



**XiDeLang Holdings Ltd**  
(Bermuda Company No. 43136)  
(Incorporated as an exempted company in Bermuda under the Companies Act 1981 of Bermuda)  
(Malaysian Foreign Company Registration No. 995210-W)  
(Registered as a foreign company in Malaysia under the Companies Act, 1965 of Malaysia)

THE INITIAL PUBLIC OFFERING OF 100,000,000 ORDINARY SHARES OF US\$0.10 EACH COMPRISING THE PUBLIC ISSUE OF 100,000,000 NEW ORDINARY SHARES OF US\$0.10 EACH AS FOLLOWS:-

- 10,000,000 NEW ORDINARY SHARES OF US\$0.10 EACH AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC; AND
- 90,000,000 NEW ORDINARY SHARES OF US\$0.10 EACH AVAILABLE FOR PRIVATE PLACEMENT TO SELECTED INVESTORS

AT AN ISSUE PRICE OF RM0.58 PER ORDINARY SHARE PAYABLE IN FULL ON APPLICATION PURSUANT TO OUR LISTING ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD.

Adviser

**AmInvestment Bank Berhad**  
(Company No.: 23742-V)  
A member of



Managing Underwriter and Lead Placement Agent

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(A Participating Organisation of Bursa Malaysia Securities Berhad)

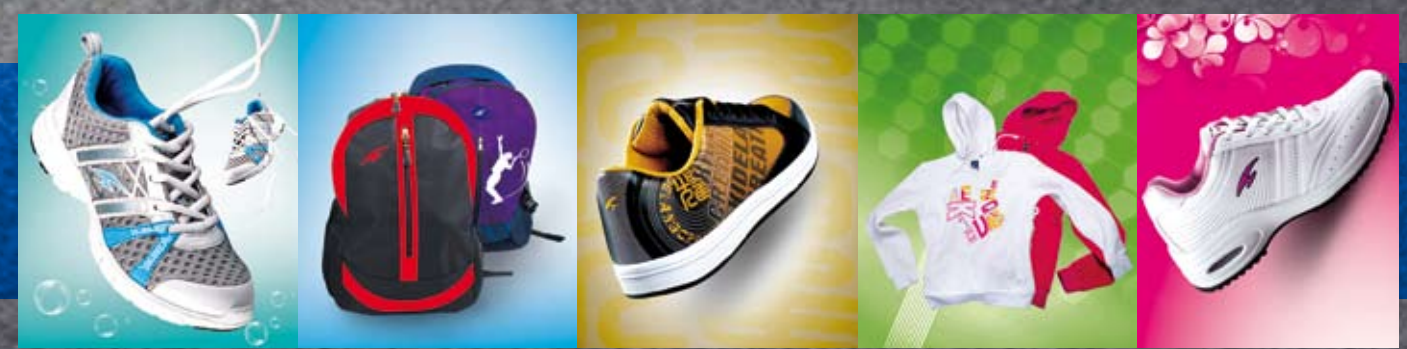
Co-Underwriters and Placement Agents

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XiDeLang Holdings Ltd PROSPECTUS

INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THERE ARE CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER. TURN TO SECTION 3 OF THIS PROSPECTUS FOR "RISK FACTORS".



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**INDICATIVE TIMETABLE**

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The indicative timing of events leading up to the listing and quotation of our entire enlarged share capital on the Main Market of Bursa Malaysia Securities Berhad is set out below:-

<u>Date</u>	<u>Event</u>
23 October 2009	: Publication of Prospectus / Opening date of the application for the IPO
<b><u>Tentative Dates</u></b>	
30 October 2009	: Closing date of the application for the IPO
3 November 2009	: Balloting of application for the IPO Shares
10 November 2009	: Allotment and allocation of the IPO Shares to successful applicants
11 November 2009	: Listing

**THIS TIMETABLE IS TENTATIVE AND IS SUBJECT TO CHANGES WHICH MAY BE NECESSARY TO FACILITATE IMPLEMENTATION PROCEDURES.**

**THE APPLICATION PERIOD WILL REMAIN OPEN UNTIL 5.00 P.M. ON 30 OCTOBER 2009 OR FOR SUCH FURTHER PERIOD OR PERIODS AS OUR DIRECTORS AND PROMOTERS TOGETHER WITH OUR UNDERWRITERS IN THEIR ABSOLUTE DISCRETION MAY MUTUALLY DECIDE.**

**IN THE EVENT THAT THE CLOSING DATE OF THE IPO IS EXTENDED, THE DATES FOR THE BALLOTING, ALLOTMENT AND ALLOCATION OF THE IPO SHARES AND THE LISTING OF THE COMPANY WILL BE EXTENDED ACCORDINGLY. ANY EXTENSION OF THE ABOVEMENTIONED DATES WILL BE ANNOUNCED BY WAY OF ADVERTISEMENT IN A WIDELY-CIRCULATED DAILY BAHASA MALAYSIA AND ENGLISH NEWSPAPER IN MALAYSIA.**

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## DEFINITIONS

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In this Prospectus and the accompanying Application Form(s), unless where the context requires otherwise, the following definitions/ words and abbreviations shall have the following meanings:-

<b>1H</b>	: Financial period commencing 1 January to 30 June
<b>Acquisition Of XinYuanChan</b>	: Acquisition by XiDeLang of the entire issued and paid-up share capital of XinYuanChan of HK\$10,000, comprising 10,000 ordinary shares of HK\$1.00 each, for an aggregate purchase consideration of US\$29,999,999 satisfied by way of issuance of an aggregate of 299,999,990 new Shares in XiDeLang, credited as fully paid at par value of US\$0.10 per share
<b>ADA</b>	: Authorised Depository Agent
<b>ADA Code</b>	: ADA (Broker) Code
<b>Admission</b>	: Admission of the Shares to the Official List of the Main Market of Bursa Securities
<b>Adviser</b>	: AmInvestment Bank
<b>AmInvestment Bank</b>	: AmInvestment Bank Berhad (23742-V), a member of AmInvestment Bank Group
<b>Application(s)</b>	: The application(s) for the subscription of the Public Issue Shares by way of Application Forms, Electronic Share Application or Internet Share Application
<b>Application Form(s)</b>	: The official printed application form(s) for the Application of the Public Issue Shares
<b>ATM</b>	: Automated Teller Machine
<b>Authorised Financial Institution(s)</b>	: The authorised financial institution(s) participating in the Internet Share Application, with respect to payments for the Public Issue Shares made available for subscription under the Public Issue
<b>Bermuda Companies Act</b>	: The Companies Act 1981 of Bermuda, as amended, supplemented or modified from time to time
<b>Board or Board of Directors</b>	: The Board of Directors of our Company as at the date of this Prospectus
<b>Bursa Depository</b>	: Bursa Malaysia Depository Sdn Bhd (165570-W), a subsidiary of Bursa Securities
<b>Bursa Securities</b>	: Bursa Malaysia Securities Berhad (635998-W)
<b>BVI</b>	: British Virgin Islands
<b>Bye-laws</b>	: The bye-laws of our Company as amended, supplemented or modified from time to time
<b>CDS</b>	: Central Depository System
<b>Central Depositories Act</b>	: The Securities Industry (Central Depositories) Act, 1991 of Malaysia, including any statutory modification, amendment or re-enactment thereof for the time being in force



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**DEFINITIONS (Cont'd)**

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<b>CEO</b>	: Chief Executive Officer
<b>China or PRC</b>	: The People's Republic of China
<b>CMSA</b>	: The Capital Markets and Services Act 2007 of Malaysia, including any statutory modification, amendment or re-enactment thereof for the time being in force
<b>Consolidation</b>	: The consolidation of every two (2) existing ordinary shares of US\$0.05 each in the authorised and issued share capital of XiDeLang into one (1) ordinary share of US\$0.10
<b>Deposited Security</b>	: A security in our Company standing to the credit of a Securities Account of a Depositor subject to the provision of the Central Depositories Act and the Rules
<b>Depositor</b>	: A holder of a Securities Account
<b>Director(s)</b>	: The director(s) of our Company as at the date of this Prospectus
<b>EBIDTA</b>	: Earnings before interest, depreciation, taxation and amortisation
<b>Electronic Prospectus</b>	: A copy of this Prospectus that is published, circulated or disseminated via the Internet, and / or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
<b>Electronic Share Application</b>	: An application for subscription or purchase of the IPO Shares through Participating Financial Institutions' ATM, in accordance with the terms and conditions of this Prospectus
<b>EPS</b>	: Earnings per Share
<b>EU</b>	: European Union
<b>FIE</b>	: Foreign investment enterprise under the laws of the PRC
<b>FRS</b>	: Financial Reporting Standards
<b>FYE</b>	: Financial year ended or, as the case may be, ending 31 December
<b>GDP</b>	: Gross domestic product
<b>Hong Kong</b>	: Hong Kong Special Administrative Region of the PRC
<b>HongPeng (Fujian)</b>	: HongPeng (Fujian) Shoes & Garments Co., Ltd. (鸿鹏(福建)鞋服有限公司) (PRC Business Licence Serial No. 350500400011132), incorporated in the PRC as a sino-foreign-owned company under the PRC Law of Sino-Foreign Equity Joint Ventures. After a restructuring exercise carried out on 21 October 2008, it has become a WFOE and is governed under the PRC Law of Wholly Foreign-Owned Enterprise
<b>HongPeng Footwear</b>	: Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. (福建省晋江市陈埭鸿鹏制鞋有限公司) (PRC Business Licence Serial No. 350582100074201), incorporated in the PRC as a limited liability company under the laws of the PRC

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**DEFINITIONS (Cont'd)**

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<b>HongPeng International</b>	:	HongPeng International Holdings Limited (鸿鹏国际控股有限公司) (BVI Company No. 1526675), incorporated in BVI as a BVI business company under the BVI Business Companies Act, 2004 of BVI
<b>HK\$ and HK cents</b>	:	Hong Kong dollars and cents, respectively
<b>Increase In Authorised Share Capital</b>	:	The increase of our authorised share capital from US\$10,000 divided into 100,000 Shares to US\$50,000,000 divided into 500,000,000 Shares
<b>Internet Participating Financial Institution(s)</b>	:	Participating organisation(s) in the Internet Share Application, as listed in Section 16.6.2 of this Prospectus
<b>Internet Share Application</b>	:	Application for subscription of the Public Issue Shares through an Internet Participating Financial Institution
<b>IPO</b>	:	Initial public offering in Malaysia comprising the Public Issue
<b>IPO Price</b>	:	RM0.58 per IPO Share, being the price payable by investors under the Public Issue
<b>IPO Share(s) or Public Issue Shares</b>	:	The 100,000,000 new ordinary shares of US\$0.10 each, which are the subject of the Public Issue
<b>ISO</b>	:	International Organisation for Standardisation
<b>Lead Placement Agent</b>	:	OSK
<b>Listing</b>	:	Admission to the Official List and the listing and quotation of our entire issued and paid-up share capital on the Main Market of Bursa Securities
<b>Listing Requirements</b>	:	The Main Market Listing Requirements of Bursa Securities, as amended, supplemented or modified from time to time
<b>Listing Scheme</b>	:	The Consolidation, Increase In Authorised Share Capital, Acquisition of XinYuanChan, Public Issue, and Listing, collectively
<b>LPD</b>	:	31 August 2009, being the latest practicable date prior to the publication of this Prospectus by our Company
<b>Malaysian Code</b>	:	The Malaysian Code on Take-Overs and Mergers, 1998, including any statutory modification, amendment or re-enactment thereof for the time being in force
<b>Malaysian Companies Act</b>	:	The Companies Act, 1965 of Malaysia, including any statutory modification, amendment or re-enactment thereof for the time being in force
<b>Malaysian Public or Public</b>	:	Citizens of Malaysia and companies, societies, co-operatives and institutions incorporated or organised under the laws of Malaysia
<b>Managing Underwriter</b>	:	OSK
<b>Market Day</b>	:	A day on which Bursa Securities is open for trading in securities

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## DEFINITIONS (Cont'd)

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<b>Memorandum or Memorandum of Association</b>	:	The memorandum of association of our Company as amended, supplemented or modified from time to time
<b>MI</b>	:	Minority interest
<b>MIDFCCS or Issuing House</b>	:	MIDF Consultancy and Corporate Services Sendirian Berhad (11324-H)
<b>N/a</b>	:	Not applicable
<b>NA</b>	:	Net assets
<b>NTA</b>	:	Net tangible assets
<b>NTL</b>	:	Net tangible liabilities
<b>Official List</b>	:	The official list of the Main Market of Bursa Securities
<b>OSK</b>	:	OSK Investment Bank Berhad (14152-V)
<b>Participating Financial Institution(s)</b>	:	The participating financial institution(s) for Electronic Share Application, as listed in Section 16.5.2(o) of this Prospectus
<b>PAT</b>	:	Profit after taxation
<b>PATMI</b>	:	Profit after taxation and minority interests
<b>PBT</b>	:	Profit before taxation
<b>PE Multiple</b>	:	Price earnings multiple
<b>Placement Agents</b>	:	AmInvestment Bank and OSK
<b>Prescribed Security</b>	:	Shares of a company that are prescribed by Bursa Securities to be deposited in the CDS subject to the provisions of the Central Depositories Act and the Rules
<b>Promoters</b>	:	HongPeng International, Ding PengPeng and Ding LiHong, collectively
<b>Prospectus</b>	:	This Prospectus dated 23 October 2009 issued by our Company in respect of the IPO
<b>Public Issue</b>	:	The invitation by our Company to the Public to subscribe for the Public Issue Shares at the IPO Price, payable in full upon application, subject to the terms and conditions of this Prospectus
<b>R&amp;D</b>	:	Research and development
<b>Record of Depositors</b>	:	A record provided by Bursa Depository to our Company under Chapter 24.0 of the Rules
<b>RM and sen</b>	:	Ringgit Malaysia and sen, respectively
<b>RMB and RMB cents</b>	:	PRC Renminbi and cents, respectively
<b>ROC</b>	:	Registrar of Companies of Malaysia



## DEFINITIONS (Cont'd)

<b>Rules</b>	: The Rules of Bursa Depository
<b>SAFE</b>	: State Administration of Foreign Exchange of the PRC (中华人民共和国国家外汇管理局)
<b>SAIC</b>	: State Administration for Industry and Commerce of the PRC (中华人民共和国国家工商行政管理总局)
<b>SC</b>	: Securities Commission of Malaysia
<b>SC Guidelines</b>	: SC's Equity Guidelines, as amended, supplemented or modified from time to time
<b>Securities Account</b>	: An account established by Bursa Depository for a Depositor for the purpose of recording the deposit of securities and for dealing in such securities by the Depositor
<b>Shareholder(s)</b>	: Registered holder(s) of our Shares
<b>SPA</b>	: Sale and Purchase Agreement
<b>Underwriters or Co-Underwriters</b>	: AmInvestment Bank and OSK
<b>Underwriting Agreement</b>	: The underwriting agreement dated 25 September 2009 made between our Company and the Co-Underwriters for the underwriting of 10,000,000 Public Issue Shares upon the terms and subject to the conditions contained therein
<b>US</b>	: United States of America
<b>US\$ and US cents</b>	: US dollars and cents
<b>WFOE</b>	: Wholly foreign-owned enterprise under the laws of the PRC
<b>XiDeLang or Company</b>	: XiDeLang Holdings Ltd (喜得狼控股有限公司) (Bermuda Company No. 43136) (Malaysian Foreign Company Registration No. 995210-W), incorporated in Bermuda as an exempted company under the Bermuda Companies Act and registered as a foreign company in Malaysia under the Malaysian Companies Act
<b>XiDeLang Sports Goods</b>	: Fujian Province Jinjiang City XiDeLang Sports Goods Co., Ltd. (福建省晋江市喜得狼体育用品有限公司) (PRC Business Licence Serial No. 350582100074172), incorporated in PRC as a limited liability company under the laws of the PRC
<b>XiDeLang Group or Group</b>	: XiDeLang and our subsidiaries, namely XinYuanChan, HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods
<b>XiDeLang Share(s) or Share(s)</b>	: Ordinary shares of US\$0.10 each in the capital of XiDeLang
<b>XinYuanChan</b>	: Hong Kong XinYuanChan International Holding Co., Limited (香港新源昌国际控股有限公司) (Hong Kong Company No. 1248611), incorporated in Hong Kong as a private company with limited liability under the Hong Kong Companies Ordinance (Cap. 32)

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## GLOSSARY OF TECHNICAL TERMS

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To facilitate a better understanding of our business, the following glossary provides a description of some of the technical terms and abbreviations commonly found in our industry. The terms and their assigned meanings may not correspond to standard industry or common meanings, or usage of these terms, as the case may be:-

- Casual Sports Shoes** : Also referred to as leisure sports shoes. Casual/leisure sports shoes are suitable for many activities across the board, and are not designed for any specific sport activity. It is commonly associated with casual use and is designed with styling and comfort as the main priority, but lacks specialised technical features. Casual/leisure sports shoes are commonly used as street walking shoes
- Court Sports Shoes** : A category of sports shoes designed for use in court-based sports such as tennis, basketball, squash, volleyball, badminton and table tennis
- Ethylene Vinyl Acetate copolymer (EVA)** : Copolymer of ethylene and vinyl acetate. The weight percentage of vinyl acetate usually varies from 10% to 40%, with the remainder being ethylene. EVA is light, soft and flexible. It is often used in sports shoe due to its great combination of shock absorption and light-weight properties. Over time, EVA will compress and becomes flat as the air trapped inside is squeezed out. It does not return to its original shape to provide cushioning. EVA compresses faster than most midsole materials
- Last** : A foot form usually made of wood or plastic, which represents the space inside a shoe. It is commonly used to construct shoe upper and to give it shape
- Leisure Sports Shoes** : Also referred to as casual sports shoes. See Casual Sports Shoes
- Polyurethane (PU)** : A chemical compound with more than two urethane functional groups. It is the densest and heaviest material used for midsoles. Its high density makes it the most durable material for midsoles
- Polyvinyl Chloride (PVC)** : A thermoplastic material composed of polymers of vinyl chloride. PVC is a colourless solid with outstanding resistance to water, alcohols, and concentrated acids and alkalies
- Running Shoes** : A category of sports shoe designed and styled primarily for use in running. It is designed to provide stability and support, and to protect the foot and other parts of the leg from the pounding action. It is also designed to optimise runner's gait such that the runner is able to run longer and faster. It is commonly characterised by a high degree of cushioning in the insole and midsole, which are designed for maximum shock absorption and stability
- Soles** : The underside of a footwear often not including the heels

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**GLOSSARY OF TECHNICAL TERMS (Cont'd)**

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- Sports Shoe** : Sports shoes are primarily protective footwear commonly made of soft and flexible material for the upper body and relatively harder materials for the soles. It is designed for sporting and physical activities and differs from dress shoe in construction, design and style. Sports shoes are commonly used in sporting activities including running, walking, cross-training, hiking, basketball, volleyball, tennis, badminton, squash and other physical activities like ballet. However, it does not include football boots, ski boots and other sports shoes that require special fittings like spikes or cleats, or professional sports shoes which requires special certification from the China government.
- Sports Shoe Sole** : The underside of a sports shoe comprising three parts namely, inner sole, midsole and outsole
- Thermoplastic** : Refers to the properties of a plastic material that softens when heated and hardens again when cooled. A thermoplastic material may be remelted and cooled numerous times and still retain its original properties. As such, thermoplastic materials are recyclable materials
- Thermoplastic Rubber (TPR)** : A material based on styrene-butadiene-styrene block copolymers. Thermoplastic rubber displays rubber like properties and appearance. It is recyclable, light in weight and provides good traction under low temperature

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## INTERPRETATION

All references to “Company” and “XiDeLang” in this Prospectus are to XiDeLang Holdings Ltd (喜得狼控股有限公司), references to “our Group” is to our Company and our subsidiaries, and references to “we”, “us”, “our” and “ourselves” are to our Company, and where the context requires, our Company and our subsidiaries.

Unless the context otherwise requires, references to “management” are to our Directors and key management personnel as at the date of this Prospectus. Statements as to our beliefs, expectations, estimates and opinions are those of our Directors.

Certain acronyms, technical terms and other abbreviations used are defined in the “Definitions” and “Glossary of technical terms” section of this Prospectus. In this Prospectus, words referring to the singular shall, where applicable, include the plural and *vice versa*, and words referring to the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include a company or a corporation.

XiDeLang is a foreign-incorporated company and not incorporated under the Malaysian Companies Act. However, for your ease of reference and understanding, all substantial Shareholders and their indirect shareholdings in XiDeLang have been identified based on Section 69D and Section 6A of the Malaysian Companies Act.

Any reference in this Prospectus, the Application Form(s), Electronic Share Applications or Internet Share Applications to any legislation, statute or statutory provision is a reference to that legislation, statute or statutory provision for the time being as amended or re-enacted, and to any repealed legislation, statute or statutory provision which it re-enacts (with or without modification). Any word defined in the Malaysian Companies Act, Bermuda Companies Act, CMSA, Listing Requirements or any statutory modification thereof and used in this Prospectus and the Application Form(s) shall, where applicable, have the meaning ascribed to it under the Malaysian Companies Act, Bermuda Companies Act, CMSA, Listing Requirements or any statutory modification thereof (as the case may be).

Any reference to a time of day in this Prospectus, the Application Form(s), Electronic Share Applications or Internet Share Applications shall be a reference to Malaysia time unless otherwise stated.

Certain names, phrases, statements, terminology and other references originally in Chinese text in source documents / materials have been translated into English in this Prospectus solely for the convenience of readers. The Chinese text may be subject to differing interpretations and translations and accordingly no representation is made that any such translations into English accurately reflect the Chinese text or meaning of the relevant original source documents / materials. Such translations may not have been registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters.

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

The term “entity” includes a corporation, an unincorporated association, a partnership and the government of any state, but does not include a trust.

The word “approximately” used in this Prospectus is to indicate that a number is not an exact one, but that number is usually rounded off to the nearest tenth / hundredth or one / two decimal places. Any numeric discrepancies in the tables included in this Prospectus between the listed amounts and the totals thereof are due to rounding differences.

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**INTERPRETATION (Cont'd)**

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In this Prospectus, references to "a person who is deemed connected" with another are references to such persons as defined under Section 122A of the Malaysian Companies Act. A person shall be deemed connected to a Director or substantial Shareholder of XiDeLang if he is:-

- (a) a member of that Director's or substantial Shareholder's family, which is defined to include his spouse, parent, child (including adopted child and step-child), brother, sister and the spouse of his child, brother or sister;
- (b) a body corporate that is associated with that Director or substantial Shareholder;
- (c) a trustee of a trust (other than a trustee for an employee share scheme or pension scheme) under which that Director or substantial Shareholder or member of his family is a beneficiary; or
- (d) a partner of that Director or substantial Shareholder, or a partner of a person connected with the Director or substantial Shareholder.

In this Prospectus, references to "a substantial Shareholder" shall have the meaning defined under the Malaysian Companies Act. A person has a substantial shareholding in a company:-

- (a) if he has an interest or interests in one or more voting shares in the company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than five per centum of the aggregate of the nominal amounts of all the voting shares in the company; or
- (b) if, being a company the share capital of which is divided into two or more classes of the shares, if he has an interest or interests in one or more voting shares included in one of those classes and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than five per centum of the aggregate of the nominal amounts of all the voting shares included in that class.

"A body corporate is associated with a director or substantial shareholder" as defined under the Malaysian Companies Act, if:-

- (a) the body corporate is accustomed or is under an obligation, whether formal or informal, or its directors or substantial shareholders are accustomed, to act in accordance with the directions, instructions or wishes of that director or substantial shareholder;
- (b) that director or substantial shareholder has a controlling interest in the body corporate; or
- (c) that director or substantial shareholder or persons connected with him, or that director or substantial shareholder and persons connected with him, are entitled to exercise, or control the exercise of, not less than fifteen per centum of the votes attached to the voting shares in the body corporate.

This Prospectus contains forward-looking statements, which are statements other than statements of historical facts, and are based on assumptions that are subject to known and unknown risks, uncertainties and contingencies. The words, such as "believe", "plan", "expect", "intend", "estimate" and similar expressions are used to identify such forward-looking statements. These forward-looking statements represent our Directors' views and beliefs with respect to the future of our Group, and do not constitute a guarantee of the future performance of our Group.

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## EXCHANGE RATES

The average and closing exchange rates as outlined in the table below, are extracted from published information by Bloomberg L.P.. The average exchange rate for each financial period is the average of the closing exchange rates on the last day of each month during that financial period. These exchange rates have been presented solely for information only and should not be construed as a representation that those RMB or US\$ amounts could have been, or could be, or was converted into RM, at any particular rates, the rates stated below, or at all.

	RMB : RM rate		US\$ : RM rate	
	Average	Closing	Average	Closing
FYE 2006	0.4600	0.4523	3.6667	3.5270
FYE 2007	0.4517	0.4528	3.4361	3.3115
FYE 2008	0.4799	0.5061	3.3336	3.4675
1H 2009	0.5248	0.5152	3.5881	3.5191

(Source: Bloomberg L.P.)

The high and low exchange rates between RMB and RM, and between US\$ and RM for each of the past six (6) months prior and up to the LPD were as follows:-

	RMB : RM rate		US\$ : RM rate	
	High	Low	High	Low
April 2009	0.5353	0.5176	3.6580	3.5485
May 2009	0.5237	0.5093	3.5755	3.4750
June 2009	0.5199	0.5081	3.5540	3.4695
July 2009	0.5270	0.5091	3.6005	3.5064
August 2009	0.5192	0.5101	3.5480	3.4842
September 2009	0.5194	0.5069	3.5475	3.4600

(Source: Bloomberg L.P.)

As at LPD, the closing exchange rate between RMB and RM was RMB1 to RM0.5155, whilst the closing exchange rate between US\$ and RM was US\$1 to RM3.5215.

The above exchange rates have been calculated with reference to exchange rates quoted from Bloomberg L.P. and should not be construed as representations that the RMB or US\$ amounts actually represent such amounts or could be or was converted into the RM at the rate indicated, or at any other rate, or at all. Fluctuations in the exchange rates between the RMB and the RM will affect the RMB equivalent of the RM price of our Shares on Bursa Securities and the RM equivalent of any cash dividend paid by us in RMB.

We believe that we have extracted the relevant information in its proper form and context in this Prospectus, and have not verified the above exchange rates.

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Name	Designation	Address	Nationality / Occupation
Ms. Ding LiHong	Executive Chairman	Room 803, Building 2 No.140, Dongtu Street Fengze District, Quanzhou City Fujian Province PRC	Chinese / Director
Mr. Ding PengPeng	Managing Director and CEO	No. 210, Xingzhen North Road Hua Ting Kou Village Chendai County, Jinjiang City Fujian Province PRC	Chinese / Director
Ms. Ding PengWan	Executive Director	No. 102, Xingzhen North Road Hua Ting Kou Village Chendai County, Jinjiang City Fujian Province PRC	Chinese / Director
Mr. Zhu GuoHe	Independent Non-Executive Director	Suite 301, Block 2 Yuantaiyuan No.105, Xiangyuan Road Fengze District, Quanzhou City Fujian Province PRC	Chinese / Director
Mr. Wong Yoke Nyen	Independent Non-Executive Director	Suite 50-5-3A, Level 5, Wisma UOA Damansara, 50 Jalan Dungun Damansara Heights 50490 Kuala Lumpur Malaysia	Malaysian / Director
Mr. Woon Yeow Thong	Independent Non-Executive Director	No. 30-1, Jalan Toman 3 Kemayan Square 70200 Seremban Negeri Sembilan Malaysia	Malaysian / Director

### AUDIT COMMITTEE

Name	Designation	Directorship
Mr. Wong Yoke Nyen	Chairman of Audit Committee	Independent Non-Executive Director
Mr. Zhu GuoHe	Member of Audit Committee	Independent Non-Executive Director
Mr. Woon Yeow Thong	Member of Audit Committee	Independent Non-Executive Director

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**CORPORATE DIRECTORY (Cont'd)**

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**JOINT COMPANY SECRETARIES** : Richard J. Evans<sup>(1)</sup>  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

Wong Wei Fong (MAICSA 7006751)  
Level 18, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia

**Note: -**

(1) *Richard J. Evans will resign as Company Secretary and be appointed Assistant Company Secretary upon our Listing on Bursa Securities.*

**COMPANY AGENT IN MALAYSIA** : PFA Corporate Consultants Sdn Bhd  
Level 18, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2264 8888  
Facsimile No. : +6 (03) 2282 2733

**REGISTERED OFFICE IN BERMUDA** : Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda  
Telephone No. : +1 (441) 295 1422  
Facsimile No. : +1 (441) 292 4720

**REGISTERED OFFICE IN MALAYSIA** : Level 18, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2264 8888  
Facsimile No. : +6 (03) 2282 2733

**HEAD OFFICE / PRINCIPAL PLACE OF BUSINESS** : HongPeng Building  
Yangguang East Road  
Hua Ting Kou Industrial Zone  
Chendai County  
Jinjiang City, Fujian Province  
PRC  
Telephone No. : +86 (595) 8512 9000  
Facsimile No. : +86 (595) 8512 9991  
E-mail : xidelang@126.com  
Website : www.xidelang.com\*

**Note: -**

\* *Information contained in our website does not constitute part of this Prospectus.*

**REGISTRARS AND TRANSFER OFFICE IN MALAYSIA** : Tenaga Koperat Sdn Bhd  
Level 17, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2264 3883  
Facsimile No. : +6 (03) 2282 1886

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**CORPORATE DIRECTORY (Cont'd)**

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- BERMUDA SHARE REGISTRAR** : Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda  
Telephone No. : +1 (441) 295 1422  
Facsimile No. : +1 (441) 292 4720
- AUDITORS AND REPORTING ACCOUNTANTS** : BDO Binder (AF 0206)  
Chartered Accountants  
12<sup>th</sup> Floor, Menara Uni.Asia  
1008 Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2616 2888  
Facsimile No. : +6 (03) 2616 3190
- SOLICITORS FOR THE LISTING AND LEGAL ADVISERS TO OUR COMPANY ON MALAYSIAN LAW** : Mah-Kamariyah & Philip Koh  
Advocates & Solicitors  
No. 3, Persiaran Hampshire  
Off Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2163 0208  
Facsimile No. : +6 (03) 2163 0193
- LEGAL ADVISERS TO OUR COMPANY ON BERMUDA LAW** : Conyers Dill & Pearman Pte. Ltd.  
50 Raffles Place #18-04  
Singapore Land Tower  
Singapore 048623  
Telephone No. : +65 6223 6006  
Facsimile No. : +65 6223 7887
- LEGAL ADVISERS TO OUR COMPANY ON PRC LAW** : B.D.L. International Law Firm  
16/F, Da Hang Ji Ye Mansion  
No. 33 North Renda Road, Haidian District  
Beijing, 100080  
PRC  
Telephone No. : +86 (10) 8268 5026  
Facsimile No. : +86 (10) 8268 4574
- LEGAL ADVISERS TO OUR COMPANY ON HONG KONG LAW** : Chiu, Szeto & Cheng Solicitors  
Unit 818, 8th Floor, China Insurance Group Building  
No. 73 Connaught Road  
Central  
Hong Kong  
Telephone No. : +852 2529 9191  
Facsimile No. : +852 2529 9116
- PRINCIPAL BANKERS** : Industrial and Commercial Bank of China  
Jinjiang Sub-branch, Neikeng Office  
Chamber of Commerce Building  
Neikeng Development Zone, Jinjiang City  
Fujian Province  
PRC  
Telephone No. : +86 (595) 8838 8104



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**CORPORATE DIRECTORY (Cont'd)**

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- PRINCIPAL BANKERS (cont'd)** : Fujian Jinjiang Rural Cooperative Bank  
Meiling Sub-branch  
Yinli Building  
Qingyang Street, Jinjiang City  
Fujian Province  
PRC  
Telephone No. : +86 (595) 8569 1469
- INDEPENDENT BUSINESS AND  
MARKET RESEARCH  
CONSULTANTS** : Vital Factor Consulting Sdn Bhd (266797-T)  
75C & 77C, Jalan SS22/19  
Damansara Jaya  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia  
Telephone No. : +6 (03) 7728 0248  
Facsimile No. : +6 (03) 7728 7248
- ISSUING HOUSE** : MIDF Consultancy and Corporate Services Sendirian  
Berhad (11324-H)  
Level 8, Menara MIDF  
82, Jalan Raja Chulan  
50200 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2173 8888  
Facsimile No. : +6 (03) 2173 8677
- ADVISER,  
CO-UNDERWRITER AND  
PLACEMENT AGENT** : AmInvestment Bank Berhad (23742-V)  
(a member of AmInvestment Bank Group)  
22nd Floor, Bangunan AmBank Group  
No. 55, Jalan Raja Chulan  
50200 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2036 2633  
Facsimile No. : +6 (03) 2070 8596
- MANAGING UNDERWRITER,  
LEAD PLACEMENT AGENT AND  
CO-UNDERWRITER** : OSK Investment Bank Berhad (14152-V)  
20th Floor, Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Telephone No. : +6 (03) 2333 8333  
Facsimile No. : +6 (03) 2175 3333
- LISTING SOUGHT** : Main Market of Bursa Securities
- SHARIAH STATUS** : Approved by the Shariah Advisory Council of the SC

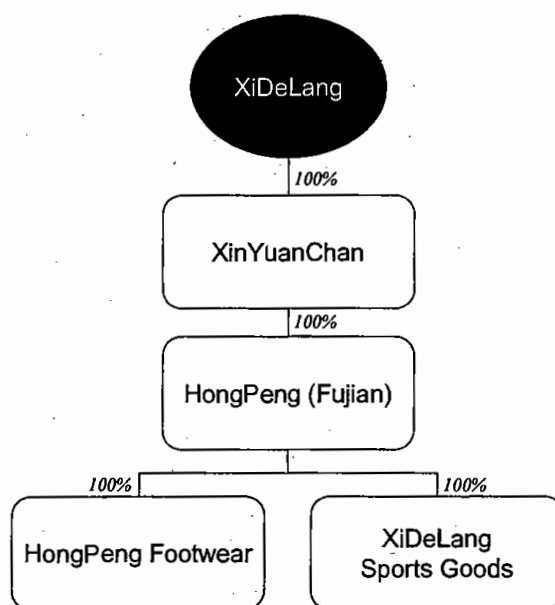
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## 1. INFORMATION SUMMARY

THIS INFORMATION SUMMARY IS ONLY A SUMMARY OF THE SALIENT INFORMATION ON OUR GROUP. YOU SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER OR NOT TO INVEST IN OUR SHARES. THE SUMMARY INFORMATION SET OUT BELOW IS DERIVED FROM THIS PROSPECTUS AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS.

### 1.1 HISTORY AND BUSINESS

As at the date of this Prospectus, our Group structure is as follows:-



Our subsidiaries and their respective principal activities are as follows:-

Corporation	Date / place of incorporation	Issued and paid-up share capital	Effective equity interest %	Year commenced operations	Principal activities
<i>Direct</i> XinYuanChan	19 June 2008 / Hong Kong	HK\$10,000	100.0	2008	Investment holding
<i>Indirect</i> HongPeng (Fujian)	29 November 1996 / PRC	RMB8,500,000	100.0	1996	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment
HongPeng Footwear	10 May 1993 / PRC	RMB37,000,000	100.0	1993	Design, manufacturing and marketing of sports shoes
XiDeLang Sports Goods	24 July 1995 / PRC	RMB36,000,000	100.0	1995	Owner of proprietary 'XiDeLang' brand

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**1. INFORMATION SUMMARY (Cont'd)**

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Our history can be traced back to 1993 when Mr. Ding PengPeng, our Managing Director and CEO and Ms. Ding LiHong, our Executive Chairman, co-founded HongPeng Footwear in Jinjiang City, Fujian Province, and began the production and marketing of sports shoes, with a focus on casual sports shoes.

Their vision and management have contributed significantly to our success, growth and development. Early in our history, they recognised the importance of brand creation, ownership and management as key components in differentiating ourselves from our competitors.

As a result, in 1993, the 'XiDeLang' brand of sports shoes was launched in China. Due to our brand building efforts over the years, we believe our 'XiDeLang' brand has established a reputation synonymous with trendy, innovative and quality sports shoes, apparel, accessories and equipment at the forefront of consumer trends and preferences.

As a testament to the strength and value of our brand, we have been awarded numerous titles and recognitions, including the "Fujian Famous Brand" award and the "Well-known Mark of China" award in 2004 and 2006 respectively. We are one of the few sports-shoe brands in China to have obtained the "Well-known Mark of China" status. The latest award we have received in 2009 is the "No. 1 spot for Jinjiang Top 10 Most Growth for Sports and Leisure Brand" by Jinjiang Economy News, Market Economy Academy, Peking University – Private Institute of Economic Research.

In 1995, we established XiDeLang Sports Goods to own our proprietary 'XiDeLang' brand name. In order to enhance the competitiveness of our brand and products, we began to devote our primary focus to proprietary brand management and product development. The continuous development and marketing of our 'XiDeLang' brand was also emphasised.

