteed)	51,400	26,116	51,400	26,116	51,400	26,116
Total indebtedness	51,400	26,116	51,400	26,116	51,400	26,116
Total shareholders' equity / capitalisation	145,121	73,737	411,970	209,323	594,428	302,030
Total capitalisation and indebtedness	196,521	99,853	463,370	235,439	645,828	328,146

8.6 EFFECTS OF INFLATION

Our Directors are of the view that inflation does not have a material impact on our business, financial condition or results of operation of our Group. However, in the future, any increase in inflation rate may affect our operations and performance if we are not able to fully offset the higher costs of services through higher selling price of our products. Our failure or inability to do so may adversely affect our business, financial performance and results of operations.

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8.7 TREND INFORMATION

8.7.1 Business and Financial Prospect

For the industry outlook and prospects and our Group's prospects and future plans, please refer to Sections 6.8 and 6.9 of this Prospectus respectively.

For the financial years and periods under review up to the Latest Practicable Date, our Directors have observed the following trends based on the sales and operations of our Group:

(i) Increasing consumer demand for our Addnice brand products as a result of increasing consumer consumption in the PRC (please refer to the section 6.2 entitled "Prospects" of this Prospectus for details of such consumer trends). In addition, our Directors expect our sales and production to increase as a result of our increasing branding, sales and marketing activities and continuing focus on product development and innovation.

(ii) Selling prices of our Addnice products have generally remained stable with a slight upward trend. Based on their knowledge and experience in the industry, our Directors do not expect sharp fluctuations of the prices of our products; based on our prospects and future plans, we should be able to generally maintain our selling prices through our brand image and recognition and high quality Addnice products.

(iii) Based on our Group's records, the cost of raw materials for our shoe soles (comprise mainly EVA-based chemical) followed closely the price of petroleum in the market while the cost of raw materials for our shoes, apparel materials and packaging materials have been relatively stable. Our Directors do not expect significant deviations from such trend going forward.

(iv) Labour costs have generally been on an increasing trend in the PRC. Our Directors believe that the trend of increasing labour costs will generally continue in tandem with the improving PRC economy going forward.

(v) Currently, our Group subcontracts the manufacturing of our indoor and outdoor sports and leisure apparels and accessories to OEMs. Moving forward, with the expected increase in our sales and production level, there may be time when our Group has to outsource the manufacturing of our shoe soles and/or shoes to OEMs to cater for the growing demand for our products. The reliance on OEMs in growing our production level may result in the decrease in the gross profit margins of our Group from its current level.

(vi) Based on the above, our Directors are not aware of any circumstances which would result in significant decline of our gross profit margins, and expect our gross profit margins to remain relatively stable in the near future.

Save as disclosed above and in the sections entitled "Risk Factors", "Management's Diseussion and Analysis of Financial Condition and Results of Operations", "Our Group's Prospects and Future Plans" of this Prospectus, our Directors believe that there are no other significant known reeent trends in production, sales and inventory, and in the costs and selling prices of our products, or other known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net sales or revenue, profitability, liquidity, or capital resources, or that would cause financial information disclosed in this Prospectus to be not indicative of our future operating results or financial conditions.

8.7.2 Factors Affecting the Financial Condition of our Group

Our Group's financial performance and operations may be affected by a number of factors which may not be within our control such as:

(i) **Supply and price of raw material for making our shoe sole and footwear 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 evcnt that we dccide 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 demand. If we are unable to pass on the increased costs to our customers, our business and finaneial 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 whieh have had any material adverse effect on our operations or financial position.

(ii) 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 is are major changes in the global economic conditions and such changes directly or indirectly affcct the PRC market and demand for our products, our profitability may be affected.

(iii) Possible infringement of our intellectual property rights such as the counterfeiting of our "Addnice" brand in the market

As at the Latest Practicable Date, wc 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 subjcct 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.

(iv) Highly competitive sports and leisure shoe, sports apparel and sport 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 onc 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.

(v) 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 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. Presently, approximately 57% 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.

(vi) Dependence on major supplies

Our purchases from our top five major suppliers (who include certain OEM suppliers for our sports and leisure apparels and accessorics) 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 suppliers' premises 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 accessorics. There can be no assurances that the mitigating steps taken by our Group to minimise our risks on dependency on our suppliers will be sufficicnt 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 affectcd.

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. There can be no assurance that our existing suppliers will 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 is unable to provide us with the raw materials or OEM products at the quantities and quality which we require, our business, operations and subsequently financial performance may be materially and adversely affected.

(vii) 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 matcrially and adversely affect our prospects and operating results.

Save as disclosed above and Section 5 of this Prospectus and to the best of our Director's knowledge and believe, there are no other known trends, demands, commitment, events or uncertainties that are reasonably likely to have a material effcct on the financial condition and results of operations of our Group. However, the factors affecting our financial position and operation as set out above and in Section 5 of the Prospectus are not exhaustive.

8.8 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.

Our Directors will consider the following factors that they currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(i) the level of our cash and level of indebtedness;

(ii) required and expected interest expense, cashflows, our profits and return on equity and retained earnings;

(iii) our expected results of operations and future level of operations; and

(iv) our projected levels of capital expenditure and other investment plans.

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 above. 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 above, our Directors intend to recommend and distribute dividends of between 10% to 20% of our net profit 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 Section 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.

(Prepared for inclusion in this Prospectus)

Grant Thornton

(PREPARED FOR INCLUSION IN THIS PROSPECTUS)

Date: 2 June 2009

SJ Grant Thornton (AF:0737)
Level 11, Faber Imperial Court
Jalan Sultan Ismail
P. O. Box 12337
50774 Kuala Lumpur, Malaysia

T +6 (03) 2692 4022
F +6 (03) 2691 5229
www.gt.com.my

The Board of Directors
Xingquan International Sports Holdings Limited
Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda.

Dear Sirs,

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED AND ITS SUBSIDIARY COMPANIES
ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by us, an approved company auditor, for inclusion in this Prospectus in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of Xingquan International Sports Holdings Limited ("Xingquan International" or "The Company") on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") which includes the following:-

(i) **Public Issue**

Public Issue of up to 99,500,000 new ordinary shares of USD0.10 in Xingquan International ("Xingquan International Share") comprising the retail offering and institutional offering.

The retail offering comprises 9,500,000 new Xingquan International Shares available for application by the Malaysian Public at an issue price of RM2.10 per Xinguan International Share.

The institutional offering comprises at least 50,370,000 ("Minimum Scenario") and up to 90,000,000 ("Maximum Scenario") new Xingquan International Shares at an issue price to be determined by way of bookbuilding, to be offered to:-

(i) Malaysia institutional and selected investors; and
(ii) Foreign institutional and selected investors outside the United States of America in reliance on Regulation S under United States Securities Act of 1993.

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1. INTRODUCTION (CONT'D)

(i) **Public Issue (cont'd)**

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 (in the case of Minimum Scenario) or up to 15,731,500 Issue Shares (in the case of Maximum Scenario) (representing 5.0% of Xingquan International Group's enlarged issued share capital) up to 4,250,000 Issue Shares (in the case of Minimum Scenario) or up to 6,231,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of Maximum Scenario).

(ii) **Listing**

In conjunction with the Floatation Exercise (as define in section 2.1.I), Xingquan International seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital comprising up to 329,555,000 Xingquan International Shares (including up to 14,925,000 Xinguan International Shares pursuant to the Over-allotment Option) on the Main Board of Bursa Malaysia Securities Berhad.

(iii) **Over-allotment Option**

Exercising the 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 at least 8,980,500 (in the case of Minimum Scenario) and up to 14,925,000 (in the case of Maximum Scenario) new Xingquan International Shares, being 15% of the total number of Xingquan International Shares pursuant to the Public Issue at an issue price of RM2.10 per Xingquan International Share, solely for the purpose of covering over-allotments of Xingquan International Shares (if any).

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2. GENERAL INFORMATION

2.1 Background

Xingquan International was incorporated in Bermuda under the Bermuda Companies Act, 1981 on 15 December 2008 as an exempted company with limited liability under the name of Xingquan International Sports Holdings Limited. On 11 February 2009, Xingquan International was registered in Malaysia as a foreign company.

2.1.1 Flotation Exercise

As an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Xingquan International, Xingquan International undertook the Flotation Exercise that was approved by the Securities Commission ("SC") on 4 May 2009. The Flotation Exercise involves the following:-

(i) **Acquisition**

Acquisition of the entire issued and paid-up capital of Addnice Holdings Limited ("Addnice Holdings") comprising 1 share of HKD1.00 each representing 100% equity interest in Addnice Holdings for a total purchase consideration of USD21,503,000 to be satisfied entirely by the issuance of 21,503,000 new ordinary shares of USD1.00 each in Xingquan International at an issue price of USD1.00 per share.

The Acquisition was completed on 1 June 2009.

(ii) **Share Split**

Share Split to subdivide the existing par value of ordinary shares of Xingquan International from USD1.00 per share to USD0.10 per share ("Xingquan International Share") after the Acquisition.

The Share Split was completed on 1 June 2009.

(iii) **Public Issue**

Public Issue of up to 99,500,000 new Xingquan International Shares comprising the retail offering and institutional offering.

The retail offering comprises 9,500,000 new Xingquan International Shares available for application by the Malaysian Public at an issue price of RM2.10 per Xingquan International Share.

The institutional offering comprises at least 50,370,000 (Minimum Scenario) and up to 90,000,000 (Maximum Scenario) new Xingquan International Shares at an issue price to be determined by way of bookbuilding, to be offered to:-

(i) Malaysia institutional and selected investors; and
(ii) Foreign institutional and selected investors outside the United States of America in reliance on Regulation S under United States Securities Act of 1993.

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2. GENERAL INFORMATION (CONT'D)

2.1.1 **Flotation Exercise (cont'd)**

(iii) **Public Issue (cont'd)**

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 (in the case of Minimum Scenario) or up to 15,731,500 Issue Shares (in the case of Maximum Scenario) (representing 5.0% of Xingquan International Group's enlarged issued share capital) up to 4,250,000 Issue Shares (in the case of Minimum Scenario) or up to 6,231,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of 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 (in the case of Minimum Scenario) or 15,731,500 Issue Shares (in the case of Maximum Scenario).

(iv) **Listing**

In conjunction with the Flotation Exercise, Xingquan International seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital comprising up to 329,555,000 Xingquan International Shares (including up to 14,925,000 Xinguan International Shares pursuant to the Over-allotment Option) on the Main Board of Bursa Malaysia Securities Berhad.

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2. **GENERAL INFORMATION (CONT'D)**

2.1.1 **Flotation Exercise (cont'd)**

(v) **Utilisation of Listing Proceeds**

The gross proceeds from the Public Issue amounting to RM125,727,000 (RMB247,445,000)* (based on Minimum Scenario) or RM208,950,000 (RMB411,238,000)* (based on 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 Xingquan International Group's core business in the following manner:-

	Minimum Scenario		Maximum Scenario	
	RMB'000	RM'000	RMB'000	RM'000
Marketing and advertising activities	62,980	32,000	62,980	32,000
Expansion of sales and distribution network	64,948	33,000	64,948	33,000
Expansion of production capacity	38,579	19,602	196,468	99,825
Expansion of research and development activities	29,521	15,000	29,521	15,000
Working capital	33,704	17,125	33,704	17,125
Estimated listing expenses	17,713	9,000	23,617	12,000
	247,445	125,727	411,238	208,950

Note:

* *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 from RM18,859,050 (Minimum Scenario) and up to RM31,342,500 (Maximum Scenario); assuming the Institutional Price and Final Retail Price is RM2.10 per Issue Share. The extra proceeds are applied to the expansion of production capacity and to defray additional listing expense.*

The listing expenses are estimated at RM9,000,000 (RMB17,713,000) and RM12,000,000 (RMB23,617,000) and will be set off against the share premium account and reserve account, in the respective the minimum and maximum scenario.

(v) **Over-allotment Option**

Exercising the 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 at least 8,980,500 ("Minimum Scenario") and up to 14,925,000 ("Maximum Scenario") new Xingquan International Shares, being 15% of the total number of Xingquan International Shares pursuant to the Public Issue at an issue price of RM2.10 per Xingquan International Share, solely for the purpose of covering over-allotments of Xingquan International Shares (if any).

2. GENERAL INFORMATION (CONT'D)

2.2 Share capital

The changes in the Company's authorised share capital since its date of incorporation were as follow:-

Date of Creation	Par Value USD	Value USD'000	Cumulative Total USD'000
6 February 2009	1.00	10	10
1 June 2009	1.00	49,990	50,000
1 June 2009	0.10	50,000	50,000

The changes in the Company's issued and paid-up share capital since its date of incorporation were as follow:-

Date of Allotment	Par Value USD	Value USD'000	Consideration	Cumulative Total USD'000
6 February 2009	1.00	10	Cash	10
1 June 2009	1.00	21,503	Acquisition of subsidiary	21,513
1 June 2009	0.10	21,513	Share Split	21,513

2.3 Principal activity

The Company's principal activity is investment holding and the provision of management services.

The subsidiary companies are as follows:-

Name of Company	Effective ownership	Principal activities	Date and place of incorporation
Addnice Holdings Limited ("Addnice Holdings")	100%	Investment holdings	20 March 2008 Hong Kong Special Administrative Region ("HKSAR")
Addnice (China) Co., Ltd. ("Addnice China")	100%	Manufacturing and sales of indoor and outdoor, sports and leisure shoes and apparels	7 March 2006 The People' Republic of China ("PRC")
Fujian Aidinaisi Sports Goods Co., Ltd. ("Addnice Sports")	100%	Manufacturing of indoor and outdoor, sports and leisure shoes, apparels and accessories.	1 August 2003 PRC
Xingquan (Fujian) Shoes Plastics Co., Ltd. ("Xingquan Plastics")	100%	Manufacturing and sales of shoe soles	31 January 2000 PRC
Fujian Province Jingjiang Xingquan Footwear Material Co., Ltd. ("Xingquan Footwear")	100%	Lease of factory and land	8 February 1999 PRC

2. GENERAL INFORMATION (CONT'D)

2.3 Principal activity (cont'd)

Xingquan International, Addnice Holdings, Addnice China, Addnice Sports, Xingquan Plastics and Xingquan Footwear are collectively referred to as "Xingquan International Group".

Addnice China, Addnice Sports, Xingquan Plastics and Xingquan Footwear are subsidiary company of Addnice Holdings.

2.4 Share capital history of subsidiary companies

ADDNICE HOLDINGS

The changes in the Company's registered share capital since its date of incorporation were as follow:

Date of Allotment	Par Value HKD	Value HKD	Cumulative Total HKD
20 March 2008	1.00	10,000	10,000

The changes in the Company's issued and paid-up share capital since its date of incorporation were as follow:

Date of Allotment	Par Value HKD	Value HKD	Consideration	Cumulative Total HKD
20 March 2008	1.00	1.00	Subscribers' shares	1.00

ADDNICE CHINA

The present registered capital of Addnice China is HKD100,000,000 and contribution to its registered capital is HKD42,500,000.

The contributions to the Company's registered capital since its date of incorporation were as follow:

Date of Allotment	Value HKD'000	Consideration	Cumulative Total HKD'000
22 August 2006 - 30 August 2006	7,000	Cash	7,000
26 October 2006 - 21 November 2006	7,500	Cash	14,500
24 November 2006 - 18 January 2007	7,500	Cash	22,000
18 January 2007 - 26 January 2007	7,500	Cash	29,500
29 January 2007 - 7 February 2007	7,500	Cash	37,000
8 February 2007 - 14 February 2007	4,500	Cash	41,500
26 March 2008	1,000	Cash	42,500

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2. **GENERAL INFORMATION (CONT'D)**

2.4 **Share capital history of subsidiary companies (cont'd)**

ADDNICE SPORTS

The present registered capital of Addnice Sports is HKD15,000,000 and the contributions to its registered capital is HKD15,000,000.

The contributions to the Company's registered capital since its date of incorporation were as follow:

Date of Allotment	Value HKD'000	Consideration	Cumulative Total HKD'000
31 December 2003 – 2 Marcb 2004	4,800	Cash	4,800
9 August 2005 – 23 August 2005	6,000	Cash	10,800
25 August 2005 – 5 September 2005	4,200	Cash	15,000

XINGQUAN PLASTIC

The present registered capital of Xingquan Plastic is HKD8,500,000 and the contributions to its registered capital is HKD8,500,000.

The contributions to the Company's registered capital since its date of incorporation were as follow:

Date of Allotment	Value HKD'000	Consideration	Cumulative Total HKD'000
13 June 2000	155	Cash	155
12 October 2000	8,345	Cash	8,500

XINGQUAN FOOTWEAR

The present registered capital of Xingquan Footwear is RMB4,580,000 and the contributions to its registered capital is RMB4,580,000.

The contributions to the Company's registered capital since its date of incorporation were as follow:

Date of allotment	Value RMB'000	Consideration	Cumulative total RMB'000
30 December 1998	3,680	Physical assets	3,680
14 March 2002	900	Physical assets	4,580

3. **FINANCIAL STATEMENTS AND AUDITORS**

Foo Kon Tan Grant Thornton (Grant Thornton Singapore) performed a special audit in accordance with International Standards on Auditing on the Xingquan International Group's combined balance sheets, combined income statements, combined statements of changes in equity, combined cash flow statements, a summary of significant accounting policies and other explanatory notes ("audited Combined Financial Statements") and the reports were prepared in accordance with International Financial Reporting Standards for Financial Year Ended 30 June ("FYE") 2006, 2007, 2008 and Financial Period Ended 31 December ("FPE") 2008.

The Group is regarded as a continuing entity resulting from the Acquisition since the management of all the entities which took part in the Acquisition was controlled by the same directors and under common shareholders before and immediately after the Acquisition. Consequently, immediately after the Acquisition, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate shareholders that existed prior to the Acquisition. The Acquisition has been accounted for as a business combination under common control in a manner similar to pooling of interests. Accordingly, the audited Combined Financial Statements for the FYE 2006, 2007, 2008 and FPE 2008 have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiary companies which were under common control of the ultimate shareholders and directors that existed prior to the Acquisition during the relevant years/period or since their respective dates of incorporation.

For FYE 2006, 2007 and 2008, the audited Combined Financial Statements were unqualified with an emphasis on the fact that the financial information of the listed company, Xingquan International was not incorporated in the audited Combined Financial Statements, as the share swap arrangement with Addnice Holdings has not been completed and hence Xingquan International Group was not in existence as at the date of the auditors' report.

The audited Combined Financial Statements for FPE 2008 were unqualified.

The financial year end adopted by Xingquan International Group is 30 June.

SJ Grant Thornton (Grant Thornton Malaysia) performed the independent audit procedures by reviewing working papers of Grant Thornton Singapore in accordance with International Standards on Auditing - AI 600 - Using the work of another auditor in order to obtain sufficient appropriate audit evidence, that the work of Grant Thornton Singapore is adequate. Grant Thornton Malaysia has also performed additional independent audit procedures as follows:

a) On site interview with customers and suppliers of the Xingquan International Group on sampling basis;
b) Verify after year end collections and payments for trade receivables and trade payables respectively of the Xingquan International Group;
c) Obtain tax declaration letters from local tax authorities; and
d) Factory site visit and physical sighting of the property, plant and equipment on sampling basis.

4. **CONVERSION RATE**

In preparing this report, we have converted all figures stated in China Renminbi (RMB), Hong Kong Dollar (HKD) and United States Dollar (USD) to Ringgit Malaysia (RM).

The applied rates of exchange for all the financial years ended 30 June 2006 to 2008 as well as financial period ended 31 December 2007 and 2008 under review are USD1: RMB6.8240, RMB1: RM0.5081, HKD1: RM0.4474 and USD1: RM3.4674 respectively based on the exchange rate as at 31 December 2008.

5. **FINANCIAL RISK MANAGEMENT OBJECTIVES - POLICIES**

The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 30 June 2006, 2007, 2008 and 31 December 2008, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables, other receivables, trade payables, bills payables, accrued liabilities, other payables and borrowings.

(i) **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

<u>Trade receivables</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group typically gives the existing customers credit terms of 60 days. In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new customers, the sales and marketing department will prepare credit proposals for approval by the general manager. The Group has significant concentration of credit risk as the Group's top ten customers in aggregate formed 25.1%, 25.3%, 32.3% and 30.0% of the trade receivables balance for FYE 2006, FYE 2007, FYE 2008 and FPE 2008 respectively.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The provision for impairment loss is based upon a review of the expected collectibles of all trade and other receivables.

5. **FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONT'D)**

(i) **Credit risk (cont'd)**

Trade receivables (cont'd)

The aging analysis of trade receivables past due but not impaired is as follows:

	FYE 2006		FYE 2007		FYE 2008		FPE 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Past due less than 30 days	541	275	731	371	1,962	997	515	262
Past due 31 to 60 days	3	2	-	-	53	27	-	-
	544	277	731	371	2,015	1,024	515	262

There is no impairment loss recognised in the combined income statements as all the receivables were subsequently received.

(ii) **Liquidity risk**

Liquidity is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirement in the short and long term. The bank borrowings for the years/period ended 30 June 2006, 2007, 2008 and 31 December 2008 have maturity period of less than 1 year from the respective balance sheet date.

(iii) **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objectives of market risk management is to manage and control market risk exposures within acceptable parameters.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi. Accordingly, the Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from short-term bank borrowings. The Group does not have investment in other financial assets. The Group's policy is to maintain all its borrowings on a fixed rate basis.

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6. SIGNIFICANT ACCOUNTING POLICIES

6.1 Statement of Compliance

The audited Combined Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") including related interpretations.

6.2 Basis of preparation of audited Combined Financial Statements

The Group has early adopted IFRSs and Interpretations which are effective for accounting periods beginning on or after 1 January 2007 for the preparation of the audited Combined Financial Statements of the Group. IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing the audited Combined Financial Statements.

The accounting policies set out below have been applied consistently to all periods presented in the audited Combined Financial Statements. The accounting policies have been applied consistently by the Group.

On 1 January 2007, the Group adopted the new or revised IFRS and Interpretations that are mandatory for application on that date. This includes the following which are relevant to the Group:

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
IFRS 7	Financial Instruments: Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of the above IFRS and Interpretations did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements. IFRS 7 and the complimentary amended IAS 1 introduce new disclosures relating to financial instruments and capital respectively.

At the date of this report, the following new and amended IFRSs and Interpretations were issued but not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements
IAS 1	Presentation of Financial Statements - Amendments Relating to Disclosure of Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 23 (Revised)	Borrowing Costs – Comprehensive Revision to Prohibit Immediate Expensing
IAS 27	Consolidated and Separate Financial Statements – Consequential Amendments Arising from Amendments to IFRS 3
IAS 27 (Amendment)	Cost of An Investment on First-Time Adoption
IAS 28	Investments in Associates – Consequential Amendments Arising from Amendments to IFRS 3
IAS 31	Interests in Joint Ventures – Consequential Amendments Arising from Amendments to IFRS 3
IAS 32	Financial Instruments: Presentation – Amendments Relating to Puttable Financial Instruments and Obligation Arising on Liquidation

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

IAS 39	Financial Instruments : Recognition and Measurement – Amendments for Eligible Hedged Items
IFRS 1	First-time Adoption of IFRC – Amendment Relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2	Share-based Payment – Amendment Relating to Vesting Conditions and Cancellations
IFRS 3	Business Combinations – Comprehensive Revision on Applying the Acquisition Method
IFRS 7	Financial Instruments: Disclosures – Amendments Relating to Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 8	Operating Segments
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	Defined Benefit Assets and Minimum Funding Requirements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
Annual Improvement Process	Improvements to IFRSs 2008

The management does not anticipate that the adoption of the above IFRSs (including consequential amendments) and Interpretations will result in any material impact to the financial statements in the period of initial application, except for IAS 1 (Revised) and IFRS 8 as indicated below.

IAS 1 (Revised)

The revised Standard requires:

- changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of audited comprehensive income;
- components of audited comprehensive income to be excluded from statement of changes in equity;
- items of income and expenses and components of other comprehensive income to be presented either in a single statement of audited comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of audited comprehensive income) ;
- presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

The revisions also include changes in the titles of some of the financial statements primary statements.

The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of audited comprehensive income.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Combined Financial Statements (cont'd)

IFRS 8

IFRS 8 replaces IAS 14 Segment Reporting. In doing so, it extends the scope of segment reporting. It requires the identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. It requires amongst others, reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements and an explanation of how segment profit or loss and segment assets are measured for each reportable segment.

The group will apply IFRS 8 from 1 January 2009 and provide comparative information that conforms to the requirements of IFRS 8. The Group expects the new operating segments to be significantly different from business segments currently disclosed and expects more information to be disclosed under IFRS 8.

The audited Combined Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with IFRS.

The preparation of the audited Combined Financial Statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial years and financial period.

Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and period are discussed below:

Key sources of estimation uncertainty

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. Management estimates the useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amounts of the Group's property, plant and equipment as at 30 June 2006, 2007, 2008 and 31 December 2008 were RMB47,336,000, RMB56,467,000, RMB65,288,000 and RMB63,955,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Key sources of estimation uncertainty (cont'd)

Income tax

The Group has exposure to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgements which are expected to have a significant effect on the amounts recognised in the financial statements.

Impairment of trade receivables

The Group's management assesses the collectibility of trade receivables. This estimate is based on the credit history of the Group's customers and the current market condition. Management assesses the collectibility of trade receivables at the balance sheet date and makes the provision, if any.

Subsidiaries and audited Combined Financial Statements

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are excluded from the date that control ceases.

Shares in subsidiary are stated at cost less allowance for impairment losses, if any, on an individual subsidiary basis.

For acquisition of subsidiaries under common control, the identifiable assets and liabilities were accounted for at their carrying values, in a manner similar to the pooling-of-interest method of consolidation.

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6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Subsidiaries and audited Combined Financial Statements (cont'd)

(i) Subsidiaries (cont'd)

For acquisition of subsidiaries that is not under common control, the purchase method of accounting is adopted. The cost of such acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value on the date of the acquisition, irrespective of the extent of minority interest. Please refer to the paragraph "Goodwill' for the accounting policy on goodwill on acquisition of subsidiaries.

In preparing the Combined Financial Statements, transactions, balances and unrealised gains on transactions between the combining entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good the losses. When the subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

On acquisition of minority interest, the difference between the consideration and fair value of the share of the net assets acquired is recognised as goodwill or negative goodwill.

(ii) Basis of preparation under common control business combination

A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The Acquisition that resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of IFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the audited Combined Financial Statements.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Subsidiaries and audited Combined Financial Statements (cont'd)

(ii) Basis of preparation under common control business combination (cont'd)

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs are included in the audited Combined Financial Statements of the Group as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the Group. Therefore, the Group recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts as if such audited Combined Financial Statements had been prepared by the controlling party including adjustments required for conforming to the Group's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the audited Combined Financial Statements of the Group.

The Group applies a policy of treating transactions with minority interests, as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recognised in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the Group's incremental share of the fair value of identifiable net assets of the subsidiary.

Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Where the cost of an acquisition is less than the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference ("negative goodwill") is recognised directly in the income statement.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5-10 years
Mould equipment	5 years
R&D equipment	5-10 years
Buildings	20 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of the Group's property, plant and equipment and intangible assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises unless the asset is carried at revalued amount, in which case, such impairment loss is charged to equity.

For the purpose of impairment testing the recoverable amount (i.e the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit to which the asset belongs.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Impairment of non-financial assets (cont'd)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Financial assets

Financial assets which are under the scope of IAS 39, other than hedging instruments, can be divided into the following categories: financial assets at fair value through income statement, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through income statement is not revocable.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

De-recognition of financial assets occurs when the right to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the assets. At each of the balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised.

Other than loans and receivables, the Group does not have any financial assets at fair value through income statement, held-to-maturity investments or available-for-sale financial assets.

Trade and other receivables

Receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Financial liabilities

The Group's financial liabilities include trade and other payables and borrowings. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. All interest related charges are recognised as "finance costs" in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in first-out method. Net realisable value is calculated as the actual or estimated selling prices less all further costs of completion and the estimated costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likehood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Provisions (cont'd)

All provision are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

In cases where the possible outflow of economic resources as a result of present obligations is considered impossible or remote, or the amount to be provided for cannot be measured reliably, no contingent liability is recognised in the balance sheet, unless assumed in the course of a business combination.

Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes on the following bases:

(i) Sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) Interest income, on a time-proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Corporate income tax is provided at rates applicable to an enterprises in the PRC on income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Income tax (cont'd)

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The Group's sale of goods in the PRC is subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the balance sheet.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contribution.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in Renminbi and Ringgit Malaysia.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

The results and financial positions of the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised as separate component of equity.

6. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

6.2 **Basis of preparation of audited Combined Financial Statements (cont'd)**

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company/Group; (2) has an interest in the Company that gives it significant influence over the Company/Group; or (3) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(viii) the party is a post-employment benefits plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Financial instruments

Financial instruments carried on the balance sheets include cash and cash equivalents, all receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Basis of preparation of audited Combined Financial Statements (cont'd)

Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the proceeds to the extent that they are incidental costs directly attributable to the equity transaction.