Under our 'XiDeLang' brand, we developed and marketed a broad range of sports shoes designed for specific activities, such as skateboarding, running, basketball and tennis. At the same time, we enhanced our manufacturing efficiency and capabilities, and expanded our distribution channels. In 1996, HongPeng (Fujian) was established to undertake the manufacturing of sports shoes. HongPeng Footwear continues to undertake the manufacturing of sports shoes with a focus on overseas markets.

To further enhance our competitive advantage, we developed in-house product development and design capabilities in 2000. This enabled us to have full control in creating innovative designs, whilst allowing us to respond to evolving trends, market demand and consumer preferences.

All our designs are proprietary and represent our intellectual property. In-house design is key in supporting our brand. As a consumer product brand, we believe that the success of our 'XiDeLang' brand is strongly linked to contemporary product designs that constantly appeal to consumer preferences.

We develop approximately 2,000 designs of sports shoes every year, of which approximately 500 are commercialised. Our 'XiDeLang' brand of sports shoes now covers an extensive range of sports shoes such as running, basketball, tennis, skateboarding, hiking, trekking and casual-wear shoes.

In 2005 / 2006, we established a complementary line of sports apparel and accessories to leverage on our 'XiDeLang' brand equity and our extensive distribution network. In addition, we sought to capitalise on the increasing attention placed on active and healthy lifestyles, and rising consumer demand for branded sports apparel. We expanded our product range by designing and developing sports apparel under our 'XiDeLang' brand in collaboration with third party manufacturers, and outsourced production to them. In 2007, we successfully launched our range of sports apparel and accessories, which was well received by our target consumers.

## **1. INFORMATION SUMMARY (Cont'd)**

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In 2007, we engaged a popular local artiste, Zhang Jie to be 'XiDeLang' brand ambassador, as part of our brand-enhancement strategy. This successfully escalated the profile of the 'XiDeLang' brand, strengthened our brand appeal, and further established the 'XiDeLang' brand as a popular brand of sports shoes and apparel, especially among the younger age groups in China.

We have progressively developed an expansive retail presence, due to our success in building brand awareness and loyalty. Our strong 'XiDeLang' brand image and recognition have allowed us to successfully establish an extensive distribution network of approximately 2,300 retail locations across China, of which approximately 1,320 are concept stores. We are able to sell our products to a wide domestic market, as XiDeLang products are retailed across 25 provinces and municipalities in China.

Over the years, we have built-up significant brand equity, due to our unwavering focus on brand management. We have entrenched ourselves as a leading brand for sports shoes, apparel, accessories and equipment. At the same time, we have accumulated substantial manufacturing know-how and enhanced our production efficiency.

Our annual manufacturing output has grown from 1.6 million pairs of sports shoes in 1995, to 4.4 million pairs in 2008. Due to the success of our vigorous marketing efforts, we have enjoyed an increase in sales volume. As such, we have had to engage third party contractors to manufacture sports shoes using our proprietary designs and specifications to meet the increase in demand for our sports shoes.

We intend to further expand our manufacturing operations to gain first-hand technical expertise, which keeps us at the forefront in using innovative technological improvements. This is essential in reducing our product costs, is critical to maintaining high product quality, and complements our product design and development capabilities.

Since our inception in 1993, we have successfully positioned ourselves as a coveted brand for sports-shoes, apparel, accessories and equipment with strong retail presence across China. Simultaneously, we have accumulated extensive in-house product development and design expertise for sports shoes, apparel, accessories and equipment, and developed substantial manufacturing capabilities for sports shoes.

Further details on our history and business are set out in Section 4.1 of this Prospectus.

### **1.2 COMPETITIVE STRENGTHS**

Our success and future prospects are bolstered by a combination of strengths and advantages, as follows:-

- (i) Established proprietary brand;
- (ii) Extensive network of retail locations across the PRC;
- (iii) Strong product development / design capabilities;
- (iv) Emphasis on quality products; and
- (v) Experienced, dynamic and committed management team.

Further details on our competitive strengths and advantages are set out in Section 4.5 of this Prospectus.

**1. INFORMATION SUMMARY (Cont'd)**

**1.3 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT**

Our Promoters, substantial Shareholders, Directors and key management are as listed below:-

<b>Name</b>	<b>Designation</b>
<b><u>Promoters</u></b>	
HongPeng International	Promoter and substantial Shareholder
Ding LiHong	Executive Chairman
Ding PengPeng	Managing Director and CEO
<b><u>Substantial Shareholders</u></b>	
HongPeng International	Promoter and substantial Shareholder
Ding PengPeng	Managing Director and CEO
<b><u>Directors</u></b>	
Ding LiHong	Executive Chairman
Ding PengPeng	Managing Director and CEO
Ding PengWan	Executive Director
Zhu GuoHe	Independent Non-Executive Director
Wong Yoke Nyen	Independent Non-Executive Director
Woon Yeow Thong	Independent Non-Executive Director
<b><u>Key management</u></b>	
Lim Choon Hian (Robert)	Director of Investor Relations
Zheng ChaoBin	R&D Manager
Zhang ChengHui	Production Manager
Yu JinJie	Marketing Manager
Lin YingYu	Finance Manager
Ding PengWan	Purchasing and Integrated Management Manager

Further details on our Promoters, substantial shareholders, Directors and key management are set out in Section 5 of this Prospectus.

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**1. INFORMATION SUMMARY (Cont'd)**

**1.4 HISTORICAL FINANCIAL INFORMATION**

The following table sets out a summary of the proforma consolidated results of our Group for the past three (3) FYEs 2006, 2007 and 2008, as well as for 1H 2008 and 1H 2009. The proforma consolidated results were prepared on the assumption that our Group had been in existence throughout the financial periods under review. The proforma consolidated results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>
Revenue	207,859	95,615	350,906	158,504	573,939	275,433	255,040	116,298	375,394	197,006
Cost of sales	(159,212)	(73,237)	(258,177)	(116,618)	(409,888)	(196,705)	(184,738)	(84,241)	(260,959)	(136,951)
Gross profit	48,647	22,378	92,729	41,886	164,051	78,728	70,302	32,057	114,435	60,055
Other income	240	110	154	69	244	117	116	53	152	80
Distribution costs	(6,851)	(3,152)	(7,858)	(3,550)	(15,338)	(7,360)	(4,861)	(2,216)	(7,574)	(3,975)
Administrative and other expenses	(5,841)	(2,686)	(7,678)	(3,468)	(10,524)	(5,050)	(4,493)	(2,049)	(4,834)	(2,537)
Operating profits	36,195	16,650	77,347	34,937	138,433	66,435	61,064	27,845	102,179	53,623
Finance costs	(1,052)	(484)	(1,421)	(642)	(2,872)	(1,378)	(1,072)	(489)	(1,974)	(1,035)
PBT	35,143	16,166	75,926	34,295	135,561	65,057	59,992	27,356	100,205	52,588
Taxation	(9,309)	(4,282)	(18,533)	(8,371)	(34,733)	(16,668)	(15,581)	(7,105)	(27,435)	(14,398)
PAT	25,834	11,884	57,393	25,924	100,828	48,389	44,411	20,251	72,770	38,190
Attributable to:										
- Equity holders of XiDeLang	25,834	11,884	57,393	25,924	100,828	48,389	44,411	20,251	72,770	38,190
- MI	-	-	-	-	-	-	-	-	-	-
Number of Shares in XiDeLang had our Group been in existence <sup>(1)</sup>	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
EPS (RMB / RM)										
- Basic	0.065	0.030	0.143	0.065	0.252	0.121	0.222 <sup>(4)</sup>	0.101 <sup>(4)</sup>	0.364 <sup>(4)</sup>	0.191 <sup>(4)</sup>
- Diluted <sup>(3)</sup>	0.065	0.030	0.143	0.065	0.252	0.121	0.222 <sup>(4)</sup>	0.101 <sup>(4)</sup>	0.364 <sup>(4)</sup>	0.191 <sup>(4)</sup>



**1. INFORMATION SUMMARY (Cont'd)**

	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>
EBIDTA	37,036	17,035	78,863	35,623	140,376	67,368	62,035	28,287	102,959	54,033
Interest income	148	68	154	69	231	111	116	53	152	80
Depreciation	913	419	953	431	958	460	479	218	323	170
Amortisation	76	34	717	324	1,216	584	608	277	609	320
Gross profit margin (%)	23.4	23.4	26.4	26.4	28.6	28.6	27.6	27.6	30.5	30.5
PBT margin (%)	16.9	16.9	21.6	21.6	23.6	23.6	23.5	23.5	26.7	26.7
PAT margin (%)	12.4	12.4	16.4	16.4	17.6	17.6	17.4	17.4	19.4	19.4
Effective tax rate (%)	26.5	26.5	24.4	24.4	25.6	25.6	26.0	26.0	27.4	27.4

**Notes:-**

- (1) Based on the issued share capital of 400,000,000 Shares after completion of the Consolidation, Acquisition of XinYuanChan and the Public Issue.  
 (2) For the purpose of this Prospectus, the balance sheet items and income statement items were translated using the closing exchange rates and average exchange rates for the respective financial years / period as summarised below:-

	FYE 2006	FYE 2007	FYE 2008	1H 2008	1H 2009
Average rate	RMB1 : RM 0.4600	RMB1 : RM0.4517	RMB1 : RM0.4799	RMB1 : RM0.4560	RMB1 : RM0.5248
Closing rate	RMB1 : RM 0.4523	RMB1 : RM0.4528	RMB1 : RM0.5061	RMB1 : RM0.4766	RMB1 : RM0.5152

- (3) There were no potential dilutive shares in issue during the financial years / period under review.  
 (4) Annualised to 12 months for comparison purposes.

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## 1. INFORMATION SUMMARY (Cont'd)

The proforma consolidated results of our Group are mainly extracted from the audited financial statements of HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods for the FYEs 2006, 2007 and 2008, as well as the 1H 2009 and the audited financial statements of XinYuanChan for the 1H 2009 and the audited financial statements of XiDeLang for financial period from 17 April 2009 (date of incorporation) to 30 June 2009 which have been prepared in accordance with applicable approved FRS in Malaysia, and the audited financial statements of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 which have been prepared in accordance with applicable approved Hong Kong FRS, where relevant, adjustments have been made to comply with applicable approved FRSs in Malaysia for the purpose of inclusion in the preparation of the proforma consolidated financial information. The 1H 2008 results are extracted from the management accounts of the subsidiaries of XiDeLang.

Further information on the proforma consolidated results is set out in Section 9.7 of this Prospectus.

### 1.5 PRINCIPAL STATISTICS RELATING TO THE IPO

	Number of Shares	Share capital US\$
<b>Authorised share capital</b>	<b>500,000,000</b>	<b>50,000,000</b>
<b>Existing issued and paid-up share capital</b>	300,000,000	30,000,000
- New Shares to be issued pursuant to the Public Issue	100,000,000	10,000,000
<b>Enlarged issued and paid-up share capital upon Listing</b>	<b>400,000,000</b>	<b>40,000,000</b>
- <b>IPO Price per Share</b>		RM0.58
- <b>Proforma consolidated NA per Share</b> (based on the enlarged issued and paid-up share capital after the IPO and after deducting the estimated listing expenses of RM8 million)		RMB0.68 (equivalent to RM0.35 <sup>(1)</sup> )
- <b>Market capitalisation</b> (based on the IPO Price and enlarged issued and paid-up share capital after Listing)		RM232,000,000

**Note:-**

(1) Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

Further details on the IPO and our proforma consolidated NA are set out in Section 2 and Section 9.7 of this Prospectus, respectively.

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## 1. INFORMATION SUMMARY (Cont'd)

### 1.6 UTILISATION OF PROCEEDS

The Public Issue is expected to raise gross proceeds of RM58 million, which shall accrue to us. We intend to utilise the proceeds raised in the following manner:-

	Estimated timeframe for utilisation upon Listing	Amount RM'000
(i) Advertising and branding	Within 12 months	9,200
(ii) Expansion of marketing and distribution network	Within 12 months	18,400
(iii) Research and extension of product portfolio	Within 12 months	2,300
(iv) Expansion of production capacity	Within 12 months	16,100
(v) Working capital	On-going	4,000
(vi) Estimated Listing expenses	Immediate	8,000
<b>Total proceeds</b>		<b>58,000</b>

Further details on the utilisation of proceeds are set out in Section 2.7 of this Prospectus.

### 1.7 RISK FACTORS

You should carefully consider the following risk factors in evaluating an investment in the IPO Shares:-

#### Risks relating to our business and operations

- (i) Competition from global and locally-established brands
- (ii) Inability to continually produce contemporary designs
- (iii) Failure to keep abreast with production technologies
- (iv) Adverse publicity on 'XiDeLang' brand spokesperson may adversely affect our performance
- (v) Dependence on principal markets
- (vi) Inadvertent infringement of third-party intellectual-property rights
- (vii) Dependence on continual supply of raw materials at competitive prices
- (viii) Dependence on sub-contractors and manufacturers
- (ix) Operational risks and insurance coverage
- (x) Dependence on executive directors, key management and skilled workforce
- (xi) Dependence on distributors and retailers

#### Risks relating to our business in China

- (i) Foreign exchange controls
- (ii) Restrictions on dividends / payments from our subsidiaries
- (iii) Capital restrictions on funds raised in Malaysia
- (iv) Exchange rate fluctuations
- (v) Dependence on China's political, economic, regulatory and social conditions
- (vi) Changes to China's environmental laws and regulations
- (vii) Changes to China's tax laws and regulations
- (viii) Changes to China's certain other laws and regulations
- (ix) Outbreak of severe contagious diseases in China

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**1. INFORMATION SUMMARY (Cont'd)**

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**Risks relating to our Company being incorporated in Bermuda**

- (i) Rights and protection accorded to our Shareholders
- (ii) Recognising Depositors as our Shareholders
- (iii) Take-over protections
- (iv) Purchase of our own Shares

**Risks relating to investment in our Shares**

- (i) No prior market for our Shares
- (ii) Capital market risks or share price volatility
- (iii) Uncertain economic outlook
- (iv) Control by Promoters
- (v) Failure / delay in our Listing
- (vi) Delay between Admission and trading of the IPO Shares
- (vii) Future fundraisings may dilute shareholders equity or restrict our operations
- (viii) Enforceability of shareholder rights
- (ix) Material litigation, claim or arbitration or legal uncertainties
- (x) Disclosure regarding forward-looking statements

Further details on risk factors are set out in Section 3 of this Prospectus.

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## 2. PARTICULARS OF THE IPO

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This Prospectus is dated 23 October 2009. The IPO is subject to the terms and conditions of this Prospectus.

A copy of this Prospectus has been registered with the SC and lodged with the ROC, which takes no responsibility for its contents. A copy of this Prospectus will be filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority has given its consent to the issue of the Public Issue Shares pursuant to the IPO on the terms referred to in this Prospectus. The Registrar of Companies in Bermuda in accepting this Prospectus for filing and the Bermuda Monetary Authority in granting its permission accept no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed in this Prospectus or any other documents.

Our Shares are classified as Shariah-compliant by the Shariah Advisory Council of the SC (“SAC”) based on our latest audited FYE 2008. This classification will remain valid from the date of issue of this Prospectus until the next Shariah compliance review is undertaken by the SAC. The new status will be released in the updated list of Shariah-compliant securities, on the last Friday of May and November.

**The approval of the SC for the IPO, as set out in Section 6 of this Prospectus, shall not be taken to indicate that the SC recommends the IPO. You should rely on your own evaluation to assess the merits and risks of the IPO.**

Bursa Securities has resolved to approve our admission to the Official List of the Main Market of Bursa Securities and the listing and quotation of our entire enlarged issued and paid-up share capital of 400,000,000 Shares on the Main Market of Bursa Securities, vide its letter dated 20 October 2009. Listing and quotation of our Shares will commence after, amongst others, receipt of confirmation from Bursa Depository of the receipt of allotment and allocation information for the crediting of the IPO Shares, and receipt of an undertaking that all notices of allotment will be issued and despatched to all successful applicants prior to the date of listing and quotation of the Shares, failing which any allotment and allocation made on an application to subscribe for and / or purchase of our Shares pursuant to this Prospectus is required under Malaysian law to be void.

Acceptance of Application(s) for the IPO Shares will be conditional upon permission being granted by Bursa Securities for the quotation of the entire enlarged issued and fully paid-up share capital of our Company on the Main Market of Bursa Securities. Accordingly, monies paid in respect of any Application(s) accepted from the IPO will be returned without interest within 14 days if the aforesaid permission is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that we are notified by or on behalf of Bursa Securities within the aforesaid timeframe. If such monies are not repaid within the said period, the provision of sub-Section 243(2) of the CMSA shall apply accordingly.

If our Company is required by applicable Malaysian laws to cancel issued Public Issue Shares and repay application monies to applicants, subject to compliance with the Bermuda Companies Act, our Company will buy-back the Public Issue Shares at the IPO Price. Information relating to the buy-back of Shares by our Company is set out in Section 14.1.4 of this Prospectus.

**Pursuant to Section 14(1) of the Central Depositories Act, Bursa Securities has prescribed our Shares as a Prescribed Security. In consequence thereof, our Shares offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the Central Depositories Act and the Rules. We will not issue any share certificates to successful applicants. Please note that Bursa Depository or its nominee will be entered in the register of members of our Company as the registered holder of the entire issued share capital of our Company as joint-holder with the Depositors.**

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## 2. PARTICULARS OF THE IPO (Cont'd)

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Person(s) submitting Application(s) by way of Application Form or by way of Electronic Share Application or Internet Share Application must have a CDS Account. If you do not have a CDS account, you may open one (1) by contacting any of the ADAs listed in Section 16.10 of this Prospectus. In the case of an Application by way of Application Form, an applicant should state his CDS Account number in the space provided in the Application Form. In the case of an Application by way of Electronic Share Application or Internet Share Application, only an applicant who is an individual and has a CDS Account can make an Application. A corporation or institution cannot apply to subscribe for and / or purchase of the IPO Shares by way of Electronic Share Application or Internet Share Application.

Pursuant to the Listing Requirements, we must have at least 25% of the total number of Shares for which listing is sought in the hands of a minimum number of 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing. In event the above requirement is not met, we may not be allowed to proceed with our Listing on the Main Market of Bursa Securities. In event thereof, monies paid in respect of all Applications will be returned if the said permission is not granted.

The SC and Bursa Securities assume no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the Main Market of Bursa Securities is not to be taken as an indication of our merit or the merit of our Shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by us. Neither the delivery of this Prospectus nor any IPO made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date hereof.

Nonetheless, should we become aware of any subsequent material change or development affecting a matter disclosed in this Prospectus that arise from the date of issue of this Prospectus up to the date of Listing, we shall issue a supplemental or replacement prospectus, as the case may be, in accordance with the provisions of Section 238 of the CMSA and file a copy thereof with the Registrar of Companies in Bermuda.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia may be restricted by law. The distribution of this Prospectus and the sale of any part of the IPO Shares are subject to Malaysian laws and the Company, together with the Adviser, Underwriters and Placement Agents, take no responsibility for the distribution of this Prospectus and the offer of any part of the IPO Shares outside Malaysia, which may be restricted by law in certain other jurisdictions. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for and / or purchase the IPO Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

**If you are in doubt concerning this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional advisers.**

**If you intend to have a detailed review of the relevant laws and regulations of Bermuda, Hong Kong or China, or a detailed explanation on the comparability and / or discrepancy of the relevant laws and regulations between that of Bermuda, Hong Kong and / or China, and that of Malaysia, you are recommended to seek independent legal advice from experts of the respective jurisdictions.**

### 2.1 SHARE CAPITAL

As at the date of this Prospectus, the authorised share capital of our Company is US\$50,000,000 divided into 500,000,000 Shares, and the issued and fully paid-up share capital for our Company is US\$30,000,000 comprising 300,000,000 Shares.



## 2. PARTICULARS OF THE IPO (Cont'd)

Upon the allotment and issue of the Public Issue Shares pursuant to our IPO, the enlarged issued and paid-up capital of our Company will be US\$40,000,000 comprising 400,000,000 shares of US\$0.10 each, as follows:-

	Number of Shares	Share capital US\$
<b>Authorised share capital</b>	<b>500,000,000</b>	<b>50,000,000</b>
<b>Existing issued and paid-up share capital</b>	300,000,000	30,000,000
- New Shares to be issued pursuant to the Public Issue	100,000,000	10,000,000
<b>Enlarged issued and paid-up share capital upon Listing</b>	<b>400,000,000</b>	<b>40,000,000</b>
- <b>IPO Price per Share</b>		RM0.58
- <b>Proforma consolidated NA per Share</b> (based on the enlarged issued and paid-up share capital after the IPO and after deducting the estimated listing expenses of RM8 million)		RMB0.68 (equivalent to RM0.35 <sup>(1)</sup> )
- <b>Market capitalisation</b> (based on the IPO Price and enlarged issued and paid-up share capital after Listing)		RM232,000,000

**Note:-**

(1) Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

Our market capitalisation upon Listing, based on the IPO Price and our enlarged issued share capital of 400,000,000 Shares, amounts to RM232,000,000. The IPO Price is payable in full upon Application, subject to the terms and conditions of this Prospectus. The board lot size for our enlarged issued and paid-up share capital upon Listing will be standardised at 100 units per board lot.

### 2.1.1 Classes of Shares and rights

As at the date of this Prospectus, our Company has only one (1) class of shares, being ordinary shares of US\$0.10 each, all of which rank *pari passu* with one another. The rights and privileges of our Shares are stated in the Bye-laws of our Company.

The Shares owned by our Directors and substantial Shareholders are not entitled to any different voting rights from the IPO Shares. There are no founder, management or deferred Shares reserved for issuance for any purpose. The Public Issue Shares comprised in the IPO Shares will, when issued and fully paid for on the terms of this Prospectus, rank *pari passu* in all respects with our other existing Shares, including voting rights, liquidation rights, and rights to all dividends and distributions that may be declared subsequent to the date of allotment of the Public Issue Shares.

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## **2. PARTICULARS OF THE IPO (Cont'd)**

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Subject to any special rights attaching to any Shares which we may issue in the future, the holders of our Shares shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions, and in respect of surplus in the event of our liquidation, in accordance with our Bye-laws.

At any of our general meetings, on a show of hands, every person present who is a Shareholder (other than Bursa Depository or its nominee) entitled to attend and vote thereat or is a representative or proxy or attorney of such a Shareholder shall have one (1) vote; on a poll, every such Shareholder (other than Bursa Depository or its nominee) present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held.

### **2.1.2 Rights to attend general meetings**

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

Depositors will be recognised as members of our Company for so long as the Record of Depositors is entered in the register of members and branch register of our Company. For so long as the shares of our Company are listed on Bursa Securities, our Company is required to procure from Bursa Depository a copy of the Record of Depositors as at the close of each market day and entered in our Company's register of members and branch register upon receipt the same.

In the event a Depositor is not named in the Record of Depositors entered in our register of members or branch register, *prima facie*, such Depositor will not be recognised as a member of our Company.

Our Shares will be deposited with Bursa Depository as deposited securities and the share certificate in respect of any deposited security held jointly by a Depositor and Bursa Depository or its nominee shall be issued in the name of, and delivered to Bursa Depository or its nominee and no share certificate will be issued to the Depositor. A Depositor shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

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## 2. PARTICULARS OF THE IPO (Cont'd)

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### 2.2 PURPOSES OF THE IPO

The purposes of the IPO are as follows:-

- (i) to obtain funds for the expansion of our marketing and distribution network as well as for our promotional activities to strengthen our presence and enhance the recognition of 'XiDeLang' brand name;
- (ii) to strengthen our R&D efforts and to commercialise new products to ensure our continuing growth and success;
- (iii) to further expand our production capacity with the construction of our new shoe production centre and acquiring additional production machinery and production lines as well as for future working capital requirements;
- (iv) to enable us to gain access to the capital markets, in order to tap fund-raising avenues, if and when required, to pursue opportunities for future expansion and growth; and
- (v) to provide an opportunity for Malaysian investors and institutions to participate in our equity and the continuing growth of our Group.

### 2.3 DETAILS OF THE IPO

We will undertake the Public Issue in conjunction with, and as an integral part of our Listing, as follows:-

#### **Public Issue**

The Public Issue of 100,000,000 Public Issue Shares, representing 25.0% of our enlarged issued share capital, is offered at the IPO Price, payable in full on application upon the terms and conditions as set out in this Prospectus, and will be allocated and allotted in the following manner:-

#### **(a) Malaysian Public via balloting ("Balloting Portion")**

10,000,000 Public Issue Shares, representing 2.5% of our enlarged issued share capital, to be allocated via balloting, will be made available for application by the Malaysian Public; and

#### **(b) Selected investors via placement ("Placement Portion")**

90,000,000 Public Issue Shares, representing 22.5% of our enlarged issued share capital, by way of private placement to selected investors.

The Public Issue will increase our issued share capital from 300,000,000 Shares to 400,000,000 Shares.

All new Shares issued pursuant to the Public Issue shall, when allotted, issued and fully paid for on the terms of this Prospectus, rank *pari passu* in all respect with our existing issued and paid-up Shares, except that the Public Issue Shares will not be entitled to any dividends, rights, allotments or other distributions declared, made or paid prior to the date of allotment and issue of the Public Issue Shares.

## **2. PARTICULARS OF THE IPO (Cont'd)**

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All the 10,000,000 Public Issue Shares available for application by the Malaysian Public under Section 2.3(a) of this Prospectus have been fully underwritten.

The 90,000,000 Public Issue Shares to be allocated by way of private placement to selected investors under Section 2.3(b) of this Prospectus are not underwritten as irrevocable undertakings have been obtained from the selected investors to take up the Public Issue Shares available under private placement.

Any Public Issue Shares not subscribed for under Section 2.3(a) of this Prospectus will be made available to selected investors via private placement. Thereafter, any remaining re-offered Public Issue Shares that are not subscribed for will then be subscribed by the Underwriters based on the terms of the Underwriting Agreement. However, in event all Public Issue Shares under Section 2.3(a) of this Prospectus are oversubscribed, Public Issue Shares not subscribed for under Section 2.3(b) of this Prospectus, if any, will be made available for application for subscription by the Malaysian Public.

There is no minimum subscription amount to be raised from the IPO.

### **2.4 CLAWBACK AND REALLOCATION**

The allocation of Public Issue Shares between and within the Balloting Portion and Placement Portion (as defined in Section 2.3 of this Prospectus) is subject to adjustment. For instance, in event of an over-subscription in the Balloting Portion, the total number of Shares to be clawed back from the Placement Portion and reallocated to the Balloting Portion would result in an increase in the aggregate Balloting Portion, subject however to a maximum of 20,000,000 Shares (representing 5.0% of our enlarged issued share capital). In such circumstances, all the Shares that have already been allocated to investors under the Placement Portion would be reduced proportionately or adjusted in such manner to be determined by the Placement Agents in consultation with us.

In event of an over-subscription in the Balloting Portion above 20,000,000 Shares and an under-subscription in the Placement Portion, the undersubscribed Public Issue Shares under the Placement Portion will be reallocated to the excess application(s) from the Balloting Portion.

In event of an under-subscription in the Balloting Portion under 10,000,000 Shares and a corresponding over-subscription in the Placement Portion, we reserve the right to reallocate the undersubscribed Shares to the excess application(s) from the Placement Portion, subject to meeting the shareholding spread of a minimum number of 1,000 public shareholders holding not less than 100 Shares each. Any remaining unsubscribed Shares under the Balloting Portion shall be subscribed for by the Underwriters.

The clawback and reallocation shall not apply in event of an over-subscription in both the Balloting Portion and Placement Portion except in the event there is an over-subscription in the Balloting Portion above 10,000,000 Shares but not exceeding 20,000,000 Shares.

### **2.5 BASIS OF ARRIVING AT THE IPO PRICE**

The IPO Price was determined and agreed upon by us, and the Underwriters and Placement Agents after taking into consideration, amongst others, the following factors:-

- (i) our Group's operating and financial history and position as outlined in Section 4 and Section 9, respectively of this Prospectus;
- (ii) our competitive strengths and advantages as listed in Section 4.5 of this Prospectus;

## 2. PARTICULARS OF THE IPO (Cont'd)

- (iii) our future plans and strategies as set out in Section 4.21 of this Prospectus, and our prospects as set out in Section 4.22 of this Prospectus;
- (iv) our net EPS of RM0.12 for FYE 2008 and annualised net EPS of RM0.19 for 1H 2009, based on our enlarged issued and paid-up share capital of 400,000,000 Shares upon Listing; and
- (v) our proforma consolidated NA as at 30 June 2009 of RM0.35 per Share, based on our enlarged issued and paid-up share capital of 400,000,000 Shares upon Listing.

Our Directors, Underwriters and Placement Agents are of the opinion that the IPO Price is fair and reasonable after careful consideration of the abovementioned factors.

However, you should note that the market price of our Shares upon listing on Bursa Securities is subject to the vagaries of market forces and other uncertainties, which may affect the price of the Shares being traded.

You should bear in mind the risk factors as set out in Section 3 of this Prospectus and form your own views on the valuation of the IPO Shares and the reasonableness of the bases used before deciding to invest in our Shares.

### 2.6 DILUTION

Dilution is the amount by which the IPO Price to be paid by the applicants for our Shares under the IPO exceeds our proforma consolidated NA per Share after the IPO. The proforma consolidated NA per Share as at 30 June 2009 (after adjusting for the effects of the Acquisition of XinYuanChan but before utilisation of the net proceeds from the IPO) based on the issued and paid-up share capital of 300,000,000 Shares before the IPO is RM0.30.

Pursuant to the Public Issue of 100,000,000 new Shares at the IPO Price of RM0.58 per Share and after adjusting for the effects of the utilisation of proceeds, the proforma consolidated NA of our Group as at 30 June 2009 would increase to RM0.35 per Share based on the enlarged issued and paid-up capital of 400,000,000 Shares after the IPO. This represents an immediate increase in adjusted NA of RM0.05 per Share to our existing Shareholders and dilution in NA of RM0.23 per Share, representing 39.7% dilution to our new investors. The following table illustrates such dilution on a per Share basis:-

	RM <sup>(1)</sup>
IPO Price	0.58
Proforma consolidated NA per Share as at 30 June 2009 (after adjusting for the effects of the Acquisition of XinYuanChan)	0.30
Increase in proforma consolidated NA per Share contributed by new investors	0.05
Proforma consolidated NA per Share after the IPO	0.35
Dilution in NA per Share to new investors	0.23

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## 2. PARTICULARS OF THE IPO (Cont'd)

The following table summarises the total number of Shares acquired by our substantial Shareholders or person(s) connected during the past three (3) years prior to the date of this Prospectus, the total consideration paid by them and by the new investors pursuant to the IPO:-

	Number of Shares	Total consideration		Average price per Share
		US\$	(RM) <sup>(1)</sup>	(RM)
HongPeng International	240,000,000	24,000,000	84,458,400	0.35 <sup>(2)</sup>
New investors pursuant to the Public Issue	100,000,000	N/a	58,000,000	0.58

**Notes:-**

- (1) Based on the closing exchange rate of RMB1: RM0.5152 and US\$1: RM3.5191 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.
- (2) Calculated based on the purchase consideration of US\$29,999,999 and the 299,999,990 new Shares in XiDeLang issued in satisfaction of the purchase consideration in relation to the Acquisition of XinYuanChan.

### 2.7 UTILISATION OF PROCEEDS

The Public Issue is expected to raise gross proceeds of RM58 million, which shall accrue to us. We intend to utilise the proceeds raised in the following manner:-

	Estimated timeframe for utilisation upon Listing	Amount RM'000
(i) Advertising and branding	Within 12 months	9,200
(ii) Expansion of marketing and distribution network	Within 12 months	18,400
(iii) Research and extension of product portfolio	Within 12 months	2,300
(iv) Expansion of production capacity	Within 12 months	16,100
(v) Working capital	On-going	4,000
(vi) Estimated Listing expenses	Immediate	8,000
<b>Total proceeds</b>		<b>58,000</b>

#### (i) Advertising and branding

We intend to utilise approximately RM9.2 million of the IPO proceeds to increase our advertising and promotional activities to strengthen our presence as well as to enhance the recognition of our 'XiDeLang' brand name, by way of:-

- (a) by engaging brand ambassadors to promote the 'XiDeLang' brand name;
- (b) advertising on television and print media;



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## 2. PARTICULARS OF THE IPO (Cont'd)

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- (c) participating in various popular sporting events through sponsorships, erecting signage in official sporting venues; and
- (d) participating in various trade fairs and exhibitions.

By associating ourselves with well-known celebrities and popular sporting events, we believe that we will enhance our brand recognition and appeal, and ultimately promote brand loyalty. We believe that these will boost sales, and allow us to command higher premiums for our product in time.

This forms part of our future plans and strategies as set out in section 4.21(i) of this Prospectus.

### (ii) Expansion of marketing and distribution network

We intend to utilise approximately RM18.4 million of the IPO proceeds to part finance the expansion of our marketing and distribution network in China, by way of:-

- (a) expanding shop numbers in China's Northeast region, in particular the Northeast three provinces;
- (b) advancing our retail presence in other promising locations in densely populated cities in China; and
- (c) upgrading our existing other retail locations into full-fledged concept stores.

By increasing our market presence and distribution network, we seek to further penetrate into existing markets as well as diversifying into new markets to promote our extensive line of products. We will also capitalise our presence in these markets to facilitate our R&D initiatives.

This forms part of our future plans and strategies as set out in section 4.21(ii) of this Prospectus.

### (iii) Research and extension of product portfolio

We intend to utilise approximately RM2.3 million of the IPO proceeds to further our R&D efforts and to commercialise new products. The strength of our 'XiDeLang' brand is complemented by extensive efforts in R&D and by delivering to our customers the latest in sports fashion. We believe constant innovation in satiating the evolving needs and preferences of our customers is vital to our continuing growth and success.

We aim to increase the breadth of our product lines by offering a new range of school shoes and all-season sports shoes by 2010. We also plan to leverage on our core competencies in sports shoe production and venture into the manufacturing of sports apparel in the medium term.

This forms part of our future plans and strategies as set out in section 4.21(iii) and (iv) of this Prospectus.

## 2. PARTICULARS OF THE IPO (Cont'd)

### (iv) Expansion of production capacity

We intend to utilise RM16.1 million of the IPO proceeds to part finance our expansion of production capacity, with the construction of a new production centre in two (2) phases with an estimated total built-up area of approximately 150,000 square metres to manufacture sports shoes and apparel.

The first phase of construction commenced in early 2009 and is expected to complete by mid 2010 while the second phase is expected to commence in mid 2011 and complete by end 2012.

Upon completion of the aforementioned expansion, our annual shoe production capacity is expected to increase from approximately 4.8 million pairs per annum to approximately 10.0 million pairs per annum and we expect to produce up to 5.0 million pieces of apparel.

This forms part of our future plans and strategies as set out in section 4.21(v) of this Prospectus.

### (v) Working capital

Our requirement for working capital will increase in tandem with our expected business growth. Therefore, we expect to utilise approximately RM4.0 million as additional working capital to finance our day-to-day operations, including the payment of salaries, purchases of raw material, expansion of workforce and defrayment of operational expenses. This would further enhance our cash flow position and enable us to conduct our operations smoothly.

### (vi) Estimated Listing expenses

The estimated listing expenses for our Listing are as follows:-

Estimated Listing expenses	Amount RM'000
Fees to authorities	200
Professional fees <sup>(1)</sup>	3,800
Underwriting and brokerage fees	1,800
Printing, advertising and other expenses in relation to Listing	600
Miscellaneous	1,600
<b>Total</b>	<b>8,000</b>

**Note:-**

(1) Includes fees for the Adviser, Reporting Accountants, Solicitors, Independent Market Research Consultants and other professional advisors, as well as the Issuing House.

We will bear all expenses and fees incidental to our Listing, including professional fees, underwriting and selling commission, brokerage, placement fees, authorities' fees, advertising and other fees.

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

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## **2. PARTICULARS OF THE IPO (Cont'd)**

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### **2.8 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS**

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

**(i) Interest savings**

Without the IPO proceeds, we are expected to incur the incremental borrowings of approximately RM46.0 million to fund our plans for expansion of our marketing and distribution network, production capacity, advertising and branding, and enhancement of product-development capabilities. As such, with the IPO proceeds, and based on an assumed interest rate of 7% per annum, we expect to effect interest savings of approximately RM3.2 million per annum.

**(ii) Enhancement of working capital**

We will utilise RM4.0 million of the IPO proceeds for our working capital requirements, which includes payment to creditors, payment of salaries and operating expenses, and purchase of raw materials. Our cash and cash equivalent balance will be increased to approximately RM72.0 million after the Listing. This will allow us to internally fund our daily operational activities without being dependent on external funding, whilst giving us the flexibility to pursue acquisition, investment and / or joint venture opportunities.