Retained earnings include all current and prior period results as determined in the income statements.

Cash and cash equivalents

For the purpose of the Combined Cash Flow Statements, cash and cash equivalents comprise cash on hand and in bank and fixed deposits with a short maturity period of generally at three months, less bank overdrafts which are repayable on demand.

Segment reporting

A segment is a distinguishable component of the Group to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

Inter-company pricing is determined on an arm's length basis. Segment result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group.

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Land use rights

Land used rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the cost of land use rights, using the straight-line method, over the period of the grant of 50 years, which is the lease term. Land use rights represent up-front payments to acquire long-term interests in the usage of land.

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7. **HISTORICAL FINANCIAL INFORMATION**

(a) Summarised income statements

The following tables set out the summary of the financial results prepared based on the audited Combined Financial Statements of Xingquan International Group for the past three (3) FYE 2006 to 2008 and the FPE 2007 and 2008.

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2007 @		31 December 2008	
	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
Gross profit	87,576	44,497	141,537	71,915	214,112	108,790	105,673	53,693	155,510	79,015
Profit before depreciation, amortisation, interest expenses and taxation	68,627	34,869	107,612	54,678	161,245	81,928	72,302	36,737	115,725	58,800
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 expenses	(1,744)	(886)	(3,060)	(1,555)	(3,550)	(1,804)	(1,723)	(875)	(2,171)	(1,103)
Profit before taxation but after depreciation, amortisation and interest expenses	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)
Profit after taxation	48,779	24,784	88,352	44,892	129,434	65,764	59,639	30,303	89,812	45,633
Profit before taxation attributable to:										
Equity holders	60,001	30,486	95,908	48,731	147,412	74,899	65,596	33,330	107,750	54,747
Minority interest	-	-	-	-	(4)	(2)	-	-	(3)	(1)
	60,001	30,486	95,908	48,731	147,408	74,897	65,596	33,330	107,747	54,746
Profit after taxation attributable to:										
Equity holders	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
Gross profit margin (%)	30.28	30.28	32.28	32.28	33.62	33.62	34.93	34.93	38.31	38.31
Pre-tax profit margin (%)	20.74	20.74	21.87	21.87	23.15	23.15	21.68	21.68	26.55	26.55
Profit after tax margin	16.86	16.86	20.15	20.15	20.33	20.33	19.71	19.71	22.13	22.13
Effective tax rate (%)	18.70	18.70	7.88	7.88	12.19	12.19	9.08	9.08	16.65	16.65
Gross earnings per share ("EPS")*	0.28	0.14	0.45	0.23	0.69	0.35	0.61^	0.31^	1.00^	0.51^
Net EPS*	0.23	0.12	0.41	0.21	0.60	0.31	0.55^	0.28^	0.83^	0.42^

- There were no exceptional items in all the financial years under review.
- There were no accounting policies which are peculiar to Xingquan International Group due to the nature of business or industry it is involved in that would affect the determination of Xingquan International Group's income or financial position.
- The financial results of Xingquan Footwear were only included in audited Combined Financial Statements in FYE 2008 and FPE 2008 as Xingquan Footwear was acquired by Addnice Sports in FYE 2008 pursuant to the equity transfer agreement dated 16 January 2008. The transfer of the 90% equity in Xingquan Footwear to Addnice Sports was approved by the Jinjiang Administration for Industry and Commerce on 30 January 2008. The balance of 10% equity was subsequently transferred to Addnice Sports pursuant to an equity transfer agreement dated 3 August 2008 and the transfer was completed on 12 August 2008.

* Based on enlarged share capital of 215,130,000 shares (number of ordinary shares in issue after the completion of the Acquisition and Share Spit but before the Public Issue)

@ The income statement for the financial period ended 31 December 2007 is unaudited and is included for comparison purposes only.

^ Annualised to 12 months for comparison purpose.

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised balance sheet

The following table sets out the summary of balance sheet prepared based on the audited Combined Financial Statements of Xingquan International Group for the FYE 30 June 2006 to 2008 and FPE 2008:-

Years/Period ended	Note	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
		RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Share capital		24,742	12,571	66,341	33,708	67,242	34,166	#	#
Reserves		62,210	31,609	100,562	51,096	125,000	63,513	145,053	73,701
Minority interest		-	-	-	-	979	497	-	-
Shareholders' equity		86,952	44,180	166,903	84,804	193,221	98,176	145,053	73,701
Property, plant and equipments	(i)	47,336	24,052	56,467	28,691	65,288	33,173	63,955	32,496
Land use rights	(ii)	-	-	9,145	4,647	9,066	4,607	8,972	4,559
Current assets									
Inventories	(iii)	22,467	11,415	29,273	14,874	28,885	14,676	33,828	17,188
Trade receivables	(iv)	48,971	24,882	73,713	37,454	103,769	52,725	126,509	64,279
Other receivables	(v)	29,680	15,081	60,349	30,663	57,154	29,040	8,569	4,354
Cash and bank balances	(vi)	51,985	26,414	94,910	48,224	98,065	49,827	105,807	53,761
		153,103	77,792	258,245	131,215	287,873	146,268	274,713	139,582
Current liabilities									
Trade payables	(vii)	19,734	10,027	19,895	10,109	12,179	6,188	21,131	10,737
Bills payable	(viii)	37,400	19,003	65,600	33,331	73,900	37,549	64,750	32,900
Other payables	(ix)	13,160	6,687	20,008	10,166	27,068	13,753	56,086	28,498
Borrowings	(x)	41,500	21,086	49,200	24,999	49,900	25,354	51,400	26,116
Corporate income tax payable		1,693	861	2,251	1,144	5,959	3,028	9,220	4,685
		113,487	57,664	156,954	79,749	169,006	85,872	202,587	102,936
Net current assets		39,616	20,128	101,291	51,466	118,867	60,396	72,126	36,646
		86,952	44,180	166,903	84,804	193,221	98,176	145,053	73,701
Net tangible assets ("NTA")		86,952	44,180	166,903	84,804	193,221	98,176	145,053	73,701
NTA per share*		0.40	0.21	0.78	0.39	0.90	0.46	0.67	0.34

* Based on enlarged share capital of 215,130,000 shares (number of ordinary shares in issue after the completion of the Acquisition and Share Spit but before the Public Issue)

\# Amount less than RMB1,000/RM1,000

(i) Details disclosure on property, plant and equipment are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cost								
Plant and machinery	42,330	21,508	52,035	26,439	53,866	27,369	54,946	27,918
Furniture, fixtures and office equipment	1,174	597	1,481	752	1,486	755	1,486	755
Mould equipment	21,524	10,936	28,813	14,640	35,589	18,083	38,889	19,760
R&D Equipment	1,082	550	1,385	704	1,385	704	1,385	704
Buildings	-	-	-	-	10,310	5,238	10,310	5,238
	66,110	33,591	83,714	42,535	102,636	52,149	107,016	54,375
Accumulated depreciation								
Plant and machinery	8,861	4,502	13,305	6,760	18,345	9,321	20,955	10,647
Furniture, fixtures and office equipment	164	83	398	202	665	338	798	405
Mould equipment	9,615	4,886	13,300	6,758	17,819	9,054	20,284	10,306
R&D Equipment	134	68	244	124	369	187	432	220
Buildings	-	-	-	-	150	76	592	301
	18,774	9,539	27,247	13,844	37,348	18,976	43,061	21,879
Net carrying amount								
Plant and machinery	33,469	17,006	38,730	19,679	35,521	18,048	33,991	17,271
Furniture, fixtures and office equipment	1,010	513	1,083	550	821	417	688	350
Mould equipment	11,909	6,051	15,513	7,882	17,770	9,029	18,605	9,454
R&D Equipment	948	482	1,141	580	1,016	517	953	484
Buildings	-	-	-	-	10,160	5,162	9,718	4,937
Total	47,336	24,052	56,467	28,691	65,288	33,173	63,955	32,496

7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(b) Summarised balance sheet (cont'd)

(i) Details disclosure on property, plant and equipment are as below (cont'd):-

All property, plant and equipment held by the Group are located in the PRC.

Certain of the Group's property, plant and equipment with a net book value of approximately RMB9,236,000 were pledged as securities to secure the Group's bank loans as at 31 December 2008.

(ii) Details disclosure on land use rights

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cost	-	-	9,316	4,734	9,423	4,788	9,423	4,788
Accumulated amortisation	-	-	(171)	(87)	(357)	(181)	(451)	(229)
Net carrying amount	-	-	9,145	4,647	9,066	4,607	8,972	4,559

The land use rights of the Group refer to land located in the PRC.

Certain of the Group's land use rights with a net book value of approximately RMB62,000 were pledged as securities to secure the Group's bank loan at 31 December 2008.

(iii) Details disclosure on inventories are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Raw material	8,157	4,144	10,162	5,164	11,984	6,089	12,392	6,296
Work in progress	4,357	2,214	5,629	2,860	5,359	2,723	5,245	2,665
Finished goods	9,953	5,057	13,482	6,850	11,542	5,864	16,191	8,227
	22,467	11,415	29,273	14,874	28,885	14,676	33,828	17,188
Costs of sales	201,670	102,469	296,983	150,897	422,698	214,773	250,370	127,213
% of inventories to cost of sales #	9.28	9.28	8.71	8.71	6.88	6.88	6.26^	6.26^
Inventories turnover period (month) #	1.11	1.11	1.05	1.05	0.83	0.83	0.75^	0.75^

\# Based on average inventories balances

^ Annualised to 12 months for comparison purpose.

(iv) Details disclosure on trade receivables are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade receivables	48,971	24,882	73,713	37,454	103,769	52,725	126,509	64,279
Revenue	289,246	146,966	438,520	222,812	636,810	323,563	405,880	206,228
% of trade receivables to revenue #	14.24	14.24	13.99	13.99	13.94	13.94	14.18^	14.18^
Trade receivables' turnover period (month) #	1.71	1.71	1.68	1.68	1.67	1.67	1.70^	1.70^

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised balance sheet (cont'd)

(iv) Details disclosure on trade receivables are as below (cont'd):-

Based on average trade receivables balance
^ Annualised to 12 months for comparison purposes

Ageing analysis of trade receivables as at 31 December 2008

No. of days	Within credit period		Exceeding credit period of 60 days				Total RMB
	0-30 days	31-60 Days	61-90 days	91-180 days	181-365 days	More than 365 days	
	'000	'000	'000	'000	'000	'000	'000
Trade receivables (RMB)	80,294	45,700	515	-	-	-	126,509
% of trade receivables	63.5	36.1	0.4	-	-	-	100.0

No. of days	Within credit period		Exceeding credit period of 60 days				Total RM
	0-30 days	31-60 Days	61-90 days	91-180 days	181-365 days	More than 365 days	
	'000	'000	'000	'000	'000	'000	'000
Trade receivables (RM)	40,797	23,220	262	-	-	-	64,279
% of trade receivables	63.5	36.1	0.4	-	-	-	100.0

Trade receivables are non-interest bearing and generally have credit terms of 60 days.

The carrying amount of trade receivables are denominated in RMB.

(v) Details disclosure on other receivables are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Amount due from shareholders	19,700	10,010	57,700	29,317	51,878	26,359	-	-
Deposits	7,755	3,940	200	102	190	96	4,190	2,129
Prepayments	2,225	1,131	2,449	1,244	5,086	2,585	4,379	2,225
	29,680	15,081	60,349	30,663	57,154	29,040	8,569	4,354

Deposits mainly consist of rental deposits and deposit for the acquisition of land use rights as at FYE 2006 and FYE 2008.

Amount due from shareholders are unsecured, interest free and have no fixed term of repayment. The amount due from shareholders were subsequently declared as dividend on 1 September 2008.

Prepayments mainly consist of prepaid rental and advertising expenses.

The carrying amounts of other receivables are denominated in RMB.

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7. **HISTORICAL FINANCIAL INFORMATION (CONT'D)**

(b) Summarised balance sheet (cont'd)

(vi) Details disclosure on cash and bank balances are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash on hand	87	44	209	106	126	64	38	19
Cash at bank	32,910	16,722	66,601	33,840	74,389	37,797	81,849	41,588
Fixed deposits -pledged	18,988	9,648	28,100	14,278	23,550	11,966	23,920	12,154
	51,985	26,414	94,910	48,224	98,065	49,827	105,807	53,761

The cash in bank bear effective interest rates of 0.72%, 0.72%, 0.72% and 0.72% per annum during the FYE 2006, FYE 2007, FYE 2008 and FPE 2008 respectively.

Fixed deposits with financial institutions have varying maturity dates of between 3 to 6 months. Fixed deposits bear effective interest rate of 2.07%, 2.16%, 2.92% and 3.78% per annum for the FYE 2006, FYE 2007, FYE 2008 and FPE 2008 respectively.

The carrying amounts of cash and bank balances are substantially denominated in RMB.

(vii) Details disclosure on trade payables are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade payables	19,734	10,027	19,895	10,109	12,179	6,188	21,131	10,737
Cost of sales	201,670	102,469	296,983	150,897	422,698	214,773	250,370	127,213
% of trade payables to cost of sales #	5.90	5.90	6.67	6.67	3.79	3.79	3.33 ^	3.33^
Trade payables' turnover period (month) #	0.71	0.71	0.80	0.80	0.46	0.46	0.40^	0.40^

\# Based on average trade payables balance
^ Annualised to 12 months for comparison purposes

Ageing analysis of trade payables as at 31 December 2008.

	Within credit period		Exceeding credit period of 60 days				
No. of days	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 365 days	Total RMB
	'000	'000	'000	'000	'000	'000	'000
Trade payables (RMB)	18,299	2,832	-	-	-	-	21,131
% of trade payables	86.6	13.4	-	-	-	-	100.0

	Within credit period			Exceeding credit period of 90 days			
No. of days	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 365 days	Total RM
	'000	'000	'000	'000	'000	'000	'000
Trade payables (RM)	9,298	1,439	-	-	-	-	10,737
% of trade payables	86.6	13.4	-	-	-	-	100.0

Trade payables generally have credit terms of 60 days.

The carrying amounts of trade payables are denominated in RMB.

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7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(b) Summarised balance sheet (cont'd)

(viii) Details disclosure on bills payable are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Bills payable	37,400	19,003	65,600	33,331	73,900	37,549	64,750	32,900

Bills payable are secured by fixed deposits placed with financial institutions.

The carrying amount of bills payable are denominated in RMB.

(ix) Details disclosure on other payables are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
VAT Payable	1,798	914	3,279	1,666	5,309	2,697	6,014	3,057
Salary payable	4,160	2,114	5,533	2,811	6,579	3,343	6,639	3,373
Deposits from distributors	1,100	559	1,400	711	1,450	737	1,450	737
Accruals	6,102	3,100	9,796	4,978	13,730	6,976	30,861	15,680
Amount due to shareholders	-	-	-	-	-	-	11,122	5,651
	13,160	6,687	20,008	10,166	27,068	13,753	56,086	28,498

For FPE 2008, the amount due to shareholders relates to the dividends declared on 1 September 2008 which was subsequently paid off in January 2009.

Accruals mainly comprise accrued marketing expenses, accrued sales rebates and payables for property, plant and equipment and staff welfare.

The carrying amount of other payables are denominated in RMB.

(x) Details disclosure on interest-bearing bank borrowings are as below:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RM'000	RM'000	RMB'000	RM'000
Current:-								
Bank loans	41,500	21,086	49,200	24,999	49,900	25,354	51,400	26,116

The Group's interest-bearing borrowings are guaranteed by external parties and a director and secured on certain Group's property, plant and equipment and land use rights. Bank loans bear effective interest rates of 5.52%, 6.09%, 6.89% and 8.64% per annum during FYE 2006 to 2008 and FPE 2008 respectively.

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7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(c) Cash flow statements

The following table set out the summary of the cash flows prepared based on the audited Combined Financial Statements of Xingquan International Group for FYE 30 June 2006 to 2008 and FPE 2007 to 2008:-

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2007 @		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash flows from operating activities										
Profit before taxation	60,001	30,486	95,908	48,731	147,408	74,897	65,596	33,330	107,747	54,746
Adjustments:-										
Depreciation of property, plant and equipment	6,882	3,497	8,473	4,305	10,101	5,132	4,890	2,485	5,713	2,903
Amortisation of land use rights	-	-	171	87	186	95	93	47	94	48
Interest expenses on bank borrowings	1,744	886	3,060	1,555	3,550	1,804	1,723	875	2,171	1,103
Negative goodwill	-	-	-	-	(4,720)	(2,398)	-	-	(518)	(263)
Interest income	(515)	(262)	(835)	(424)	(1,222)	(621)	(534)	(271)	(761)	(387)
Operating profit before working capital changes	68,112	34,607	106,777	54,254	155,303	78,909	71,768	36,466	114,446	58,150
Increase in inventories	(7,511)	(3,816)	(6,806)	(3,458)	388	197	(3,398)	(1,727)	(4,943)	(2,512)
Increase in trade and other receivables	(21,266)	(10,805)	(17,411)	(8,847)	(32,618)	(16,573)	(12,491)	(6,347)	(26,033)	(13,227)
Increase in trade and other payables	27,994	14,223	35,209	17,888	7,173	3,645	5,659	2,875	17,694	8,990
Cash generated from operations	67,329	34,209	117,769	59,837	130,246	66,178	61,538	31,267	101,164	51,401
Interest paid	(1,744)	(886)	(3,060)	(1,555)	(3,550)	(1,804)	(1,723)	(875)	(2,171)	(1,103)
Income tax paid	(12,365)	(6,283)	(6,998)	(3,555)	(14,266)	(7,249)	(5,209)	(2,647)	(14,674)	(7,455)
Interest received	515	262	835	424	1,222	621	534	271	761	387
Net cash generated from operating activities	53,735	27,302	108,546	55,151	113,652	57,746	55,140	28,016	85,080	43,230
Cash flows from investing activities										
Acquisition of subsidiary/ minority interest	-	-	-	-	(3,764)	(1,912)	-	-	(458)	(233)
Acquisition of property, plant and equipment	(13,441)	(6,829)	(17,604)	(8,945)	(9,112)	(4,630)	(4,296)	(2,182)	(4,380)	(2,225)
Acquisition of land use rights	-	-	(9,316)	(4,733)	(44)	(22)	-	-	-	-
Net cash used in investing activities	(13,441)	(6,829)	(26,920)	(13,678)	(12,920)	(6,564)	(4,296)	(2,182)	(4,838)	(2,458)
Cash flows from financing activities										
Issue of shares	10,615	5,393	41,599	21,137	901	458	-	-	#	#
Dividend paid	(35,000)	(17,783)	(50,000)	(25,405)	(105,000)	(53,351)	(105,000)	(53,351)	(125,878)	(63,959)
Bank loan obtained	54,800	27,844	53,200	27,031	49,900	25,354	21,500	10,924	35,700	18,139
Repayment of bank loan	(34,300)	(17,428)	(45,500)	(23,118)	(49,200)	(24,998)	(25,000)	(12,702)	(34,200)	(17,377)
Fixed deposit pledged with bank	(5,588)	(2,839)	(9,112)	(4,630)	4,550	2,312	500	254	(370)	(188)
Advances (to)/from shareholders	(11,200)	(5,691)	(38,000)	(19,308)	5,822	2,958	53,000	26,929	51,878	26,359
Net cash used in financing activities	(20,673)	(10,504)	(47,813)	(24,293)	(93,027)	(47,267)	(55,000)	(27,946)	(72,870)	(37,026)
Net increase/(decrease) in cash and cash equivalents	19,621	9,969	33,813	17,180	7,705	3,915	(4,156)	(2,112)	7,372	3,746
Cash and cash equivalents at beginning of the financial years/ period	13,376	6,797	32,997	16,766	66,810	33,946	66,810	33,946	74,515	37,861
Cash and cash equivalents at end of the financial years/ period	32,997	16,766	66,810	33,946	74,515	37,861	62,654	31,834	81.887	41.607

Amount less than RMB1,000/RM1,000

@ The cash flow statement for the financial period ended 31 December 2007 is unaudited and is included for comparison purposes only.

7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(d) Statements of changes in equity

The following table sets out the summary of changes in equity prepared based on the audited Combined Financial Statements of Xingquan International Group for the financial years ended 30 June 2006 to 2008 and the financial period ended 31 December 2008:-

Years/Period ended	Share capital		Statutory reserve		Merger reserve		Currency fluctuation reserve		Retained profit		Minority interests		Total equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Balance at 1 July 2005	14,127	7,178	4,513	2,293	-	-	-	-	43,918	22,315	-	-	62,558	31,786
Issue of shares	10,615	5,393	-	-	-	-	-	-	-	-	-	-	10,615	5,393
Net profit for the year	-	-	-	-	-	-	-	-	48,779	24,785	-	-	48,779	24,785
Transfer to statutory reserve	-	-	2,014	1,023	-	-	-	-	(2,014)	(1,023)	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	(35,000)	(17,784)	-	-	(35,000)	(17,784)
Balance at 30 June 2006	24,742	12,571	6,527	3,316	-	-	-	-	55,683	28,293	-	-	86,952	44,180
Issue of shares	41,599	21,137	-	-	-	-	-	-	-	-	-	-	41,599	21,137
Net profit for the year	-	-	-	-	-	-	-	-	88,352	44,892	-	-	88,352	44,892
Transfer to statutory reserve	-	-	5,844	2,970	-	-	-	-	(5,844)	(2,970)	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	(50,000)	(25,405)	-	-	(50,000)	(25,405)
Balance at 30 June 2007	66,341	33,708	12,371	6,286	-	-	-	-	88,191	44,810	-	-	166,903	84,804
Issue of shares	901	458	-	-	-	-	-	-	-	-	-	-	901	458
Net profit for the year	-	-	-	-	-	-	-	-	129,438	65,768	(4)	(2)	129,434	65,766
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	983	499	983	499
Dividends	-	-	-	-	-	-	-	-	(105,000)	(53,351)	-	-	(105,000)	(53,351)
Balance at 30 June 2008	67,242	34,166	12,371	6,286	-	-	-	-	112,629	57,227	979	497	193,221	98,176
Net profit for the period	-	-	-	-	-	-	-	-	89,815	45,634	(3)	(1)	89,812	45,633
Translation differences relating to foreign currency financial statements recognised directly in equity	-	-	-	-	-	-	(4)	(2)	-	-	-	-	(4)	(2)
Restructuring exercise	(67,242)	(34,166)	-	-	67,242	34,166	-	-	-	-	-	-	-	-

7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(d) Statements of changes in equity (cont'd)

The following table sets out the summary of changes in equity prepared based on the audited Combined Financial Statements of Xingquan International Group for the financial years ended 30 June 2006 to 2008 and the financial period ended 31 December 2008 (cont'd):-

Years/Period ended	Share capital		Statutory reserve		Merger reserve		Currency fluctuation reserve		Retained profit		Minority interests		Total equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Acquisition of minority interest	-	-	-	-	-	-	-	-	-	-	(976)	(496)	(976)	(496)
Dividend	-	-	-	-	-	-	-	-	(137,000)	(69,610)	-	-	(137,000)	(69,610)
Balance at 31 December 2008	#	#	12,371	6,286	67,242	34,166	(4)	(2)	65,444	33,251	-	-	145,053	73,701

Amount less than RMB1,000/RM1,000

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7. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(e) Dividend records

The following table set out the summary of dividend records prepared based on the audited Combined Financial Statements of Xingquan International Group for the years ended 30 June 2006 to 2008 and the financial period ended 31 December 2008.

Years/Period ended	30 June 2006		30 June 2007		30 June 2008		31 December 2008	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Dividend paid	35,000	17,784	50,000	25,405	105,000	53,351	137,000	69,610
Gross dividend rate (%) ^	23.84	23.84	34.06	34.06	71.52	71.52	93.32	93.32

^ Based on enlarged share capital of 215,130,000 shares (number of ordinary shares in issue after the completion of the Acquisition and Share Spit but before the Public Issue)

8. CONTINGENT LIABILITIES

The Group issued corporate guarantees to financial institutions for banking borrowings of third parties amounted to RMB37,000,000 (RM18,800,000).

9. COMMITMENTS

(a) Operating lease commitments

The Group leases offices, warehouses and factory under non-cancellable operating lease arrangements. The leases have varying terms and the total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

	31 December 2008	
	RMB'000	**RM'000**
Not later than one year	3,961	2,013
Later than one year and not later than five years	15,514	7,883
Later than five years	10,372	5,270
Total	29,847	15,166

Lease payments after 1 January 2010 for certain factory leases will be revised to reflect market rentals.

9. **COMMITMENTS (CONT'D)**

(b) **Capital commitments**

i. As at 31 December 2008, the Group has unpaid capital contribution in Addnice China amounting to HKD57,500,000 (approximately RMB50,629,000 or RM25,724,595).

ii. As at 31 December 2008, the Group has unpaid capital commitment in respect of the acquisition of land use rights for the construction of the Group's new factory at 惠安城南创业园 amounting to RMB10,000,000 (RM5,081,000).

10. **SIGNIFICANT RELATED PARTY TRANSACTIONS**

	FPE 2008	
	RMB'000	**RMB'000**
Sales of goods to a company in which a director has an interest in	97	49

11. **SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

Other than the approval obtained from the SC, completion of the Acquisition and Share Split as mentioned in section 2.1.1 and disclosed below, there are no significant events subsequent to 31 December 2008.

i. Xingquan International had on 10 February 2009 received the sum of US$10,000 in cash from Tai Zhen Xiang Holdings Limited as the payment for the 10,000 ordinary shares of US$1.00 each in the capital of the Company issued by the Company to Tai Zhen Xiang Holdings Limited on 6 February 2009.

ii. On 1 June 2009, the Company acquired the entire issued and paid-up share capital of Addnice Holdings comprising 1 share of HKD1.00 each from Sheng Xiang Shun Holdings Limited for a consideration of USD21.503 million which are satisfied entirely by the issuance of 21.503 million new shares at an issue price of USD1.00 per share.

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11. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONT'D)

Arising from the above restructuring exercise, the combined statement of changes in equity for the FPE 2008, assuming the restructuring exercise had occurred on 31 December 2008 would be as follows:-

	Equity attributable to the equity holders of the Company											
	Share capital		Statutory reserve		Merger reserve		Currency translation reserve		Retained profits		Total equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Balance at 31 December 2008 (Audited)	*	*	12,371	6,286	67,242	34,166	(4)	(2)	65,444	33,252	145,053	73,702
Issue of shares	68	34	-	-	-	-	-	-	-	-	68	34
Arising from restructuring exercise	147,044	74,713	(12,371)	(6,286)	(69,233)	(35,177)	4	2	(65,444)	(33,252)	-	-
	147,112	74,747	-	-	(1,991)	(1,011)	-	-	-	-	145,121	73,736

* Amount less than RMB1,000/RM1,000

(iii) Subsequent to the FPE 2008, Xingquan Plastics discharged corporate guarantees amounting to RMB5,000,000 (RM2,540,500). The balance of RMB32,000,000 (RM16,259,200) relate to a repayment guarantee provided to Quanzhou Commercial Bank, Jinjiang branch ("Quanzhou Bank") by Xingquan Plastics for the maximum facility of RMB10,000,000 (RM5,081,000) from 20 August 2007 to 20 August 2009 and RMB4,000,000 (RM2,032,400) from 24 August 2008 to 24 August 2009 provided by Quanzhou Bank to Fujian Kebi Sports Products Co., Ltd ("Fujian Kebi") and RMB18,000,000 (RM9,145,800) from 26 August 2008 to 26 February 2010 provided by China Construction Bank, Jingjiang branch ("China Construction Bank") to Quanzhou Baoshu Packing Co., Ltd ("Baoshu"). The potential exposure to Xingquan Plastics is RMB32,000,000 (RM16,259,200). As Xingquan Plastics was unable to procure the discharge of these repayment guarantees as at the date of the audited report, Fujian Kebi and Baoshu have each placed with Xingquan Plastics a sum equal to the sum currently drawndown by them respectively pursuant to their respective facilities granted by Quanzhou Bank and China Construction Bank to cover any potential call on the guarantees of such sum by Quanzhou Bank and China Construction Bank. In addition, Xingquan Plastics has obtained from Fujian Kebi and Baoshu and their respective banks as mentioned above irrevocable undertakings not to drawdown or allow a drawdown, respectively, without the written consent of Xingquan Plastics, the balance available pursuant to their respective facilities. Xingquan Plastics has also obtained an indemnity from the major shareholders of the Company ie.Tai Zhen Xiang, Ng Sio Peng and Iao Ieok Chon should any payments be required to be made by Xingquan Plastics pursuant to these repayment guarantees as a result of a breach of the undertakings procured from Fujian Kebi, Baoshu and/or their respective banks.