**(iii) Increase in revenue**

The utilisation of RM46.0 million for expansion of our marketing and distribution network and production capacity, enhancement of 'XiDeLang' brand recognition, and development of new products are expected to increase our market presence within the PRC and boost our production capacity of sports shoes and apparel, hence contributing to our revenue and profitability.

### **2.9 UNDERWRITING COMMISSION, PLACEMENT FEE AND BROKERAGE**

We will pay the Underwriters an underwriting commission at the rate of 3% of the value of the total underwritten 10,000,000 Public Issue Shares under Section 2.3(a) of this Prospectus (being the number of underwritten Public Issue Shares multiplied by the IPO Price). Whilst having AmInvestment Bank as our adviser, we made the commercial decision to appoint OSK as managing underwriter and lead placement agent for our IPO, as having another underwriter and placement agent will enhance the distribution of our Shares as well as widen our market coverage after Listing.

We will pay the Placement Agents a placement fee at the rate of 4% of the value of the total of 90,000,000 Public Issue Shares reserved for private placement under Section 2.3(b) of this Prospectus (being the number of Public Issue Shares reserved for private placement multiplied by the IPO Price) to be placed out successfully by our Placement Agents.

We will pay the brokerage to be incurred on the sale of the 10,000,000 Public Issue Shares under Section 2.3(a) at the rate of 1.0% of the IPO Price per Share in respect of successful applications that bear the stamp of member companies of Bursa Securities, members of the Association of Banks in Malaysia, members of the Malaysian Investment Banking Association and / or MIDFCCS.

## 2. PARTICULARS OF THE IPO (Cont'd)

### 2.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

The salient clauses of the Underwriting Agreement, which may allow the Underwriters to withdraw from their obligations under the Underwriting Agreement after the IPO, as extracted from the Underwriting Agreement, are set out below.

Unless otherwise stated, all capitalised terms herein shall bear the same meanings as prescribed in the Underwriting Agreement.

**“(j) Conditions precedent**

*Unless waived in writing by the Underwriters (in which case any condition precedent or any part thereof so waived shall be deemed to have been satisfied), the obligations of the Underwriters under this Agreement shall be conditional upon the following:-*

- (a) *this Agreement having been duly executed by all the parties hereto and duly stamped;*
- (b) *the issue of the Public Issue Shares having been approved by the SC and BMA or any other relevant authority and the shareholders of the Company in general meeting;*
- (c) *the listing and quotation of the Public Issue Shares/issued and paid up capital of the Company on the Stock Exchange having been unconditionally approved-in-principle by the Stock Exchange or subject only to conditions which are acceptable to the Underwriters and such approval is not withdrawn and the Underwriters being reasonably satisfied that such listing and quotation shall be granted within two (2) clear Market Days after an application for quotation is made to the Stock Exchange;*
- (d) *the Prospectus being in form and substance satisfactory to the Underwriters;*
- (e) *the Prospectus having been registered with the SC and lodged with the CCM within two (2) months from the date of this Agreement, or within such other period as the parties may mutually agree;*
- (f) *there shall not have occurred, on or prior to the Closing Date, in the opinion of the Underwriters (whose opinion is final and binding) any material adverse change or any development reasonably likely to involve a prospective material adverse change in the condition (financial or otherwise) of the Group from that existing as at the date of this Agreement which is material in the context of the Public Issue or the occurrence of any event rendering untrue, inaccurate or incorrect in any material respect any of the representations or warranties contained in Clause 5(1) hereof;*
- (g) *there shall not have occurred, on or prior to the Closing Date, any material breach of and or failure to perform any of the undertakings contained in Clause 5(1) hereof;*
- (h) *the Underwriters having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 19 hereof;*
- (i) *the Public Issue not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia, the PRC, Bermuda and/or Hong Kong;*

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**2. PARTICULARS OF THE IPO (Cont'd)**

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- (j) *the delivery of the following documents to the Underwriters on or before the Closing Date:*
- (i) *such reports and confirmations dated the Closing Date from the board of directors of the Company as the Underwriters may reasonably require to confirm that there has not been any material adverse change or any development reasonably likely to involve a prospective material adverse change in the condition (financial or otherwise) of the Group from that existing as at the date of this Agreement which is material in the context of the Public Issue and the listing and quotation of the Public Issue Shares and/or the Underwritten Shares; and*
  - (ii) *a certificate, in the form or substantially in the form contained in the Third Schedule hereto, dated the Closing Date signed by a duly authorised officer of the Company stating that, to the best of his knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 4(j)(f) above;*
- (k) *the Underwriters receiving a copy duly certified by a director or secretary of the Company to be a true copy of a resolution of the Board of Directors of the Company approving the Listing Exercise, the Prospectus and this Agreement, the issue and offer of the Public Issue Shares and authorising a person or persons to sign this Agreement on behalf of the Company;*
- (l) *the Prospectus having been issued within two (2) months of the date hereof or within such extended period as may be consented to by the Underwriters; and*
- (m) *the Underwriters having been satisfied that the Company has in relation to the issue and offer of the Shares complied with and is in compliance with all policies guidelines and requirements of the relevant authorities of Malaysia and any other jurisdiction within which such Shares are offered and all revisions; amendments and/or supplements thereto and have complied with all conditions imposed by the relevant authorities of Malaysia in respect of their approvals for the Public Issue Shares.*
- (ii) **Termination**
- (1) *Subject to Clause 14(2) below but notwithstanding any other provision herein contained, any Underwriter may by notice in writing to the Company given at any time before the completion of the Listing Exercise, terminate and cancel and withdraw the commitment of such Underwriter to underwrite the Underwritten Shares if:-*
    - (a) *any of the conditions precedent set out in Clause 4 hereof are not duly satisfied by the Closing Date; or*
    - (b) *there is any material breach by the Company of any of the representations, warranties or undertakings contained in Clause 5(1) hereof, which is not capable of remedy or, if capable of remedy, is not remedied to the reasonable satisfaction of such Underwriter within ten (10) Market Days from the date the Company is notified by such Underwriter of such breach; or*

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**2. PARTICULARS OF THE IPO (Cont'd)**

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- (c) *there is failure on the part of the Company to perform in any material respect any of its obligations herein contained; or*
- (d) *there is withholding of information by the Company which, in the reasonable opinion of such Underwriter, would have or can reasonably be expected to have a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Public Issue Shares; or*
- (e) *the approval of the SC in respect of the Listing Exercise or the approval-in-principle of the Stock Exchange for the listing and quotation of its entire issued and paid-up share capital on the Stock Exchange is withdrawn; or*
- (f) *there shall have occurred, or happened any material and adverse change in the business or financial condition of the Company or the Group; or*
- (g) *a petition is presented or an order is made or a resolution is passed for the winding up of the Company; or*
- (h) *an administrator or receiver or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of the Company; or*
- (i) *the Company or its subsidiaries becomes insolvent or is unable to pay its/their debts or admits in writing its inability to pay its debts as they fall due or enters into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; or*
- (j) *the Company or its subsidiaries ceases/cease or threatens to cease to carry on the whole or any substantial part of its business; or*
- (k) *this Agreement is terminated by any other Underwriter for any reason whatsoever; or*
- (l) *there shall have occurred, or happened any of the following circumstances:-*
  - (i) *any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions or exchange control or currency exchange rates (including but not limited to conditions on the stock market in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or the occurrence of any combination of any of the foregoing; or*
  - (ii) *any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of such Underwriter (including without limitation, acts of God, national disorder, declaration of a state of national emergency, pandemics, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents);*

## 2. PARTICULARS OF THE IPO (Cont'd)

*which, would have or can reasonably be expected to have, in the reasonable opinion of such Underwriter, a material adverse effect on, and/or materially prejudice the business or the operations of the Company or the Group as a whole, the success of the Public Issue, or the distribution or sale of the Public Issue Shares, or which has or is reasonably likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms.*

- (2) *In the event that this Agreement is terminated pursuant to Clause 14(1)(f) or Clause 14(1)(l), the Underwriters and the Company may confer with a view to deferring the Public Issue by amending its terms or the terms of this Agreement and may enter into a new underwriting agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to enter into a fresh agreement.*

### **(iii) Force majeure**

- (1) *Notwithstanding anything herein contained, the Underwriters may in their reasonable opinion at any time before the completion of the Listing Exercise, by notice in writing delivered to the Company terminate the obligations of the Underwriters under this Agreement and/or request for the Closing Date to be extended to such reasonable date as the Underwriters may decide, upon the occurrence of the following events:-*

- (i) changes in national or international monetary, financial, political, economic or stock market conditions or exchange control or currency exchange rates or interest rates or otherwise as would in the reasonable opinion of the Underwriters prejudice materially and adversely the success of the Public Issue and the listing and quotation of the Public Issue Shares;*
- (ii) national disorder, outbreak of war, armed conflict or serious threat of the same, hostilities, embargo, detention, revolution, riot, looting, labour disputes, any unavailability of transportation or severe economic dislocation, outbreak of disease, declaration of pandemic, tsunami, respiratory virus, Act of God or the declaration of a state of national emergency;*
- (iii) material changes in law, regulation, directive, policy or ruling in any jurisdiction which may seriously affect the business of the Group;*
- (iv) the Kuala Lumpur Composite Index falling below 850 points and remaining below 850 points for three (3) consecutive days; or*
- (v) the imposition of any moratorium, suspension, or material restriction on trading in all securities generally on the Stock Exchange for three (3) Market Days;*

*and thereupon the parties shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 19 above incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder.*

- (2) *In the event of a delivery of a request for the Closing Date to be extended by the Underwriters to the Company, the Company shall consent to such request for the extension of the Closing Date.*



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**2. PARTICULARS OF THE IPO (Cont'd)**

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- (3) *The delivery of a request under Clause 36(2) shall not preclude the Underwriters from giving a further request for the extension of the Closing Date or from giving a notice to terminate pursuant to Clause 36(1)."*

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### **3. RISK FACTORS**

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**In evaluating an investment in the IPO Shares, you should carefully consider all the information contained in this Prospectus, including but not limited to the following general and specific risk factors.**

#### **3.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS**

##### **(i) Competition from global and locally-established brands**

The global brands market is dominated by internationally renowned brand owners such as Nike, Reebok, Puma, ASICS, and Adidas whilst locally, established brands like LiNing, Xtep, ANTA and 361°, are also prominently featured in the market in PRC. Rising income levels and consumer affluence increased the affordability of global and locally established brands of sports shoes and sports apparel in the PRC.

Local operators have some advantages over global brands in terms of tailoring their products to suit local consumer tastes as global brands have to take into consideration the needs of the wider international market. Sports shoes, as with many other consumer products, are highly driven by branding and brand recognition. As such, local operators with strong brands are in a better position to compete effectively compared to operators that do not invest in brand development.

Our Group is primarily a brand management and marketing company specialising in sports shoes and sports apparel. All our products are marketed under our proprietary brand of 'XiDeLang'. Our 'XiDeLang' brand is widely recognised and this is reflected by the fact that we have attained numerous awards by various authorities including the "Well-known Mark of China" in the PRC. As a Group, we recognise the importance of brand management and this is reflected in the significant investment we placed in marketing and promotions as part of the development of our brand equity. All our retailers in XiDeLang concept stores carry our products exclusively. This reinforces our branding through their presence in the market place in the PRC. We also provide marketing support to all our exclusive retailers on an on-going basis.

Although we will continue to promote, market and develop our brand on an on-going basis, there can be no assurance that the above steps will be successful in competing with global and locally established brands of sports shoes and sports apparel.

##### **(ii) Inability to continually produce contemporary designs**

One of the key success factors for operators or manufacturers of sports shoes and apparel would be to continually produce contemporary designs that meet changing market requirements. Designs of sports shoes and apparel are in a constant state of flux and hence keeping up with the latest contemporary designs is a challenging task. Failure to do so may cause our sports shoe and apparel to lose their appeal and adversely impact our performance.

We have a team of skilled and experienced personnel specialising in design and product development of sports shoes. We also design apparel under our 'XiDeLang' brand in collaboration with third party manufacturers. As we recognise the importance of design and product development, we are constantly up-to-speed in the latest market trends, ensuring that our designs are in sync with consumer preferences. Our designs of sports shoes and apparel are not only focused on product aesthetics but also take into consideration the latest trends, functionality and quality whilst reinforcing our brand image.

### **3. RISK FACTORS (Cont'd)**

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Although our Group will continue to take the necessary measures to continue producing contemporary designs, there can be no assurance that our products will continue to appeal to our target markets.

**(iii) Failure to keep abreast with production technologies**

Our continuous success depends on our ability to keep abreast with advancements in production technologies. These are essential to our endeavours in introducing new and innovative products that are competitively priced and with mass appeal to our target markets. Despite our best efforts, there can be no assurance that we will be able to keep pace with advancements in production technologies.

**(iv) Adverse publicity on 'XiDeLang' brand spokesperson may adversely affect our performance**

As part of our marketing and promotional activities, our Group is associated with a popular local artiste as our ambassador and spokesperson for the 'XiDeLang' brand. However using ambassadors only form one component of our total marketing strategy and therefore we are not reliant on this method to create brand awareness. Part of our total marketing strategy also involves adopting other marketing and promotional tools to create brand awareness, build brand equity and reinforce a positive corporate image to our customers. Some of these include advertisements and promotions through various mediums, including free-to-air and pay television, magazines and newspapers, promotional stands, posters and catalogues to distributors and retailers as well as supporting advertisements and promotions undertaken independently by retailers through a subsidy system.

However, there can be no assurance that any adverse publicity on our ambassador will not materially affect our Group's image which may in turn adversely affect our business performance.

**(v) Dependence on principal markets**

As the majority of our customers are within China, we are dependent on China's domestic demand for sports shoes and apparel. Our customers, in turn, may be dependent on sports shoe and apparel market conditions of China specifically and the world generally. Any prolonged and / or widespread economic downturn such as conditions relating to the recent global financial turmoil may reduce disposable income and consumer confidence, which may in turn adversely affect the domestic and global demand for sports shoes and apparel.

However, as shoes and apparel are regarded as necessities, it is likely that consumer spending on shoes and apparel will continue to be maintained at the same level or grow, albeit at a lower pace, during an economic slowdown. In addition, industry players with strong product quality, financial stability, and diverse range of products and designs, such as us, will be in a better position to withstand the impact of a slowdown in China's economy and / or the global economies.

In 2008, China experienced a real GDP growth of 9.0% and is forecasted to grow by 8.3% in 2009. In contrast, many advanced economies experienced very low or negative GDP growth in 2008, and 2009 is expected to be similar. As such, China's economy is expected to be better off compared to many of the more advanced economies.

### 3. RISK FACTORS (Cont'd)

For 1H 2009, our revenue registered a growth of 47.2% to reach RMB375.4 million (equivalent to RM197.0 million) compared to RMB255.0 million (equivalent to RM116.3 million) for 1H 2008. From FYE 2006 to FYE 2008, our revenue grew an average annual growth rate of 66.2%, from RMB207.9 million (equivalent to RM95.6 million) to RM573.9 million (equivalent to RM275.4 million). Our historical financial performance indicates that we have yet to be materially affected by adverse changes in China's domestic demand for sports shoes and apparel.

Nevertheless, there can be no assurances that we will not be affected by any adverse changes in conditions of the sports shoes and apparel market. In such an event, our revenue, profitability and financial performance may be adversely affected.

#### (vi) Inadvertent infringement of third-party intellectual-property rights

As we develop new products, designs and production methods, we may inadvertently infringe intellectual property rights of others, or encounter infringement claims against us. Such claims against us, even if untrue or baseless, could result in significant legal and other costs, distract our management, cause product delivery delays and / or require us to develop non-infringing products or enter into licensing agreements. Such licensing agreements, if required, may not be available on mutually acceptable terms.

As at LPD, we have yet to receive any claims against us alleging infringement of intellectual property rights of third parties. To the best of our knowledge, we are not aware of any violations or infringements of intellectual property rights of third parties by our Group, as at LPD. Nevertheless, there can be no assurance that we have not inadvertently infringed or will not inadvertently infringe the intellectual property rights of others, or that others would not claim that we have infringed their intellectual property rights.

In the event of a successful claim of intellectual property rights infringement against us and our inability to develop non-infringing products or to license the infringed intellectual property rights in a timely or cost-effective manner, our business, market reputation and prospects may be adversely affected.

#### (vii) Dependence on continual supply of raw materials at competitive prices

Our ability to produce high-quality products at competitive prices is dependent on our ability to acquire sufficient high quality raw materials at competitive prices from our suppliers. In the event that disruptions occur in the supply of raw materials, we may have to temporarily halt production.

In mitigation, as our production facilities are located in Jinjiang City, we have easy access to a large pool of suppliers in close proximity to our production facilities and are mainly located in Fujian Province, where there is a high concentration of suppliers of raw materials for the sports footwear manufacturing industry.

We also maintain daily records of the inventory level of our raw materials to ensure sufficiency to support our production, thus assuring that the production line will not stall.

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### **3. RISK FACTORS (Cont'd)**

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As at LPD, we have yet to experience any material shortages in supply of raw materials that have required us to halt our production lines. However, there can be no assurance that disruptions in the supply of raw materials will not occur in the future and if any were to occur, our operations and / or financial performance may be adversely affected.

Further, it should be noted that the costs of raw materials used by us in the manufacture of sports shoes and apparel such as natural and synthetic rubber, textiles and threads, chemical compounds, polymers and agents and adhesives fluctuates in the market. In particular, the costs of some of our key raw materials are affected by fluctuations in petroleum prices. Petroleum products are the major feedstock for plastic resins and synthetic rubber used in the manufacture of shoe soles and the upper part of sports shoes. Thus, the prices of plastic-based materials and synthetic rubber are dependent on the price of petroleum. Any material increase in the prices of our raw materials may adversely affect the cost of production of our Group.

While all sports shoes manufacturers will be similarly affected by increases in the prices of raw materials and we believe that we are well placed to pass on any prolonged price increase of raw material costs to our customers by leveraging on the strength of our 'XiDeLang' brand, there can be no assurance that we will be able to pass on the increase in costs, whether in part or in whole, to our customers. In the event that we are unable to pass on such additional costs, our profit margins may be adversely affected and this would likely have a corresponding adverse impact on our financial performance.

#### **(viii) Dependence on sub-contractors and manufacturers**

We currently sub-contract part of our production of sports shoes to external manufacturers during peak periods when we reach full capacity. Approximately 23% of our sports shoes and all of our sports apparel and accessories are currently outsourced to third party manufacturers. For the FYE 31 December 2008, we have five (5) major external manufacturers of sports shoes and four (4) major external manufacturers of sports apparel. This helps us to mitigate potential dependence on any single supplier.

Our future plan is to expand our sports shoe production capacity to approximately 10 million pairs per annum and commence the design and manufacturing of sports apparel in our new expanded manufacturing facilities by end 2012. The additional production capacity will enable us to meet the growing market demands and reduce the need for external manufacturers.

Although we have yet to experience any material disruptions of supply from external manufacturers for our existing products as at LPD, and have access to a large pool of contract manufacturers of sports shoes, apparel and accessories in close proximity to our production facilities, there can be no assurance that any future disruption of supply from any of our external manufacturers will not have an adverse impact on our business operations and / or financial performance.

#### **(ix) Operational risks and insurance coverage**

We are susceptible to various operational risks such as accidents, fire breakout and energy crises which may affect our business operations.

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### 3. RISK FACTORS (Cont'd)

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We seek to limit the risks relating to industrial accidents and fire breakout through the implementation of the following plans and risk-management practices:-

- (a) our facilities are equipped with the basic regulatory fire-fighting equipment such as fire extinguishers. Employees are trained on the use of these equipment, the proper fire-fighting techniques and procedures, and evacuation drills;
- (b) we ensure that we have equipment spare parts to cope with unexpected emergencies at any one time, such as storage of adequate parts for use in the maintenance of our production facilities and equipment as well as cash liquidity to meet liabilities due. Our management also holds regular meetings and discussions to identify and mitigate any foreseeable problems in our business operations; and
- (c) we ensure that our facilities, manufacturing plant and warehouses meet all safety requirements stipulated in various licenses issued by relevant authorities. We also conduct various in-house training and briefing on safety requirements, and the proper use of our machineries. By complying with the safety requirements issued by the relevant authorities, and making sure our employees are adequately trained, we minimise the risks of industrial accidents in our facilities.

We have taken up property insurance covering our properties, warehouses, production facilities and equipment as well as inventory. However, there can be no assurance that this coverage is sufficient to offset the potential liabilities and financial losses relating to our operations. In the event that the amounts of such liabilities and losses were to exceed the insurance coverage of our insurance policies, we may have to bear such liabilities and losses solely. If such events were to occur, our business and financial position may be materially and adversely affected.

There are also other risks such as natural disasters, riots, general strikes, acts of terrorism and any other risks that cannot reasonably be insured against, which may adversely affect our operations. However, we wish to highlight that our operations have not been affected by any of such events thus far.

**(x) Dependence on executive directors, key management and skilled workforce**

Being in a specialised industry, we believe that our continued success will depend to a significant extent, upon the abilities and continued efforts of our Directors, key management personnel and skilled workforce.

Our management team's extensive knowledge and experience serves as the foundation for the strategic decision-making that has driven our development and growth, and will continue to propel the future expansion of our Group.

Another key factor to our success is the continued services of our skilled workers. Our skilled workers are mainly responsible for quality control and R&D. Thus, they play an integral role in ensuring the high quality of our products and our design and development prowess.

Therefore, our continued success is dependent, to a large extent, on our ability to retain the services of our Executive Directors, key management and skilled workforce. As such, the loss of the services of any of our Executive Directors and key management, and / or the substantial loss of any of our skilled workforce may materially affect our business operations.

### 3. RISK FACTORS (Cont'd)

Any difficulties in procuring timely and adequate replacements or in attracting and retaining sufficient qualified personnel may adversely affect our business, operations, competitiveness, revenue and profits. In addition, we may be required to pay higher wages to attract and retain sufficient numbers of capable and skilled workers. In the event of any substantial increase in labour costs, our business, prospects and / or financial performance may be adversely affected.

#### (xi) Dependence on distributors and retailers

Our distributors and retailers are responsible for managing the local network of retail locations for our products and constitute a large majority of our customers. While we customarily enter into distributorship agreements with our major distributors and retailers, such agreements are generally entered into on an annual basis for a term of only 1 year.

Our ability to retain our distributors and retailers, in particular those who constitute our major customers, is important to the continued success of our Group. To date, we have not experienced any material losses of major customers. Furthermore, the number of our distributors has increased from 21 in 2006 to 32 as at LPD.

Nevertheless, there can be no assurance that we will be able to decrease our dependence on major customers over time, or that our customers will continue to purchase our products at current levels in the future. In event customers cease or significantly reduce purchases of our products and we are unable to obtain substitute orders of comparable amounts from other existing or new customers, there may be a material adverse impact on our business and financial performance. It should be noted however that the business / prospects of such distributors and retailers is inherently inter-twined with the Group's branding and thus, it would be difficult for such distributors and retailers to immediately cease purchases from the Group.

### 3.2 RISKS RELATING TO OUR BUSINESS IN CHINA

#### (i) Foreign exchange controls

As HongPeng (Fujian) is an FIE, it is subject to China's rules and regulations on currency conversion. In China, SAFE regulates the conversion of RMB into foreign currencies. Currently, FIEs (including WFOEs) are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certification (which have to be renewed annually), FIEs are allowed to open foreign currency accounts including the "current account" and "capital account". Presently, transactions within the scope of the "current account" (for example, remittance of foreign currencies for payment of dividends) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (for example, for capital items such as direct investments, loans and securities) still requires the approval of the SAFE.

The applicable law in respect of conversion of RMB into other currencies is the Regulation for Foreign Exchange Controls of the PRC ("**Regulation**") which came into effect on 1 April 1996. Under the Regulation:-

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### 3. RISK FACTORS (Cont'd)

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- (i) Conversion of RMB into foreign currencies for the use of recurring items, including the distribution of dividends and profits to foreign investors of FIEs is permissible and the approval of SAFE is not required, and FIEs are permitted to remit foreign currencies from their foreign currency bank accounts in the PRC upon presentation to the banks of board resolutions which authorise the distribution of profits or dividends and subject to other requirements being satisfied.
- (ii) However, conversion of RMB into foreign currencies for capital items, such as repatriation of capital, repayment of loans and for securities investment, is still under control and needs the approval of SAFE.

Pursuant to the amendment of 5 August 2008 by the State Council of the PRC, the Regulations on Management of Foreign Exchange of the PRC ("**Revised Regulation**") simplified the procedure for administrative examination and approval in relation to foreign direct investment. The Revised Regulation provides that the foreign exchange income of a domestic institution or individual may be transferred back into the territory of PRC or deposited overseas instead of the compulsory exchange settlement stipulated by the original Regulation.

However, there is no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As all of our sales are denominated in RMB, any future restrictions on currency exchanges may limit our ability to utilise funds generated in China to fund any potential business activities outside China, and / or to repatriate such revenues in the form of dividend income or otherwise. Kindly refer to Section 14 of this Prospectus for further details on China's foreign exchange controls that are applicable to us.

#### (ii) **Restrictions on dividends / payments from our subsidiaries**

Our Company is an investment holding company, and our main source of income is dividends derived from our subsidiaries, namely HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods, which are established in China and XinYuanChan, an investment holding company established in Hong Kong, which holds the shares of such operating subsidiaries.

The availability of funds for our Company to pay dividends or make other distributions is dependent upon dividends or other distributions received from our subsidiaries. The foreign investor in a WFOE may remit abroad profits lawfully earned from the enterprise and other income and funds lawfully obtained following the liquidation of the enterprise.

According to the Enterprises Tax Law of PRC which was promulgated on 16 March 2007 and came into effect as of 1 January 2008, and its implementation regulations, for a non-resident enterprise with no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its institution or establishment inside China, it shall pay enterprise income tax on the incomes derived from China, being subject to an enterprise income tax of 10%.

Pursuant to the Notice on Reduction of Income Tax on Such Income as Interest etc from China for Foreign Enterprises promulgated by the State Council commencing on January 1, 2000, 10% withholding tax is applicable to dividends payable from a foreign enterprise which has no establishment in the PRC to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business).

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### 3. RISK FACTORS (Cont'd)

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The Arrangement Between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention of Tax Evasion (the "**Arrangement for Avoidance of Double Taxation**") was signed by Mainland China and the Hong Kong Special Administrative Region on 21 August 2006. According to the new Arrangement for Avoidance of Double Taxation, the top rates for withholding tax for dividends a Hong Kong resident receives from mainland investments will be cut to 10% while the rates for dividends a Hong Kong business receives will fall to 5% if the Hong Kong business holds at least 25% of the capital of the enterprise in the mainland.

If HongPeng (Fujian), HongPeng Footwear or XiDeLang Sports Goods incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to our Company (via XinYuanChan). As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including International FRS.

PRC laws also require FIEs to set aside part of their net profit as statutory reserves and an employee bonus and welfare fund (the allocation ratio for the employee bonus and welfare fund may be determined by the enterprise). These statutory reserves are not available for distribution as cash dividends.

In addition, restrictive covenants in bank credit facilities or other agreements that HongPeng (Fujian), HongPeng Footwear or XiDeLang Sports Goods may enter into in the future may also restrict their ability to provide capital or declare dividends to our Company (via XinYuanChan) and Shareholders' ability to receive distributions.

These restrictions and any other legal or regulatory restrictions on the availability and usage of funding sources may materially impact our ability to pay dividends to Shareholders.

(iii) **Capital restrictions on funds raised in Malaysia**

Funds raised from any future fundraisings in Malaysia may be subject to capital control regulations that restrict the outflow of funds raised in Malaysia. Consequently, our ability to use the proceeds for our intended future plans and strategies may be impeded. Any delays or restrictions on repatriation of such funds raised may materially affect the implementation of our planned activities. In turn, our future business growth and financial performance may be materially affected as a result.

(iv) **Exchange rate fluctuations**

The value of RMB against foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under the unified floating exchange rate system, the conversion of RMB into foreign currencies has been based on rates set by the People's Bank of China (the "**PBOC**"), which have generally been stable.

The PBOC (acting as the Central Bank of PRC) reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand, with reference to a basket of currencies, and removing the pegging of the RMB to the US\$. On 23 September 2005, the PBOC widened the daily trading band for RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

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### 3. RISK FACTORS (Cont'd)

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There has been pressure from foreign countries for PRC to adopt a more flexible currency system that could lead to further appreciation of the RMB. The RMB may be revalued further against foreign currencies or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the RMB against foreign currencies. In such event, adverse fluctuations of the RMB and currencies other than RMB may materially and adversely affect our operating results, financial position, and the value of any dividends payable on our Shares in foreign currency terms.

In addition, any appreciation of RMB may result in the funds in RM raised by our Company pursuant to our IPO, when converted into RMB, being less than that required for our future plans and strategies, as set out in Section 4.21 of this Prospectus.

**(v) Dependence on China's political, economic, regulatory and social conditions**

Changes in political and economic conditions in China could materially and / or adversely affect our financial performance and business prospects. These political and economic uncertainties include, but are not limited to, changes in political leadership, expropriation, nationalisation, changes in interest rates or tax, risks of war and economic declines. Terrorist attacks, other acts of violence, and outbreak of avian influenza and / or other communicable diseases, if uncontrolled, may have adverse effects on business sentiments and the markets in which we operate and / or where our customers have a presence. In addition, we may face difficulties in procuring a stable supply of raw materials and delivering products to our customers in a timely and cost-effective manner.

While we practice prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic and other developments, which are unpredictable, unforeseeable and beyond our control, will not materially affect our operations and financial results.

As all our production facilities are located within China and all our revenue is derived from China, our business and future growth are dependent on China's political, economic, regulatory and social conditions. Any changes in policies implemented by China's government, which results in currency and interest rate fluctuations, capital restrictions, changes in duties and taxes or other changes detrimental to our business, could materially and adversely affect our operations, financial performance, prospects and / or future growth.

Since 1978, China's government has been reforming and is expected to continue to reform the rules and regulations governing its economic and political systems. Any changes in China's political and economic policies may lead to a change in China's laws and regulations or the interpretation of the same, as well as changes in foreign exchange regulations, taxation and import and export restrictions. In turn, this may adversely affect our co-operation and dealings with business associates. While the current policy of China's government seems to be one of pursuing economic liberalisation policies to encourage investments and greater economic de-centralisation, there is no assurance that such a policy will continue to prevail in the future.

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### 3. RISK FACTORS (Cont'd)

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In addition, China's legal system is a codified legal system made up of written laws, regulations, circulars, administrative directives and internal guidelines as well as judicial interpretations. Unlike common law jurisdictions such as Malaysia, decided cases do not form part of the legal structure of China and thus have no binding effect. As such, the administration of China's laws and regulations may be subject to a certain degree of discretion by the authorities. This has resulted in the outcome of dispute resolutions not having the level of consistency or predictability as in other countries with more developed legal systems. As our business and operations in China, and that of our customers and suppliers, are subject to the laws and regulations promulgated by the Chinese government, we may be adversely affected by subjective applications of laws and regulations that may be unfavourable to our business and operations in China, and that of our customers and suppliers.

Furthermore, in line with China's transformation from a centrally-planned economy to a free-market-oriented economy, China's government is still in the process of developing a comprehensive set of laws and regulations. As the legal system of China is still evolving, laws and regulations or the interpretation of the same may be subject to change.

#### (vi) Changes to China's environmental laws and regulations

We are subject to, and are to comply with specified standards in respect to our disposal of wastes in accordance with China's environmental laws and regulations. Failure to comply with such laws and regulations will result in us being subject to penalties and fines, and / or may result in an order being made to cease production activities. Kindly refer to Section 14.2.15 of this Prospectus for more details on China's environmental laws and regulations.

We have been granted the necessary certificate by the relevant PRC environmental authorities, which certify our compliance with the relevant standards concerning the disposal of wastes.

However, there is no assurance that China's government will not raise and / or amend such standards in the future. Any changes to China's environmental laws and regulations may require us to incur additional capital expenditure or costs in order to comply with such regulations. Consequently, profits may be adversely affected if we are unable to pass on such additional costs to customers. Any failure to adequately restrict the discharge of wastes and / or hazardous substances could also subject us to liabilities in the future.

#### (vii) Changes to China's tax laws and regulations

On 16 March 2007, the National Peoples' Congress passed the Enterprise Income Tax Law of the People's Republic of China, which took effect on 1 January 2008 (the "New Tax Law"). In accordance with the New Tax Law, a unified Enterprise Income Tax rate of 25.0% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and FIEs. Hence, from financial year 2008, the applicable Enterprise Income Tax rate for HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods is 25.0%.

Notwithstanding the foregoing, any changes to prevailing tax laws and regulations may have an adverse impact on our Group's financial performance and profitability and going forward, there can be no assurance that there will be no such changes.

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### 3. RISK FACTORS *(Cont'd)*

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Kindly refer to Section 14.2.5 of this Prospectus for further details of China's income tax laws and regulations applicable to us, and the recent development on China's Enterprise Income Tax Law.

**(viii) Changes to China's certain other laws and regulations**

Other than laws and regulations relating to tax and environmental protection, we are also subject to other laws and regulations.

As a pre-requisite for carrying on business in China, we are required to obtain certain permits and business licences from various governmental authorities. Details of our permits and business licences are set out in Section 4.15 of this Prospectus. As at the date of this Prospectus, we have obtained all material permits and business licences for business operations. However, some of these permits and business licences are subject to periodic renewal and reassessment as well as fulfilment of conditions imposed by relevant government authorities, and the standards of compliance required in relation thereto may vary from time to time.

Non-renewal or revocation of permits, licences and certificates will have a material adverse effect on our operations, as we will not be able to carry on business without such documents being granted or renewed. In addition, it may be costly for us to comply with any subsequent additions or new restrictions to these compliance standards. Hence, the occurrence of any such event may adversely affect our business and financial performance.

In addition, Hong Peng (Fujian) is a WFOE and is subject to laws and regulations governing WFOEs by the local government authorities. Changes in these laws and / or regulations may occur and result in the suspension, withdrawal or termination of our business licence or permits. Any such suspension, withdrawal, termination or refusal to extend our licences or permits may result in the cessation of the production of certain or all of our products, which may materially or adversely affect our business and financial position. Kindly refer to Section 14 of this Prospectus for a general overview of other laws and regulations applicable to our business in China.

**(xi) Outbreak of severe contagious diseases in China**

The outbreak, or threatened outbreak and spread of new influenza strains or any other contagious or virulent diseases in China may have a material adverse effect on our operations, the operations of our customers and/or suppliers, and the retail market.

In event any of our employees in our facilities, or the facilities of our suppliers and/or customers is infected with new influenza strains or other contagious or virulent diseases, we, our suppliers or our customers may be required to temporarily shut down our / their affected facility to prevent the spread of the disease, which may result in adverse effects on our business and financial performance.

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### **3. RISK FACTORS (Cont'd)**

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#### **3.3 RISKS RELATING TO OUR COMPANY BEING INCORPORATED IN BERMUDA**

##### **(i) Rights and protection accorded to our Shareholders**

The Malaysian Companies Act provides shareholders of Malaysia-incorporated companies rights and protection of which there may be no corresponding or similar provisions under the Bermuda Companies Act. As our Company is incorporated in Bermuda as an exempted company under the Bermuda Companies Act, our Shareholders may not be accorded the same level of shareholder rights and protection that a shareholder of a Malaysia-incorporated company may be accorded under the Malaysian Companies Act.

The rights of our Shareholders and the fiduciary responsibilities of our Directors under Bermuda law may not be as clearly established as under statutes or judicial precedent in Malaysia. Under Bermuda law, the duties of directors and officers of a company are generally owed to the company only and not to individual shareholders. Shareholders of Bermuda companies do not generally have rights to take action against directors or officers of the company, and may only do so in limited circumstances.

In addition, as at LPD, all our Executive Directors are non-residents of Malaysia, and their assets are mainly located outside Malaysia. Thus, our Shareholders may face difficulties in commencing any action in Malaysia against us, our subsidiaries and Directors residing outside Malaysia. Shareholders may also face difficulties in enforcing a judgment obtained in Malaysian courts against us or any of our Directors. Therefore, our Shareholders may have difficulty protecting their interests in the case of actions against our Directors or management, as compared to shareholders of a corporation incorporated in Malaysia.

Any person wishing to have advice on the differences between the Bermuda Companies Act and the Malaysian Companies Act and / or the laws of any jurisdiction is recommended to seek independent legal advice.

Explanatory statements on specific issues, such as "Purchase of our own Shares", "Rights to attend general meetings" and "Take-over protections" have been set out in Sections 3.3(iv), 2.1.2 and 3.3(iii) of this Prospectus. A summary of certain provisions under Bermuda company law and a summary of the Memorandum of Association and selected Bye-laws of our Company are set out in Sections 14 and 13.2, respectively, of this Prospectus. Further, a comparison of certain provisions of Bermuda company law and Malaysian company law is set out in Section 15 of this Prospectus. Each of the summaries and explanatory statements is not intended to be and does not constitute legal advice. Copies of the Memorandum of Association and the Bye-laws of our Company are available for inspection at such place and time as set out in Section 13.8 of this Prospectus.