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12. **AUDITED COMBINED FINANCIAL STATEMENTS**

No audited Combined Financial Statements have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

SJ GRANT THORNTON
Firm Number: AF 0737
Chartered Accountants

HOOI KOK MUN
Approval Number: 2207/01/10 (J)
Partner of the Firm

10. LANDED PROPERTIES

10.1 PROPERTIES OWNED BY OUR GROUP

The details of land and buildings owned by our Group as at the Latest Practicable Date are set out below:

No.	Name of Grantee: Lot. No./Postal address	Description/ Existing Use	Approximate age of building (years)/ Land area (sq metres)/ Built-up area (sq metres)	Date of issuance of certificate of fitness	Tenure	Restriction in Interest	Encumbrances on property	Net book value (RMB)
1	**Addnice Sports** [(1)] A parcel of vacant land located in Haiwei Village, Gaokeng Village and Yanshang Village, Chendai Town, Jinjiang City, Fujian Province, PRC [(1)] Postal Address Second Industrial Zone, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	vacant land/ N/A	N/A / 18,816/ N/A	N/A	50 years, from 19 August 2006 to 19 August 2056	nil	nil	On land 8,787,761 On building N/A
2	**Xingquan Footwear** A 5 floors workshop building located in Houyang Industrial Zone, Chendai Town, Jinjiang City, Fujian Province, PRC Postal Address Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	A workshop building / workshop	9 / 1,678/ 5,461.99	N/A, no such certificate is required under PRC law	50 years, from 24 February 2005 to 24 February 2055	nil	Mortgage to Fujian Jinjiang Rural Cooperative Bank, Meiling Branch (福建省晋江农村合作银行梅岭支行)	On land 37,927 On building 5,740,000

10. LANDED PROPERTIES *(Cont'd)*

No.	Name of Registered owner: Lot. No./Postal address	Description/ Existing Use	Approximate age of building (years)/ Land area (sq metres)/ Built-up area (sq metres)	Date of issuance of certificate of fitness	Tenure	Restriction in Interest	Encumbrances on property	Net book value (RMB)
3	**Xingquan Footwear** A 3 floors workshop building located in Houyang Industrial Zone, Chendai Town, Jinjiang City, Fujian Province, PRC Postal Address Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	A workshop building / workshop	10 / 1,984/ 3,625.08	N/A, no such certificate is required under PRC law	Collective owned land by administrative allocation, no fixed tenure limit. The land was allocated to the Company on 6 March 2000. When the company is terminated, the land use right together with the buildings and other constructions on the land should be returned to the land owner.	nil	Mortgage to Industrial Bank, Jinjiang Chendai Branch (兴业银行陈埭支行)	On land 23,353 On building 3,137,000
4	**Xingquan Plastics** A parcel of land with a temporary warehouse on it, located in Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC Postal Address Houyang Industrial Zone, Yanshang Village, Chendai Town, Jinjiang City, Fujian Province, PRC 362211	Temporary warehouse / N/A	1 / 504/ 500	N/A, no such certificate is required under PRC law	50 years from 3 June 2008 to 2 June 2058	nil	nil	On land 43,780 On building 473,750

10. LANDED PROPERTIES *(Cont'd)*

Note:

(1) Pursuant to a Statement dated 3 November 2008 issued by the People's Government of Chendai Town, Jinjiang City, the local government is now carrying out a preplanning program on the area where the above land is located, the area will be converted into a commercial and administrative centre, all the proposed construction of industrial facilities on the area are prohibited and the land will be requisitioned by the government with compensation paid by the government to Addnice Sports. The requisition of the land and the compensation amount are now under negotiation between Addnice Sports and the local government. As the land is currently vacant, we do not expect this requisition to affect our operations and business.

All of the properties disclosed above are not in breach of any land use conditions and/or is in material non-compliance with current statutory requirements, land rules or building regulations.

10.2 PROPERTIES TENANTED BY OUR GROUP

The details of material buildings tenanted by our Group as at the date of this Prospectus are set out below:

No.	Name of lessee: Lot. No./Postal address	Description/ Existing use	Approximate age of building (years)/ Land area (sq metres)/ Built-up area (sq metres)	Date of issuance of certificate of fitness	Tenure/ date of expiry	Monthly Rental (RMB)
1	**Addnice Sports**[(1)] Factory building located in Houyang Industrial Zone, Chendai Town, Jinjiang City, Fujian Province, PRC Postal Address Second Industrial Zone, Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	Factory building / workshop	6 / 3,670/ 16,000	N/A, no such certificate is required under PRC law	15 years, from 1 July 2005 to 30 June 2020	75,200 from August 2005 to December 2005; 82,700 from January 2006 to December 2006; 91,000 from January 2007 to December 2007; 100,100 from January 2008 to December 2008; 110,100 from January 2009 to December 2009. From January 2010, the rent should be renegotiated and concluded by the parties according to the market price.

10. LANDED PROPERTIES *(Cont'd)*

No.	Name of lessee: Lot. No./Postal address	Deseription/ Existing use	Approximate age of building (years)/ Land area (sq metres)/ Built-up area (sq metres)	Date of issuance of certificate of fitness	Tenure/ date of expiry	Monthly Rental (RMB)
2	**Addnice Sports**[(2)] Dormitory building located in Yucuodai, Yanshang Village, Chendai Town, Jinjiang City, Fujian Provinee, PRC Postal Address Second Industrial Zone, Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	Dormitory building / Used as staff dormitory	3 / 826.75/ 5,717	N/A, no such certificate is required under PRC law	5 years, from 1 January 2008 to 31 December 2012	35,700 from January 2008 to December 2008; 39,300 from January 2009 to December 2009; 43,200 from January 2010 to December 2010; 47,500 from January 2011 to December 2011; 52,300 from January 2012 to December 2012. From January 2013, the rent should be renegotiated and concluded by the parties according to the market price.
3	**Xingquan Plastics** [(3)] Factory buildings located in Houyang Industrial Zone, Chendai Town, Jinjiang City, Fujian Province, PRC Postal Address Houyang Industrial Zone, Yanshang Village, Chendai Town, Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	Factory buildings / Use as the workshops	6 / 15,681.04/ 20,000	N/A, no such certificate is required under PRC law	15 years, from 1 February 2000 to 31 January 2015	70,000 from March 2000 to December 2000; 73,500 from January 2001 to December 2001; 77,200 from January 2002 to December 2002; 81,100 from January 2003 to December 2003; 85,200 from January 2004 to December 2004; 93,700 from January 2005 to December 2005; 103,100 from January 2006 to December 2006; 113,400 from January 2007 to December 2007; 124,700 from January 2008 to December 2008; 137,200 from January 2009 to December 2009; From January 2010, the rent should be renegotiated and concluded by the parties according to the market price.

10. LANDED PROPERTIES *(Cont'd)*

No.	Name of lessee: Lot. No./Postal address	Description/ Existing use	Approximate age of building (years)/ Land area (sq metres)/ Built-up area (sq metres)	Date of issuance of certificate of fitness	Tenure/ date of expiry	Monthly Rental (RMB)
4	**Xingquan Plastics** [(4)] Factory buildings located in Haiwei Industrial Zone, Chendai Town, Jinjiang City, Fujian Provinee, PRC Postal Address Haiwei Industrial Zone, Chendai Town; Jinjiang City, Quanzhou City, Fujian Province, PRC 362211	Factory buildings / storehouse	3 / 1,501/ 1,812	N/A, no such certificate is required under PRC law	5 years, from 1 September 2007 to 31 August 2012	10,000
5.	**Addnice Sports**[(5)] Factory buildings composed of 4 floors workshop and 5 floors dormitory and office located in No 97, Maoxing Road, Fengze District, Quanzhou City, Fujian Province, PRC 362000 Postal Address No 97, Maoxing Road, Fengze District, Quanzhou City, Fujian Province, PRC 362000	Factory buildings composed of 4 floors workshop and 5 floors dormitory and office /Use as the workshops, employees dormitory and office	5 / 3,020 / 5,580	Not applicable, no such certificate is required under PRC laws	5 years / 31 December 2013, may be renewed automatically by 5 years upon expiration if no termination notice is given by either party	33,500

Notes:

(1) Addnice Sports entered into a lease agreement dated 30 June 2005 with Villager Committee of Yanshang Village, Chendai Town, Jinjiang City.
(2) Addnice Sports entered into a lease agreement dated 25 December 2007 with Villager Committee of Yanshang Village, Chendai Town, Jinjiang City.
(3) Xingquan Plastics entered into a lease agreement dated 1 February 2000 with Villager Committee of Yanshang Village, Chendai Town, Jinjiang City.
(4) Xingquan Plastics entered into a lease agreement dated 1 September 2007 with Chen Zhigang (陈志刚).
(5) Addnice Sports entered into a lease agreement dated 1 January 2009 with Cai Ningtai.

10. LANDED PROPERTIES *(Cont'd)*

All of the properties disclosed above are not in breach of any land use conditions and/or is in material non-compliance with current statutory requirements, land rules or building regulations.

10.3 PROPERTY ACQUIRED WITHIN THE PAST TWO (2) YEARS

The property owned by our Group acquired within the two (2) years preceding the date of this Prospectus is as follows:

Name of registered owner or lessor: Lot. No./Postal address	Date of Grant of Land Agreement	Issuance Date of Certificate for the Use of State-owned Land	Purchase consideration RMB
Xingquan Plastics A parcel of land with a temporary warehouse on it, located in Yanshang Village, Chendai Town, Jinjiang City, Fujian Province, PRC Postal Address Houyang Industrial Zone, Yanshang Village, Chendai Town, Jinjiang City, Fujian, PRC 362211	1 July 2008	1 July 2008	36,818

10. LANDED PROPERTIES *(Cont'd)*

10.4 PROPERTY PROPOSED TO BE ACQUIRED

On 15 July 2008, Addnice China entered into a Letter of Intention on the Investment Project in Chengnan Chuangye Park (惠安城南创业园投资项目意向书) with Huian Chengnan Centre Industry Park Development Co., Ltd. (惠安城南中心工业区开发发展有限公司, the "Industrial Park Company") (the "LOI"). According to the LOI, Addnice China will acquire a parcel of industrial land located in the Chengnan Chuangye Park, Huian County, Fujian Province through a public bidding process. The land is intended to be used by Addnice China for the manufacturing of shoes and shoe soles as part of its expansion plans. Please refer to Section 6.9(ii)(c) of this Prospectus for further details of our Group's future plans for expansion of our production capacity.

As at the Latest Practicable Date, Addnice China has paid RMB4,000,000 to Industry Park Company as a guarantee deposit for the bidding. Although the LOI provided that the Industrial Park Company should complete the bid process and provide the land to Addnice China for construction by the end of 2008, because the demolition, relocation of, and the compensation for the buildings on the land was delayed, the Industrial Park Company has not completed the bid process and provided the land to Addnice China. Addnice China expects that the land will be provided by the Industrial Park Company by the end of August 2009. As at the Latest Practicable Date, the land premium of the land anticipated to be paid by Addnice China is RMB14,000,000. The estimated amount of RMB14,000,000 is payable on a one-off basis. As Addnice China has placed a total of RMB4,000,000 as a guarantee deposit for the bidding process, the remaining amount payable should Addnice China be successful in its bid is estimated to be RMB10,000,000 which Addnice China intends to fund with internally generated funds. Please note that the final amount payable may vary as the land will be acquired via a bidding process. In the event Addnice China is not successful in its bid, Addnice China will be refunded the guarantee deposit placed.

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11. SUMMARY OF THE SALIENT PRC LAWS AND REGULATIONS

This section sets our summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group's operations and business.

If you intend to have a detailed review of the relevant laws and regulations of the PRC, or a detailed explanation on the comparability and/or discrepancy of the relevant laws and regulations between the PRC and Malaysia, you are recommended to seek independent legal advice from the relevant experts.

11.1 THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinees, municipalities and autonomous regions and their standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administrative organs which promulgate such laws. All such interpretations carry legal effect.

11.2 JUDICIAL SYSTEM

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organisation of the People's Courts of the People's Republic of China, the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstanccs so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subjeet to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supcrvision procedures.

The PRC civil procedures are govcrned by the Civil Procedure Law of the People's Republic of China (the "Civil Procedure Law") adopted on 9th April, 1991, which was amended on 28 October 2007 and effective on I April 2008. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a eourt located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the selection is not contrary to some special requirements of jurisdictions, and the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's eourt to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months. However, from 1 April 2008, such time limit was extended to two years, no matter the nature of the parties to the dispute.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

11.3 ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

11.4 TAXATION

The applicable income tax laws, regulations, notices and decisions related to foreign investment enterprises and their investors include the follows:

(a) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises adopted by the NPC on 9th April, 1991 and being invalid from 1 January 2008 ("FIE Tax Law");

(b) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises promulgated by the State Council, which came into cffect on 1st July, 1991 and being invalid from 1 January 2008;

(c) Notice Relating to Taxes Applicable to Foreign Investment Entcrprises / Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares promulgated by State Administration of Taxation on 21 July 1993;

(d) The Income Tax Law Applicable to Individuals of the PRC promulgated by the Standing Committee of NPC on 10 September 1980, which was amended by the Standing Committce of NPC on 30 August 1999, 27 October 2005, 29 June 2007 and 29 December 2007 which came into force on 1 March 2008;

(e) Notice on Relevant Policies Concerning Individual Income Tax issued by Ministry of Finance and the State Administration of Taxation on 13 May 1994;

(f) Notice on Reduction of Income Tax in Relation to Interests and Gains Derived by Foreign Enterprises from the PRC, promulgated by the State Council on 18 November 2000 ("Notice 37");

(g) The PRC Enterprises Income Tax Law promulgated by the NPC on 16 March 2007 ("New Income Tax Law") and came into effect on 1 January 2008;

(h) Implementing Regulations of the PRC Enterprise Income Tax Law promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 ("Implementing Regulations of New Income Tax Law");

(i) Notice on the Implementation of Preferential Transitional Enterprise Income Tax Policy promulgated by the State Council, which came into effect on 1 January 2008; and

(j) Notice on the Implementation of Preferential Transitional Tax Treatment on Newly Established High-tech Enterprises in Special Economic Zones and in Shanghai Pudong New Area promulgated by the State Council, which came into effect on 1 January 2008.

The following is a summary of the material tax that applied to foreign investment enterprises:

(i) **Income tax on foreign investment enterprises**

According to the FIE Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) are required to pay a national income tax at a rate of 30% of their taxable income and a local income Tax at a rate of three per cent. of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from national income tax for the first two profit-making years and a 50% reduction in the national income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rarc metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises establishcd in spccial economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engagcd in production in economic and technological zones may pay national income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay national income taxes at a reduced rate of 24%. A reduced national income tax rate of 15 per cent, may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduce local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

Pursuant to the New Income Tax Law, foreign investment enterprises are required to pay income tax at a rate of 25.0% of their taxable income from 1 January 2008, while the foreign investment companies will no longer be entitled to income tax exemption and reduction as previously granted by the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises and some other tax incentives including pre-tax reduction and tax rebate for re-investment. Nevertheless, the foreign investment companies which were incorporated before the promulgation of the New Income Tax Law on 16 March 2007 will still be entitled to the tax exemption and reduction and other tax incentives as stipulated in the FIE Tax Law.