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### 3. RISK FACTORS (Cont'd)

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#### (ii) Recognising Depositors as our Shareholders

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

Depositors will be recognised as members of our Company for so long as the Record of Depositors is entered in the register of members and branch register of our Company. For so long as the shares of our Company are listed on Bursa Securities, our Company is required to procure from the Bursa Depository a copy of the Record of Depositors as at the close of each market day and entered in our Company's register of members and branch register upon receipt of the same.

In the event a Depositor is not named in the Record of Depositors entered in our register of members or branch register, *prima facie*, such Depositor will not be recognised as a member of our Company.

#### (iii) Take-over protections

There are presently no requirements under any Bermuda laws or regulations of general application that will require persons who acquire substantial shareholdings in our Company to make take-over offers for our Shares, or to notify us. In addition, the Malaysian Code does not apply to companies incorporated outside Malaysia, and as such, do not apply to take-over offers for our Company.

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

Bye-law 168 will, due to its binding effect on our members, require our members who make take-over offers in respect of our Shares to comply with the Malaysian Code. However, our Bye-law 168 does not bind a person (including a corporation) who is not our member.

In addition, although Bye-law 167 of our Bye-laws will, due to its binding effect on our members, require each member to notify and, where applicable, procure its relevant beneficial owners having an interest in our Company within the meaning of Section 6A of the Malaysian Companies Act, to notify us and the SC upon acquiring a substantial shareholding in our Company or of any change in the percentage level of his substantial shareholding or upon ceasing to be a substantial shareholder of the Company, this cannot be enforced by our Company in respect of persons who are not our members because Bye-law 167 only binds our members.

### **3. RISK FACTORS (Cont'd)**

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All our Promoters have undertaken to SC that, as long as they continue to be substantial Shareholders by virtue of their direct, indirect or deemed interest, they will endeavour to persuade potential offerors in connection with a take-over offer for our Company to comply with the requirements of the Malaysian Code.

Nevertheless, there can be no assurance that the endeavours of our Promoters to persuade potential offerors in connection with a take-over offer for our Company to comply with the requirements of the Malaysian Code, will be successful.

The aforementioned shall not preclude the rights of the SC or any other relevant authorities, if any, from time to time, to impose on or enforce against a member and/or any person (including a corporation) who is not our member, the requirements and obligations of Division 2 of Part IV of the Malaysian Securities Commission Act 1993 and the Malaysian Code, or their respective statutory modifications or re-enactment or successor for the time being in force. The take-over law applies to persons who acquire or propose to acquire control in a company. By virtue of Bye-law 168, XiDeLang submits itself to the purview of take-over law.

#### **(iv) Purchase of our own Shares**

Under the laws of Bermuda, a company may, if authorized by its memorandum of association or bye-laws, purchase its own shares for cancellation or to be held as treasury shares. Our Company has such power to purchase our own Shares, pursuant to paragraph 7 of our Memorandum of Association.

Such power to purchase our own Shares shall, subject to the Bermuda Companies Act, our Memorandum and Bye-laws, and if applicable, the Listing Requirements and the rules and regulations of other regulatory authorities, be exercisable by our Directors upon such terms and subject to such conditions as they think fit, in accordance with Bye-law 3(2) (which provides that the prior approval of our members in general meeting be obtained for such purchase if so required by the Listing Requirements).

Under the laws of Bermuda, such purchases may be effected out of the capital paid-up on the purchased Shares, or out of the funds of our Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for that purpose. Any premium payable on such a purchase over the par value of the Shares to be purchased must be provided for out of the funds of our Company otherwise available for dividend or distribution or out of our Company's share premium account before the Shares are purchased.

Any amount due to a Shareholder on a purchase by our Company of our own Shares may be: -

- (i) paid in cash;
- (ii) satisfied by the transfer of any part of the undertaking or property of our Company having the same value; or
- (iii) be satisfied partly under (i) and partly under (ii).

Further, such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that our Company is, or after the purchase would be, unable to pay our liabilities as they become due. Shares purchased by our Company may either be cancelled (in which event, our Company's issued, but not our authorised, capital will be diminished accordingly) or, may be held as treasury shares.



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### **3. RISK FACTORS (Cont'd)**

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Under the laws of Bermuda, if a company holds shares as treasury shares the company shall be entered in the register of members as the member holding the shares but the company is not permitted to exercise any rights in respect of those shares and no dividend or other distribution (whether in cash or otherwise) shall be paid or made to the company in respect of such shares.

For further details, kindly refer to "Purchase of shares and warrants by a company and its subsidiaries" in Section 14.1.4 of this Prospectus.

Nevertheless, our Company presently has no intention of purchasing our own Shares after our Listing. However, if we decide to do so later, we will seek our Shareholders' approval in accordance with the Bye-laws of our Company and the Listing Requirements. Our Company will make prompt public announcement of any such share purchase and has given an undertaking to Bursa Securities to comply with all requirements that the Listing Requirements may impose in the event of any such share purchase.

#### **3.4 RISKS RELATING TO INVESTMENT IN OUR SHARES**

**(i) No prior market for our Shares**

There has been no prior public market for our securities. There can be no assurance that an active public market will develop or be sustained after our Listing or that the market price of our Shares will not decline below the IPO Price. We believe that a variety of factors could cause our Share price to fluctuate and such fluctuations may adversely affect the market price of our Shares.

The IPO Price for our Shares has been determined after taking into consideration a number of factors, including but not limited to, our financial and operating history and condition, the prospects of the industry we operate in, our management and the market prices for shares of companies engaged in businesses similar to ours, and may not be indicative of the market price of our Shares after our Listing.

There can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon or subsequent to our Listing.

**(ii) Capital market risks or share price volatility**

The performance of the local bourse is very much dependent on external factors such as the performance of the regional and world bourses and the flows of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions in Malaysia as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risk to the market price of the listed securities.

In addition, the market price of our Shares may be highly volatile and could fluctuate significantly and rapidly in response to, amongst others, the following factors, some of which are beyond our control:-

- (a) variations in our results of operations;
- (b) success or failure of our management team in implementing business and growth strategies;

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### 3. RISK FACTORS *(Cont'd)*

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- (c) gain or loss of an important business relationship;
- (d) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (e) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;
- (f) changes in market valuations and share prices of companies with similar businesses to our Company that may be listed in Malaysia;
- (g) additions or departures of key personnel;
- (h) fluctuations in stock market prices and volume; or
- (i) involvement in litigation.

Although we are committed to the sound management of our business, there is no assurance that our Share price will not be subject to volatility, due to market sentiments.

Nevertheless, our profitability is not dependent on the performance of Bursa Securities, as our business activities have no direct correlation with the performance of securities listed on Bursa Securities.

#### (iii) **Uncertain economic outlook**

Since the second half of 2008, disruptions in the global credit markets and the general slowdown in the global economy have resulted in an increasingly difficult business environment with greater volatilities and tightening of the credit market. Despite the sizeable economic stimulus plan which was introduced by the PRC government at the end of 2008 to help stabilise China's economy, it is difficult to predict how long these conditions will continue. Any prolonged and / or widespread downturn is likely to impact on consumer spending and confidence. A slowdown in China and global economies is likely to reduce demand for a wide range of products, including sports shoes and apparel, which would have an impact on operators within the sports shoe and apparels industries.

Accordingly, these conditions could adversely affect our future financial condition or results of operations. In addition, conditions in the capital markets could also adversely affect the IPO and limit or reduce the number of investors in our Shares, thereby adversely affecting the liquidity and potentially the price of our Shares.

#### (iv) **Control by Promoters**

Upon our Listing, our Promoters, as set out in Section 6.1 of this Prospectus, will collectively hold at least 60% of our enlarged issued and paid-up share capital. As a result, they will still be able to, in the foreseeable future, effectively control the business direction and management of our Group as well as influence the outcome of certain matters requiring the vote of our Shareholders unless our Promoters are required to abstain from voting by law and/ or by the relevant guidelines or regulations.

We have appointed three (3) Independent Directors and an Audit Committee has been set up to ensure that all future transactions involving related parties, if any, are entered into on an arms-length basis.

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### 3. RISK FACTORS *(Cont'd)*

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**(v) Failure / delay in our Listing**

The occurrence of any one or more of the following events, which is not exhaustive, may cause a delay in or cancellation of our Listing on the Main Market of Bursa Securities:-

- (a) the identified investors fail to subscribe to the portion of IPO Shares intended to be placed to them although they have furnished their irrevocable undertaking letters to subscribe for such Shares;
- (b) the Underwriters exercising their rights pursuant to the Underwriting Agreement to discharge itself from their obligations thereunder;
- (c) we are unable to meet the public spread requirement as determined by Bursa Securities i.e. at least 25% of our enlarged issued and paid-up share capital must be held by a minimum number of 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing; or
- (d) we are unable to obtain permission from Bursa Securities for our Admission to the Official List and for the quotation of our entire enlarged issued and paid-up share capital on the Main Market of Bursa Securities.

In such an event, subject to restrictions set out in Section 3.4(vi) below, we will return in full all monies paid in respect of any Applications accepted. Nevertheless, our Directors will endeavour to ensure compliance with the various requirements for our successful Listing.

**(vi) Delay between Admission and trading of the IPO Shares**

Delays in the Admission and the commencement of trading in shares on Bursa Securities have occurred in the past. In respect of the Public Issue Shares comprised in the IPO Shares, following their allotment and issue to investors, a return of monies to such investors may be effected by way of either a repurchase by the Company of those shares at the IPO Price, or by way of a reduction of our share capital. A capital reduction would require the approval by special resolution of our Shareholders and a notice of the proposed reduction is required to be published in an appointed newspaper in Bermuda not less than 15 days and not more than 30 days before the date on which the reduction of the share capital is to have effect. The statutory requirement for the publication of the notice cannot be waived nor the period shortened.

Further, such capital reduction shall not be effected if on the date the reduction is to be effected, there are reasonable grounds for believing that we are, or after the reduction would be, unable to pay our liabilities as they become due.

There can be no assurance that monies can be recovered within a short period of time. If Bursa Securities does not admit our Shares for Listing, the market for our Shares will be illiquid and it may not be possible to trade our Shares. This may also have a materially adverse effect on the value of our Shares.

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### 3. RISK FACTORS (Cont'd)

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#### (vii) Future fundraisings may dilute shareholders equity or restrict our operations

We may require additional funding for our future growth. This may result in dilution of our shareholders' equity, or restrictions imposed by additional debt funding.

Our capital requirements are dependent on, amongst others, our business, the availability of our resources for attracting, maintaining and enlarging our customer base and the need to maintain and expand our production facilities. Thus, we may need additional capital expenditure for mergers and acquisitions or investments. An issue of Shares or other securities to raise funds will dilute shareholders' equity interests and may, in the case of a rights issue, require additional investments by shareholders.

Further, an issue of Shares below the then prevailing market price will also affect the value of Shares then held by investors. Dilution in shareholders' equity interests may occur even if the issue of Shares is at a premium to the market price. In addition, any additional debt funding would increase our gearing ratio and may restrict our freedom to operate our business as it may have conditions that:-

- (a) limit our ability to pay dividends or require us to seek consents for the payment of dividends;
- (b) increase our vulnerability to general adverse economic and industry conditions;
- (c) require us to dedicate a portion of our cash flow from operations to repayments of our debt, thereby reducing the availability of our cash flow for capital expenditures, working capital and other general corporate purposes; and
- (d) limit our flexibility in planning for, or reacting to, changes in our businesses and our industry.

If we fail in obtaining more funds to meet requirements for our business, merger and acquisition plans or investments, we may not be able to implement future plans that are essential to our growth.

#### (viii) Enforceability of shareholder rights

Our PRC subsidiaries' operations and assets are located in China. Therefore, our PRC subsidiaries are subject to the relevant laws and regulations of China. The Malaysian Companies Act may provide shareholders with certain rights and protection that may not have corresponding or similar provisions under the laws and regulations of China. As such, our investment in our PRC subsidiaries' shares may or may not be accorded the same level of shareholders rights and protection that would be accorded under the Malaysian Companies Act.

In addition, as at LPD, all our Executive Directors and key management are non-residents of Malaysia, and the assets of these persons are mainly located outside Malaysia. As such, Shareholders may encounter difficulties in effecting service of process in Malaysia, or to enforce a judgement obtained in Malaysia against any of these persons.

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

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**(ix) Material litigation, claim or arbitration or legal uncertainties**

As at LPD, our Group is not engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on our financial position, and our Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect our position or business or the position or business of our subsidiaries.

However, there can be no assurance that there would be no proceedings in the future that could adversely affect the position, financial performance, prospects or business of our Group.

**(x) Disclosure regarding forward-looking statements**

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

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

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

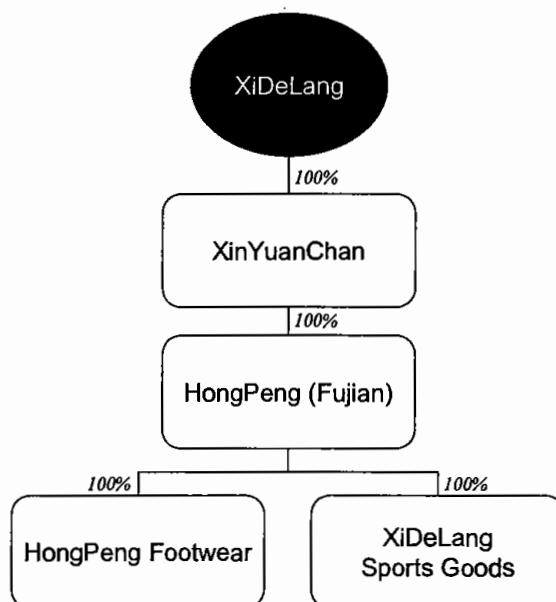
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#### 4. INFORMATION ON OUR GROUP

##### 4.1 BUSINESS BACKGROUND

##### 4.1.1 Group structure

As at the date of this Prospectus, our Group structure is as follows:-



Our subsidiaries and their respective principal activities are as follows:-

Corporation	Date / place of incorporation	Issued and paid-up share capital	Effective equity interest %	Year commenced operations	Principal activities
<i>Direct</i> XinYuanChan	19 June 2008 / Hong Kong	HK\$10,000	100.0	2008	Investment holding
<i>Indirect</i> HongPeng (Fujian)	29 November 1996 / PRC	RMB8,500,000	100.0	1996	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment
HongPeng Footwear	10 May 1993 / PRC	RMB37,000,000	100.0	1993	Design, manufacturing and marketing of sports shoes
XiDeLang Sports Goods	24 July 1995 / PRC	RMB36,000,000	100.0	1995	Owner of proprietary 'XiDeLang' brand

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## 4. INFORMATION ON OUR GROUP (Cont'd)

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### 4.1.2 History and development

Our history can be traced back to 1993 when Mr. Ding PengPeng, our Managing Director and CEO and Ms. Ding LiHong, our Executive Chairman, co-founded HongPeng Footwear in Jinjiang City, Fujian Province, and began the production and marketing of sports shoes, with a focus on casual sports shoes.

Their vision and management have contributed significantly to our success, growth and development. Early in our history, they recognised the importance of brand creation, ownership and management as key components in differentiating ourselves from our competitors.

As a result, in 1993, the 'XiDeLang' brand of sports shoes was launched in China. Due to our brand building efforts over the years, we believe our 'XiDeLang' brand has established a reputation synonymous with trendy, innovative and quality sports shoes, apparel, accessories and equipment at the forefront of consumer trends and preferences.

As a testament to the strength and value of our brand, we have been awarded numerous titles and recognitions, including the "Fujian Famous Brand" award and the "Well-known Mark of China" award in 2004 and 2006 respectively. We are one of the few sports-shoe brands in China to have obtained the "Well-known Mark of China" status. The latest award we have received in 2009 is the "No. 1 spot for Jinjiang Top 10 Most Growth for Sports and Leisure Brand" by Jinjiang Economy News, Market Economy Academy, Peking University – Private Institute of Economic Research.

In 1995, we established XiDeLang Sports Goods which holds our proprietary 'XiDeLang' brand name. In order to enhance the competitiveness of our brand and products, we began to devote our primary focus to proprietary brand management and product development. The continuous development and marketing of our 'XiDeLang' brand was also emphasised.

Under our 'XiDeLang' brand, we developed and marketed a broad range of sports shoes designed for specific activities, such as skateboarding, running, basketball and tennis. At the same time, we enhanced our manufacturing efficiency and capabilities, and expanded our distribution channels. In 1996, HongPeng (Fujian) was established to undertake the manufacturing of sports shoes. HongPeng Footwear continues to undertake the manufacturing of sports shoes with a focus on overseas markets.

To further enhance our competitive advantage, we developed in-house product development and design capabilities in 2000. This enabled us to have full control in creating innovative designs, whilst allowing us to respond to evolving trends, market demand and consumer preferences.

All our designs are proprietary and represent our intellectual property. In-house design is key in supporting our brand. As a consumer product brand, we believe that the success of our 'XiDeLang' brand is strongly linked to contemporary product designs that constantly appeal to consumer preferences.

We develop approximately 2,000 designs of sports shoes every year, of which approximately 500 are commercialised. Our 'XiDeLang' brand of sports shoes now covers an extensive range of sports shoes such as running, basketball, tennis, skateboarding, hiking, trekking and casual-wear shoes.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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In 2005 / 2006, we established a complementary line of sports apparel and accessories to leverage on our 'XiDeLang' brand equity and our extensive distribution network. In addition, we sought to capitalise on the increasing attention placed on active and healthy lifestyles, and rising consumer demand for branded sports apparel. We expanded our product range by designing and developing sports apparel under our 'XiDeLang' brand in collaboration with third party manufacturers, and outsourced production to them. In 2007, we successfully launched our range of sports apparel and accessories, which was well received by our target consumers.

In 2007, we engaged a popular local artiste, Zhang Jie to be 'XiDeLang' brand ambassador, as part of our brand-enhancement strategy. This successfully escalated the profile of the 'XiDeLang' brand, strengthened our brand appeal, and further established the 'XiDeLang' brand as a popular brand of sports shoes and apparel, especially among the younger age groups in China.

We have progressively developed an expansive retail presence, due to our success in building brand awareness and loyalty. Our strong 'XiDeLang' brand image and recognition have allowed us to successfully establish an extensive distribution network of approximately 2,300 retail locations across China, of which 1,320 are concept stores. We are able to sell our products to a wide domestic market, as XiDeLang products are retailed across 25 provinces and municipalities in China.

Over the years, we have built-up significant brand equity, due to our unwavering focus on brand management. We have entrenched ourselves as a leading brand for sports shoes, apparel, accessories and equipment. At the same time, we have accumulated substantial manufacturing know-how and enhanced our production efficiency.

Our annual manufacturing output has grown from 1.6 million pairs of sports shoes in 1995, to 4.4 million pairs in 2008. Due to the success of our vigorous marketing efforts, we have enjoyed an increase in sales volume. As such, we have had to engage third party contractors to manufacture sports shoes using our proprietary designs and specifications to meet the increase in demand for our sports shoes.

We intend to further expand our manufacturing operations to gain first-hand technical expertise, which keeps us at the forefront in using innovative technological improvements. This is essential in reducing our product costs, is critical to maintaining high product quality, and complements our product design and development capabilities.

Since our inception in 1993, we have successfully positioned ourselves as a coveted brand for sports-shoes, apparel, accessories and equipment with strong retail presence across China. Simultaneously, we have accumulated extensive in-house product development and design expertise for sports shoes, apparel, accessories and equipment, and developed substantial manufacturing capabilities for sports shoes.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.1.3 Incorporation and restructuring

XiDeLang was incorporated in Bermuda under the Bermuda Companies Act on 17 April 2009 as an exempted company limited by shares. On 12 August 2009, we registered our Company with the ROC as a foreign company in Malaysia. Our Company became the holding company of our Group on 9 July 2009.

HongPeng Footwear was incorporated on 10 May 1993 in the PRC as a company with limited liability under the Provisional Regulations of the PRC on Private Enterprises to undertake the design, manufacturing and marketing of sports shoes.

XiDeLang Sports Goods was incorporated on 24 July 1995 in the PRC under the name of Fujian Province Jinjiang City XiDeLang Shoes and Garments Co., Ltd. as a company with limited liability under the Company Law of the PRC and assumed its current name on 26 May 2003. It is the owner of our Group's proprietary brand 'XiDeLang'.

HongPeng (Fujian) was incorporated in the PRC under the PRC Law of Sino-foreign Equity Joint Ventures on 29 November 1996 as a sino-foreign-owned company with limited liability to undertake the design, manufacturing and marketing of sports shoes, apparel and accessories. After a restructuring exercise carried out on 21 October 2008, its governing law was changed to the PRC Law of Wholly Foreign-Owned Enterprise.

HongPeng Footwear was formerly jointly owned by Ding LiHong and Ding JiaXing with an equity interest of 60% and 40%, respectively. XiDeLang Sports Goods was formerly jointly owned by Ding PengPeng and Ding JiaXing with an equity interest of 30% and 70%, respectively as at 3 February 2007. On 30 April 2009, HongPeng (Fujian) acquired the entire equity interest in HongPeng Footwear and XiDeLang Sports Goods.

HongPeng (Fujian) was originally owned by XiDeLang Sports Goods and Yuen Cheng Trading Development Co. ("**Yuen Cheng**") with an equity interest of 25% and 75%, respectively. The entire equity interest in Yuen Cheng was jointly held by So Wing Chuk and Su Yung Szu in trust for Ding PengPeng.

The entire equity interest of HongPeng (Fujian) held by XiDeLang Sports Goods and Yuen Cheng was subsequently transferred to XinYuanChan on 21 October 2008.

XinYuanChan is a private company with limited liability incorporated in Hong Kong under the Hong Kong Companies Ordinance (Cap32) on 19 June 2008. Its then entire issued share capital was held by Chong Kim Po in trust for Ding PengPeng. Chong Kim Po has subsequently transferred his legal title in the entire issued share capital in XinYuanChan to Ding PengPeng on 11 May 2009 in preparation for the listing of our Group.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.2 LISTING SCHEME

In conjunction with, and as an integral part of our Listing, we undertook the Listing Scheme, which involves the following:-

**(i) Consolidation and Increase In Authorised Share Capital**

On 30 June 2009, we effected a consolidation of every two (2) existing ordinary shares of US\$0.05 each in our authorised and issued share capital into one (1) ordinary share of US\$0.10, resulting in an authorised share capital of US\$10,000 divided into 100,000 Shares and an issued share capital of US\$1.00 divided into 10 Shares.

Following the Consolidation, we increased our authorised share capital from US\$10,000 divided into 100,000 Shares to US\$50,000,000 divided into 500,000,000 Shares.

**(ii) Acquisition of XinYuanChan**

Pursuant to a conditional Share Sale Agreement dated 18 May 2009 entered into between our Company as the purchaser, and Ding PengPeng as the vendor, we acquired the entire issued and fully paid-up share capital of XinYuanChan of HK\$10,000, comprising 10,000 ordinary shares of HK\$1 each, for an aggregate purchase consideration of US\$29,999,999, which was satisfied entirely by the issuance of an aggregate of 299,999,990 new Shares in XiDeLang, each credited as fully paid-up at par value of US\$0.10 per Share.

The vendor of XinYuanChan, namely Ding PengPeng, agreed and directed that all the 299,999,990 new Shares to which he was entitled be issued and allotted by XiDeLang to HongPeng International (239,999,990 Shares), a company wholly-owned by Ding PengPeng and the remaining 60,000,000 Shares to certain other parties not related to him.

The purchase consideration of US\$29,999,999 for the Acquisition of XinYuanChan was agreed on a willing-buyer willing-seller basis after taking into consideration:-

- (a) the consolidated historical financial performance of XinYuanChan, HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods (collectively referred to as the "XinYuanChan Group") for the FYE 2006 to 2008; and
- (b) the future earnings potential of our Group vis-à-vis our growth prospects taking into consideration our Group's competitive strengths and our business expansion plans.

The 299,999,990 new Shares issued pursuant to the Acquisition of XinYuanChan rank *pari passu* in all respects with all the existing ordinary shares of XiDeLang and carry all rights to receive in full all dividends and other distributions declared and paid subsequent to the allotment thereof.

The completion of the Acquisition of XinYuanChan on 9 July 2009 resulted in the issued and paid-up share capital of XiDeLang being increased from US\$1 comprising 10 Shares to US\$30,000,000 comprising 300,000,000 Shares.

Subsequent to the completion of the Acquisition of XinYuanChan, HongPeng International, together with its existing 10 Shares held in XiDeLang, holds a total of 240,000,000 Shares in XiDeLang.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (iii) IPO

###### Public Issue

We are undertaking a Public Issue, details of which are set out in Section 2.3 of this Prospectus.

##### (iv) Listing and Quotation on the Main Market of Bursa Securities

Upon completion of the Acquisition of XinYuanChan and Public Issue, we will seek Admission and Listing.

#### 4.3 OUR GROUP

##### 4.3.1 Our share capital and changes in share capital

As at the date of this Prospectus, our authorised share capital is US\$50,000,000 comprising 500,000,000 Shares, and our issued and fully paid-up share capital is US\$30,000,000 comprising 300,000,000 Shares.

The changes in our issued and paid-up share capital for the last three (3) years are as follows:-

Date of allotment / issuance	No. of Shares allotted / issued	Par value (US\$)	Consideration	Cumulative issued and paid-up share capital (US\$)
5 May 2009	20	0.05	Issued nil paid	-
30 June 2009	20	0.05	Cash	1
30 June 2009	10	0.10	Consolidation	1
9 July 2009	299,999,990	0.10	Acquisition of XinYuanChan	30,000,000

Our issued share capital will be increased to 400,000,000 Shares subsequent to the Public Issue of 100,000,000 Shares at the IPO Price.

As at the date of this Prospectus, our Company does not have any outstanding warrants, options, convertible securities or uncalled capital.

##### 4.3.2 XinYuanChan

###### (i) History and business

XinYuanChan (Hong Kong Company No. 1248611) was incorporated in Hong Kong under the Hong Kong Companies Ordinance (Cap. 32) on 19 June 2008 as a private company with limited liability under the name of Hong Kong XinYuanChan International Holding Co., Limited. XinYuanChan is principally an investment holding company. There have been no material changes in the manner in which XinYuanChan conducts its business or activities since its date of incorporation.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

(ii) **Substantial Shareholders**

XinYuanChan is a wholly-owned subsidiary of our Company.

(iii) **Share capital**

As at the date of this Prospectus, the authorised share capital of XinYuanChan is HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each, and the issued and fully paid-up share capital of XinYuanChan is HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each.

The changes in the issued and paid-up share capital of XinYuanChan for the last three (3) years are as follows:-

Date of allotment / issuance	No. of shares issued / allotted	Par value (HK\$)	Consideration	Cumulative issued and paid-up share capital (HK\$)
19 June 2008	10,000	1.00	Cash	10,000

As at the date of this Prospectus, XinYuanChan does not have any outstanding warrants, options, convertible securities or uncalled capital.

(iv) **Subsidiary / associated company**

As at the date of this Prospectus, XinYuanChan has one (1) direct subsidiary, namely HongPeng (Fujian) and two (2) indirect subsidiaries, namely HongPeng Footwear and XiDeLang Sports Goods and does not have any associated company.

(v) **Acquisitions or disposals of material assets**

Other than the acquisition of HongPeng (Fujian) at a purchase consideration of RMB8,500,000 on 10 July 2008, XinYuanChan has not acquired or disposed of any material assets other than in the ordinary course of business.

#### 4.3.3 HongPeng (Fujian)

(i) **History and business**

HongPeng (Fujian) (PRC Registration No. 350500400011132) was established in Jinjiang City, Fujian Province, PRC on 29 November 1996 as a sino-foreign owned enterprise with limited liability, under the PRC Law of Sino-foreign Equity Joint Ventures under the name of HongPeng (Fujian) Shoes & Garments Co., Ltd. After the restructuring exercise on 21 October 2008, it was converted into a WFOE and its governing law was changed to the PRC Law of Wholly Foreign-Owned Enterprise.

HongPeng (Fujian)'s principal activity is the design, manufacturing and marketing of sports shoe as well as design and marketing of sports apparel, accessories and equipment.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

**(ii) Substantial equity holders**

HongPeng (Fujian) is a wholly-owned subsidiary of XinYuanChan, which in turn is wholly-owned by our Company.

**(iii) Capital<sup>(1)</sup>**

As at the date of this Prospectus, the registered capital of HongPeng (Fujian) is RMB8,500,000 and the paid-up capital of HongPeng (Fujian) is RMB8,500,000.

*Note:-*

(1) *The company was incorporated in the PRC as a limited liability company and does not have any share capital (issuance of shares is not applicable to companies in the PRC).*

There is no change in the paid-up capital of HongPeng (Fujian) for the last three (3) years.

As at the date of this Prospectus, HongPeng (Fujian) does not have any outstanding warrants, options, convertible securities or uncalled capital.

**(iv) Subsidiary / associated company**

As at the date of this Prospectus, HongPeng (Fujian) has two (2) subsidiaries, namely HongPeng Footwear and XiDeLang Sports Goods and does not have any associated company.

**(v) Acquisitions or disposals of material assets**

Date of acquisition	Assets acquired	Consideration (RMB'000)
3 July 2006	Land use right of a piece of leasehold land in Hua Ting Kou Village, Chendai County, Jinjiang City	5,500
30 April 2009	Entire equity interests in HongPeng Footwear	37,000
30 April 2009	Entire equity interest in XiDeLang Sports Goods	36,000

Other than the above, HongPeng (Fujian) has not acquired or disposed of any material assets other than in the ordinary course of business.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.3.4 HongPeng Footwear

###### (i) History and business

HongPeng Footwear (PRC Registration No. 350582100074201) was established in Jinjiang City, Fujian Province, the PRC on 10 May 1993 as a limited liability company under the PRC Law governing establishment of a limited liability company, under the name of Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd.

HongPeng Footwear's principal activity is the design, manufacturing and marketing of sports shoes.

###### (ii) Substantial equity holders

HongPeng Footwear is a wholly-owned subsidiary of HongPeng (Fujian), which in turn is wholly-owned by XinYuanChan, a wholly-owned subsidiary of our Company.

###### (iii) Capital<sup>(1)</sup>

As at the date of this Prospectus, the registered capital of HongPeng Footwear is RMB37,000,000, and the paid-up capital of HongPeng Footwear is RMB37,000,000.

*Note:-*

(1) *The company was incorporated in the PRC as a limited liability company and does not have any share capital (issuance of shares is not applicable to companies in the PRC).*

Based on the capital verification reports prepared by registered accountants in the PRC, the changes in the paid-up capital of HongPeng Footwear for the last three (3) years are as follows:-

Date	Value (RMB)	Consideration	Cumulative paid- capital (RMB)
5 February 2007	26,200,000	Cash	37,000,000

As at the date of this Prospectus, HongPeng Footwear does not have any outstanding warrants, options, convertible securities or uncalled capital.

###### (iv) Subsidiary / associated company

As at the date of this Prospectus, HongPeng Footwear does not have any subsidiary or associated company.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (v) Acquisitions or disposals of material assets

Date of acquisition	Assets acquired	Consideration (RMB'000)
3 July 2006	Land use right of a piece of leasehold land in Hua Ting Kou Village, Chendai County, Jinjiang City	987
30 January 2007	Land use right of a piece of leasehold land in Zhai Nei Village, Nei Keng County, Jinjiang City	26,100
1H 2009	Factory building under construction	31,000

Other than above, HongPeng Footwear has not acquired or disposed of any material assets in the ordinary course of business.

#### 4.3.5 XiDeLang Sports Goods

##### (i) History and business

XiDeLang Sports Goods (PRC Registration No. 350582100074172) was established in Jinjiang City, Fujian Province, the PRC on 24 July 1995 as a limited liability company, under the PRC Law governing establishment of a limited liability company under the name of Fujian Province Jinjiang City XiDeLang Shoes & Garments Co., Ltd. and assumed its present name on 26 May 2003.

XiDeLang Sports Goods' registered scope of business under its business license is the manufacturing of shoes and apparel. Since its incorporation and up to the date of this Prospectus, XiDeLang Sports Goods has not engaged in any manufacturing activity. However, it is the owner of our Group's proprietary 'XiDeLang' brand.

##### (ii) Substantial equity holders

XiDeLang Sports Goods is a wholly-owned subsidiary of HongPeng (Fujian), which in turn is wholly-owned by XinYuanChan, a wholly-owned subsidiary of our Company.

##### (iii) Capital<sup>(1)</sup>

As at the date of this Prospectus, the registered capital of XiDeLang Sports Goods is RMB36,000,000 and the paid-up capital of XiDeLang Sports Goods is RMB36,000,000.

Note:-

(1) *The company was incorporated in the PRC as a limited liability company and does not have any share capital (issuance of shares is not applicable to companies in the PRC).*

#### 4. INFORMATION ON OUR GROUP (Cont'd)

Based on the capital verification reports prepared by registered accountants in the PRC, the changes in the paid-up capital of XiDeLang Sports Goods for the last three (3) years are as follows:-

Date	Value (RMB)	Consideration	Cumulative paid-capital (RMB)
3 February 2007	26,100,000	Cash	36,000,000

As at the date of this Prospectus, XiDeLang Sports Goods does not have any outstanding warrants, options, convertible securities or uncalled capital.

**(iv) Subsidiary / associated company**

As at the date of this Prospectus, XiDeLang Sports Goods does not have any subsidiary or associated company.

**(v) Acquisitions or disposals of material assets**

Date of acquisition	Assets acquired	Consideration (RMB'000)
30 January 2007	Land use right of a piece of leasehold land in Zhai Nei Village, Nei Keng County, Jinjiang City	28,274
1H 2009	Office building under construction	17,000

Besides, XiDeLang Sports Goods had disposed its 25.0% equity interest in HongPeng (Fujian) to XinYuanChan at a consideration of RMB2,125,000 on 10 July 2008. Other than that, XiDeLang Sports Goods has not acquired or disposed of any material assets in the ordinary course of business.

#### 4.4 BUSINESS OVERVIEW

##### 4.4.1 Our business focus

We are a branded sports shoes, apparel, accessories and equipment enterprise based in Jinjiang City, the sports shoes capital of China. In 2007, Jinjiang City accounted for approximately 20% of the total sports-shoe production in the world<sup>(1)</sup>. Jinjiang City was bestowed the title of "China's Shoe Capital" in 2001<sup>(2)</sup> and "National Sports Industry Base" by the General Administration of Sport of China in 2007<sup>(3)</sup>.

Notes:-

- (1) Derived from Jinjiang City Government Affairs website. Source: <http://www.jinjiang.gov.cn/main/jj/jjxw/200703231647209.shtml>, accessed on 20 October 2009.
- (2) Derived from Fujian Provincial People's Government website. Source: [http://www.fujian.gov.cn/wsbs/jg/jjdt/200709/t20070925\\_35323.htm](http://www.fujian.gov.cn/wsbs/jg/jjdt/200709/t20070925_35323.htm), accessed on 20 October 2009.
- (3) Derived from the General Administration of Sport of China's website. Source: <http://www.sport.gov.cn/n16/n1077/n297454/489386.html>, accessed on 20 October 2009.



#### **4. INFORMATION ON OUR GROUP (Cont'd)**

We are principally engaged in marketing and brand management of sports shoes, apparel, accessories and equipment, supported by our in-house product development / design, manufacturing and distribution capabilities. Our products are marketed under our proprietary brand 'XiDeLang' and distributed via an extensive retail network to consumers in the PRC.

Our product offerings are categorised into:-

- (a) Sports shoes, comprising:-
- Casual / leisure sports shoes including casual walking sports shoes, multi-sports shoes such as hiking and trekking shoes, and high-sole shoes;
  - Court sports shoes, which are primarily basketball and tennis shoes;
  - Running shoes; and
  - Skateboarding shoes.
- (b) Sports apparel, accessories and equipment:-
- Sports apparel comprising T-shirts (including round neck shirts, v-neck shirts and collar shirts / polo shirts), tracksuits, basketball suits, pants (including long track / jog pants, three-quarter pants, and short pants);
  - Sports accessories and equipment comprising sports bags, sports caps, socks and basketballs.

Our brand management and marketing focus for sports shoes are complemented by our in-house product development and design team, whilst design for our apparel, accessories and equipment is undertaken in conjunction with third party manufacturers. We believe that product development / design is key in supporting our marketing and brand building efforts as it enables us to create innovative and fresh designs promptly to meet a dynamic market typified by constant changes in market forces and consumer preferences. Every year, we develop approximately 2,000 of our own proprietary designs of sports shoes, of which approximately 500 are commercialised.

To reinforce our marketing and brand building efforts, we have developed a strong supply chain that ensures uninterrupted supply of high quality products to commensurate with our brand image. As such, we have built on our history of manufacturing sports shoes to be part of the supply chain. Our manufacturing activities enables us to develop technical knowledge to use innovative, cost effective and new materials, technologies and processes to constantly improve our products. We also engage third party manufacturers to produce our sports shoes, apparel, accessories and equipment. As such, our technical knowledge in manufacturing provides us with the basis to ensure quality and reliable products from our third party manufacturers.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **4.4.2 Our retail presence and distribution channel strategy**

Our target market is the PRC consumer mass market. Our brand management and marketing is backed by our extensive retail presence. We believe that our extensive distribution network, coupled with our strong 'XiDeLang' brand image and recognition, presents barriers to entry for the new and smaller players in the sports shoes and apparel industry who seek to compete on a similar scale with us.

To maximise our reach to the consumer mass market, we have implemented an indirect distribution channel strategy that uses intermediaries comprising distributors and retailers to sell our products to end consumers. As at LPD, we have 32 distributors that have their own network of sub-distributors and retailers across 25 provinces and municipalities in approximately 2,300 retail locations in the PRC, of which 1,320 are concept stores. All our retail locations carry exclusively our products under the 'XiDeLang' brand.

The strategy of using intermediaries to distribute and retail our products enables us to address a wider spectrum of the market in the PRC without investing significantly in logistics and retail infrastructure. This strategy allows us to focus our resources on brand management and marketing.

##### **4.4.3 Our proprietary brand**

Our proprietary brand is centred on 'XiDeLang', which is used for all our branded products as well as the name of all the retail locations that carry exclusively our branded products.

Our 'XiDeLang' brand is the cornerstone of our success, as the brand exerts positive influence on our target consumers' perception towards our products and their shopping preferences. We believe that our 'XiDeLang' brand, established for 16 years since 1993, has become well received in the markets we serve through our dual focus on (i) our brand management and marketing strategies; and (ii) product development, innovation and quality over the years. Through our marketing efforts, including the appointment of a popular local artiste as our 'XiDeLang' brand ambassador, we believe our brand has enjoyed a close association with trendy, innovative and quality sports fashion.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

We have received numerous awards and accreditations for our 'XiDeLang' brand, such as the following:-

Year	Types of awards	Awarded by
2009	No. 1 spot for Jinjiang Top 10 Most Growth for Sports and Leisure Brand (晋江十大最具成长性运动休闲品牌榜首)	Jinjiang Economy News, Market Economy Academy, Peking University – Private Institute of Economic Research (晋江经济报, 北京大学民营经济研究院)
2008	Famous Brand Product of Fujian Province (福建名牌产品)	People's Government of Fujian Province (福建省人民政府)
2007	Fujian Famous Brand (福建省著名商标)	Fujian Administration for Industry and Commerce (福建省工商行政管理局)
2006	2003 - 2005 Advanced Enterprise in Famous Brand Creation (2003 – 2005 年度创名牌)	People's Government of Quanzhou Municipality (泉州市人民政府)
2006	Well-known Mark of China (中国驰名商标)	Jiangxi Province Fuzhou City Intermediate People's Court (江西省抚州市中级人民法院)
2005	2005 China Sports Brand – Fengyun Top 100 Outstanding Enterprise (2005 年中国体育品牌风云 100 榜优秀企业)	Organising Committee of 2005 China Sports Brand Fengyun Top 100 (2005 中国体育品牌风云榜暨领袖年会)
2005	2005 Sports Fengyun Most Favourite Brand (2005 中国体育品牌风云榜暨领袖年会 – 大众最爱品牌奖)	2005 China Sports Brand Fengyun Top 100 Committee (2005 中国体育品牌风云榜暨领袖年会)
2004	Fujian Famous Brand (福建省著名商标)	Fujian Well-known Trademark Certification Committee (福建省著名商标认定委员会)
2003	Renowned Trademark of Quanzhou (泉州市知名商标)	Quanzhou Commission of Renowned Trademark Recognition (泉州市知名商标认定委员会)
2003	Gold Prize – the Fifth Jinjiang Footwear (International) Exposition (第五届晋江国际鞋业博览会 – 产品金奖)	Organising Committee, the Fifth Jinjiang Footwear (International) Exposition (晋江国际鞋业博览会组委会)

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.4.4 Our key achievements / milestones

The following are some of the key milestones of XiDeLang Group:-

Year	Milestones
2007	Ventured into marketing of sports apparel, accessories and equipment under our own brand name of 'XiDeLang'
2006	Awarded "Well-known Mark of China" by Jiangxi Province Fuzhou City Intermediate People's Court through Judicial Affirmation
2006	HongPeng (Fujian) and XiDeLang Sports Goods were accredited with ISO9001:2000 Quality Management System
2005	Accredited with State Inspection Exempted Product Certification issued by PRC Quality Surveillance and Inspection Bureau
1996	HongPeng (Fujian) was established in China to undertake design, manufacturing and marketing of sports shoes under our 'XiDeLang' brand
1995	Incorporation of XiDeLang Sports Goods primarily to hold our proprietary brand
1993	Launched and commercialised our in-house manufactured sports shoes under our own brand name of 'XiDeLang'
1993	Incorporation of HongPeng Footwear to undertake manufacturing of sports shoes in China

##### 4.4.5 Material capital expenditures and divestitures

Save as disclosed below, we did not incur any other material capital expenditure for the past three (3) financial years up to 31 December 2008 and 1H 2009:-

Asset type	Transaction value for			
	FYE 2006	FYE 2007	FYE 2008	1H 2009
	RMB'000 / RM'000 <sup>(1)</sup>	RMB'000 / RM'000 <sup>(1)</sup>	RMB'000 / RM'000 <sup>(1)</sup>	RMB'000 / RM'000 <sup>(1)</sup>
Prepaid lease payments for land	6,487 / 2,984	54,374 / 24,561	-	-
Additions in construction in-progress	-	-	-	35,004 / 18,370

*Note:-*

(1) Based on the average exchange rates for the respective financial years / period stated below, as set out in Paragraph 1.1 of the proforma consolidated financial information in Section 9.7 of this Prospectus:-

	FYE 2006	FYE 2007	FYE 2008	1H 2009
RMB1: RM	0.4600	0.4517	0.4799	0.5248

We have had no material divestitures in the past three (3) financial years up to 31 December 2008 and 1H 2009.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **4.5 COMPETITIVE STRENGTHS**

Our competitive strengths below are key in sustaining our business as well as providing future business growth:-

**(i) Established proprietary brand**

We believe that our 'XiDeLang' brand, which has been established for 16 years since 1993, has become well recognised in the markets we serve due to our diligent brand management and marketing efforts to create brand awareness.

Our 'XiDeLang' sports shoes were first launched in 1993 followed by 'XiDeLang' sports apparel and accessories in 2007. The increasing awareness and recognition of our 'XiDeLang' brand over the years have enabled us to expand our distribution network as well as:-

- facilitated revenue growth as the 'XiDeLang' brand garners recognition among consumers;
- facilitated ease of business expansion of new products by capitalising on a recognised brand name;
- enabled us to command a premium resulting from strong brand equity;
- minimised competitive pressures, especially from products without a readily recognisable brand or a weak brand name; and
- provided better control of our business without us having to pay royalties to third parties or face licensing issues if we export to other countries.

As a strong testament to the popularity and market recognition of our 'XiDeLang' brand, we have received several awards and accreditations, including the "No. 1 spot for Jinjiang Top 10 Most Growth for Sports and Leisure Brand" in 2009 by Jinjiang Economy News, Market Economy Academy, Peking University – Private Institute of Economic Research.

Our capability in creating our own brand differentiates us from other manufacturers that rely on third-party brands. Furthermore, we have the experience in creating a successful brand, which will create the platform to develop new brands for launching future products, where required.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

##### **(ii) Extensive network of retail locations across the PRC**

One of the key success factors of marketing consumer products is making available of products through an extensive retail network. This will ensure that the products reach as many potential consumers as possible.

As such, leveraging on our strong 'XiDeLang' brand image and recognition, we have established an extensive distribution network across the PRC to sell our products to a wide domestic market. As at LPD, XiDeLang products were retailed across 25 provinces and municipalities in approximately 2,300 retail locations in the PRC, of which 1,320 are concept stores.

Convenience and wide product range are factors that will attract consumers to visit retail locations; a strong brand creates loyalty to ensure repeated patronage. These factors are particularly important as all our retail locations carry exclusively our 'XiDeLang' brand of products. This is part of our strategy to create a one-stop retail sports product centre for sports shoes, apparel, accessories and equipment.

We are constantly increasing our product range to position ourselves as a one-stop retail sports product centre. In particular, we intend to expand our range of sports apparel, accessories and equipment in the near future.

As for expansion of our distribution network, we plan to further penetrate into the Northeast region of China, namely the Liaoning, Heilongjiang and Jilin provinces. Upon our successful establishment in those markets, we shall be poised to capitalise on the rising consumer spending power in that region.

##### **(iii) Strong product development / design capabilities**

We recognise the importance of product design and development in ensuring our competitiveness in the sports fashion market. The success of our products relies on our ability to keep up with changes in fashion trends, which we must anticipate in order to stay competitive. As at LPD, we have a dedicated team of 17 experienced personnel in our product development / design team to ensure that we keep up with the latest trends and designs that will appeal to our target consumers. Our in-house design capabilities enable us to be more responsive to changing consumer needs, ensuring our product offerings are always contemporary and meet consumers' preferences.

As a testament to our strength in product development, we were successful in developing a series of footwear with functions and features including breathable material, water resistant, multi-function shock absorption and odour resistant. We believe our continued emphasis on product development and design will warrant our enduring success.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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**(iv) Emphasis on quality products**

We ensure that our product development / design efforts are complemented via our strong quality management system, which encompasses our entire value chain process. We are meticulous in our processing of raw materials, and carry out stringent checks on our semi-finished and completed products to ensure consistency in quality of our products.

We believe that having an established quality management system is instrumental to our success and reputation as a producer of quality products. We have been accredited with ISO 9001:2000 Quality Management System in 2006.

In addition, all our production staff are required to undergo training which covers, amongst others, quality control policies, targets and procedures, as well as production and processing techniques.

Our emphasis on quality control resulted in our Group being accredited the State Inspection Exempted Product Certification by the PRC Quality Surveillance and Inspection Bureau in 2005. Hence, our products do not need to undergo frequent inspection by the PRC Quality Surveillance and Inspection Bureau. This exemption is in recognition of the quality of our products. Our State Inspection Exempted Product Certification had lapsed in 2008 and a renewal application has been submitted. However, the PRC Quality Surveillance and Inspection Bureau has since 18 September 2008 ceased processing the applications for the Quality Surveillance Inspection Exemption. As such, our renewal application is still pending subject to the new rulings (if any) by the relevant authorities going forward.

**(v) Experienced, dynamic and committed management team**

Our co-founders, Mr. Ding PengPeng and Ms. Ding LiHong, have in aggregate, over 32 years of experience in the sports shoe industry whilst our senior management each have an average of seven (7) to eight (8) years of experience.

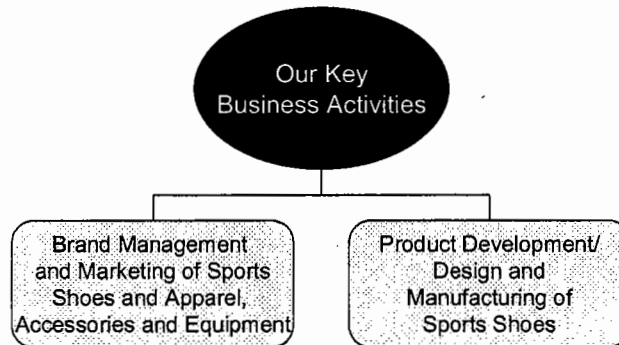
Our co-founders and the management have played a pivotal role in the growth and development of our Group. Their extensive experience and professional knowledge in the PRC sports shoe and apparel industry has contributed to the successful development of our business and we believe that the valuable knowledge, experience and expertise of our management team will allow us to sustain our continued growth.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.6 BUSINESS ACTIVITIES

Our key business activities are as follows:-



We are principally involved in brand management and marketing of sports shoes, apparel, accessories and equipment, supported by in-house product development and design, and manufacturing of sports shoes. We market sports apparel, accessories and equipment to provide a wider range of sports products offerings to our customers.

##### 4.6.1 Brand management and marketing

###### (i) Brand management

We place significant emphasis on managing our brand to create brand awareness and acceptance, and reinforcing our positive image and association with active and healthy lifestyles to appeal to our target markets. We have been building our brand, 'XiDeLang', since 1993 and hope to create a brand that is synonymous with quality and contemporary sports shoes, apparel, accessories and equipment in the PRC.

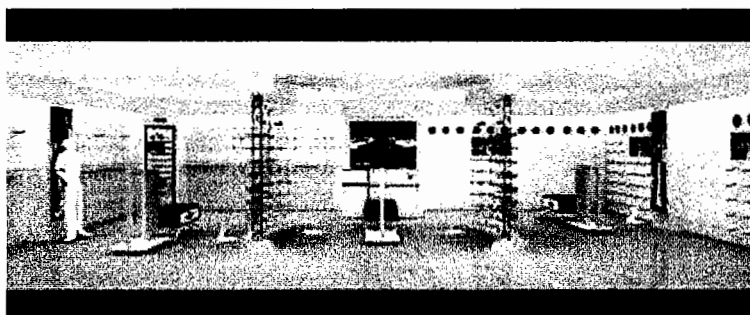
Our brand management also extends to retail locations that operate under our brand name. In this respect, we have firm policies, methods and procedures in place to ensure that all our retailers reinforce our brand image from the design and format of retail locations to product display.



Format for retail locations operating under our brand name



#### 4. INFORMATION ON OUR GROUP (Cont'd)



#### Format for retail locations operating under our brand name

In our relentless pursuit to promote our brand, we have engaged popular local artiste, Zhang Jie as the ambassador and spokesperson for our 'XiDeLang' brand. This has propelled our brand awareness and acceptance to a higher level, especially among the younger age groups.

Our brand management is supported by continuous advertisement and promotion activities. The advertising and branding expenses spent for the financial years / period under review are summarised as below:-

	FYE 2006		FYE 2007		FYE 2008		1H 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Advertising and branding	2,822	1,298	6,082	2,747	14,639	7,025	7,140	3,747

In recognition of the popularity of our 'XiDeLang' brand, our business success and product quality, we have received several awards and accreditations, details of which can be found in Section 4.4.3 of this Prospectus.

#### (ii) Marketing strategies

Our sales and marketing team plays an integral part in our business. It is responsible for channel management, pricing, marketing and promotions. We adopt the following strategies to sustain and expand our business:-

- position ourselves as a one-stop retail centre for sports shoes, apparel, accessories and equipment;
- maximise our competitive advantage by having an in-house product development / design centre to create sports shoes that are functional, innovative, original and contemporary;
- continuously provide high quality products and services to support our brand positioning;
- keep abreast of new and innovative designs, materials and technologies to stay ahead of the competition as well as to keep pace with changing market trends to better meet the needs of customers; and
- continue to maximise on the value of our 'XiDeLang' brand by building brand equity.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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Our marketing strategy is focused on the marketing of sports shoes, apparel, accessories and equipment under our brand. As such, promotions and advertisements play a key role in creating brand awareness and appeal as well as reinforcing a positive corporate image to our customers.

We utilise the following marketing and promotional methods to build brand equity and to increase sales:-

- undertake advertisements and promotions through various mediums, including free-to-air and pay television, magazines and newspapers;
- engaged a popular local artiste to be our ambassador and spokesperson for the 'XiDeLang' brand;
- provide promotional stands, posters and catalogues to our distributors and retailers; and
- support advertisements and promotion activities undertaken independently by our retailers through a subsidy system, where we reimburse them for part of all such expenses.

To implement our marketing strategies, we have a sales and marketing team of 14 personnel as at LPD to undertake various aspects of marketing and promotional activities including the following:-

- building brand image;
- undertake product launches;
- undertake product promotions and events;
- design advertising and promotional concepts and materials;
- working with advertising and event agents for above and below the line advertisement and promotion activities using mediums like television, print, posters and banners; and
- channel management (marketing to intermediaries including distributors and retailers).

We also promote our products and identify new areas of opportunities by participating in various exhibitions and trade fairs.

In line with our emphasis on marketing, we spent approximately RMB15 million on marketing and brand building for FYE 2008. Further marketing cost was also incurred by our distributors and retailers.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.6.2 Distribution channel strategy

Our success in marketing is predicated on our distribution channel strategy where we use intermediaries including third party distributors and retailers, to reach out to as many consumers as possible. Our group of intermediaries in the PRC have been selected based on strict criteria such as investment capabilities, understanding of the consumer market, their market coverage and the ability to share our Group's vision for the 'XiDeLang' brand. To ensure better control and management of our distribution channels, we focus our resources on nurturing the growth of our intermediaries who will in turn facilitate the management of our retail locations.

In addition, by engaging intermediaries, we are able to focus our people and financial resources on brand building without being encumbered with the high cost of setting up and operating retail locations. However, to provide support for our brand management at the retail level, we reimburse part of the advertising and promotional expenses incurred by our intermediaries.

A distribution strategy of using distributors is an effective method to expand distribution coverage in the PRC where setting up and maintaining a wide distribution network is difficult and costly due to logistics and set-up cost for retail locations. Furthermore, many of these retail locations are in suburban and rural areas where small purchase quantities are insufficient to provide economies of scale for us to service them directly.

As at LPD, we have 32 distributors and retailers in the PRC with approximately 2,300 retail locations throughout 25 provinces and municipalities:-

Province and municipality	Number of retail locations	Province and municipality	Number of retail locations
Anhui	100	Jiangsu	113
Beijing	189	Jiangxi	116
Chongqing	29	Liaoning	56
Fujian	107	Shaanxi	44
Gansu	19	Shandong	49
Guangdong	143	Shanghai	26
Guangxi	52	Shanxi	52
Guizhou	159	Sichuan	195
Hebei	102	Tianjin	30
Heilongjiang	64	Yunnan	257
Henan	48	Zhejiang	95
Hubei	67	Jilin	7
Hunan	219		
<b>Subtotal</b>	<b>1,298</b>	<b>Subtotal</b>	<b>1,040</b>
		<b>Grand total</b>	<b>2,338</b>

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.6.3 Product development / design and manufacturing of sports shoes

Our in-house expertise in product development / design and manufacturing plays an integral role in our success and are supported by in-house facilities as follows:-

- a design centre equipped with Computer Aided Design (“CAD”) facilities to create and develop sports shoe designs;
- manufacturing plant equipped with extensive range of machinery and equipment to handle most processes for the manufacturing of sports shoes (sports shoe soles are sourced from third parties); and
- warehousing facilities to enable us to control and manage the supply of finished products to distributors and retailers.

##### (i) Product development / design activities and process flow

Our in-house product development / design capabilities incorporate the following activities:-

- **Conceptualisation:** Our design centre is able to undertake design conceptualisation. In most situations, market and marketing data serves as inputs to the conceptualisation. Such information includes, product sales history, competitors’ offerings, consumer trends and target markets. Alternatively, conceptualisation could be derived from pure innovation. Concepts usually start out as sketches and may later be done using CAD systems. This phase also includes colour selection. Conceptualisation focuses on functionality, style and aesthetics requirements;
- **Engineering and specifications:** Once the concept is finalised in the form of firm drawings, we will incorporate various specifications. Specifications include measurements and types of materials to be used for the upper as well as the sole. Considerations would include:-
  - cushioning system for shock absorption;
  - support and stability that limits excessive pronation and helps to counteract structural imbalance;
  - traction to provide grip and proper surface interface;
  - weight;
  - fitting;
  - breathability;
  - flexibility; and
  - suitability under different weather conditions.

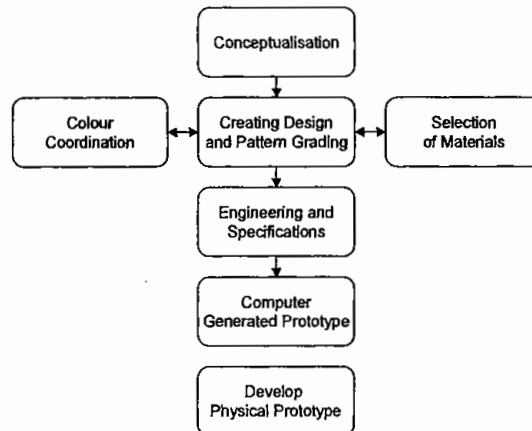
Material specifications are critical as they affect flexibility, strength, durability and texture of the upper body, and weight, density, hardness, cushioning, anti-abrasion and traction of the soles.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

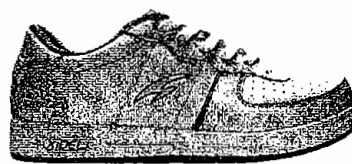
We are also able to produce engineering drawings that provide detailed measurements. Engineering drawings are required for mass production and focus on structure, support and stability to take into consideration biomechanical requirements.

- **Prototyping:** Our design centre also undertakes prototyping in conjunction with our production personnel.

The process flow for the design of sports shoes is depicted in the diagram below: -



Some of the sports shoe designs that we have created are depicted below:-



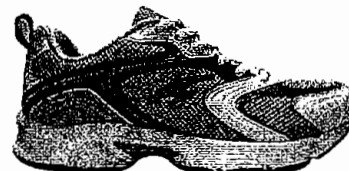
*Skateboarding Shoes*



*Skateboarding Shoes*



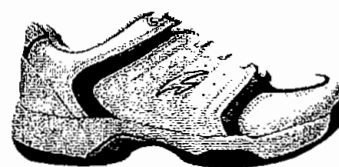
*Outdoor Shoes*



*Running Shoes*



*Running Shoes*



*Tennis Shoes*

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (ii) Manufacturing activities and process flow

We have in-house manufacturing capabilities for sports shoes to complement our marketing and brand building efforts. We undertake a range of processes to manufacture sports shoes, which includes the following:-

- **Construction of the upper that covers the top and the sides of the foot:** The upper consists of various pieces including quarters, vamp, mudguard / toe guard, throat, tongue, saddle or arch bandage, Achilles tendon protector (collar), foxing and the logo. Some of the processes include sewing and stitching of upper materials with cloth lining to provide comfort to the wearer, and stitching different strips of materials of possibly different colours based on specified designs.
- **Assembly of the upper to the sole:** The upper is folded underneath and cemented to the insole. The completed upper is heated and fitted around the last, which is a mould that forms the final shape of the shoe.

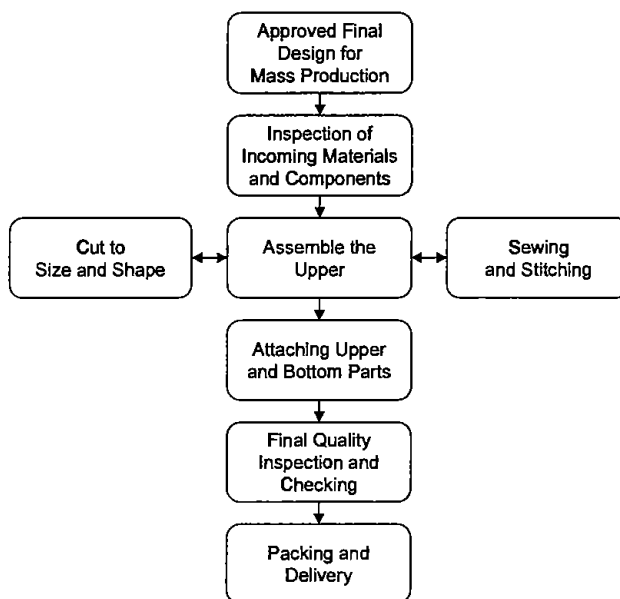
We do not manufacture shoe soles. Manufacturing of shoe soles is a specialised function and is commonly done by shoe sole manufacturers.

- **Testing:** We perform a range of in-house testing and inspection activities for in-process and finished products to ensure consistent and high product quality. Some of the testing functions undertaken by us include:-
  - **flexural test** to determine how lasting the material is when subjected to constant flexing movements;
  - **bending test** is to determine the bending durability of the shoe including the upper and soles;
  - **abrasion resistance test** to determine breakage after frequent rubbing or abrasive actions;
  - **pulling test** to determine tensile strength and elongation of shoe materials, as well as adhesion strengths;
  - **anti-yellowing test** to determine the degree of degradation or yellowing of the sports shoes after prolonged exposure to ultraviolet rays.
  - **bursting strength test** to determine bursting strength under multi-directional force applied at a controlled rate; and
  - **perspiration resistance test** is to measure ageing of materials after being in contact with human sweat.

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**4. INFORMATION ON OUR GROUP (Cont'd)**

The process flow for manufacturing is depicted in the diagram below:-



**4.6.4 Revenue segmentation by products**

The breakdown of our revenue by products for the 1H 2009 is as follows:-

	Revenue for the 1H 2009	
	RMB'000	%
<b>Sports shoes</b>	<b>245,286</b>	<b>65.3</b>
Court sports shoes	59,433	15.8
Casual / leisure sports shoes	68,549	18.3
Running shoes	70,274	18.7
Skateboarding shoes	47,030	12.5
<b>Sports apparel, accessories and equipment</b>	<b>130,108</b>	<b>34.7</b>
<b>Total</b>	<b>375,394</b>	<b>100.0</b>

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **Courts sports shoes**

Court sports shoes include shoes used in court-based sports, for example, tennis, basketball, squash, volleyball, badminton and table tennis. Currently, we design and manufacture basketball and tennis shoes. As most court sports shoes require the body moving forward, backward and sideward incorporating sudden starts and stops, court sports shoes are designed and manufactured to withstand strong multi-directional forces and stress, as well as providing good traction, grip and cushioning.

##### **Casual / leisure sports shoes**

Casual / leisure sports shoes are suitable for many activities across the board, and are not designed for any specific sport activity. It is commonly associated with casual use and is designed with style and comfort as the main priority but lacks specialised technical features. For example, court sports shoes focus on lateral stability, while casual sports shoes are commonly used as street walking shoes.

The type of casual / leisure sports shoes manufactured and marketed by us include:-

- outdoor multi-sports shoes such as hiking and trekking shoes;
- high-sole sports shoes; and
- casual walking sports shoes.

##### **Running shoes**

Running shoes are designed for physical activities primarily for running. Generally, running shoes have a flexible forefoot for maximum momentum when the foot is pushed-off the ground, and Achilles notch at the back. We have the expertise and capabilities to manufacture running shoes that encourage the natural roll of the foot during the running and walking motions. Running shoes that are designed and manufactured by us encapsulate a combination of features including superior cushioning, flexibility in the right places, support in terms of stability in the heel counter area, good traction, torsional stability, breathability and light weight.

##### **Skateboarding shoes**

Skateboarding shoes are designed with lower cut to minimise interference with the basic movement of the feet as it flexes while skating. Our range of skateboarding shoes is designed with good traction and gripping features that improves foot-to-board traction and is easy for the rider to control a gliding skateboard and perform various movements and tricks without losing touch with the board.

##### **Sports apparel, accessories and equipment**

The main sports apparel, accessories and equipment marketed by our Group include the following:-

- sports apparel including T-shirts, tracksuits, basketball suits, and pants;
- sports accessories including bags, caps, and socks;
- sports equipment including basketballs.



#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.6.5 Types, sources and availability of raw materials / input

###### (i) Purchases

For the 1H 2009, we sourced all our materials and finished products from suppliers and manufacturers in the PRC. The following are the major types of materials and finished products that were purchased by us for the 1H 2009:-

Materials and finished products	Value of purchases (RMB'000)	% of our total purchases (%)
<b>Materials for manufacturing operations</b>	<b>131,281</b>	<b>56.5</b>
Shoe soles	78,949	33.9
Packaging materials (including shoe boxes and cartons)	13,567	5.9
Expanded PU foam	8,888	3.8
Fabrics	8,573	3.7
Leathers	8,729	3.8
Others	12,575	5.4
<b>Finished products for marketing</b>	<b>101,269</b>	<b>43.5</b>
Sports apparel, accessories and equipment	88,829	38.2
Additional processing charges for outsourced sports shoes	12,440	5.3
<b>Total</b>	<b>232,550</b>	<b>100.0</b>

For the 1H 2009, purchases of materials for manufacturing amounted to 56.5% of our total purchases of materials and finished products. The purchases of finished products for our marketing operations contributed 43.5% of our total purchases of materials and finished products.

###### (ii) Materials for manufacturing operations

Some of the materials we purchase for our manufacturing operations include, amongst others, shoe soles, packaging materials, expanded polyurethane (PU) foam, fabric materials, leather materials and other materials such as paper-based counter sheets and adhesives.

Shoe soles are the major materials used in the manufacturing of sports shoes. For the 1H 2009, purchases of shoe soles accounted for 33.9% of our total purchases of materials and finished products. As at LPD, we have not experienced any shortages in the supply of materials for manufacturing mentioned above. The prices of our major raw materials, i.e. shoe soles, did not fluctuate materially. The movements of the average purchase price of shoe soles for the past three (3) years were within 10% range from the 2008 average purchase price.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

The cost of raw materials used by us in the manufacture of sports shoes such as natural and synthetic rubber, textiles and threads, chemical compounds, polymers and agents and adhesives will naturally fluctuate in the market. Petroleum products are the major feedstock for plastic resins and synthetic rubber used in the manufacture of shoe soles and the upper part of sports shoes.

##### (iii) Finished products for marketing and distribution operations

We also source finished products including sports shoes, apparel, accessories and equipment. For the 1H 2009, purchases of finished products accounted for 38.2% of our total purchases of materials and finished products. As at LPD, we have not experienced any shortages in the supply of finished products mentioned above. The prices of our major finished goods, i.e. sports apparel, did not fluctuate materially. The movement of the average purchase price of sports apparel from 2007 to 2008 was only about 11% lower.

#### 4.7 PRINCIPAL MARKETS

Our principal markets are in the PRC. Approximately 95.9% of our total revenue for 1H 2009 was derived from sales of products under our own brand in the PRC. The remainder of our sales are from products manufactured for other brand owners. These products are sold to local distributors for their onward export to overseas markets.

For the 1H 2009, our revenue contribution segmented by region was as follows:-

Provinces and municipalities	Revenue for 1H 2009	
	RMB'000	%
Eastern region <sup>(1)</sup>	59,720	15.9
Southern region <sup>(2)</sup>	117,267	31.2
Western region <sup>(3)</sup>	103,914	27.7
Northern region <sup>(4)</sup>	94,493	25.2
<b>Total</b>	<b>375,394</b>	<b>100.0</b>

Notes:-

- (1) Eastern region includes Jiangsu, Zhejiang, Shandong and Shanghai.
- (2) Southern region includes Fujian, Guangdong, Hubei, Hunan, Jiangxi and Anhui.
- (3) Western region includes Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu and Shaanxi.
- (4) Northern region includes Beijing, Hebei, Henan, Heilongjiang, Liaoning, Shanxi and Tianjin.

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## **4. INFORMATION ON OUR GROUP (Cont'd)**

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### **4.8 SEASONALITY**

We experience some seasonality in our business. Generally, demand for sports shoes reaches its peak during the spring / summer and autumn / winter seasons. This is where we organise launches of each new season's collection of sports shoes and apparel for our existing and potential customers. This takes place twice a year, during the spring / summer and autumn / winter seasons. Customers and potential buyers (including distributors and retailers) will then place their three-month orders for our new collection of sports shoes and apparel. This is a common practice within the sports shoe industry in the PRC. During the slower periods of the year, we organise two (2) small product-viewing events for our existing and potential customers to place orders to replenish their stock. These smaller events are also used to attain a better insight into customer needs, which serves as feedback for continuous product improvement.

### **4.9 MANAGEMENT CONTROL**

#### **4.9.1 Quality control management**

We place constant emphasis on product quality. We adopt the following approaches to ensure that certain quality standards are maintained and adhered to:-

- in-coming materials such as shoe soles, fabric and synthetic fibre materials and other components have to undergo inspection and checking, for example, an anti-yellowing test on white leather materials and shoe colour and prints checks, prior to mass production. This is to ensure that the end products meet the desired specifications;
- each level of the manufacturing process including cutting, scaling, sewing, stitching, assembly, adhesion, bonding and packing has to undergo a stringent checking process for quality assurance;
- each batch of the final product has to undergo various testing and inspection to ensure it meets specifications such as flexural test, bending test, pulling test, anti-yellowing test, perspiration resistance test and finishing checking before despatching to customers; and
- obtain feedback from customers pertaining to quality and design of the products.

As at LPD, we have six (6) people in our quality assurance team to ensure that product quality consistently meets specifications and requirements. Our emphasis on quality management is further supported by our quality certifications as follows:-

- ISO 9001:2000 Quality Management System for design and manufacturing of sports shoes; and
- State Inspection Exempted Product Certification by PRC Quality Surveillance and Inspection Bureau.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **4.9.2 Stock inventory control management**

Our inventory comprises the following main categories:-

- finished products in the form of sports shoes, apparel, accessories and equipment;
- materials used for manufacturing such as soles, fabric, synthetic fibre materials, components and other consumables; and
- packaging materials comprising shoe boxes and cartons.

We place significant emphasis on inventory management as it plays a critical role in the entire supply chain. In view of this, we adopt the following approaches to manage our inventory:-

- monitoring of materials and finished product inventories including managing the flow of materials, optimising of utilisation of resources and equipment, as well as monitoring of finished goods inventory level. We prepare monthly inventory reports on the inventory level and aging for materials used and finished products;
- optimising the total investment on material cost and workload for every inventory item throughout the whole supply chain from procurement of materials to finished goods inventory. For example, the amount of materials purchased takes into consideration volume discounts and minimum purchase quantities; and
- conducting periodic review on inventory obsolescence to help minimise wastage.

We also require our appointed distributors to provide periodic sales reports and information on their stock levels to ensure that they have adequate level of finished products. Stock level information from customers also enables us to facilitate various activities including sales forecasting, materials procurement, production planning and in-house inventory reduction programme. This is to minimise our holding costs and at the same time enable us to shorten our production cycle.

For the 1H 2009, our average inventory turnover was 24 days. Our inventory value to total Group cost of sales accounted for 11.3% for the 1H 2009.

##### **4.10 TECHNOLOGY USED**

Relevant technologies employed in our operations and the design and manufacturing of sports shoes include the following:-

- sports shoe design;
- scaling and sizing;
- biomechanical and kinetic adaptation; and
- application of innovative materials.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **Sports shoe design**

Due to the short product life cycle of each design and style of sports shoe, computer-aided-design and computer-aided-manufacturing ("CAD / CAM") technology is currently used for many facets of sports shoe design to accelerate the design process. These include the design of the top covering or upper, insole, midsole and outsole of the sports shoe.

CAD / CAM design creates two-dimensional (2D) and three-dimensional (3D) profiles from sketches, drawings and templates of the sports shoe and its components to produce moulds or lasts and eventually the prototype of the sports shoe before mass production. It can also incorporate the findings from R&D including biomechanics and kinematics adaptation of the shoe.

##### **Scaling and sizing**

A sample of the sports shoe is designed for each style. This sample including its upper and soles is used as a standard for scaling or grading for each and every size of the shoe. This process scales the sample by different factors in different zones or dimensions of the shoe. Scaling is normally done using CAD / CAM technology where a 3D model is designed utilising a multi-zone scaling method.

The designers divide the CAD geometrical model of the sports shoe into several zones in each of the shoe dimensions in 3D, and each zone is given a scaling dimension or value to generate a new CAD geometrical model of the sports shoe. A CAD geometrical model for every size of shoe is thus produced using this method.

##### **Biomechanical and kinetic adaptation**

Data on the mechanical properties from the study and analysis of the biomechanical properties of the human foot are taken into consideration and adapted in the design of the sports shoe. Consideration is taken to incorporate the type of feet of the user or customer, which include foot properties such as high arch, flat foot or normal arch. Analysis of other criteria such as impact forces, landing of the foot and heel-strike observations are also adapted in the shoe.

Shoe designers also focus on the anatomy and the movement of the foot utilising video cameras and computers to analyse such factors as limb movement and the effect of different terrains on impact, and foot position on impact. Other information including pressure points, friction patterns, and force of impact, is fed into computers and calculated on the best way to accommodate these conditions. Prototypes are tested and developed based on the studies of joggers and professional runners to be incorporated into the final design for production.

##### **Application of innovative materials**

New materials such as composite materials made from a combination of two (2) or more materials with different properties are frequently used in the construction of sports shoes. New materials are produced and manufactured to satisfy criteria such as strength and pliability, resistance to changes in shape and size, the elasticity of the material and its ability to bend and flex under force and regain its shape and the density and weight of the material that is used in the manufacture of the sports shoes. Other materials such as foam, silicone, rubber, ethylene vinyl acetate copolymer (EVA) and polyurethane (PU) are also used in the manufacture of sports shoes.

## 4. INFORMATION ON OUR GROUP (Cont'd)

### 4.11 RESEARCH AND DEVELOPMENT

#### 4.11.1 Policy on R&D

Our R&D efforts are closely linked to our design and manufacturing processes, which provide us with competitive advantages to continuously stay ahead of the competition. Our R&D is undertaken from the following interrelated perspectives:-

- creating new designs and collections;
- selecting best practices in contemporary designs and trends;
- utilising new and innovative materials; and
- improving manufacturing processes and techniques.