(ii) Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on 1st January, 1994, which was amended on 5 November 2008. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the ease of taxable services provided, at a rate of 17% on the eharges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and service in the same finaneial year.

(iii) Business tax

With effect from 1st January, 1994, business that provides services, assigns intangible assets or sells immovable property became liable to business tax at a rate ranging from three to five per cent. of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(iv) Tax on dividends from PRC enterprise with foreign investment

According to New Income Tax Law, the dividends received by a foreign investors from PRC FIEs is subject to a withholding tax from 5% to 10%, depending on whether there is a mutual taxation treaty or arrangement between PRC and the foreign country or legislative region where the foreign investors come from. For the Hong Kong investors, the withholding tax rate is 5% if the equity interest in the FIEs held by such Hong Kong investors is above 25%.

(v) Tax on rental, interest, royalty from PRC enterprise with foreign investment

According to Notice 37, income such as rental, interest and royalty from the PRC derived by a foreign enterprise which has no establishment in the PRC or has establishment but the income has no relationship with such establishment is subject to a 10% withholding tax, subject to reduction as provided by any applieable double taxation treaty, unless the relevant ineome is specifically exempted from tax under the applicable ineome tax laws, regulations, notices and decisions which relate to foreign investment enterprises and their investors.

(vi) Tax on income from the PRC derived by a Non-Resident enterprise

According to New lneome Tax Law and Implementing Regulations of New lneome Tax Law, income sueh as dividends, rental, interest and royalty from the PRC derived by a Non-Resident enterprise which has no establishment in the PRC or has establishment but the income has no relationship with such establishment is subject to a 10% withholding tax, subject to reduction as provided by any applieable double taxation treaty, unless the relevant income is specifically exempted from tax under the applicable income tax laws, regulations, notices and decisions which relate to foreign investment enterprises and their investors.

In addition, aecording to the Arrangement between the Mainland and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income executed on 21 August 2006 and having taken effect on 1 January 2007, the applicable income tax rate for dividends arsing from enterprises ineorporated in PRC of an enterprise incorporated in Hong Kong or a foreign enterprise incorporated outside Hong Kong but being controlled or managed in Hong Kong is 5%, if such enterprise holds not less than 25% equity interest in the said enterprises incorporated in PRC.

11.5 WHOLLY FOREIGN-OWNED ENTERPRISE

Wholly foreign-owned enterprises are governed by the Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments, which was promulgated on 12th April, 1986 and amended on 31 October 2000, and its Implementation Regulations promulgated on 12th December, 1990 and amended on 12 April 2001 (together the "Foreign Enterprises Law").

(i) Procedures for establishment of a wholly foreign-owned enterprise

The establishment of a wholly foreign-owned enterprise will have to be approved by the MOC (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to the MOC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from the State Administration for Industry and Commerce (or its delegated authorities) before it can commence business.

(ii) Nature

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprises Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by installments and the registered capital must be contributed within the period as approved by the MOC (or its delegated authorities) in accordance with relevant regulations.

(iii) Profit distribution

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund, an enterprise development fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent. of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The reserve fund may be used by a wholly foreign-owned enterprise to make up its losses and with the consent of the examination and approval authority, can also be used to expand its production operations and to increase its capital. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up. The development fund is used for expanding the capital base of the company by way of capitalisation issues. The employee bonus and welfare fund can only be used for the collective benefit and facilities of the employees of the wholly foreign-owned enterprise.

11.6 ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26th December, 1989, the Ministry of Environmental Protection of the PRC (formerly known as "State General Administration of Environmental Protection of the State Council" and "State Administration of Environmental Protection of the State Council") sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with relevant bureaus of environmental protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a preseribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effeets of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to eompensate any losses or damages suffered as a result of such environmental pollution.

11.7 FOREIGN EXCHANGE CONTROLS

Major reforms have been introduced to the foreign exchange eontrol system of the PRC sinee 1993.

On 28 December 1993, the People's Bank of China ("PBOC"), with the authorization of the State Couneil issued the Notice on Further Reform of the Foreign Exchange Control System which came into effect on 1 January 1994. Other new regulations and implementation measures include the Regulations on the Foreign Exchange Settlement, Sale and Payments which were promulgated on 20 June 1996 and took effect on 1 July 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by enterprises, individuals, foreign organizations and visitors in the PRC and the regulations of the PRC on Foreign Exchange Control which were promulgated on 1 January 1996 and took effect on 1 April 1996 and which contain detailed provisions in relation to foreign exehange control.

The foreign exchange earnings of all PRC enterprises, other than those foreign investment enterprises ("FIE"), who are allowed to retain a part of their regular foreign exchange earnings or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not be sold to designated banks, but must be kept in foreign exchange bank accounts of designated banks unless specifically approved otherwise.

At present, control of the purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by the relevant documents. Furthermore, FIEs may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, enterprises may purchase foreign exchange from designated banks upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise.

On 21 July 2005, the Public Announcement of the People's Bank of China of Reforming the RMB Exchange Rate Regime (中国人民银行关于完善人民币汇率形成机制改革的公告) was promulgated and RMB will no longer be pegged to the US$ accordingly. The RMB exchange rate system will be improved with reference to a basket of currencies and with greater flexibility.

On 24 January 2005, SAFE promulgated the 国家外汇管理局关于完善外资并购外汇管理有关问题的通知 (Notice of the State Administration of Foreign Exchange Concerning Relevant Issues on Improving Foreign Exchange Administration for Merger and Acquisitions with Foreign Entities) (the "Notice 11"). The Notice 11 provides for, inter alia, strict supervision and control by SAFE and its local branches/offices of capital contribution examination, foreign currency registration for share transfers, registration of shareholders' loan, remittance of profits out of the PRC, re-investment of profits, and share transfers by foreign invested enterprises established in the manner of acquisitions of PRC enterprises by foreign enterprises with PRC residents as shareholders. On 21 April 2005, 关于境内居民个人境外投资登记及外资并购外汇登记有关问题的通知 (Notice concerning the Relevant Issues for the Registration of Overseas Investments by Domestic Residents and Foreign Exchange Registration for Foreign Acquisition) (the "Notice 29") was promulgated by SAFE which further requires that PRC residents who have contributed their domestic assets or shares into the overseas companies and thus hold the shares of such overseas companies directly or indirectly, shall conduct supplemental foreign exchange registration with the local foreign exchange authority, even if the relevant acquisition of the domestic company had been completed prior to 24 January 2005.

Without such supplemental registration, PRC residents are prohibited to conduct foreign investment and conduct other foreign exchange business under capital item, and the foreign exchange registration for the foreign invested company will not be preceded by the local foreign exchange authority. If the foreign exchange registration for the foreign investment company was made by false or misleading information and representation, the foreign invested company shall be liable for the profits remitted out of the PRC and other transactions under the capital item since the registration date. The PRC resident who is the largest shareholder in the overseas invested companies directly or indirectly is also required to go through registration for modification or record with the local foreign exchange authority within 30 days from the date of any increase/decrease of capital, share transfer, merger/splitting, overseas share investment, and foreign guarantees concerning domestic assets of such overseas invested companies ("material issues"). Failure to conduct the above supplemental registration, registration for modification or record of the material issues with the local foreign exchange authority fully could adversely affect the foreign invested company's ability to remit its profits, liquidation, share transfer and capital decreasing fees abroad, and could be punished as foreign exchange evasion.

Notice 11 and Notice 29 were abolished and replaced by关于境内居民通过境外特殊目的公司融资及返程投投资外汇管理有关问题的通知 (the Notice on Certain Foreign Exchange Administration Issues Relating to the Domestic

Residents Fundraising Through Offshore Speeial-purpose Company and Roundtrip Investment) (the "Notiee 75") issued by SAFE on 21 Oetober 2005. Pursuant to Notiee 75, the domestic resident shall go through the foreign exchange registration to relevant local bureau of SAFE in the event that the aforesaid domestic resident sets up or controls offshore special purpose vehiele and thus makes reverse investment within the territory of China via such offshore speeial purpose vehicle.

11.8 LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON LABOUR CONTRACTS

Law of the People's Republic of China on Labour Contraets (the "Labour Contraets Law") promulgated by the Standing Committee of NPC on 29 June 2007 establishes the provisions of the conclusion, performanee, amendment, termination or ending of employment contracts. An employer's employment relationship with an employee is established on the date it starts using the employee. If an employer fails to conclude a written employment contract with an employee more than a month but less than a year after the date on which the employer starts using the employee, it shall pay the employee twice his or her wages each month. An employer and an employee may conclude a fixed-term employment contract or an open-ended employment eontract or a employment eontract to expire upon eompletion of a certain job in the event that both parties reach a negotiated consensus. However, an open-ended employment contract shall be concluded under eertain circumstances prescribed by the Employment Contract Law. Where the employment contract is a fixed-term contract that ends due to expiration, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract, or where the employer fails to pay soeial insuranee premiums for the employee in aeeordance with the law, or where any other circumstances formulated by the Employment Contraets Law occurs, the employee shall be paid severance pay based on the number of years worked with the employer at the rate of one month's wage for each full year worked.

11.9 PRODUCT QUALITY AND CONSUMER LAW

(i) Product Quality

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (the 'Product Quality Law') whieh was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet quality standards in aceordanee with the Product Quality Law.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the produeer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling the eompensation, have the right to recover such compensation from the producer, and viee versa.

(ii) Consumer Law

The Law of the People's Republic of China on Proteetion of Consumer Rights and Interests (the "Consumer Law") was enacted on October 31, 1993 and eame into effect on January 1, 1994. According to the Consumer Law, the rights and interests of consumers who buy or use commodities for the purpose of consumption or those who receive services are protected, and all manufacturers and distributors are required to ensure that their products and services will not cause personal or property damage.

11.10 PROVISIONS PERTAINING TO THE LEGAL REPRESENTATIVE UNDER PRC LAWS

The legal representative of a company is the responsible person who acts on behalf of the company in exercising its functions and powers of the company as a legal person in accordance with the law or the articles of association of the company.

The legal representative of a company may be represented by the chairman, executive director or manager of a company in compliance with its articles of association and registered in accordance with the law. In the event of any change of the legal representative of a company, such change shall be registered in accordance with the law.

A person in any of the following categories may not serve as the legal representative of a company:

(a) without civil capacity or with limited civil capacity;

(b) having been sentenced to prison for the following crimes, and completion of the sentence being less than five years ago: embezzlement, bribery, conversion of property, misappropriation of property, sabotage of social economic order; or having been deprived of political rights as a result of a criminal conviction, and completion of such sanction being less than five years ago;

(c) having served as a director, the factory chief, or the general manager of a company or enterprise which underwent bankruptcy liquidation as a result of mismanagement, and being personally responsible for such bankruptcy, and completion of the bankruptcy liquidation being less than three years ago;

(d) having served as the legal representative of a company or enterprise whose business license was revoked due to its violation of law, and being personally responsible for such revocation, and such revocation occurring less than three years ago; or

(e) in default of personal debt of a significant amount.

Where a resolution for the change of the legal representative cannot be passed by the board of directors or the shareholders' meeting, as the board of directors or the shareholders' meeting cannot be convened as the former legal representative cannot or does not perform its function, the resolution may be passed by the board of directors or the shareholders meeting convened and presided over by a director jointly nominated by more than half of the directors, or by the shareholders or the representative representing the majority of the shareholders.

A company as a legal person shall be responsible for the activities of its legal representatives. Where the legal representative of a company oversteps his/her power and acts on the behalf of the company, the legal representative's act shall be effective unless the counterpart knows or ought to know that the legal representative is overstepping his/her power. In this situation, the company may claim compensation for the resultant losses from the legal representative.

12. INFORMATION ON OUR GROUP

12.1 HISTORY AND BACKGROUND

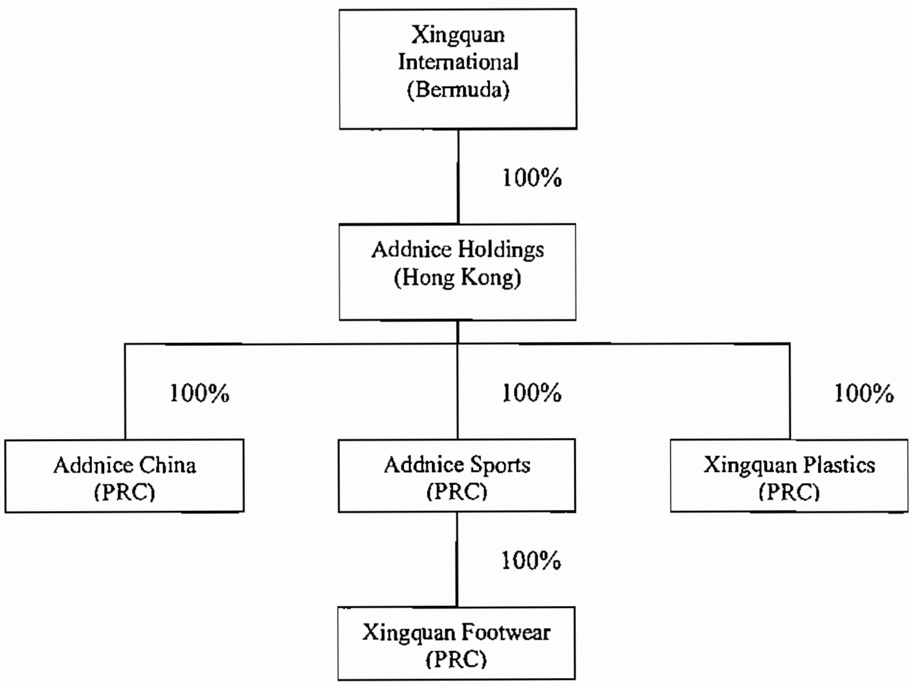
12.1.1 History and Business

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 has two registered offices, one in Bermuda (as required under Section 62 of Bermuda Companies Act) and the other in Malaysia (as required under Section 333 of the Malaysian Companies Act) of which their addresses are set out in Section 2 of this Prospectus. The register of directors and officers and register of members of our Company are kept at the registered office in Bermuda as required under the Bermuda Companies Act, while certified or duplicate copies are maintained at the registered branch office in Malaysia.

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.

Our Group structure can be depicted as follows:



12.1.2 Share Capital

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.