Through R&D, we aim to realise the following benefits:-

- sustain and grow our business through development of new range of designs and products;
- create competitive advantages by leveraging on the strength of our brand; and
- increase revenue and profitability by addressing new markets and market segments with new and improved products.

We strive for incremental improvements to our manufacturing knowledge, expertise, and production skills base through continuous practical applications. These improvements are internalised and enable us to continuously upgrade our capabilities and increase efficiency of our manufacturing processes.

The R&D expenses incurred for the financial years / period under review are summarised as below:-

	FYE 2006		FYE 2007		FYE 2008		1H 2009	
	RMB'000	RM' 000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
R&D*	474	218	728	329	855	410	426	224

Note:-

\* R&D expenses represent mainly R&D personnel costs and does not include certain indirect expenses attributable to R&D, such as materials used for R&D purposes and travelling costs of R&D personnel.

#### 4.11.2 Ongoing and future R&D

As at LPD, we have a dedicated team of 17 experienced personnel in our product development / design team to ensure that we keep up with the latest trends and designs that will appeal to our target customers. Further details on our product development / design are set out in Section 4.6.3 of this Prospectus.

As part of our future plans and strategies set out in Section 4.21(iii) and (iv) of this Prospectus, we intend to intensify our efforts in market research on consumer trends and to expand our product portfolio by creating a new range of all-season sports shoes as well as a new range of school shoe designs.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.12 MAJOR CUSTOMERS

We mainly service two (2) types of customers, namely distributors and retailers. Most of our distributors have their own established customer network (such as sub-distributors and retailers) and logistics facilities. Our customers also include retailers who operate their own individual retail locations. Some of our distributors also operate retail locations.

All our retail locations carry our products exclusively and operate under the 'XiDeLang' brand name. By supplying to distributors and retailers, we are able to extend our coverage to a wider market without incurring high capital investments in developing and maintaining retail infrastructure.

We enjoy a close and long standing business relationship with our customers and place great emphasis on developing and maintaining customer satisfaction, goodwill and rapport. None of our customers accounted for 10% or more of our total revenue for FYEs 2006, 2007 and 2008 as well as for 1H 2009. As a result, we are not over-dependent on any single customer.

Our top 10 customers by share of our total revenue for the 1H 2009 are set out in the table below:-

Customer name <sup>(1)</sup>	Main products purchased	Revenue (RMB'000)	Proportion of Group revenue (%) <sup>(2)</sup>	Length of relationship (years)
1. Sun XiuQuan	Sports shoes and apparel	28,235	7.5	8
2. Lai XuiFeng	Sports shoes and apparel	26,682	7.1	8
3. Chen XiangTu	Sports shoes and apparel	21,563	5.7	7
4. Yang Hui	Sports shoes and apparel	20,994	5.6	6
5. Chai GengSheng	Sports shoes and apparel	18,608	5.0	8
6. Yang BangBing	Sports shoes and apparel	16,722	4.5	6
7. Wu ZhunMing	Sports shoes and apparel	16,607	4.4	6
8. Huang NanCing	Sports shoes and apparel	16,359	4.4	7
9. Guo ZhongXi	Sports shoes and apparel	12,227	3.3	7
10. Yang XianChao	Sports shoes and apparel	12,051	3.2	5

**Notes:-**

- (1) Our top 10 customers consist of individuals and not companies, as individual distributors are common in the distribution of goods in China's sporting-goods industry. Our individual distributors are not only familiar with consumer demands / consumption trends within their respective local areas, but also accessible to a wide base of customers within the same areas.
- (2) Total revenue of our Group amounted to RMB375.4 million for 1H 2009.

Our business philosophy has always been focused on nurturing and building strong and long-term business relationships with our customers. This means nurturing the potential of our major customers, and at the same time generating more revenue from other existing customers as well as winning new customers.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.13 MAJOR SUPPLIERS

The table below is a list of our suppliers that accounted for 10% or more of our total purchases for the last (3) three financial years up to 31 December 2008 and 1H 2009:-

Supplier Name	FYE 2006		FYE 2007		FYE 2008		1H 2009	
	Purchase value (RMB'000)	Proportion of Group purchases (%)	Purchase value (RMB'000)	Proportion of Group purchases (%)	Purchase value (RMB'000)	Proportion of Group purchases (%)	Purchase value (RMB'000)	Proportion of Group purchases (%)
Fujian Hongwei Footwear & Plastic Co Ltd	39,288	29.0	73,129	28.4	93,930	26.9	14,513	6.2
Shishi Huafei Garments Co Ltd	-	-	20,942	8.1	42,183	12.1	10,456	4.5
Guangzhou Xionghui Clothing Co Ltd	-	-	16,987	6.6	34,996	10.0	24,104	10.4
Fujian Jinjiang Dayuan Footwear & Plastic Co Ltd	14,247	10.5	19,444	7.6	17,227	4.9	8,309	3.6
<b>Total Group purchases (RMB'000)</b>	<b>135,390</b>		<b>257,221</b>		<b>349,765</b>		<b>232,550</b>	

Fujian Hongwei Footwear & Plastic Co Ltd has been dealing with us for the last seven (7) years. This long-term and established business relationship will provide the basis for the continuing supply of shoe soles. Notwithstanding this relationship, we could easily source shoe soles from alternative local producers in China or import shoe soles from other overseas producers, if the need were to arise. Within Jinjiang City in Fujian Province, the footwear industry is very well developed. As such, there are many sports shoe sole suppliers within close proximity to our manufacturing facilities. Therefore, we can easily source from alternative suppliers of shoe soles, if required.

##### 4.14 INTELLECTUAL PROPERTY

We currently use the brand name 'XiDeLang' in our day-to-day business and we are licensed to use the trademark 'XiDeLang'. As at LPD, we have obtained and in the process of obtaining registration of the following trademarks:-




Trademark	Owner	Class	Registration / application number	Place of application / registration	Effective period
喜德狼	XiDeLang Sports Goods	25	3601974	PRC	From 21 October 2005 to 20 October 2015
喜的狼	XiDeLang Sports Goods	25	3601975	PRC	From 7 January 2006 to 6 January 2016
喜得狼	XiDeLang Sports Goods	41	3601976	PRC	From 28 February 2005 to 27 February 2015
喜得狼	XiDeLang Sports Goods	35	3601977	PRC	From 28 February 2005 to 27 February 2015



**4. INFORMATION ON OUR GROUP (Cont'd)**

Trademark	Owner	Class	Registration / application number	Place of application / registration	Effective period
喜得狼	XiDeLang Sports Goods	28	3601978	PRC	From 14 October 2005 to 13 October 2015
喜得狼	XiDeLang Sports Goods	26	3601979	PRC	From 14 September 2005 to 13 September 2015
喜得狼	XiDeLang Sports Goods	24	3601980	PRC	From 14 September 2005 to 13 September 2015
喜得狼	XiDeLang Sports Goods	18	3601981	PRC	From 28 October 2005 to 27 October 2015
<b>XiDeLang</b>	XiDeLang Sports Goods	25	3638915	PRC	From 21 July 2006 to 20 July 2016
	XiDeLang Sports Goods	25	745795	PRC	From 14 May 1995 to 13 May 2015
	XiDeLang Sports Goods	25	3299241	PRC	From 14 May 2004 to 13 May 2014
	XiDeLang Sports Goods	25	4885831	PRC	From 28 April 2009 to 27 April 2019
速乐 + SU LE	XiDeLang Sports Goods	25	4885832	PRC	From 7 March 2009 to 6 March 2019
雷酷 + LEIKU	XiDeLang Sports Goods	25	4885839	PRC	From 7 March 2009 to 6 March 2019
	XiDeLang Sports Goods	25	Application no. 4365274	PRC	Pending registration
	XiDeLang Sports Goods	25	Application no. 5426706	PRC	Pending registration
	XiDeLang Sports Goods	35	Application no. 5426707	PRC	Pending registration
XIDELONG	HongPeng Footwear	25	1938372	PRC	From 28 November 2002 to 27 November 2012
XIDELONG + 喜德龙	HongPeng Footwear	25	1938375	PRC	From 28 October 2002 to 27 October 2012
XDL	HongPeng Footwear	25	Application no. 3381942	PRC	Pending registration
杰步+JIE BU	HongPeng (Fujian)	25	1593432	PRC	From 28 June 2001 to 27 June 2011

**4. INFORMATION ON OUR GROUP (Cont'd)**

Trademark	Owner	Class	Registration / application number	Place of application / registration	Effective period
	HongPeng (Fujian)	25	3381939	PRC	From 7 June 2005 to 6 June 2015
	HongPeng (Fujian)	25	3381943	PRC	From 7 June 2005 to 6 June 2015
	HongPeng (Fujian)	25	Application no. 3381944	PRC	Pending registration

**Notes:-**

**Class Description**

- 18 *Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins; hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.*
- 24 *Textiles and textile goods, not included in other classes; bed and table covers.*
- 25 *Clothing; footwear; headgear.*
- 26 *Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.*
- 28 *Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.*
- 35 *Advertising; business management; business administration; office functions*
- 41 *Education; providing of training; entertainment; sporting and cultural activities.*

Save as disclosed above, as at LPD, we do not have any brand names, patents, trademarks, licenses, technical assistance agreements, franchises or other intellectual property rights.

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**4. INFORMATION ON OUR GROUP (Cont'd)**

**4.15 APPROVALS / MAJOR LICENSES / PERMITS**

Details of the approvals obtained by us for our Listing from the SC together with the conditions imposed by these authorities and the status of compliance are set out in Section 6 of this Prospectus. Other approvals, major licences and permits obtained by our Group for the operation of business are as follows:-

Company	Description of approval / licence / permit	Date of issuance or commencement / expiry	Authority	Major conditions imposed	Status of compliance of major conditions
XinYuanChan	Business Registration Certificate (Certificate No. 39453787-000-06-09-2)	19 June 2009 / 18 June 2010	Business Registration Office, Inland Revenue Department, Hong Kong	Nil	N/a
HongPeng (Fujian)	Business License (License No. 350500400011132)	29 November 1996 / 29 November 2016	Administration for Industry and Commerce of Quanzhou City (泉州市工商行政管理局)	Nil	N/a
	Tax Registration Certificate (Certificate No. 350582611606896)	22 December 2008 / N/a	State Tax Bureau of Jinjiang City (晋江市国家税务局) and Local Tax Bureau of Jinjiang City (晋江市地方税务局)	Nil	N/a
	Certificate of Foreign Exchange Registration (Certificate No. 00027734)	N/a	Jinjiang Branch, SAFE (中华人民共和国国家外汇管理局晋江支局)	Nil	N/a
	Sanitation Permit (Permit No. 20090015)	26 May 2009 / 25 May 2010	Sanitation Bureau of Jinjiang City (晋江市卫生局)	Nil	N/a
HongPeng Footwear	Business Licence (License No. 350582100074201)	10 May 1993 / 23 April 2017	Administration for Industry and Commerce of Jinjiang City (晋江市工商行政管理局)	Nil	N/a
	Tax Registration Certificate (Certificate No. 350582611903196)	22 November 2006 / N/a	State Tax Bureau of Jinjiang City (晋江市国家税务局) and Local Tax Bureau of Jinjiang City (晋江市地方税务局)	Nil	N/a
	Sanitation Permit (Permit No. 20090016)	31 May 2009 / 30 May 2010	Sanitation Bureau of Jinjiang City (晋江市卫生局)	Nil	N/a

XiDeLang Holdings Ltd  
 Bermuda Company No. 43136  
 Malaysian Foreign Company Registration No. 995210-W

**4. INFORMATION ON OUR GROUP (Cont'd)**

Company	Description of approval / licence / permit	Date of issuance or commencement / expiry	Authority	Major conditions imposed	Status of compliance of major conditions
XiDeLang Sports Goods	Business Licence (Licence No. 350582100074172)	24 July 1995 / 23 July 2015	Administration for Industry and Commerce of Jinjiang City (晋江市工商行政管理局)	Nil	N/a
	Tax Registration Certificate (Certificate No. 350582611899617)	1 December 2006 / N/a	State Tax Bureau of Jinjiang City (晋江市国家税务局) and Local Tax Bureau of Jinjiang City (晋江市地方税务局)	Nil	N/a

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**4. INFORMATION ON OUR GROUP (Cont'd)**

**4.16 PROPERTY, PLANT AND EQUIPMENT**

As at LPD, the material properties owned by our Group are as follows:-

Owner	Location	Ownership type	Land area (square metres)	Built up area (square metres)	Description / Existing use of property	Restriction in interest / major encumbrances	Audited net book value at 30 June 2009 (RMB'000) / (RM'000) <sup>(1)</sup>
HongPeng (Fujian)	Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	Leasehold (from 22.05.2006 to 22.05.2056)	840	N/a	Land use right for an industrial land (currently being used as car park)	Nil	5,161 / 2,659
HongPeng Footwear	Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Leasehold (from 31.07.2007 to 05.06.2057)	33,183	N/a	Land use right for an industrial land (site for new factory building and employees dormitories -- please refer below)	Mortgaged to Jinjiang Sub Branch, Industrial and Commercial Bank of China	25,012 / 12,886
			N/a	58,000 (upon completion)	Construction in progress (comprising 2 blocks of 5 storeys factory building and 2 blocks of 7 storeys employees dormitories)	N/a	31,000 / 15,971
HongPeng Footwear	Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	Leasehold (from 22.05.2006 to 22.05.2056)	576	520 (a single storey building)	Land use right for an industrial land (currently being used as employees recreational centre)	Nil	926 / 477

**4. INFORMATION ON OUR GROUP (Cont'd)**

Owner	Location	Ownership type	Land area (square metres)	Built up area (square metres)	Description / Existing use of property	Restriction in interest / major encumbrances	Audited net book value at 30 June 2009 (RMB'000) / (RM'000) <sup>(1)</sup>
XiDeLang Sports Goods	Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Leasehold (from 31.07.2007 to 25.06.2057)	34,561	N/a	Land use right for an industrial land (site for new office building – please refer below)	Mortgaged to Jinjiang Sub Branch, Industrial and Commercial Bank of China	27,143 / 13,984
			N/a	32,400 (upon completion)	Construction in progress (comprising a block of 9 storeys office building)	N/a	17,000 / 8,758

As at LPD, the material plant and machinery owned by our Group are as follows:-

Owner	Description / Existing use of property	Location	Restriction in interest / major encumbrances	Audited net book value at 30 June 2009 (RMB'000) / (RM'000) <sup>(1)</sup>	Production for 1H 2009 ('000 pairs)	Annual Capacity ('000 pairs)	Annualised utilisation rate for 1H 2009 (%)
HongPeng (Fujian)	Plant and machinery used for manufacturing of sports shoes	Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC; and No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	N/a	2,796 / 1,440	1,838	3,900	94.2
HongPeng Footwear	Plant and machinery used for manufacturing of sports shoes	No. 102 Xing Zhen North Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	N/a	473 / 244	406	900	90.2

Note:-

(1)

Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

**4. INFORMATION ON OUR GROUP (Cont'd)**

As at LPD, the material properties leased by our Group are as follows:-

Lessor	Approximate age of building (years) / date of expiry of lease	Location	Built up area (square metres)	Description / Existing use of property	Restriction in interest / major encumbrances	Monthly rental (RMB) / (RM) <sup>(1)</sup>
Ding LiHong	9 years / 31 December 2015	Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	5,720 (a 7 storeys building)	Production plant for manufacturing of sports shoes / office	Mortgaged by lessor to Meiling Sub Branch, Jinjiang Rural Cooperation Bank	114,400 / 60,037
Ding JiaXing and Ding PengPeng	13 years / 31 December 2015	No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	3,710 (a 5 storeys building)	Production plant for manufacturing of sports shoes / office	Nil	55,650 / 29,205
Ding DeXing	8 years / 31 December 2015	No. 102 Xing Zhen North Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	1,890 (a 5 storeys building)	Production plant for manufacturing of sports shoes / office	Nil	1,667 / 875

Note:-

(1) Based on the average exchange rate of RMB1: RM0.5248 for 1H 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### **4.17 REGULATORY REQUIREMENT AND ENVIRONMENTAL ISSUES**

As at LPD, our Group has not experienced any regulatory requirement and environmental issue which may materially affect our Group's operations and utilisation of assets.

##### **4.18 MATERIAL PLANS TO CONSTRUCT, EXPAND OR IMPROVE FACILITIES**

To further expand our sports shoe production capacity and to commence in-house apparel production, we plan to build a new production centre in Zhai Nei Village, Nei Keng County, Jinjiang City and to acquire additional shoe production lines as well as setting up new apparel production lines, details of which are set out in Section 4.21(v) of this Prospectus. We estimate a total investment of approximately RMB250 million (equivalent to approximately RM128.8 million). As at 30 June 2009, we have incurred approximately RMB90 million (equivalent to approximately RM46.4 million) for the purpose of this expansion. We plan to finance the construction of this production facility with proceeds from the IPO as well as our internally-generated funds.

*Note:-*

(1) *Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.*

##### **4.19 DEPENDENCE ON CONTRACTS / ARRANGEMENTS / DOCUMENTS / OTHER MATTERS**

As at LPD, save as disclosed below and in Sections 4.14, 4.15, 7.1 and 13.4 of this Prospectus, there are no patents or licenses, industrial, commercial or financial contracts (including informal arrangements or understandings) or new manufacturing processes, which have been entered into by us that we are highly dependent on or that are material to our business and / or profitability.

We outsource all the manufacturing of our sports apparel to external manufacturers. For each of these external manufacturers, the Group will enter into a separate manufacturing contract with them. As our Group derived approximately 33% of its revenue from sales of sports apparel in 2008, we are thus deemed dependent on the manufacturing contracts entered into with our external manufacturers of sports apparel. These contracts set out the terms and conditions that the external manufacturers of sports apparel must adhere to in relation to the manufacturing of various types of sports apparel subcontracted to them.

Typically, for each order made by us (specifically, HongPeng (Fujian)), a separate agreement will be entered into with the relevant external manufacturers, which sets out the types of apparel, unit measurement, quantity, pricing and other applicable terms and conditions. A summary of the salient terms and conditions of these manufacturing contracts are as follows:-

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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(a) Place of delivery:

The place of delivery is the designated warehouse of HongPeng (Fujian).

(b) Processing procedures:

- The external manufacturer will supply all required materials.
- The designs of apparel must meet the requirements of the order. The product samples will be examined and confirmed by HongPeng (Fujian) prior to commencement of production.
- The product samples provided are for HongPeng (Fujian)'s retention.
- The quality of products should be the same as the confirmed product samples, and meet the requirements of the manufacture technique specifications.

(c) Terms of delivery:

For late delivery of more than 10 days, a late penalty of 1% of the value of the total purchases payable shall be imposed per day and be deducted from the amount payable. HongPeng (Fujian) also has the option to reject the delivery of any products delivered late or to sell or dispose of the products as discounted items, in which case the external manufacturer shall be fully responsible for all consequences of such sale or disposal.

(d) Termination:

Upon occurrence of any of the following events, HongPeng (Fujian) may terminate the manufacturing contract without any conditions:

- The supplier subcontracts or assigns the order to other manufacturers without the prior consent of HongPeng (Fujian).
- The products do not meet the standards and requirements as compared to the confirmed product samples.

(e) Payment:

HongPeng (Fujian) will make payment within three months after receiving the satisfactory goods within due time.

#### **4.20 INTERRUPTIONS IN BUSINESS**

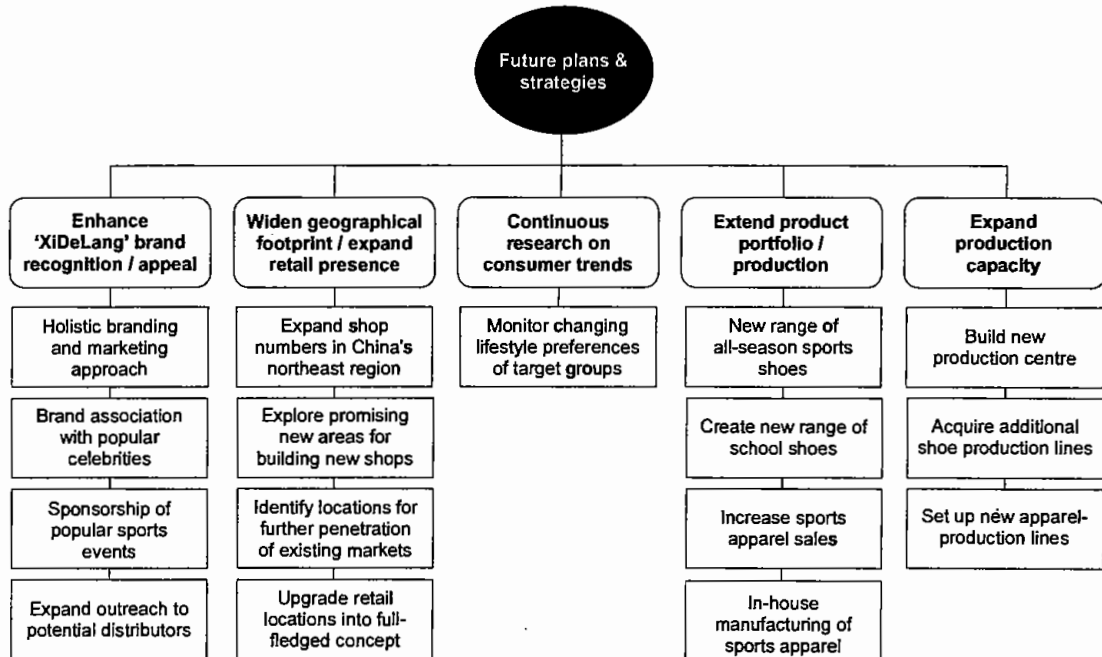
There has not been any interruption in the form of trade disputes or major operational breakdown occurring within and outside our Group that significantly impaired our business performance during the past twelve (12) months prior to LPD.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.21 FUTURE PLANS AND STRATEGIES

Our future plans and strategies are focused on the following five (5) key areas:-



##### (i) Enhance 'XiDeLang' brand recognition and appeal

We believe that enhancing brand recognition and appeal are key factors that will promote brand loyalty, distinguish our 'XiDeLang' brand from that of competitors, and augment our financial performance, which will collectively sustain our continuous growth.

##### Holistic branding and marketing approach

In order to build our 'XiDeLang' brand image and equity, we seek to adopt a holistic approach to our branding and marketing strategies, on top of continuously developing trendy, well-designed and quality sports shoes, apparel, accessories and equipment. Our holistic brand positioning efforts shall encompass advertising and promotion activities targeting the youth and adult market segments in China.

##### Brand association with popular celebrities / sponsorship of popular sports events

We intend to continue the use of brand ambassador and increase our advertising activities in television and print media to boost our media outreach. In particular, by 2010, we aim to participate in various popular sporting events by:-

- (a) becoming official sponsors;
- (b) erecting signage on official sporting venues;
- (c) sponsoring equipment such as shoes, apparel and accessories; and
- (d) participating in joint-advertising on television, radio and print.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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By associating ourselves with well-liked celebrities and popular sporting events, we believe that we will enhance our brand recognition and appeal, and ultimately promote brand loyalty. We believe that these initiatives will boost sales, and allow us to command higher premiums for our products over time.

##### Expand outreach to potential distributors

In addition to the above, we intend to bolster our marketing outreach by more vigorous participation in trade fairs. We believe that increased participation in trade fairs will enable us to extend our reach to a larger number of potential distributors.

(ii) **Widen geographical footprint via expanding marketing and distribution outreach**

As at LPD, our 'XiDeLang' products are retailed across 25 provinces and municipalities in China in approximately 2,300 retail locations, of which 1,320 are concept stores. We intend to continue the proactive expansion of our market presence and distribution network by increasing the number of retail locations.

##### Expand shop numbers in China's Northeast region

Firstly, we intend to concentrate our immediate expansion focus on the Northeast three provinces of China, namely the Liaoning, Heilongjiang and Jilin provinces. By end 2010, we intend to appoint additional distributors in those three (3) provinces and assist our new distributors in establishing not less than 200 XiDeLang retail locations.

We currently have two (2) distributors in the Northeast three provinces. These three (3) provinces accounted for 5.0% of our total revenue in FYE 2008. Appointing additional distributors will enlarge our direct customer base, while allowing us to increase our retail locations without significant capital outlays.

We believe that the Northeast region of China is ideal for expanding our retail presence to address the potential market for sports shoes as:-

- in 2008, the Northeast region of China had an estimated population of 108.7 million; and
- in 2007, the per capita annual consumption of urban households on shoes in Liaoning, Jilin and Heilongjiang amounted to RMB286.9, RMB282.5 and RM281.37 respectively. Between 2003 and 2007, the per capita annual consumption of urban households on shoes in Liaoning, Jilin and Heilongjiang increased at an average annual rate of 17.1%, 15.7% and 13.2% respectively.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China prepared by Vital Factor Consulting Sdn Bhd)*

As highlighted above, the relatively large population and continuing growth of shoe expenditure per capita indicates promising opportunities in these provinces.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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*Explore promising new areas for building new shops / identify locations for further penetration of existing markets*

Apart from the above, we shall continue to identify promising locations for expanding our geographical presence in various densely populated cities in China and endeavour to further penetrate into existing markets. We believe there are ample opportunities for substantially increasing our number of retail locations in China, despite our already strong retail presence, due to the growing domestic market for sports shoes and apparel, as well as growing overall level of consumer affluence and expenditure in China.

*Upgrade retail locations into full-fledged concept stores*

Lastly, we plan to upgrade our various retail locations in stages into full-fledged XiDeLang concept stores to further bolster our brand image. Upgrading our existing retail locations into concept stores is an essential part of our marketing strategy. We seek to enliven our customers' shopping experience by creating a seamless experience of a one-stop retail centre for sports shoes, apparel, accessories and equipment. This will allow us to achieve the twin objectives of increasing sales and cross-selling of products, whilst utilising our retail locations more effectively to build brand equity, enhance our brand image and reinforce our brand positioning.

**(iii) Continuous market research on consumer trends**

As part of our continuous R&D activities on consumer trends, we will intensify our market research to track, monitor and study over an extended period of time the changing preferences of our target customer groups, particularly those within 15 to 35 years of age. The findings of the market research will enable us to cater to the rapidly changing consumer-lifestyle preferences, whilst helping us to cultivate customer loyalty by allowing us to better satisfy the evolving needs and wants of consumers as they move from one age group to the next.

**(iv) Extend product portfolio and develop new manufacturing and product-development capabilities**

We aim to continuously develop trendy, well-designed and quality shoes, apparel, accessories and equipment that are relevant to current market needs and fashion trends.

*New range of all-season sports shoes*

Firstly, our in-house R&D team aims to develop a new collection of sports shoes using new and innovative materials that are able to withstand various weather conditions. By 2010, we intend to commercialise this new collection of sports shoes, which will be targeted at the youth market segment and incorporate innovative designs and functions, such as improved lightweight cushioning, improved impact strength, improved ability to withstand high stress and improved ability to counteract the effects of push-off pressure regardless of summer or winter conditions.

#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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##### Create new range of school shoes

Secondly, we plan to create a new range of school shoe designs and commercialise the new range by end 2009 or early 2010, which will allow us to specifically target the student shoes market in China. There is significant market potential for school shoes, due to the large student population in China. Furthermore, expanding our product portfolio with a new range of school shoes is a natural product extension from our core competencies in sports shoes.

##### Increase sports apparel sales

Thirdly, we plan to increase our revenue from sports apparel by increasing our range of product designs. For FYE 2008, the sales of sports apparel, accessories and equipment constituted 33.0% of our revenue. We believe we can effectively leverage on our strong retail presence to cross-sell our sports apparel, accessories and equipment together with our sports shoes in our retail locations across China. Our plan to gradually upgrade our various retail locations into full-fledged XiDeLang concept stores, highlighted in Section 4.21(ii) above, is also intended to boost the sales of our sports apparel, accessories and equipment.

##### In-house manufacturing of sports apparel

Lastly, we aim to also leverage on our core competencies in sports shoe production and venture into the manufacturing of sports apparel in the medium term. This will allow us to capitalise on our established design capabilities, whilst having control of our own production will allow us to respond more nimbly to changes in market demand. In addition, manufacturing in-house will enable us to have better control over production costs and quality assurance, thereby yielding higher profit margins on sports apparel.

(v) **Build new production centre to expand shoe-manufacturing capacity and commence in-house apparel production**

As at LPD, we have the capacity to produce approximately 4.8 million pairs of sports shoes per annum. We intend to construct a new production centre that will cater for our future business expansion in line with our plans and strategies as well as the general increase in consumer demand, as highlighted in Section 5.12 of this Prospectus.

##### Build production centre

To meet the anticipated increase in market demand for our products, we intend to construct a new centre to house our design and production of sports shoes and apparel. The new production centre is located at Zhai Nei Village, Nei Keng County, Jinjiang City, with a land area of approximately 70,000 square metres. The construction will be carried out in two (2) phases. The first phase of construction has commenced in early 2009 and is expected to be completed by mid 2010.

#### **4. INFORMATION ON OUR GROUP (Cont'd)**

##### Acquire additional shoe production lines

We intend to double our annual production capacity in stages to approximately 10.0 million pairs per annum commencing 2010 by acquiring new additional lines of shoe production machinery. Depending on prevailing market demand, we may increase our annual production up to 15.0 million sports shoes by investing in additional shoe production lines.

##### Build apparel production plant and set up new apparel production lines

Upon the successful set up and trial run of the first phase, we plan to commence the second phase of construction in mid 2011 on the same piece of land, which involves the construction of a new plant for the production of sports apparel. Upon completion of construction, which is targeted by end 2012, we intend to invest in new apparel production lines.

Upon completion of both the first and second stage of the construction which is estimated to be by the end 2012, we expect to have a total built-up area of approximately 150,000 square meters at our disposal for our operations.

#### **4.22 PROSPECTS**

As China is our principal market, our business prospects are principally dependent on its economic growth, its demand for branded mass-market sports shoes and apparel, and the purchasing power of China's consumers. We believe that our prospects are favourable, in light of the following factors:-

**(i) Rising affluence of China's population and increasing consumption of mass-market consumer goods**

China's strong economic growth has created a growing middle class population, whose increasing affluence has led to higher disposable income. This has in turn helped to spur increases in consumer expenditure, as indicated by the following:-

- Between 2003 and 2007, the annual per capita disposable income of urban households in China increased at an average annual rate of 12.9%. In 2007, the annual per capita disposable income of urban households in China grew by 17.2% to reach RMB13,785.8; and
- Between 2003 and 2007, the annual per capita consumption expenditure of urban households in China increased at an average annual rate of 11.3%. In 2007, the annual per capita consumption expenditure of urban households in China grew by 15.0% to reach RMB9,997.5.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China prepared by Vital Factor Consulting Sdn Bhd)*

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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The promising potential of China's mass-market consumer-goods market is indicated by growing consumption expenditure on clothing and shoes:-

- Between 2004 and 2007, the retail value of clothing, shoes, hats and textiles grew at an average annual rate of 20.4%. In 2007, the retail value of clothing, shoes, hats and textiles increased by 25.5% to reach RMB302.4 billion;
- Between 2003 and 2007, the per capita annual purchase of shoes by urban households in China grew at an average annual rate of 1.5%. In 2007, the per capita annual purchase of shoes by urban households in China increased by 4.2% to reach 2.74 pairs; and
- Between 2003 and 2007, the per capita annual consumption expenditure on shoes by urban households in China increased at an average annual rate of 15.0%. In 2007, the per capita annual consumption expenditure on shoes by urban households in China grew by 17.9% to reach RMB242.6.
- Between 2003 and 2007, the per capita annual consumption expenditure on clothing by urban households in China increased at an average annual rate of 13.1%. In 2007, the per capita annual consumption expenditure on clothing by urban households in China grew by 15.5% to reach RMB1,042.0.
- Between 2003 and 2007, the per capita annual purchase of clothing by urban households in China grew at an average annual rate of 2.0%. In 2007, the per capita annual purchase of clothing by urban households in China increased by 4.0% to reach 7.82 pieces.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China prepared by Vital Factor Consulting Sdn Bhd)*

For comparison purposes, in 2006, per capita annual expenditure of shoes in the US amounted to US\$58.20, which is approximately two (2) times higher than China's per capita annual expenditure by urban households at RMB205.8. As a country's per capita GDP increases, expenditure on shoes are likely to increase as shoes become fashion accessories, in contrast to shoes being a functional item to protect the feet.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China prepared by Vital Factor Consulting Sdn Bhd)*

It is expected that the rising affluence of China's population will lead to continued growth in consumer expenditure on leisure activities, sporting activities, entertainment and sports shoes / apparel. In addition, greater knowledge of the different functionalities of various sports products in line with the increasing sophistication of consumers encourages greater expenditure on sporting goods. Whilst consumers in the past may have relied on one (1) pair of sports shoes for different types of sports, we believe that consumers now have become more discerning, and increasingly use specific shoes and apparel designed for each particular sport. For example, discerning sophisticated consumers may typically have a pair of jogging shoes for general wear and a pair of basketball shoes for basketball activities. In addition, we believe that there are also growing numbers of consumers who will wear sports shoes for daily activities other than sports, as sports shoes are both trendy and comfortable.

Based on the above, we believe that the growth in consumption expenditure for sports shoes and apparel in China will be sustained, particularly for the mass-market consumer segment, which is our target market.

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#### **4. INFORMATION ON OUR GROUP (Cont'd)**

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**(ii) Our strong brand positions us to capitalise on growing sophistication of China's consumers**

Our brand building efforts since 1993 have allowed us to benefit from the growing sophistication of China's consumers. Our foresight in cultivating brand awareness and appeal has positioned us to capitalise on the growing affluence of China's consumers and reap the benefits of the increasing desire for branded consumer items in China. We believe that our 'XiDeLang' brand is one of our most valuable assets.

Our proactive brand management over the years encompassed a wide range of initiatives, such as appointing Zhang Jie, a popular local artiste, as brand ambassador; advertising on television and print media to create awareness and appeal; and reinforcing our brand image by ensuring that XiDeLang retail locations are consistent with our shop-design policies, product-display methodologies and staff-performance benchmarks.

Our numerous awards and accreditations for our 'XiDeLang' brand highlighted in Section 4.4.3 of this Prospectus, such as the "Well-known Mark of China" and "Fujian Famous Brand" awards validates our branding initiatives, which have allowed us to achieve significant brand equity.

As such, we believe that our long-term future prospects are positive, as we have laid the foundations for satisfying China's increasing demand for branded sports shoes and apparel. We believe that we have distinguished ourselves in the markets we serve and positioned the 'XiDeLang' brand as a high-quality and desirable brand.

Given the increasing consumption of mass-market sports shoes and apparel in China, we believe that there are ample opportunities and significant market potential for us to further expand our market presence. By leveraging on our 'XiDeLang' brand equity and extensive distribution network, we believe that there is strong growth potential for 'XiDeLang' products in China, particularly in densely populated cities that are rising in affluence.

**(iii) Growing passion for sports in China**

The rising affluence of China's middle-class has set the stage for greater emphasis on health, fitness and leisure. There is greater awareness of the need to engage in regular exercise and sporting activities, and the importance of a fit and healthy lifestyle. The increasing number of international sports events held in China have inspired and encouraged greater passion for sports.

In addition, there has been an increase in sports facilities around China, due to the PRC government's encouragement and mass-media coverage on sports and healthy lifestyles, which have also encouraged private sector participation in creating sports venues. This further encourages interest and passion for sports in China, as participation in sports becomes more accessible.

Illustrious sporting achievements are the national pride of China. The phenomenal success of PRC sportsmen such as Yao Ming, a basketball icon, and Liu Xiang, a track-and-field star, amongst others, have sparked greater interest and passion in sports. In addition, China obtained an unprecedented 51 gold medals and topped the gold-medal tally at the 2008 Beijing Olympics.



#### 4. INFORMATION ON OUR GROUP (Cont'd)

With the success of the 2008 Beijing Olympics, it is expected that China will continue to host international sporting events, such as the 16<sup>th</sup> Asian Games, which are scheduled to be held in Guangzhou in 2010. This augurs well for our prospects, as it will lead to continued growth in demand for sports shoes and apparel in China.

Although international brands such as Nike, Adidas and Reebok seek to exploit the significant potential for growth in China's sports goods market, which will inevitably lead to increased competition, we seek to capture a bigger market share in our mid-range market segment, a segment which is traditionally not the focus of international brands.

In addition, although there are a large number of players in the sporting goods market, we believe there are opportunities for us to expand our market share, as we already have an established presence and significant brand equity in China. We will adopt the strategy and future plans set out in Section 4.21 of this Prospectus to achieve continued growth and increase our market share.

#### (iv) Comparative resilience of China's economy

Despite experiencing a slowdown in GDP growth in 2008, the growth of China's GDP continues to be relatively more robust at 9.0% compared to the GDP growth of some of the more advanced economies in the world, including the following major economies:-

- US = 1.6%
- United Kingdom = 1.0%
- Japan = 0.5%.