The changes in our issued and paid-up share capital since our incorporation are provided below:

Date of issue	No. of shares issued	Par value	Consideration	Cumulative issued and paid-up share capital
		USD		USD
06.02.2009	10,000	1.00	Cash[(1)]	10,000[(1)]
01.06.2009	21,503,000	1.00	Issued as consideration pursuant to the acquisition of Addnice Holdings	21,513,000
01.06.2009	N/A	0.10	Share Split	21,513,000

Note:

(1) The 10,000 ordinary shares of USD1.00 each were issued nil paid on 6 February 2009 and was confirmed as fully paid on 10 February 2009.

Our issued and paid-up share capital would subsequently increase to between USD27,500,000 comprising 275,000,000 Shares (assuming Minimum Scenario and assuming the Over-Allotment Option is not exercised) and USD32,955,500 comprising 329,555,000 Shares (assuming Maximum Scenario and assuming the Over-Allotment Option is fully utilised) following our Public Issue.

12.2 SUBSIDIARIES

12.2.1 Addnice Holdings

(i) History and Business

Addnice Holdings was incorporated in Hong Kong under the Hong Kong Companies Ordinance 1984 on 20 March 2008 as a private limited company under the name of Cheng Tai Xin Holdings Limited (成泰鑫控股有限公司). On 31 October 2008, the company changed its name to Adynice Holdings Limited (艾迪耐斯控股有限公司) and subsequently assumed its present name Addnice Holdings Limited (艾迪耐斯控股有限公司) on 21 November 2008. Addnice Holdings commenced its business on 2 September 2008. As at Latest Practicable Date, Addnice Holdings is an investment holding company.

(ii) Share Capital

The present registered share capital of Addnice Holdings is HKD10,000 divided into 10,000 ordinary shares of HKD1.00 each in Addnice Holdings. The issued and paid-up share capital is HKD1.00 divided into 1 ordinary shares of HKD1.00 each in Addnice Holdings.

The changes in the issued and paid-up share eapital of Addnice Holdings since its incorporation are provided below:

Date of issue	No. of ordinary shares	Par value	Consideration	Cumulative issued and paid-up share capital
		HKD		HKD
20.03.2008	1	1.00	Subscriber's share	1

(iii) Substantial Shareholder

Addnice Holdings is our wholly-owned subsidiary.

(iv) Subsidiary and Associate Companies

As at the date of this Prospectus, Addnice Holdings has four (4) subsidiary companies namely, Addnice China, Addnice Sports, Xingquan Plastics and Xingquan Footwear and does not have any associate company.

12.2.2 Addnice China

(i) History and Business

Addnice China was established in Quanzhou City, Fujian Province, PRC on 7 March 2006 under the PRC Law governing establishment of a limited liability company and a foreign investment company under its present name. Addnice China is currently inactive.

(ii) Share Capital

The present registered capital of Addnice China is HKD100,000,000 and the contributions to its registered capital is HKD42,500,000.

The contributions to the registered capital of Addnice China since its incorporation are provided below:

Date of change	Contribution	Cumulative contribution to registered capital
	HKD	HKD
22.08.2006-30.08.2006	Cash (7,000,000)	7,000,000
26.10.2006-21.11.2006	Cash (7,500,000)	14,500,000
24.11.2006-18.01.2007	Cash (7,500,000)	22,000,000
18.01.2007-26.01.2007	Cash (7,500,000)	29,500,000
29.01.2007-07.02.2007	Cash (7,500,000)	37,000,000
08.02.2007-14.02.2007	Cash (4,500,000)	41,500,000
26.03.2008	Cash (1,000,000)^	42,500,000

Note:

* *The balance of its registered capital of HKD57.5 million is required under its articles of association to be contributed before October 2009*

^ *As at the Latest Practicable Date, the contribution amount has not yet been updated into the Capital Verification Report to be filed with the AIC. Consequently, no new business license reflecting the contribution on 26 March 2008 has been issued.*

(iii) Substantial Shareholder

Addnice China is a wholly-owned subsidiary of Addnice Holdings.

(iv) Subsidiary and Associate Company

As at the date of this Prospectus, Addnice China does not have any subsidiary or associate company.

12.2.3 Addnice Sports

(i) History and Business

Addnice Sports was established in Quanzhou City, Fujian Province, PRC on 1 August 2003 under the PRC Law governing establishment of a limited liability company and a foreign investment company under 福建星泉体育用品发展有限公司 (Fujian Xingquan Sports Goods Development Co., Ltd.). On 28 November 2003, Addnice Sports assumed its present name. Addnice Sports commenced its business in December 2003. Addnice Sports's current principal activity is manufacturing of shoes and sales of shoes, apparels and accessories.

(ii) Share Capital

The present registered capital of Addnice Sports is HKD15,000,000 and the contributions to its registered capital is HKD15,000,000.

The contributions to the registered capital of Addnice Sports since its incorporation are provided below:

Date of change	Contribution HKD	Cumulative contribution to registered capital HKD
31.12.2003-02.03.2004	Cash (4,800,000)	4,800,000
09.08.2005-23.08.2005	Cash (5,999,800)	10,799,800
25.08.2005-05.09.2005	Cash (4,200,200)	15,000,000

(iii) Substantial Shareholder

Addnice Sports is a wholly-owned subsidiary of Addnice Holdings.

(iv) Subsidiary and Associate Company

As at the date of this Prospectus, Addnice Sports has one (1) subsidiary company, namely Xingquan Footwear and does not have any associate company.

12.2.4 Xingquan Plastics

(i) History and Business

Xingquan Plastics was established in Quanzhou City, Fujian Province, PRC on 31 January 2000 under the PRC Law governing establishment of a limited liability company and a foreign investment company under its present name. Xingquan Plastics commenced its business in June 2000. Xingquan Plastics' current principal activity is manufacturing and sales of shoe soles.

(ii) Share Capital

The present registered capital of Xingquan Plastics is HKD8,500,000 and the contributions to its registered capital is HKD8,500,000.

The contributions to the registered capital of Xingquan Plastics since its incorporation are provided below:

Date of change	Contribution HKD	Cumulative contribution to registered capital HKD
13.06.2000	Cash (155,000)	155,000
12.10.2000	Physical Assets (8,345,000)	8,500,000

(iii) Substantial Shareholder

Xingquan Plastics is a wholly-owned subsidiary of Addnice Holdings.

(iv) Subsidiary and Associate Company

As at the date of this Prospectus, Xingquan Plastics does not have any subsidiary or associate company.

12.2.5 Xingquan Footwear

(i) History and Business

Xingquan Footwear established in Jinjiang City, Fujian, PRC on 8 February 1999 under the PRC Law as a limited liability company under its present name. Xingquan Footwear commenced its business in February 1999. Xingquan Footwear's current principal activity is lease of factory and land.

(ii) Share Capital

The present registered capital of Xingquan Footwear is RMB4,580,000 and the contributions to its registered capital is RMB4,580,000.

The contributions to the registered capital of Xingquan Footwear since its incorporation are provided below:

Date of change	Contribution RMB	Cumulative contribution to registered capital RMB
30.12.1998	Physical Assets (3,680,000)	3,680,000
14.03.2002	Physical Assets (900,000)	4,580,000

(iii) Substantial Shareholder

Xingquan Footwear is a wholly-owned subsidiary of Addnice Sports.

(iv) Subsidiary and Associate Company

As at the date of this Prospectus, Xingquan Footwear does not have any subsidiary or associate company.

Save as disclosed in this Prospectus, we do not have any outstanding warrants, options, convertible securities or uncalled capital at the date of this Prospectus.

Please refer to Section 7.5 of this Prospectus for details of our principal place of business and principal assets.

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13. INFORMATION ON OUR DIRECTORS, KEY MANAGEMENT, SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

13.1 BOARD OF DIRECTORS

Within the limits set by our Bye-laws, our Board of Directors is responsible for the governance and management of our Company. To help ensure the effective discharge of its functions, our Board of Directors will endeavour to follow corporate governance guidelines which set out the following responsibilities:

(i) to review and approve the annual corporate plan of our Group, which includes the overall corporate strategy, marketing plan, human resources plan, information technology plan, financial plan, budget, regulations plan and risk management plan;

(ii) to oversee the conduct of our Group's businesses, and to evaluate whether the businesses are being properly managed;

(iii) to identify principal risks and ensure the implementation of appropriate systems to manage these risks;

(iv) to manage succession planning, including appointing, training, fixing the compensation of, and where appropriate, replacing senior management;

(v) to develop and implement an investor relations program or shareholder communications policy for our Company;

(vi) to review the adequacy and integrity of our Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines (including Bursa Securities LR, securities laws, and Bermuda Companies Act);

(vii) to review and approve our financial statements;

(viii) to review and approve our Audit Committee Report at the end of each financial year;

(ix) to review and approve our Annual Report; and

(x) to prepare a corporate governance statement in compliance with the Malaysian Code of Corporate Governance and an internal control statement for the Annual Report.

Our Bye-laws provide that our Board of Directors shall consist of not less than two Directors. Under the Bursa Securities LR, at least two (2) of our Directors or one-third (1/3) of our Board of Directors, whichever is higher, must also at all times be Independent Directors.

As at the date of this Prospectus, our Board of Directors consists of six (6) Directors.

In accordance with Bye-law 86 of our Bye-laws, each Director shall retire from office at least once in every three (3) years and one third (1/3) of the Directors for the time being or, if their number is not three (3) or a multiple of three (3), the number nearest to but not less than one-third (1/3) shall retire from office at each annual general meeting of the Company. A retiring Director shall be eligible for re-election. The Directors to retire in each year shall be those who have been in office longest since their last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. Notwithstanding the foregoing, a Director who is over the age of 70 years shall retire from office every year, but may be re-elected by way of special resolution in general meeting.

Further, pursuant to Bye-law 85(6) of our Bye-laws, Mr Zhou Liyi, Dato' Siow Kim Lun @ Siow Kim Lin and Dato' Ng Ah Hock @ Ng Soon Por, all of whom were appointed by the Board of our Company during the FYE 2009, are due to retire from our Board at the forthcoming annual general meeting of our Company in 2009 and shall then be eligible for re-election.

The members of our Board of Directors as at the date of this Prospectus are set forth below:

Name	Nationality	Age	Date of Appointment	Designation
Mr Wu Qingquan	Chinese	40	06.02.2009	Executive Chairman and CEO
Mr Wu Lianfa	Chinese	35	06.02.2009	Executive Director
Mdm Ng Sio Peng	Chinese (Macau)	42	06.02.2009	Non-Independent Non-Executive Director
Mr Zhou Liyi	Chinese	40	01.06.2009	Independent Non-Executive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Malaysian	59	01.06.2009	Independent Non-Executive Director
Dato' Ng Ah Hock @ Ng Soon Por	Malaysian	59	01.06.2009	Independent Non-Executive Director

The management and operations of our Company is led by Wu Qingquan, our Executive Chairman and CEO.

13.1.1 Profiles of Directors

(i) Mr Wu Qingquan

Mr Wu Qingquan, aged 40, a citizen of China, is our Executive Chairman and CEO. In 2006, he obtained a Master of Business Administration degree from Renmin University of China (中国人民大学).

Wu Qingquan started his career in 1989 as a Purchasing and Sales Manager in Yanshang Shoe Factory, a company engaged in the manufacture of shoes and rubber products from 1989 to 1995. In 1995, he established Jinjiang Xingquan, a company engaged in the manufacture of shoes and shoe soles for local and international shoe manufacturers, jointly with his wife, Mdm Zhuang Hongji, and his brother Mr Wu Lianfa where he was appointed as Purchasing and Sales Manager.

In 1999, Mr Wu Shihu, his father and Mr Wu Lianfa, his brother set up Xingquan Footwear where Wu Qingquan was appointed as a General Manager to manage the company. When his brother-in-law, Mr Iao Ieok Chon established Xingquan Plastics in 2000, he joined the company and was later appointed as General Manager in 2006 to manage that company. Subsequently, after establishment of Addnice Sports in 2003, he joined the company and was appointed as General Manager in 2006. When Addnice China was set up in 2006, Wu Qingquan was appointed as General Manager of Addnice China. He was subsequently promoted to Managing Director and Chief Executive Officer of Addnice China in 2008.

Wu Qingquan has 20 years of experience in the footwear industry. As a director in our Company, Addnice China, Addnice Sports and Xingquan Plastics, his responsibilities include developing and planning the overall strategic business direction and strategies for the Group, product design and development, purchasing, overseeing and monitoring the Group's marketing activities and general corporate affairs of the Group and to ensure the smooth running of the production line for the manufacturing of shoes and shoe soles.

(ii) Mr Wu Lianfa

Mr Wu Lianfa, aged 35, a citizen of China, is our Executive Director. He completed his secondary school education in 1992.

In 1989, when Wu Lianfa's father Wu Shihu established Yanshang Shoe Factory which engaged in the manufacture of shoes and rubber products, he appointed as a nominee director of Yanshang Shoe Factory but was not involved in the operations of the company as he was still studying in secondary school. In 1992, after he completed his secondary school education, he joined Yanshang Shoe Factory as a manager.

In 1995, Wu Lianfa then established Jinjiang Xingquan, jointly with his brother Mr Wu Qingquan and Mdm Zhuang Hongji, his sister-in-law where he was appointed as Manager in charge of management and production, primarily responsible for production, marketing and general corporate affairs of the company.

In 2000, when his brother-in-law, Mr Iao Ieok Chon established Xingquan Plastics, Wu Lianfa joincd the company and was appointed as Manager in charge of management and production where he was primarily responsible for production, marketing and general corporate affairs of the company. He was promoted as Deputy General Manager of Xingquan Plastics in 2006 to assist the General Manager, Wu Qingquan. Subsequcntly, after the cstablishment of Addnice Sports in 2003, he was appointed as General Manager of Addnice Sports in charge of management and production.

Wu Lianfa has 17 ycars of experience in the footwear industry. As a director in our Company, Addnice Sports and Xingquan Plastics, his responsibilities in the Group include assisting Mr Wu Qingquan in product design and development, overseeing and monitoring the Group's marketing activities and general corporate affairs of the Group, purchasing, marketing and ensuring the smooth running of the production line for the manufacturing of shoes and shoe soles.

(iii) Mdm Ng Sio Peng

Mdm Ng Sio Peng, aged 42, a citizen of Macau, is our Non-Indepcndent Non-Executive Director. Ng Sio Peng completed her secondary school education in 1984. Soon after her graduation, she joined Anshang Shoe Manufacturing Factory as a manager in the production department from 1984 to 1989.

She married Mr Iao Ieok Chon in 1988 and both of them were involved in renovation work in Macau from 1989 onwards.