For the first half of 2009, China's GDP registered a growth of 7.1% compared to the same period in 2008. China is forecasted to achieve a continuing growth of 8.3% in 2009 while many more advanced countries expect very low or negative GDP growth for 2009, for example:-

- US = 0.1%
- United Kingdom = -0.1%
- Japan = 0.5%

Notwithstanding the above, with an economic slowdown, there is a possibility that consumers in China would trade down from buying overseas branded sports shoes to buying lower cost branded sports shoes and apparel.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China prepared by Vital Factor Consulting Sdn Bhd)*

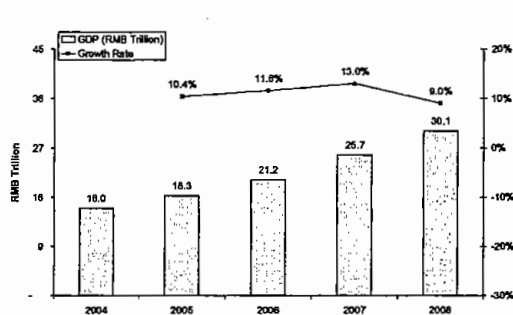
As such, manufacturers like us, which serve the mass market for sports shoes and apparel in China, are in the optimal position to ride through the current global economic slowdown.

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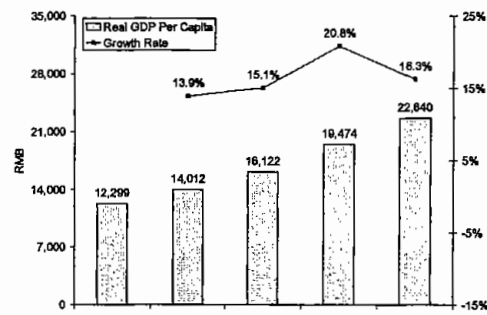
## 5. INDUSTRY OVERVIEW

### 5.1 SOCIAL-ECONOMIC PERFORMANCE OF CHINA

#### 5.1.1 Economic performance



Real GDP Growth in China



Per Capita GDP Growth in China

China's real GDP has been growing strongly recording double-digit growth every year from 2004 to 2007. Despite the global slowdown in 2008, China's real GDP grew by 9.0%, surpassing many more advanced economies like the US (1.1%), the United Kingdom (0.7%) and Japan (-0.6%). Moving forward, China's real GDP is expected to grow at 8.3%, while economies like the US (-2.8%), the United Kingdom (-4.1%) and Japan (-6.2%) are expected to record negative growth in 2009.

Despite the current global financial slowdown, China's economy is relatively resilient. This augurs well for companies like our Group, which is serving the China market for its sports shoes.

Reflecting similar trends with real GDP growth, China's GDP per capita growth also experienced similar double-digit growth from 2005 to 2008. A higher GDP per capita would provide consumers in China with higher disposable income to purchase goods and services. This would augur well for companies like our Group that is involved in marketing, brand management, design and manufacturing of sports shoes. As shoes are regarded as necessity products, it is likely that consumer spending on these products will still continue, albeit at a lower expenditure level during an economic slowdown.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

#### 5.1.2 Population

Between 2004 and 2008, the population of China increased at an average annual rate of 0.5%. In 2008, the population of China grew by 0.5% to reach 1.3 billion persons (Source: National Bureau of Statistics of China). China's population represents a very large market for consumer goods and services. China, with its relatively strong GDP and per capita growth, combined with having the world's largest population, provides significant opportunities for companies that produce consumer goods and services for consumption in China, including companies like our Group.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

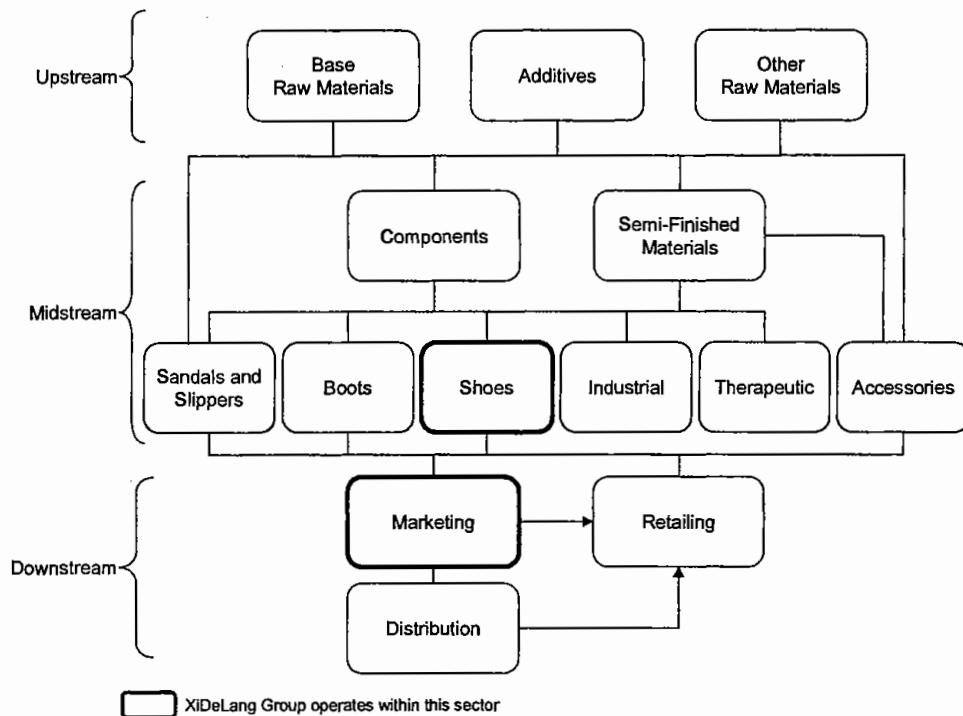
**5. INDUSTRY OVERVIEW (Cont'd)**

**5.2 OVERALL INDUSTRY STRUCTURE**

For the FYE 31 December 2008, sports shoes accounted for 67.0% of our total Group revenue, amounting to RMB384.8 million. Therefore, taking into consideration the significant revenue contribution from sports shoes, the following industry sections focus on the sports shoe market in China.

**5.2.1 Structure of the footwear industry**

The footwear industry can be vertically extended to include upstream, midstream and downstream activities. These are as depicted in the diagram below:-



**(i) Upstream activities**

Upstream activities primarily involve the supply of raw materials including:-

- Base raw materials, for example natural rubber such as ribbed smoke sheer and pale crepe, synthetic rubber, including styrene butadiene rubber (SBR), butadiene acrylonitrile, polychloroprene, polyisoprene and polybutadiene, leather (not commonly used for sports shoes), textiles (not commonly used for sports shoes), ethylene vinyl acetate copolymer (EVA), polyvinyl chloride (PVC) (not commonly used for sports shoes), polyurethane (PU) and thermoplastic rubber (TPR);

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**5. INDUSTRY OVERVIEW (Cont'd)**

- Additives are used to improve mechanical and physical properties, as well as appearance. Some examples of additives include fillers, pigments, accelerator, activator, antioxidant, plasticiser, blowing agent, stabiliser, vulcanising agent, dusting agent, catalyst, cross linking, chain extending agents, colorants, flame retardant and smoke suppressant;
- Other raw materials include threads, adhesives, eyelets and other processing aids like lubricants used during compounding of base raw materials.

**(ii) Midstream activities**

Midstream activities involve the manufacturing of footwear components such as soles, heels and grommets (eyelets) and manufacturing of semi-finished footwear materials such as semi-finished synthetic leather and textile cloth.

Midstream activities also involve the manufacturing of finished products such as sandals, slippers, boots, shoes, industrial footwear, therapeutic footwear and footwear accessories.

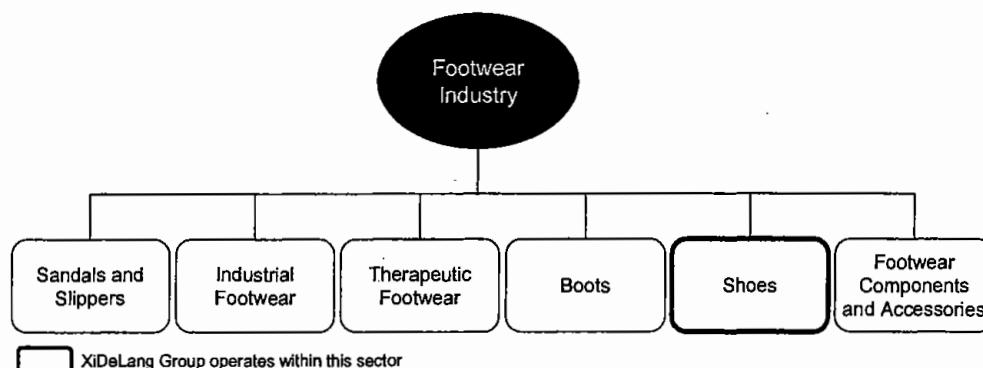
Our Group is involved in midstream activities in the manufacturing of sports shoes.

**(iii) Downstream activities**

Downstream activities involve marketing, distribution and retailing of footwear. Marketing and distribution activities are usually undertaken by brand owners, agents, importers, stockists and wholesalers.

In addition to midstream activities, our Group is involved in downstream activities in the marketing of sports shoes.

In general, the footwear industry comprises six (6) segments as depicted in the figure below:-



We operate within the shoe sector of the overall footwear industry focusing on sports shoes.

## 5. INDUSTRY OVERVIEW (Cont'd)

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### 5.2.2 Critical success factors

Critical success factors for operators of sports shoes include the following:-

- (i) **Branding:** Branding is critical to the success of consumer-based products such as sports shoes. Operators that have their own brands have better control of their business directions and at the same time create customer loyalty to sustain and grow the business. Brand owners also have the full freedom to expand their presence in China as well as overseas, without any constraints or the need to pay any royalty to third parties. This is also where continuing investment in marketing and promotions are important to facilitate brand awareness, recognition and brand loyalty.
- (ii) **Wide distribution and retail coverage:** As sports shoes are regarded as consumer-based products, extensive distribution coverage is critical to ensure that the products reach the end-consumers. Operators with a wide and diversified distribution coverage including departmental, specialty and concept stores will have a stronger market presence which is critical for continuing sales growth.
- (iii) **Diverse range of products:** Operators with a diverse range of products are in a better position to provide convenience to their customers through a one-stop centre concept for sports shoes including casual sports shoes, running shoes and court sports shoes and others. The diversity of products will also provide opportunities for cross-selling thereby earning higher sales as well as reducing unit costs of marketing and distribution.
- (iv) **In-house design centre:** An in-house design centre is a critical success factor that enables operators to have control of the creation of new and innovative designs to compete effectively as well as meet consumer preferences. Having in-house design capabilities and facilities also enable operators to react quickly to changing market forces and consumer preferences.
- (v) **Commitment to high quality:** To ensure optimal performance and reliability of products, manufacturers must commit to high product quality. Manufacturers of sports shoes who adopt stringent controls in their manufacturing processes with recognised quality accreditations and awards to reflect their commitment to product quality and excellence are in a better position to meet customers' requirements.
- (vi) **Established track record:** The sports shoes market in China is a competitive industry with many operators. This is particularly true in Jinjiang within the Fujian Province in China where there are an estimated 3,000 manufacturers of footwear. As such, other than possessing design, research and development, and manufacturing capabilities, a reputable track record is key in securing sales orders, particularly from new customers.

## 5. INDUSTRY OVERVIEW (Cont'd)

- (vii) **Financial stability:** Operators who are in a healthy financial position are more likely to retain and attract new customers. In manufacturing, financial stability will ensure uninterrupted supply to customers. In addition, a financially strong manufacturer would be in a better position to upgrade its manufacturing capabilities, if necessary, to keep abreast with technology, changes in production or to meet demand for increased capacity. In marketing, financial stability will ensure sufficient resources are channelled to brand development and marketing functions.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### 5.3 PAST PERFORMANCE – DEMAND CONDITIONS

#### 5.3.1 Consumption

Between 2003 and 2007, the total retail sales of consumer goods in China grew at an average annual rate of 14.2%. In 2007, the total retail sales of consumer goods in China increased by 16.8% to reach RMB8.9 trillion.

Between 2004 and 2007, the retail value of clothing, shoes, hats and textiles grew at an average annual rate of 20.4%. In 2007, the retail value of clothing, shoes, hats and textiles increased by 25.5% to reach RMB302.4 billion.

Between 2004 and 2007, the retail value of shoes and hats (a sub-sector of clothing, shoes, hats and textiles) grew at an average annual rate of 21.3%. In 2007, the retail value of shoes and hats increased by 23.2% to reach RMB55.6 billion.

Between 2004 and 2007, the retail value of clothing (a sub-sector of clothing, shoes, hats and textiles) grew at an average annual rate of 22.0%. In 2007, the retail value of clothing increased by 28.7% to reach RMB211.0 billion.

Between 2003 and 2007, per capita annual purchase of shoes by urban households in China grew at an average annual rate of 1.5%. In 2007, per capita annual purchase of shoes by urban households in China increased by 4.2% to reach 2.74 pairs.

Between 2003 and 2007, per capita annual consumption expenditure on shoes by urban households in China increased at an average annual rate of 15.0%. In 2007, per capita annual consumption expenditure on shoes by urban households in China grew by 17.9% to reach RMB242.6.

Between 2003 and 2007, per capita annual consumption expenditure on clothing by urban households in China increased at an average annual rate of 13.1%. In 2007, per capita annual consumption expenditure on clothing by urban households in China grew by 15.5% to reach RMB1,042.0.

Between 2003 and 2007, per capita annual purchase of clothing by urban households in China grew at an average annual rate of 2.0%. In 2007, per capita annual purchase of clothing by urban households in China increased by 4.0% to reach 7.82 pieces.

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## 5. INDUSTRY OVERVIEW (Cont'd)

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### 5.3.2 Exports

Between 2004 and 2007, the export value of footwear, gaiters and the like, and parts of such articles increased at an average annual rate of 15.6%. In 2007, the export value of this category grew by 11.2% to reach RMB194.3 billion.

Between 2004 and 2007, the export value of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 22.6%. In 2007, the export value under this category increased by 20.6% to reach US\$3.4 billion (equivalent to RMB23.4 billion).

Between 2004 and 2007, the export quantity of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 15.7%. In 2007, the export quantity of products under this category increased by 12.1% to 1.4 billion pairs.

Between 2004 and 2008, the export value of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials increased at an average annual rate of 20.8%. In 2008, the export value of this category grew by 14.7% to reach US\$4.0 billion (equivalent to RMB27.2 billion).

Between 2003 and 2007, the export value of articles of apparel and clothing accessories, knitted or crocheted increased at an average annual rate of 30.1%. In 2007, the export value of this category grew by 30.8% to reach RMB469.9 billion.

Between 2003 and 2007, the export value of articles of apparel and clothing accessories, not knitted or crocheted increased at an average annual rate of 14.9%. In 2007, the export value of this category grew by 3.8% to reach RMB363.6 billion.

### 5.3.3 Demand dependencies

As our market is mainly focused on China, demand dependencies will be based on factors impacting on consumption of sports shoes in China including population growth in China, growth in household disposable income, and increase in consumption expenditure.

Between 2004 and 2008, the population of China increased at an average annual rate of 0.5%. In 2008, the population of China grew by 0.5% to reach 1.3 billion persons.

Between 2003 and 2007, the annual per capita disposable income of urban households in China increased at an average annual rate of 12.9%. In 2007, the annual per capita disposable income of urban households in China grew by 17.2% to reach RMB13,785.8.

Between 2003 and 2007, the annual per capita consumption expenditure of urban households in China increased at an average annual rate of 11.3%. In 2007, the annual per capita consumption expenditure of urban households in China grew by 15.0% to reach RMB9,997.5.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## **5. INDUSTRY OVERVIEW (Cont'd)**

### **5.4 PAST PERFORMANCE – SUPPLY CONDITIONS**

#### **5.4.1 Production**

Between 2003 and 2007, the gross output value of the manufacture of textile wearing apparel, footwear and caps in China increased at an average annual rate of 22.0%. In 2007, the gross output value of the manufacture of textile wearing apparel, footwear and caps grew by 23.4% to reach RMB760.0 billion.

Between 2003 and 2007, the total sales value for the wholesale of textiles, garments and daily consumer articles in China increased at an average annual rate of 21.2%. In 2007, the total wholesale value of textiles, garments and daily consumer articles in China grew by 15.3% to reach RMB744.8 billion.

The production statistics on rubber shoes includes, among others, sports shoes but exclude professional sports shoes, which require special certification from the Government of China. Between 2002 and 2006, the production quantity of rubber shoes (including sports shoes) in China grew at an average annual rate of 13.5%. In 2006, the production quantity of rubber shoes in China increased by 28.7% to reach 1.6 billion pairs.

Between 2002 and 2006, the production quantity of leather shoes in China increased at an average annual rate of 18.5%. In 2006, the production quantity of leather shoes in China grew by 18.9% to reach 3.0 billion pairs.

Between 2002 and 2006, the production quantity of clothing decreased at an average annual rate of 9.4%. However, in 2006, the production quantity of clothing registered a growth of 14.9% to 17.0 billion pieces.

#### **5.4.2 Imports**

Between 2004 and 2007, the import value of footwear, gaiters and the like increased at an average annual rate of 12.4%. In 2007, the import value of footwear, gaiters and the like grew by 14.5% to reach RMB5.6 billion.

Between 2004 and 2008, the import value of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials (including sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like) increased at an average annual rate of 59.4%. In 2008, the import value of this category grew by 132.7% to reach USD127.1 million (equivalent to RMB868.3 million).

Between 2004 and 2008, the import value of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) increased at an average annual rate of 16.4%. In 2008, the import value of this category grew by 185.7% to reach USD16.2 million (equivalent to RMB110.5 million). In 2008, China's major sources of this type of footwear include Italy, Vietnam, Malaysia and Indonesia.

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## **5. INDUSTRY OVERVIEW (Cont'd)**

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### **5.4.3 Supply dependencies**

The major raw materials used in the manufacture of sports shoes are as follows:-

- shoe soles including insoles, midsoles and outsoles;
- upper materials included those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

There are many types of sports shoe sole depending on the application, technical requirements and cost considerations. Some examples include the following:-

- insole are commonly made of mixture of cellulose material and rubber, woven materials mainly textile, microcellular polyurethane, non-woven materials, latex sponge and Ethylene-Vinyl Acetate copolymer (EVA) foam;
- midsoles for sports shoes are commonly made of polymer based materials such as Phylon, Polyurethane (PU), Phylite and Ethylene-Vinyl Acetate copolymer (EVA).
- outsoles for sports shoes are commonly made of various types of latex rubber and thermoplastic rubber.

### **5.4.4 Production**

In 2007, the gross industrial output value of manufacture of plastics increased by 27.3% to reach RMB812.0 billion. Between 2003 and 2007, the gross industrial output value of the manufacture of plastics grew at an average annual rate of 27.6%.

In 2007, the gross industrial output value of the manufacture of rubber increased by 26.7% to reach RMB346.2 billion. Between 2003 and 2007, the gross industrial output value of the manufacture of rubber grew at an average annual rate of 27.4%.

In 2006, the production of plastic products increased by 27.4% to 28.0 million tonnes. Between 2002 and 2006, the production of plastic products grew at an average annual rate of 18.9%.

In 2007, the gross industrial output value of the manufacture of textiles increased by 22.3% to reach RMB1,873 billion. Between 2003 and 2007, the gross industrial output value of the manufacture of textiles grew at an average annual rate of 24.8%.

In 2007, the gross industrial output value of the manufacture of leather, fur, feather and related products increased by 24.2% to reach RMB515.3 billion. Between 2003 and 2007, the gross industrial output value of the manufacture of leather, fur, feather and related products grew at an average annual rate of 22.7%.

### **5.4.5 Imports**

Between 2004 and 2008, the import value of rubber and plastics outsoles and heels decreased at an average annual rate of 2.1%. In 2008, the import value of rubber and plastics outsoles and heels declined by 5.0% to US\$71.8 million (equivalent to RMB490.7 million). In 2008, China's major sources of rubber and plastic outer soles and heels include Taiwan, Korea, Vietnam, Italy, Japan, United States and other overseas countries.

## **5. INDUSTRY OVERVIEW (Cont'd)**

In 2008, the import value of rawhides and skins (other than fur skins) and leather decreased by 5.5% to US\$5.6 billion (equivalent to RMB38.5 billion). However, between 2004 and 2008, the import value of rawhides and skins (other than fur skins) and leather increased at an average annual rate of 5.2%.

In 2007, imports of textile and textile articles decreased by 5.3% to reach RMB195.0 billion.

In 2008, the import value of man-made filaments and man-made shorts fibre (including woven fabric made of synthetic materials) (a sub-sector of textile and textile articles) decreased by 6.0% to US\$6.2 billion (equivalent to RMB42.2 billion).

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### **5.5 COMPETITION AND INDUSTRY PLAYERS**

#### **5.5.1 Nature of competition in the industry**

Operators in the sports shoe industry in China face normal competitive conditions, which is similar to a free enterprise environment where there are no undue government regulations or licensing requirements, there are many operators, operators may enter and leave the industry with relative ease, and no one operator is large enough to dictate product pricing. In such an environment, the industry is also subjected to normal supply and demand conditions moderated by the price mechanism. Operators compete on product and service differentiations, and other factors of competition.

#### **5.5.2 Factors of competition**

As with most free enterprise environments, the factors that are used to compete and to differentiate one operator from another include the following:-

- (i) branding;
- (ii) marketing;
- (iii) quality of products and services;
- (iv) design capabilities;
- (v) R&D;
- (vi) distribution coverage; and
- (vii) track record.

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## 5. INDUSTRY OVERVIEW (Cont'd)

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### 5.5.3 Industry players

In Jinjiang, there are an estimated 3,000 shoe manufacturing companies, some of which are also brand owners and marketers in their own rights.

In the marketing of sports shoes, competition also comes from global brands such as, among others Nike, Reebok, Puma, ASICS, and Adidas. These global brands have extensive marketing power and their brands are available in many countries, including China. They have also built their brands such that to some people, it is a status symbol to own them. Their strong branding has enabled them to charge premium pricing. As such, global brands also place competitive pressure in the sports shoe market in China.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## 5.6 MARKET SIZE AND SHARE

### 5.6.1 Market size

#### (i) Production

In 2008, the market size of the footwear industry in China was estimated at 10 billion pairs based on production.

In 2008, the market size of the rubber / plastic shoes (including sports shoes) industry in China was estimated at 2.1 billion pairs based on production. Rubber/plastic shoes is a sub-sector of the total footwear industry in China.

#### (ii) Wholesale value

In 2008, the market size of the footwear industry in China was estimated at RMB48 billion based on wholesale value.

### 5.6.2 Market share

#### (i) Production

In 2008, our Group had a market share of approximately 0.04% of the footwear industry in China based on our Group's production output of 4.4 million pairs of sports shoes.

In 2008, our Group had a market share of approximately 0.2% of the rubber / plastic (including sports shoes) shoes industry in China based on our Group's production output of 4.4 million pairs of sports shoes.

#### (ii) Wholesale value

In 2008, XiDeLang Group had a market share of approximately 1% of the footwear<sup>(1)</sup> industry in China based on wholesale prices.

## 5. INDUSTRY OVERVIEW (Cont'd)

*Note:-*

(1) The term "footwear" covers all types of footwear including sandals, slippers, industrial footwear, therapeutic footwear, boots, and shoes. XiDeLang Group focuses only on sports shoes.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### 5.7 RELEVANT LAWS AND REGULATIONS GOVERNING THE FOOTWEAR INDUSTRY

#### 5.7.1 Business license

Application for a business licence with the SAIC is required for establishing an enterprise in China. All of our subsidiaries have obtained the requisite business licences from the relevant authorities in China.

#### 5.7.2 Trademarks

In China, all trademarks are governed by the Trademark Law. Registered trademarks refer to trademarks that have been approved and registered by the Trademark Office, and the trademark registrants shall enjoy the exclusive rights to use the trademarks, and be protected by law. The period of validity of a registered trademark shall be ten (10) years from the date of approval of the registration.

Our Group's subsidiaries, XiDeLang Sports Goods, HongPeng Footwear and HongPeng (Fujian) have registered various trademarks with the Trademark Office of State Administration for Industry and Commerce of People's Republic of China.

#### 5.7.3 Well-known Marks

The provision on the Determination and Protection of Well-known Marks was issued by the State Administration for Industry and Commerce on 17 April 2003. A "Well-known Mark" refers to a mark that is widely known to the relevant sectors of the public and is highly regarded in China.



中国驰名商标

The 'XiDeLang' trademark has been affirmed as a 'Well-known Mark'.

#### 5.7.4 Environmental regulations

As part of the manufacturing process for sports shoes, our Group creates waste in the form of off-cuts mainly during the construction of the bottom part of the shoe. The wastes are collected and then sent to waste collection centres. However, these are bulk wastes, which do not have a significant impact on the environment as long as they are properly disposed.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## **5. INDUSTRY OVERVIEW (Cont'd)**

### **5.8 SUBSTITUTE PRODUCTS**

Generally, there are no direct substitutes for sports shoes. The alternative is not to use these products at all or using other forms of footwear such as sandals and dress shoes, industrial footwear to serve as sports shoes, but these are not practical.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### **5.9 RELIANCE ON AND VULNERABILITY TO IMPORTS**

Generally, manufacturers of sports shoes in China source a significant proportion of their raw materials and components locally in China. Some of the major raw materials used in the manufacture of sports shoes include:-

- shoe soles including insoles, midsoles and outsoles;
- upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

Shoe soles represented about one third of our Group's total purchases. Our Group sources all of its shoe soles from suppliers in China.

Raw materials in the forms of shoe soles and semi-finished materials that are made of leather, textile, plastics and synthetic materials can be sourced in China. This is supported by the following observations in China:-

- In 2006, there were an estimated 13,504 enterprises operating in the manufacture of plastics. The gross industrial output value of the manufacture of plastics increased by 27.3% to reach RMB812.0 billion in 2007.
- In 2006, there were an estimated 3,353 enterprises operating in the manufacture of rubber. The gross industrial output value of the manufacture of rubber increased by 26.7% to reach RMB346.2 billion in 2007.
- In 2006, the production of plastic products increased by 27.4% to 28.0 million tonnes. Manufacturers can source plastic related products from various locations within China including Guangdong, Zhejiang, Jiangsu, Shandong, Hebei, Liaoning, Henan and others.
- In 2006, there were an estimated 25,345 enterprises in the manufacture of textiles. The gross industrial output value of the manufacture of textiles increased by 22.3% to reach RMB1,873 billion in 2007.
- In 2007, the gross industrial output value of the manufacture of leather, fur, feather and related products increased by 24.2% to reach RMB515.3 billion.

Nevertheless, China also imports raw materials to meet its overall manufacturing needs:-

- In 2008, import value of rubber and plastics outsoles and heels declined by 5.0% to US\$71.8 million (equivalent to RMB490.7 million). In the same year, China imported its rubber and plastic outer soles and heels from Taiwan, Korea, Vietnam, Italy, Japan, United States and other overseas countries.
- In 2008, the import value of rawhides and skins (other than fur skins) and leather decreased by 5.5% to US\$5.6 billion (equivalent to RMB38.5 billion).

## **5. INDUSTRY OVERVIEW (Cont'd)**

- In 2007, imports of textile and textile articles decreased by 5.3% to reach RMB195.0 billion.
- In 2008, the import value of man-made filaments and man-made shorts fibre (including woven fabric made of synthetic materials) (a sub-sector of textile and textile articles) amounted to US\$6.2 billion (equivalent to RMB42.2 billion).
- In 2007, imports of chemicals and related products in China amounted to US\$107.6 billion (equivalent to RMB736.1 billion). Of this, imports of plastics and articles amounted to US\$45.3 billion (equivalent to RMB309.7 billion).

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### **5.10 BARRIERS TO ENTRY**

#### **5.10.1 Set-up costs**

The barrier to entry into the manufacture of sports shoes within the footwear industry is moderate from the set-up costs perspective.

The cost of setting-up a small-scale manufacturing plant in China to produce sports shoes would be approximately RMB20 million (excluding land and building). This would include machinery and equipment incorporating sewing and stitching, cutting machinery and one (1) line of assembly facilities, and working capital of three (3) to four (4) months' raw materials and finished products.

This size of establishment would be capable of producing approximately 370,000 pairs of sports shoes per year and the revenue generated from this plant is estimated at RMB20 million per year.

At this level of entry, which is small, the manufacturing plant is restricted in terms of capacity. Capital costs would start to escalate for those who want to generate a higher volume of output to achieve economies of scale. Larger operations are necessary to meet the demands in China and export markets.

Smaller manufacturers would also find it difficult to compete with larger manufacturers, as they are able to fulfil larger volume orders within a shorter period of time.

#### **5.10.2 Cost of building brands**

An established brand may provide a significant competitive advantage to the brand owner. This is mainly attributed to the fact that sports shoes are primarily a consumer item. As such, high brand equity is paramount in winning new customers as well as being able to price products at a premium.

The cost of building a brand requires constant investments in above and below the line advertisements, promotions and public relations. As such, the cost of building a brand name poses a form of barrier to entry for new entrants.

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## **5. INDUSTRY OVERVIEW (Cont'd)**

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### **5.10.3 Distribution coverage**

As with any consumer items, extensive retail distribution coverage is important in ensuring that a brand owner or manufacturer's products reach the end-consumers. As for sports shoes in China, it is common for the retailers to display sports shoes in department stores, specialty stores or concept stores. Consumer products that are available at these retail locations will have an advantage in being able to obtain higher brand visibility.

Distribution coverage could form a major barrier to entry for new entrants who may have difficulties in displaying their products at various types of retail locations such as departmental stores and specialty stores.

### **5.10.4 Technical expertise**

Technical skills and knowledge are required in design, research and development, and manufacturing of sports shoes. Designs of sports shoes are essential as it covers functionality, ergonomics, style, aesthetics and ultimately customer acceptance. Larger and more established manufacturers are more likely to have in-house design capabilities compared to smaller manufacturers.

Technical skills to undertake research and development are also essential to keep ahead of the competition. This is particularly important in keeping up with fashion trends, improvements in ergonomic designs, biomechanical and kinetic adaptation, and using new and innovative materials to continuously come up with better and more desirable products.

Manufacturing expertise such as those required in sewing, stitching, assembly and bonding also play major roles in ensuring products meet specified properties and features including cushioning, support and stability, anti-abrasion, anti-flex, anti-yellowing, breathability, weight, fitting, bursting strength and durability.

Technical expertise in selecting the choice of raw materials and using improved and innovative materials for sports shoes is also very important to the saleability of the product. This is due to the significant amount of development in materials used to provide better and sometimes cheaper materials for the manufacture of sports shoes.

Sports shoes are used to perform physical sports activities, which are subjected to heavy duty use. As such, the overall function of the product is important, particularly in providing comfort, ergonomics and cushioning against the jarring impact of walking or running, support and stability to limit excessive pronation to prevent injuries, and the requirements for withstanding wear and tear due to the abrasive action of coming into direct contact with the ground.

Technical expertise, skills and knowledge from design, manufacturing and use of raw materials are key in creating a quality and desirable product, and thus this would pose a barrier to entry for new entrants.

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## **5. INDUSTRY OVERVIEW (Cont'd)**

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### **5.10.5 Track record**

Track record forms one of the barriers to entry for new entrants. It would be difficult for a new entrant to compete effectively in the market without a track record, either in terms of being a manufacturer or a brand owner in marketing to end-consumers.

A manufacturer with a track record as a reliable supplier of consistently high quality products would be in a significantly better position in winning sales compared to a new entrant. Additionally, a new brand entering the market is likely to have some difficulties in finding acceptance by retailers to carry its stocks. Usually a new brand will also experience low brand awareness, thus making it difficult to generate sales.

As such, track record would pose some barriers to entry for new entrants, as they may face some difficulties in gaining immediate access into the market.

### **5.10.6 Product quality**

Quality is a critical factor in ensuring the ability to continually secure sales in the sports shoes industry. The success of a manufacturer depends on its ability to meet the quality standards and expectation of consumers and commercial customers.

As with most consumer items, proven fashion trends, ergonomic designs and durability of products are also important. There is also an expectation that the products are subjected to continuous vigorous action and significant wear and tear, while at the same time provide comfort, safety and protection to the feet.

As such, manufacturers that have stringent quality assurance programmes in place with compliance to standards and are able to continuously meet quality expectations of customers are in a stronger position to compete effectively.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## **5.11 FUTURE GROWTH OPPORTUNITIES**

### **5.11.1 Building brand equity**

Branding and development of brand equity are important in the sports shoes industry for brand owners who wish to command a premium for their products. Apart from product design and quality, branding is important in enabling operators to distinguish themselves from competitors and to cultivate customer loyalty.

There are opportunities for operators in China to build strong brand equity by focusing on marketing, promotions and brand development.

### **5.11.2 Product diversification**

Product diversification presents opportunities for operators to enlarge their customer base and more importantly, enable them to minimise risk of over dependence on a narrow range of products.

Operators who supply a diverse product range and applications are in a stronger position to sustain the business during periods of economic slowdown.



## **5. INDUSTRY OVERVIEW (Cont'd)**

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### **5.11.3 Export markets**

There are significant opportunities for manufacturers of sports shoes to expand into export markets.

- In 2008, the export value of footwear with outsoles of rubber plastics, leather or composition leather and uppers of textile materials grew by 14.7% to reach US\$4.0 billion (equivalent to RMB27.2 billion).
- In 2008, China's export markets for sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics included, among others, the United States, Japan, Hong Kong, France, Belgium, Holland, Germany, Brazil and Korea.

Exports into overseas countries will open up a significantly larger market for sports shoes operators in China.

### **5.11.4 China's market**

There continues to be opportunities in the China's market for sports shoes as indicated by the comparison of per capita expenditure on shoes in China and per capita expenditure on shoes in the US:-

In 2006, per capita annual expenditure of shoes in the US amounted to US\$58.20 (equivalent to RMB398.20), which is about two (2) times higher than China's per capita annual expenditure by urban households at RMB205.8.

As a country's per capita GDP increases, expenditure on shoes are likely to increase as shoes become fashion accessories to more affluent people in contrast to shoes being a functional item to protect the feet.

### **5.11.5 Use of new and innovative materials for sports shoes**

Developments in materials for sports shoes have been very significant over the years, providing consumers with a wide range of materials to meet the functional, ergonomics and fashion requirements of sports shoes.

The development of materials have moved from the use of textile, leather and rubber to incorporate composite materials made from a combination of two (2) or more materials, which exhibit different mechanical properties. The new and innovative materials are used to satisfy criteria such as strength and pliability, resistance to changes in shape and size, elasticity of materials and its ability to bend and flex under force and to regain its shape, density and weight of the material, and the cushioning system of sports shoes.

As such, there are significant opportunities in the development of new or innovative materials for sports shoes to continuously create excitement and demand for sports shoes.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## **5. INDUSTRY OVERVIEW (Cont'd)**

### **5.12 INDUSTRY OUTLOOK AND PROSPECTS**

#### **5.12.1 General overview**

In light of the current global financial crisis that has affected the China's economy, the outlook for the footwear industry in China may be challenging in the short to medium term. Worsening global economic conditions have resulted in slower growth for China's economy during the fourth quarter of 2008. Real GDP growth in China slowed to 6.8% during the fourth quarter of 2008, bringing the overall 2008 GDP growth to 9.0%, the country's lowest in seven years. This is low in comparison to the previous year where GDP grew by 17.9%.

A slowdown in China's economy as well as the global economy may impact on the demand for footwear including the sports shoe industry. Nevertheless, the outlook for the footwear industry in China is expected to improve when the global economies rebound. This is primarily predicated by the position of China as the world's manufacturing source of footwear, and this is further substantiated by the following observations of production and demand during normal economic conditions in China:-

#### **(i) Production**

Between 2003 and 2007, the gross output value of the manufacture of textile wearing apparel, footwear and caps in China increased at an average annual rate of 22.0%. In 2007, the gross output value of this sector grew by 23.4% to reach RMB760.0 billion.

#### **(ii) Demand**

Between 2004 and 2007, the retail value of shoes and hats grew at an average annual rate of 21.3%. In 2007, the retail value of shoes and hats increased by 23.2% to reach RMB55.6 billion.

Between 2003 and 2007, per capita annual consumption expenditure on shoes by urban households in China increased at an average annual rate of 15.0%.

Between 2004 and 2007, the export value of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 22.6%. In 2007, the export value of this category increased by 20.6% to reach US\$3.4 billion (equivalent to RMB23.4 billion).