In 1998, Ng Sio Peng and her husband, Mr Iao Ieok Chon returned to Jinjiang City to seek business opportunities. In 2003, Ng Sio Peng founded Addniee Sports and was appointed as a director of Addnice Sports. Ng Sio Peng is currently a director of both Addnice Sports and Addnice China. She is not involved in the day to day running of the business of the Group but is involved in major decision making of the Group in her capacity as a Director and Substantial Shareholder of our Company. She also conduets market research and identifies business opportunities for our Group.

(iv) Mr Zhou Liyi

Mr Zhou Liyi, aged 40, a citizen of China, is our Independent Non-Executive Director. He obtained his Bachelor of Business Management Degree from the Fuzhou University located in Fujian Province, China in July, 1990.

Zhou Liyi started his career in August, 1990 as an assistant to the accountant with Putian Certified Public Accountants ("CPAs") (莆田会计师事务所). In 1994, he qualified to practice as a Certified Public Accountant ("CPA"). In 1997, he obtained his qualification to practice as a Certified Public Valuer from the Chinese Institute of Certified Public Valuer. In 1998, he was promoted by Putian CPAs as a Deputy Supervisor of Public Accountant.

In 1999, he joined Xiamen Siming Certified Public Accountants (厦门思明会计师事务所) as a Division Manager. In 2000, he joined Xiamen Yonghe Certified Public Accountants Co. Ltd. (厦门永和会计师事务所有限公司) as a Partner. In 2000, he also obtained his qualification to practice as a Certified Tax Agent ("CTA"). Jn the same year, he joined Xiamen Jin Yonghe Certified Tax Agents Co. Ltd. (厦门金永和税务师事务所有限公司) as a Partner. In 2001, he converted his membership in the Chinese Institute of Certified Public Valuer from practicing member to non-practicing member.

In June 2007, he obtained his qualification to practice as a Senior CPA. Currently, he is the partner of Xiamen Yonghe Certified Public Accountants Co. Ltd. and Xiamen Jin Yonghe Certified Tax Agents Co. Ltd., practicing as a CPA and CTA. He is also currently a member of the Chinese Institute of CPAs and the Chinese Institute of CTAs.

(v) Dato' Siow Kim Lun @ Siow Kim Lin

Dato' Siow Kim Lun @ Siow Kim Lin, aged 59, a Malaysian, is our Independent Non-Executive Director. He obtained his Certificate in Teaching from Technical Teachers Training College Kuala Lumpur in 1972 and was a secondary school teacher from 1973 to 1974. In 1978, he obtained his Bachelor of Economics Degree (Honours) from the National University of Malaysia. Subsequently, he obtained his Master in Business Administration Degree from the Catholic University of Leuven, Belgium in 1981. He also attended the Advanced Management Program at Harvard Business School in 1997.

He started his career in the investment banking and financial services industry with Malaysia International Merchant Bankers (now known as MIMB Investment Bank Berhad) in 1981 and had served as a Manager in its Corporate Finance Division. He later became a Branch Manager in Malaysian International Finance Bhd before he left to join Permata

Chartered Merchant Bank Bhd (now known as Affin Investment Bank) as a Manager in its Corporate Finance Division in 1985. He left Permata Chartered Merchant Bank Bhd as its Divisional Manager in the Corporate Finance Division in 1993.

In April 1993, he joined the SC where he had served for over 13 years until his retirement in December 2006. During his tenure with the SC, he had held several senior positions including that of the Director of its Issues & Investment Division, the Director of the Market Supervision Division as well as the Executive Director in the Office of the Chairman. Currently, he sits on the board of directors of Citibank Berhad, MainStreet Advisers Sdn Bhd, Kumpulan Wang Persaraan (Diperbadankan) and WZ Steel Berhad (formerly known as Weng Zheng Resources Berhad). He has served as a member of the Listing Committee of Bursa Securities from May 2007 to May 2009.

(vi) Dato' Ng Ah Hock @ Ng Soon Por

Dato' Ng Ah Hock @ Ng Soon Por, aged 59, a Malaysian, is our Independent Non-Executive Director. He is a member of Malaysia Institute of Accountants, a fellow member of the Association of Chartered and Certified Accountants of United Kingdom, and also a member of the Malaysia Institute of Chartered Secretaries & Administrators.

He obtained his professional qualifications from Tunku Abdul Rahman College in 1974. From 1974 to 1977, he joined the audit firm Turquand, Youngs & Co. / Azman, Wong, Salleh & Co. as an Auditor. In 1977, he joined Spicers International Ltd, as a Finance Manager. In 1982, he left Spicers International Ltd when he was elected as Selangor State Legislative Assemblyman for Sungei Pelek constituency, and held the position until 1995. During his tenure as an Assemblyman, he was also a Selangor Executive councilor (EXCO) from 1990 to 1995. Subsequently in 1995, he joined Paper Converting Industries Sdn Bhd as a Finance Director until 2005. He was also a member of Suruhanjaya Perkhidmatan Awam Negeri Selangor (Selangor Public Service Commission) from 2002 to 2007.

13. INFORMATION ON OUR DIRECTORS, KEY MANAGEMENT, SUBSTANTIAL SHAREHOLDERS AND PROMOTERS *(Cont'd)*

13.1.2 Directors' Shareholding

The table below sets forth our Directors' interests in our Shares before and after the IPO based on our Register of Members and the Register of Members of Tai Zhen Xiang as at the date of this Prospectus.

Minimum Scenario

					Assuming Over-Allotment Option is not exercised				Assuming Over-Allotment Option is exereised in full			
	Before the IPO				After the IPO				After the IPO			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Directors	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
Mr Wu Qingquan	-	-	-	-	-	-	-	-	-	-	-	-
Mr Wu Lianfa	-	-	-	-	-	-	-	-	-	-	-	-
Mdm Ng Sio Peng[(1)]	-	-	179,569,011	83.47	-	-	179,569,011	65.30	-	-	179,569,011	63.23
Mr Zhou Liyi	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Siow Kim Lun @ Siow Kim Lin	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Ng Ah Hock @ Ng Soon Por	-	-	-	-	-	-	-	-	-	-	-	-

Note:

(1) Deemed interested by virtue of her shareholding interest in Tai Zhen Xiang applying Section 6A of the Malaysian Companies Act.

13. INFORMATION ON OUR DIRECTORS, KEY MANAGEMENT, SUBSTANTIAL SHAREHOLDERS AND PROMOTERS *(Cont'd)*

Maximum Scenario

					Assuming Over-Allotment Option is not exercised				Assuming Over-Allotment Option is exercised in full			
	Before the IPO				After the IPO				After the IPO			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Directors	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
Mr Wu Qingquan	-	-	-	-	-	-	-	-	-	-	-	-
Mr Wu Lianfa	-	-	-	-	-	-	-	-	-	-	-	-
Mdm Ng Sio Peng[(1)]	-	-	179,569,011	83.47	-	-	179,569,011	57.07	-	-	179,569,011	54.49
Mr Zhou Liyi	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Siow Kim Lun @ Siow Kim Lin	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Ng Ah Hock @ Ng Soon Por	-	-	-	-	-	-	-	-	-	-	-	-

Note:

(1) *Deemed interested by virtue of her shareholding interest in Tai Zhen Xiang applying Section 6A of the Malaysian Companies Act.*

None of our Company's Directors owns, directly or indirectly, any option to purchase any of our Shares. Mr Wu Qingquan, our Executive Chairman and CEO, has a first right of refusal to purchase interest in our Shares from our Substantial Shareholders.

13.1.3 Directorships and Substantial Shareholdings in All Other Public Corporations for the Past Two (2) Years

Save as disclosed below, none of our Directors have held any directorships or has substantial shareholdings in other corporations which are public or publicly listed in the two (2) years preceding the Latest Practicable Date.

				<——Substantial Shareholdings——>			
				<——Direct ——>		<——Indirect——>	
Directors	**Directorships in other public corporations**	**Date of appointment**	**Date of resignation**	**No. of shares held**	**%**	**No. of shares held**	**%**
Dato' Siow Kim Lun @ Siow Kim Lin	Citibank Berhad	25.04.2007	-	-	-	-	-
	WZ Steel Berhad	26.10.2007	-	-	-	-	-

13.1.4 Involvement of our Executive Director in Other Businesses/Corporations

None of our Executive Directors are involved in the operations of other businesses or corporations.

13.1.5 Audit Committee

Our Audit Committee was established on 1 June 2009 and its members are appointed by our Board. Our Audit Committee shall comprise no fewer than three (3) members, the majority of whom shall be Independent Non-Executive Directors of our Company.

Our Audit Committee is primarily responsible for, amongst others, the following:

(i) assess our Group's processes relating to risks and control environment;

(ii) improve the quality of accounting function, system of internal controls and audit function and strengthen the confidence of the public in our Group's reported results;

(iii) maintain a direct line of communication between our Board, external auditors and internal auditors through regularly scheduled meetings;

(iv) enhance the independence of both the external and internal auditors function through active participation in the audit process;

(v) strengthen the role of the Independent Directors by giving them a greater depth of knowledge as to the operations of our Group;

(vi) review and recommend ethics code for all executives and members of the staff of our Group;

(vii) create a climate of discipline and control which will reduce opportunity of fraud; and

(viii) to review, monitor and assess the way and method in which any proceeds raised by the Group is utilised and to ensure that such utilisation is consistent with that represented to investors for any fund raising exercises

Our Audit Committee currently comprises the following members:

Name	Position	Date of Appointment	Directorship
Dato' Ng Ah Hock @ Ng Soon Por	Chairman	01.06.2009	Indcpendent Non-Executive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Member	01.06.2009	Indcpendent Non-Executive Director
Mr Zhou Liyi	Member	01.06.2009	Independent Non-Executive Director

13.1.6 *Nominating Committee*

Our present Nominating Committee was established on 1 June 2009 and its members are appointed by our Board. Our Nominating Committee shall comprise all non-executive Directors, a majority of whom shall be independent and not less than three (3) members.

Our Nominating Committee is primarily responsible for reviewing and recommending candidates for appointments of new Direetors to our Board and to undertake periodic assessment of our Board, board committee and individual Directors' effectiveness.

Our Nominating Committee currently comprises the following members:

Name	Position	Date of Appointment	Directorship
Mdm Ng Sio Peng	Chairman	01.06.2009	Non-Independent Non-Executive Director
Mr Zhou Liyi	Member	01.06.2009	Independent Non-Exccutive Director
Dato' Ng Ah Hock @ Ng Soon Por	Member	01.06.2009	Independent Non-Exccutive Director

13.1.7 *Remuneration Committee*

Our present Remuneration Committee was established on 1 June 2009 and its members are appointed by our Board of Directors. Our Remuneration Committee shall comprise mainly of non-executive directors and not less than three (3) members.

Our Remuneration Committee is primarily responsible for reeommending the remuneration paekages of the executive Directors and compensation for our Company's non-executive Directors.

Our Remuneration Committee currently comprises the following members:

Name	Position	Date of Appointment	Directorship
Mdm Ng Sio Peng	Chairman	01.06.2009	Non-Independent Non-Executive Director
Mr Zhou Liyi	Member	01.06.2009	Independent Non-Exeeutive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Member	01.06.2009	Independent Non-Executive Director

13.1.8 Service Contracts with Directors

As at the date of this Prospectus, there are no existing or proposed service contracts between any of our Directors and our Group.

13.1.9 Remuneration of Directors

The aggregate remuneration and benefits paid and proposed to be paid to our Directors for services rendered to our Group in all capacities was approximately RMB449,000 for the FYE 2008 and estimated at RMB506,300 for the FYE 2009.

The remuneration which include our Direetors' salaries, bonus, fees and allowances as well as other benefits of our Directors, must be considered and reeommended by the Remuneration Committee and subsequently, be approved by our Board. Our Directors' fees must be further approved/endorsed by our shareholders at a general meeting.

The remuneration and benefits paid/estimated to be paid to our Directors are as follows:

Directors	<--Remuneration band of our Directors for the FYE -> 2008 (Actual)	2009 (Estimate)
Mr Wu Qingquan	Band 2	Band 3
Mr Wu Lianfa	Band 2	Band 2
Mdm Ng Sio Peng	Band 3	Band 3
Mr Zhou Liyi	nil	nil
Dato' Siow Kim Lun @ Siow Kim Lin	nil	nil
Dato' Ng Ah Hock @ Ng Soon Por	nil	nil

Notes:

* *Bands of RMB50,000*
Band 1: between RMB50,001 to RMB100,000
Band 2: between RMB100,001 to RMB150,000
Band 3: between RMB150,001 to RMB200,000

13.2 KEY MANAGEMENT

Our key management is responsible for our Group's day-to-day management and operations. Our key management consists of experienced personnel in charge of matters related to production and R&D for our shoe soles and shoes, sales and marketing, procurement and finance.

The members of our key management, as at the date of this Prospectus, are set forth below:

Name	Nationality	Age	Designation
Mr Wu Qingquan	Chinese	40	Executive Chairman and CEO
Mr Wu Lianfa	Chinese	35	Executive Director
Mr Fok Yiu Keung	Chinese (Hong Kong)	55	Chief Financial Officer
Ms Yang Hongmei	Chinese	33	Deputy General Manager for footwear production and R&D
Mr Wu Xiangdong	Chinese	38	Deputy General Manager for shoe sole production and R&D
Mr Cai Ningtai	Chinese	38	Deputy General Manager for sales
Mr Zhang Xiangyou	Chinese	47	Procurement Manager

13.2.1 Profiles of Our Key Management

Save for the profiles of Mr Wu Qingquan and Mr Wu Lianfa, which are set out in Section 13.1.1 of this Prospectus, the profiles of our key management are as follows:

(i) Mr Fok Yiu Keung

Mr Fok Yiu Keung, aged 55, a citizen of Hong Kong is our company's Chief Financial Officer. He qualified as a Certified Public Accountant from the Hong Kong Institute of Certified Public Accountants in 1998 and is currently a member of Hong Kong Institute of Certified Public Accountants.

Fok Yiu Keung started his career in 1980 as an Audit Assistant with Price Waterhouse Hong Kong. From 1983 to 1997, he worked as an accountant with different companies such as Mark C & Fong, Daido Concrete (HK) Ltd, Canadian Airline International, Advanced Material Ltd and Onkyo China Ltd. Prior to joining our Group, he was a Financial Controller and Company Secretary of Corasia Group Limited and subsequently joined Fuqing Quohong Leather Co. Ltd. as Financial Controller in 1998, In 1999, Fok Yiu Keung joined Quality Food International Ltd as Group Financial Controller. In 2001, he joined, Golong Pharmacy International Limited as Group Financial Controller until 2002 where he was primarily responsible for all the financial matters of the group. From 2002 to 2008 before he joined our company, he was self employed involved in accounting and auditing matters.

Fok Yiu Keung joined our Group in June 2008 and is responsible for the overall management of the finance functions of our Group, our compliance