#### **5.12.2 Economic conditions in China relative to global conditions**

Despite experiencing a slowdown in GDP growth in 2008, China's GDP continues to be relatively more robust at 9.0% growth compared to GDP growth of some of the more advanced economies, for example:-

- US = 1.6%
- United Kingdom = 1.0%
- Japan = 0.5%

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## 5. INDUSTRY OVERVIEW (Cont'd)

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For the first half of 2009, China's GDP registered a growth of 7.1% compared to the same period in 2008. China is forecasted to achieve a continuing growth of 8.3% in 2009 while many more advanced countries expect very low or negative GDP growth for 2009, for example:-

- US = 0.1%
- United Kingdom = -0.1%
- Japan = 0.5%

In addition, with an economic slowdown, there is a possibility that consumers in China would trade down from buying overseas branded sports shoes to buying lower cost branded sports shoes.

As such, operators whose main markets are in China would be in a better position to ride through the current slowdown in China and global economies. China's prospects in terms of outlook are further boosted by the large population of China, which registered at 1.3 billion persons in 2008.

*(Source: Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT**

**6.1 PROMOTERS**

**6.1.1 Particulars and shareholdings**

The details of our Promoters and their shareholdings in our Company before and after the IPO are as follows:-

Name	Designation	No. of Shares held before the IPO		No. of Shares held after the IPO	
		Direct	%	Direct	%
HongPeng International	-	240,000,000	80.0	240,000,000	60.0
Ding LiHong	Executive Chairman	-	-	-	-
Ding PengPeng	Managing Director and CEO	-	-	-	-
				240,000,000 <sup>(1)</sup>	80.0
				240,000,000 <sup>(1)</sup>	60.0

Note:-

(1) Deemed interested by virtue of his interest in HongPeng International.

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## 6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

### 6.1.2 Profiles of Promoters

#### (i) HongPeng International

##### (a) Background information

HongPeng International was incorporated in BVI under the BVI Business Companies Act, 2004 on 31 March 2009 as a business company under its present name, HongPeng International Holdings Limited. HongPeng International is principally an investment holding company.

As at LPD, the authorised share capital of HongPeng International is US\$50,000 comprising 50,000 shares of US\$1.00 each. The issued and paid-up share capital of HongPeng International is US\$1 comprising 1 share of US\$1.00 each.

##### (b) Directors and substantial Shareholders

Ding PengPeng is the sole director and sole shareholder of HongPeng International.

#### (ii) Ding LiHong

**Ding LiHong**, a PRC national aged 36, is the co-founder and Executive Chairman of our Group. She was appointed to our Board on 5 May 2009. As the co-founder and Executive Chairman of our Group, she has been instrumental in the growth and success of our Group. With 16 years of experience in the sports shoe industry, she has contributed immensely to our Group's success particularly in driving the overall vision of our Group. In 1993, she started her career in the sports shoe industry when she established HongPeng Footwear in Jinjiang City, Fujian province, together with our Managing Director and CEO, Ding PengPeng. During that time, HongPeng Footwear was initially a manufacturer of casual sports shoes. However, under her management, our Group has since grown to become a reputable and established player in sports shoes, apparel, sports accessories and equipment in PRC. She is also recognised for her contribution in the growth and development of the 'XiDeLang' brand, which has successfully attained numerous awards and recognition from various authorities.

Ding LiHong is a Member of National Youth Chamber of Commerce, Vice President of Jinjiang Youth Chamber of Commerce, Member of the Eleventh Jinjiang Committee of the Chinese People's Political Consultative Conference (CPPCC), Standing Committee of the Youth Federation of Jinjiang, Vice President of Jinjiang Footwear Association, Executive Director of Quanzhou Footwear Association, Honorary Chairman of Junior Chamber of Commerce of Chendai, Jinjiang.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**(iii) Ding PengPeng**

**Ding PengPeng**, a PRC national aged 34, is the co-founder, Managing Director and CEO of our Group. He was appointed to our Board on 5 May 2009. He also serves as the Chairman of our Remuneration Committee. His vision, strong business acumen and proactive management have contributed significantly to the growth and development of our Group. He has accumulated approximately 16 years of marketing and management experience in the sports shoe industry where he started his career in 1993, when he established HongPeng Footwear in Jinjiang City, Fujian Province together with our Executive Chairman, Ding LiHong.

During the infancy years of our Group, he recognised the importance of brand creation, ownership and management as key components in differentiating our Group from competitors. He was instrumental in building the 'XiDeLang' brand of sports shoes to become a highly coveted brand in PRC today. His expertise and contribution extends to the formulation and execution of the overall business strategies and policies of our Group. He is also responsible for implementing our management policies and overseeing our production and operation, marketing, quality control, public relations and R&D, where his prudent management has propelled the continuing success of our Group.

Ding PengPeng is the Executive Vice President of the Junior Chamber of Commerce of Chendai, Jinjiang.

**6.1.3 Significant changes in Promoters' shareholdings in our Company for the past three (3) years**

Save as disclosed below, there are no other significant changes in our Promoters' shareholdings in our Company for the past three (3) years preceding the LPD:-

Name	Before the Acquisition of XinYuanChan				After the Acquisition of XinYuanChan			
	Direct	%	Indirect	%	Direct	%	Indirect	%
HongPeng International	10	100.0	-	-	240,000,000	80.0	-	-
Ding PengPeng	-	-	10 <sup>(1)</sup>	100.0	-	-	240,000,000 <sup>(1)</sup>	80.0

**Note:-**

(1) Deemed interested by virtue of his interest in HongPeng International.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.2 SUBSTANTIAL SHAREHOLDERS**

**6.2.1 Particulars and shareholdings**

The details of our substantial Shareholders and their shareholdings in our Company before and after the IPO are as follows:-

Name	Designation	No. of Shares held before the IPO		No. of Shares held after the IPO	
		Direct	%	Direct	%
HongPeng International	-	240,000,000	80.0	240,000,000	60.0
Ding PengPeng	Managing Director and CEO	-	-	-	-
				240,000,000 <sup>(1)</sup>	60.0

Note:-

(1) Deemed interested by virtue of his interest in HongPeng International.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**6.2.2 Profiles of substantial Shareholders**

The profiles of HongPeng International and Ding PengPeng are set out in Section 6.1.2 of this Prospectus.

**6.2.3 Significant changes in substantial Shareholders' shareholdings in our Company for the past three (3) years**

Save as disclosed in Section 6.1.3 in this Prospectus, there have been no significant changes in our substantial Shareholders' shareholdings in our Company for the past three (3) years preceding the LPD.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.3 DIRECTORS AND CHIEF EXECUTIVE**

**6.3.1 Particulars and shareholdings**

The details of our Directors and chief executive and their shareholdings in our Company before and after the IPO are as follows:-

Name	Designation	No. of Shares held before the IPO		No. of Shares held after the IPO	
		Direct	%	Direct	%
Ding LiHong	Executive Chairman	-	-	-	-
Ding PengPeng	Managing Director and CEO	-	80.0	-	60.0
Ding PengWan	Executive Director	-	-	-	-
Zhu GuoHe	Independent Non- Executive Director	-	-	-	-
Wong Yoke Nyen	Independent Non- Executive Director	-	-	-	-
Woon Yeow Thong	Independent Non- Executive Director	-	-	-	-

*Note:-*

(1) Deemed interested by virtue of his interest in HongPeng International.

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## 6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

### 6.3.2 Profiles of Directors

Save for the profiles of Ding PengPeng and Ding LiHong which are set out in Section 6.1.2 of this Prospectus, the profiles of our other Directors are as follows:-

#### (i) Ding PengWan

**Ding PengWan**, a PRC national aged 32, is the Executive Director as well as Purchasing and Integrated Management Manager of our Group. She was appointed to our Board on 21 July 2009. Her career started in 1993 when she joined XiDeLang Group as junior accountant. She was subsequently promoted to Purchasing and Integrated Management Manager in 2008. She is currently responsible for overseeing the overall operations and management functions of our Group.

#### (ii) Zhu GuoHe

**Zhu GuoHe**, a PRC national aged 39, is the Independent Non-Executive Director of our Group. He was appointed to our Board on 18 August 2009. He also serves as the Chairman of our Nomination Committee and the member of our Audit Committee and Remuneration Committee.

Mr. Zhu graduated from Huaqiao University in 1994 with an Advanced Diploma in Electrical Automation Technology and subsequently obtained a Master of Business Administration (MBA) from Preston University, US in May 2009.

Mr. Zhu is an entrepreneur with more than 15 years of experience in the advertising industry. After gaining wide industry experience with established players in the advertising industry, he established his own advertising agency, Fujian Quanzhou Tianyuan Advertising Co., Ltd., in 1997. Subsequently, he established two (2) other advertising firms in China, namely Xiamen Shengshi Tianyuan Media Co., Ltd. and Quanzhou Tianxi Shunhe Advertising Co., Ltd.

Under Mr. Zhu's management and leadership, his three (3) advertising agencies have grown rapidly to become one of the leading brand creators and integrators in the PRC. His agencies provide advisory services to leading PRC sports goods companies such as Jordan (China) Co., Ltd., 361° (China) Co., Ltd., XiDeLang, Kangta and the Chinese Basketball Association. He has been instrumental in assisting to establish the 'XiDeLang' brand as well as other prominent sports brands in China.

Mr. Zhu has received numerous awards in China, including "China's Top Ten Sports Brand Planning Expert" in 2005 and "China's Outstanding Sports Brand Planning Expert" in 2008.

Mr. Zhu is currently an adjunct lecturer at the Quanzhou Normal University and an executive director of both the Xiamen Honesty Promotion Association and Quanzhou Association for Sincerity Promotion.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**(iii) Wong Yoke Nyen**

**Wong Yoke Nyen**, a Malaysian aged 50, is the Independent Non-Executive Director of our Group. He was appointed to our Board on 21 July 2009. He also serves as the Chairman of our Audit Committee and the member of our Remuneration Committee and Nomination Committee.

He earned his Bachelor Degree in Accountancy from City of London Polytechnic, United Kingdom. He is also a graduate of The Wharton Advance Management Program from the Wharton Business School of the University of Pennsylvania, US.

In 1981, Mr. Wong started his career in Baker Rooke, a firm of chartered accountants in London where he gained wide experience and exposure in the areas of auditing, accountancy and management consultancy work. In 1983, he joined Aseambankers Malaysia Berhad (now known as Maybank Investment Bank Berhad). Mr. Wong is a seasoned investment banker with more than 20 years of dedicated corporate finance and investment banking experience. He was the Executive Vice President cum Head of Corporate Finance Division in Aseambankers Malaysia Berhad.

In 2004, Mr. Wong started WYNCORP Advisory Sdn Bhd, a private company licensed to provide investment advisory services. He is currently the Managing Director of WYNCORP Advisory Sdn Bhd. He is also an independent non-executive director of New Hoong Fatt Holdings Berhad and an Honorary Advisor to the Master Builders Association Malaysia.

**(iv) Woon Yeow Thong**

**Woon Yeow Thong**, a Malaysian aged 43, is the Independent Non-Executive Director of our Group. He was appointed to our Board on 4 September 2009. He also serves as the member of our Audit Committee and Nomination Committee.

Mr. Woon graduated from the University of Kent at Canterbury with an honours degree in law. A Barrister-at-Law (Inner Temple) and an Advocate & Solicitor of the High Court of Malaya, Mr. Woon was called to the English Bar at the Honourable Society of the Inner Temple, England in 1989 and was subsequently admitted as an Advocate and Solicitor of the High Court of Malaya in 1990.

Mr. Woon is the founder of Messrs Woon & Co., Advocates & Solicitors, and has been in active legal practice for almost 20 years, specializing in commercial and corporate litigation, in particular corporate insolvency and restructuring.

He is presently the Treasurer for the current 2009/2010 term of the Malaysian Bar Council, which is the statutory governing body of the legal profession in Malaysia which represents all the approximately 12,000 advocates and solicitors engaged in legal practice throughout Malaysia.

**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.3.3 Principal business activities performed outside the Group for the past five (5) years**

Save as disclosed below, none of the Directors nor the chief executive of our Group have / had performed any principal business activities outside the Group for the past five (5) years up to LPD:-

	<b>Company</b>	<b>Date started</b>	<b>Date resigned</b>	<b>Position held</b>
Ding LiHong	Jinjiang City Chendai County San Rong Tea Shop	26 June 2007	-	Sole proprietor
Ding PengPeng	HongPeng International	31 March 2009	-	Director
	Fujian Province Wan RongBa Chain (Jinjiang XiDeLang Branch)	6 July 2007	-	Sole proprietor
Zhu GuoHe	Fujian Quanzhou Tianyuan Advertising Co., Ltd.	2 December 1997	-	Director
	Xiamen Shengshi Tianyuan Media Co., Ltd.	22 December 2005	-	Director
	Quanzhou Tianxi Shunhe Advertising Co., Ltd.	19 June 2009	-	General Manager
Wong Yoke Nyen	WYNCORP Advisory Sdn Bhd	25 August 2004	-	Managing director
	New Hoong Fatt Holdings Berhad	16 May 2008	-	Director
	WYNCORP Chattels Holdings Sdn Bhd	30 December 2005	-	Managing director
Woon Yeow Thong	Woon & Co.	1 September 1999	-	Sole proprietor

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.3.4 Directors' remuneration and benefits**

The aggregate remuneration and material benefits in-kind paid or payable to our Directors and chief executive on an individual basis for services rendered in all capacities to our Group for FYE 2008 and proposed for the current FYE 2009 are as follows:-

	FYE 2008		Proposed for FYE 2009	
	Remuneration band			
	RMB	RM <sup>(1)</sup>	RMB	RM <sup>(1)</sup>
Ding LiHong	up to 95,274	up to 50,000	857,471 – 952,744	450,001 – 500,000
Ding PengPeng	95,276 – 190,549	50,001 – 100,000	857,471 – 952,744	450,001 – 500,000
Ding PengWan	-	-	476,374 – 571,646	250,001 – 300,000
Zhu GuoHe	-	-	up to 95,274	up to 50,000
Wong Yoke Nyen	-	-	up to 95,274	up to 50,000
Woon Yeow Thong	-	-	up to 95,274	up to 50,000

**Note:-**

(1) Based on the average exchange rate of RMB1: RM0.5248 for 1H 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.4 CORPORATE GOVERNANCE**

**6.4.1 Board practices**

Our Bye-laws provide that our Board of Directors shall consist of not less than two (2) Directors. At each annual general meeting of our Company, one-third (1/3) of the Directors for the time being, or if their number is not three or a multiple of three (3), then the number nearest to but not less than one-third (1/3), shall retire from office and shall be eligible for re-election thereat. The Directors to retire in each year shall be those who have been longest in office 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 provided always that each Director shall retire at least once every three (3) years. Notwithstanding the foregoing, a Director who is over the age of 70 years shall retire from office in every year but may be re-elected by way of a special resolution in general meeting, and a Director appointed by the Board shall retire at the next annual general meeting of the Company following his appointment and shall be eligible for re-election at that meeting. For further details on our Memorandum and Bye-laws, kindly refer to Section 13.2 of this Prospectus.

As at the date of this Prospectus, the current term of office for each of our Directors is as follows:-

Name of Director	Length of service in our Group	Length of service as Director of the Company as at LPD	Date of expiration of current term of office
Ding LiHong	16 years	5 months	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86
Ding PengPeng	16 years	5 months	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86
Ding PengWan	16 years	2 months	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86
Zhu GuoHe	1 month	1 month	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86
Wong Yoke Nyen	2 months	2 months	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86
Woon Yeow Thong	-	-	Shall retire at our 2010 annual general meeting in accordance with Bye-law 86

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## 6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

### 6.4.2 Audit committee

The main functions of the Audit Committee of our Company fall within the ambit of the Listing Requirements, which include the review of the audit plan with our external auditor; the review of the external auditor's audit report and evaluation of our system of internal controls, with the external auditors; review of the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work; review of the assistance given by our employees to the external auditor; review of the internal audit programme, processes, results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function; review of financial statements; review of related-party transactions and conflict-of-interest situations; review of any resignation letter and reasons for non-suitability of re-appointment of our external auditors; and review and recommendation of the nomination of external auditors. The Audit Committee comprises of the following individuals:-

Name	Designation	Directorship
Wong Yoke Nyen	Chairman	Independent Non-Executive Director
Zhu GuoHe	Member	Independent Non-Executive Director
Woon Yeow Thong	Member	Independent Non-Executive Director

### 6.4.3 Remuneration committee

The Remuneration Committee of our Company is principally responsible for reviewing and recommending to our Board the remuneration package and the terms of employment of our Executive Directors. An Executive Director does not participate in any way in determining his individual remuneration.

The policy adopted by our Remuneration Committee is to provide the necessary package to attract, retain and motivate the Executive Directors of the quality required to manage our business and to align the interest of our Executive Directors with those of Shareholders. The Remuneration Committee comprises the following members:-

Name	Designation	Directorship
Ding PengPeng	Chairman	Managing Director / CEO
Wong Yoke Nyen	Member	Independent Non-Executive Director
Zhu GuoHe	Member	Independent Non-Executive Director

### 6.4.4 Nomination committee

The Nomination Committee of our Company is principally responsible for recommending to our Board, the appointment of new Directors and committee members, with regard to the Directors' contribution and performance, as well as reviewing on an annual basis the appropriate balance and size of non-executive participation.

## 6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

This requires a review of the mix of skills and experience, including core competencies and qualities that Non-Executive Directors should bring to our Board in order for our Board to function effectively. Our Board as a whole makes all decisions on appointments after considering the recommendations of the Nomination Committee. The Nomination Committee comprises the following members:-

Name	Designation	Directorship
Zhu GuoHe	Chairman	Independent Non-Executive Director
Wong Yoke Nyen	Member	Independent Non-Executive Director
Woon Yeow Thong	Member	Independent Non-Executive Director

### 6.5 KEY MANAGEMENT

#### 6.5.1 Particulars and shareholdings

The details of our key management are as follows:-

Name	Designation
Lim Choon Hian (Robert)	Director of Investor Relations
Zheng ChaoBin	R&D Manager
Zhang ChengHui	Production Manager
Yu JinJie	Marketing Manager
Lin YingYu	Finance Manager

None of our key management personnel has any equity interest in our Company before and after the IPO.

#### 6.5.2 Profiles of key management personnel

##### (i) Lim Choon Hian (Robert)

**Robert Lim**, a Singaporean aged 38, is the Director of Investor Relations of our Group. He obtained his Bachelor of Accountancy (Honours) from Nanyang Technological University, Singapore and Masters in Business Administration (MBA) from the University of Chicago Booth School of Business, US. He is a Certified Public Accountant from the Institute of Certified Public Accountants of Singapore. He has accumulated more than 10 years of experience in the area of investment banking and general management. Prior to joining our Group, he was the Joint-Head of Corporate Finance in SBI E2-Capital Asia Securities Pte. Ltd. Between 1995 and 2007, he was working with various companies, including United Overseas Bank Limited, G&W Group (Holdings) Ltd, Oversea-Chinese Banking Corporation Limited and UOB Asia Limited.



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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**(ii) Zheng ChaoBin**

**Zheng ChaoBin**, a PRC national aged 27, is the R&D Manager of XiDeLang Group. His career started in 2001 when he joined Xtep Sports Goods Co Ltd as a junior computer painter. In 2003, he left and joined Fujian Fushilai Sports Supplies Co. Ltd. as a computer painter. He subsequently left in the same year and joined our Group and took up the position of R&D Manager. He brings with him extensive experience in R&D focusing on sports shoes, having worked in the sports shoe industry for approximately eight (8) years. He is currently responsible for product development, development of new designs and new range of sports shoes. Part of his responsibility also extends to product enhancement and improvement in the properties of sports shoes.

**(iii) Zhang ChengHui**

**Zhang ChengHui**, a PRC national aged 36, is the Production Manager of XiDeLang Group. His career started in 1993 when he joined XiDeLang Group as an ordinary worker. Subsequently, he was promoted to various positions within our Group including workshop director. In 2001, he was promoted to his current position as Production Manager within our Group. He brings with him approximately 16 years of hands-on experience in the management of production operations. He is currently responsible for overseeing the overall production operations of our Group.

**(iv) Yu JinJie**

**Yu JinJie**, a PRC national aged 36, is the Marketing Manager of XiDeLang Group. He has accumulated approximately nine (9) years of experience in the marketing of sports shoes and products. His career started in 2000, when he joined Aile Sports Goods (Fujian) Co Ltd as Marketing Manager and left the company in 2003. In 2004, he took up the position as Vice Manager of GuangDong Branch with Eratat (Fujian) Light Industry Development Co Ltd. Subsequently in November 2004, he left and joined 361° (Fujian) Sports Equipment Co., Ltd. until 2005. Between 2005 and 2006, he was with Jinjiang Alilibao Shoes and Garments Co Ltd as Marketing Director. In 2006, he joined XiDeLang Group in his current tenure as Marketing Manager. He is currently responsible for the marketing and business development functions of our Group.

**(v) Lin YingYu**

**Lin YingYu**, a PRC national aged 31, is the Finance Manager of XiDeLang Group. Her career started in 1997 when she joined XiDeLang Group as junior accountant. In 2001, she was promoted to Assistant Finance Manager of our Group. In 2005, she was promoted to her current tenure as Finance Manager. She is responsible for overseeing the overall accounting and financial aspects of our Group.

**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.6 INVOLVEMENT OF EXECUTIVE DIRECTORS / KEY MANAGEMENT IN OTHER BUSINESSES / CORPORATIONS**

As at LPD, save as disclosed below, none of our Executive Directors and / or key management personnel are involved in other businesses or corporations:-

<b>Name of company</b>	<b>Principal activity</b>	<b>Position</b>
<b><u>Ding PengPeng</u></b> HongPeng International	Investment holding	Director and sole shareholder
Fujian Province Wan RongBa Chain (Jinjiang XiDeLang Branch)	Internet cafe	Sole proprietor
<b><u>Ding LiHong</u></b> Jinjiang City Chendai County San Rong Tea Shop	Trading of tea leaves	Sole proprietor

Ding PengPeng's involvement in the above businesses does not require a significant amount of his time as the businesses are well managed by qualified and experienced personnel. As such, Ding PengPeng spends most of his working hours on the affairs of our Group. Hence, his involvement in other businesses and corporations neither materially or adversely affects his contribution to our Group nor his ability to act as our Managing Director and CEO and this position is not expected to change going forward.

Ding LiHong's involvement in the above business does not require a significant amount of her time as the business is managed by qualified and experienced personnel. As such, Ding LiHong spends most of her working hours on the affairs of our Group. Hence, her involvement in other businesses and corporations neither materially or adversely affects her contribution to our Group nor negatively impacts her ability to act as our Executive Chairman and this position is not expected to change going forward.

**6.7 DECLARATION BY PROMOTERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL**

As at LPD, none of our Promoters, Directors, key management personnel or persons nominated to become a Director or key management is or has been involved in any of the following events (whether in or outside Malaysia):-

- (i) a petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (ii) disqualified from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (iii) charged and / or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) judgment was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or

## 6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

- (v) was the subject of any order, judgment or ruling of any court, government or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

### 6.8 RELATIONSHIPS OR ASSOCIATIONS

Save as disclosed below, there are no family relationships / association between our substantial Shareholders, Promoters, Directors and key management.

Name	Relationship / association
Ding LiHong / Ding PengPeng / Ding PengWan	Ding LiHong, our Promoter and Executive Chairman, Ding PengPeng, our Promoter, substantial Shareholder, Managing Director and CEO and Ding PengWan, our Executive Director and Purchasing and Integrated Management Manager are siblings.
HongPeng International / Ding PengPeng	HongPeng International, our Promoter, is wholly-owned by Ding PengPeng.

### 6.9 AMOUNTS OR BENEFITS PAID TO OUR PROMOTERS, DIRECTORS OR SUBSTANTIAL SHAREHOLDERS WITHIN THE TWO (2) YEARS PRECEDING THE DATE OF THIS PROSPECTUS

Save and except for the dividends as detailed in Sections 9.6 and 10 of this Prospectus, and the remuneration and benefits for services rendered in all capacities to our Group as detailed in Section 6.3.4 of this Prospectus, there are no other amounts or benefits paid or intended to be paid or given to any of our Promoters, substantial Shareholders or Directors, within the two (2) years immediately preceding the date of this Prospectus.

### 6.10 SERVICE AGREEMENTS

There are no existing or proposed service agreements between the Directors and key management personnel of our Group with the Company and / or its subsidiaries.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**6.11 EMPLOYEES**

Our workforce as at 31 December 2006, 2007 and 2008 are as follows:-

Department	No. of employees As at 31 December			Average years of service
	2006	2007	2008	
Managerial and professional	7	9	9	12
Technical and supervisory	59	68	75	7
Clerical and related occupations	21	24	25	5
General workers	43	45	45	4
Factory workers (skilled)	1,128	1,450	1,346	3
<b>Total</b>	<b>1,258</b>	<b>1,596</b>	<b>1,500</b>	<b>3</b>

Our workforce by subsidiaries as at 31 December 2006, 2007 and 2008 are as follows:-

Subsidiary	No. of employees As at 31 December		
	2006	2007	2008
XiDeLang	-	-	-
XinYuanChan	-	-	1
HongPeng (Fujian)	976	1,305	1,248
HongPeng Footwear	281	290	250
XiDeLang Sports Goods	1	1	1
<b>Total</b>	<b>1,258</b>	<b>1,596</b>	<b>1,500</b>

Under current PRC laws and regulations, employees are classified as contract employees and part-time employees, and there are no permanent employees in our Group. All our employees are contract employees. The employment agreement entered into between employees and us is a standard employment agreement issued by the Quanzhou Labour and Social Security Bureau. We believe that the terms and conditions in the employment agreement are in compliance with the relevant laws.

Our management views our employees as key assets that play a pivotal role in our continuous growth, and views sound human resource management as one of our critical success factors. We believe that a well-trained, well-motivated and well-managed workforce is essential for efficient operations, and the success of our business. As such, our management proactively cultivates a positive working culture by having good working relationships with our employees, promotes camaraderie by organising annual dinners and periodic recreational events such as sports activities, and places great emphasis on a clean and comfortable working environment for our employees.

We pay social insurance for our employees, including old age, medical, unemployment, work-injury and childbearing insurance, and believe that we are in compliance with local laws and regulations concerning social insurance.

As of LPD, none of our employees belong to any union, and we have not been involved with any material industrial disputes with any of our employees.

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**6. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**Training and development**

We believe in developing our human capital. It is our policy to develop and train employees to improve their skill sets and professionalism, in order to enhance productivity and operational efficiencies. As training and development is a continuing process, we encourage our employees to continually increase their skills and knowledge through hands-on training.

All new employees are required to undergo orientation programs to familiarise themselves with our working environment, products, operations and safety procedures. New recruits also undergo on-the-job training to equip themselves with the requisite skills for performing their specific functions. Employees involved in manufacturing and production processes are required to undergo in-house operational training sessions to familiarise themselves with our operational procedures, policies and practices. Our training regime aims to equip our staff with knowledge pertaining to quality assurance, the mechanics of the manufacturing processes and safety awareness.

**Management succession plan**

We seek to ensure continuity in our management team, in order to ensure continuity and maintain our competitiveness. It is our policy to groom outstanding low-level employees for more job responsibilities and supervisory roles, and groom exceptional middle-management staff to gradually assume the responsibilities of senior management.

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## 7. APPROVALS AND CONDITIONS

### 7.1 APPROVALS AND CONDITIONS

The SC had approved our Listing Scheme, under Section 212(5) of the CMSA, vide its letter dated 29 June 2009. The conditions imposed by the SC and the status of compliance are as follows:-

Conditions imposed by the SC	Status of compliance
<p>(i) An Investment Bank / XiDeLang is to disclose the following information in the listing prospectus to be issued pursuant to the proposed flotation scheme:-</p> <p>(a) The reason for the non-submission of tax returns, the resulting implications and the amount of tax payable by Fujian Province Jinjiang City XiDeLang Sports Goods Co., Ltd; and</p> <p>(b) All related party transactions of XiDeLang and its proposed subsidiaries;</p>	<p>Complied, as follows:</p> <p>XiDeLang Sports Goods was established in 1995 to own our proprietary 'XiDeLang' brand name, and following its incorporation, it was not involved in any business activity which generated any revenue or profit which would be subject to tax. Accordingly, XiDeLang Sports Goods did not submit any tax returns.</p> <p>However, XiDeLang Sports Goods had previously held an investment in an associated company (up to 2008) and the profits distributed by this associated company were in fact subject to tax.</p> <p>In this regard, XiDeLang Sports Goods had on 4 August 2009 settled the requisite tax payable arising from the profits distributed by its former associated company amounting to RMB1,571,626 with the Local Tax Bureau of Jinjiang City.</p> <p>The Local Tax Bureau of Jinjiang City and the State Tax Bureau of Jinjiang City have subsequently confirmed in writing to XiDeLang Sports Goods that from the date of incorporation until 28 September 2009 –</p> <p>(i) all tax payable in accordance with relevant PRC tax laws have been paid by XiDeLang Sports Goods and there are no arrears; and</p> <p>(ii) XiDeLang Sports Goods has complied with the relevant PRC tax laws and regulations and there is no evidence of breach of the relevant PRC tax laws and regulations that would subject it to administrative penalties.</p> <p>Following the settlement of the tax liability, the legal advisers to our company on PRC Law have confirmed that there will be no further implications arising in connection with the non-submission of tax returns by XiDeLang Sports Goods.</p> <p>Complied. Please refer to Sections 8.1 and 8.3 of this Prospectus.</p>
<p>(ii) XiDeLang and its proposed subsidiaries to submit an undertaking to the SC that XiDeLang and / or its proposed subsidiaries will refrain from extending non-trade advances to any related party in the future;</p>	<p>Complied. Relevant undertaking letters from XiDeLang, XinYuanChan, HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods dated 1 August 2009 have been submitted to the SC on 25 August 2009.</p>

## 7. APPROVALS AND CONDITIONS (Cont'd)

Conditions imposed by the SC	Status of compliance
(iii) XiDeLang to fully discharge the third party guarantees provided by Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co. Ltd. for the benefit of Jinjiang ShuLeMei Industry Co., Ltd and Jinjiang DaLiLai Leather Industry Co., Ltd. prior to registration of the listing prospectus;	In a letter dated 24 August 2009, the SC has waived this condition pursuant to an application by XiDeLang.
(iv) AmlInvestment Bank / XiDeLang to make available the independent auditors report from Messrs. BDO Binder in the listing prospectus;	Complied. Please refer to Appendix I of this Prospectus.
(v) XiDeLang to ensure that moving forward, XiDeLang's independent auditors is an internationally affiliated accounting firm;	Complied and will continue to comply. XiDeLang's current independent auditors, BDO Binder, is an internationally affiliated accounting firm.
(vi) AmlInvestment Bank / XiDeLang to ensure that the claw-back and re-allocation provisions in respect of the floatation scheme of XiDeLang shares must be made applicable in the event there is an oversubscription in the public balloting portion to comply with the 5% balloting public offer even though the private placement portion is oversubscribed;	To be complied. The Lead Placement Agent has been informed of the claw-back and re-allocation provisions.
(vii) AmlInvestment / XiDeLang to fully comply with the relevant requirements under the Guidelines on the Offering of Equity and Equity-Linked Securities pertaining to the implementation of the proposed flotation scheme; and	To be complied, where applicable.
(viii) AmlInvestment / XiDeLang to inform the SC upon the completion of the proposed flotation scheme.	To be complied.

The Bermuda Monetary Authority had vide its letter dated 24 June 2009 granted permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) for:-

- (i) the Acquisition of XinYuanChan;
- (ii) the Public Issue;
- (iii) prior to and in connection with the listing of the Shares on Bursa Securities, the transfer by any Shareholder of some or all of the Shares owned by him / it to professional nominees / custodians and / or Bursa Depository or its nominee, involving no change of beneficial ownership;
- (iv) the issue by the Company of options, warrants, depository receipts, rights, loan notes, bonds and other securities of the Company, and the subsequent free transferability thereof;
- (v) the issue by the Company of its Shares or any class of shares, up to the amount of its authorised share capital from time to time determined by the Company; and

## 7. APPROVALS AND CONDITIONS (Cont'd)

(vi) the free transferability of all shares of the Company.

The permissions referred to in paragraphs (v) to (vi) above are subject to the requirement that securities of the Company are listed on Bursa Securities or any other appointed stock exchange (as defined in section 2(1) of the Bermuda Companies Act).

A copy of this Prospectus will be filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority in granting its permission and the Registrar of Companies in Bermuda in accepting this Prospectus for filing accepts no responsibility for the financial soundness of our Group or any proposal of for the correctness of any of the statements made or opinions expressed in this Prospectus or any other documents.

No governmental approvals or consents are required from PRC authorities for the Listing Scheme.

### 7.2 MORATORIUM ON OUR SHARES

In accordance with the SC Guidelines, our Promoters will not be allowed to sell, transfer or assign their entire shareholdings in our Company for six (6) months from the date of Admission.

Upon Admission, our Promoters' shareholdings, which will be subjected to the moratorium, are as set out below:-

Name	No. of Shares held upon Admission			
	Direct	% <sup>(1)</sup>	Indirect	% <sup>(1)</sup>
HongPeng International	240,000,000	60.0	-	-
Ding PengPeng <sup>(2)</sup>	-	-	240,000,000	60.0

**Notes:-**

(1) Based on our enlarged issued and paid-up share capital of 400,000,000 Shares.

(2) Deemed interested by virtue of his 100.0% shareholdings in HongPeng International, pursuant to Section 6A of the Malaysian Companies Act.

HongPeng International and Ding PengPeng have respectively provided undertaking letters to the SC that they will not sell, transfer or assign their respective shareholdings under moratorium for the moratorium period as stipulated above, including all Shares, if any, issued to our Promoters during the moratorium period, in accordance with the SC Guidelines.

The moratorium is specifically endorsed on the Share certificates representing the shareholdings of our Promoters to ensure that our registrars do not register any transfer not in compliance with the moratorium restrictions. In compliance with the restrictions, Bursa Depository will, on our registrars' instructions in the prescribed forms, ensure that trading of these shares are not permitted in the moratorium period.

The endorsement affixed on the Share certificates is as follows:-

*"The Shares comprised herein are not capable of being sold, transferred or assigned for the period as determined by the SC ("**moratorium period**"). The Shares comprised herein will not constitute good delivery pursuant to the Rules of the Exchange during the moratorium period. No share certificates will be issued to replace this certificate during the moratorium period unless the same shall be endorsed with this restriction".*



## 8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST

### 8.1 EXISTING AND PROPOSED RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Save for the Acquisition of XinYuanChan and as disclosed below, for the past three (3) FYEs up to 31 December 2008 and 1H 2009, our Group does not have any other existing and / or proposed related-party transactions or other subsisting contracts or arrangement entered into by our Group that involved the interest, direct or indirect, of our Directors, substantial Shareholders and / or key management and / or persons connected to them as defined under Section 122A of the Malaysian Companies Act:-

#### 8.1.1 Recurrent related-party transactions

Transacting parties	Potential / actual areas of conflict of interest and / or related-party transaction	Nature of transaction	Transaction value for			
			FYE 2006 RMB'000 / RM'000 <sup>(1)</sup>	FYE 2007 RMB'000 / RM'000 <sup>(1)</sup>	FYE 2008 RMB'000 / RM'000 <sup>(1)</sup>	1H 2009 RMB'000 / RM'000 <sup>(1)</sup>
HongPeng (Fujian) and Ding LiHong	Ding LiHong is a Promoter and our Executive Chairman.	Lease of office / factory building on Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC, by HongPeng (Fujian) from Ding LiHong.	1,373 / 632	1,373 / 620	1,373 / 659	686 / 360
HongPeng (Fujian) and Ding LiHong	Ding LiHong is a Promoter and our Executive Chairman.	Lease of employee dormitory building on Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC, by HongPeng (Fujian) from Ding LiHong.	237 / 109	237 / 107	237 / 114	119 / 63
HongPeng (Fujian) and Ding LiHong	Ding LiHong is a Promoter and our Executive Chairman.	Lease of employee dormitory building on No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC, by HongPeng (Fujian) from Ding LiHong.	324 / 149	324 / 146	324 / 155	162 / 85
HongPeng (Fujian) and Ding JiaXing and Ding PengPeng	Ding JiaXing is the father of Ding LiHong and Di PengPeng.  Ding PengPeng is a Promoter and our substantial Shareholder, Managing Director and CEO.	Lease of office / factory building on No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC, by HongPeng (Fujian) from Ding Jiaying and Ding PengPeng.	668 / 307	668 / 302	668 / 320	334 / 175

## 8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)

Note:-

- (1) Based on the average exchange rates for the respective financial years / period stated below, as set out in Paragraph 1.1 of the proforma consolidated financial information in Section 9.7 of this Prospectus:-

	<b>FYE 2006</b>	<b>FYE 2007</b>	<b>FYE 2008</b>	<b>1H 2009</b>
<i>RMB1: RM</i>	0.4600	0.4517	0.4799	0.5248

The details of the above recurrent related-party transactions are as follows:-

- (i) HongPeng (Fujian) had on 31 December 2005 entered into a lease agreement with Ding LiHong to lease an office / factory building, bearing the postal address of Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City (晋江市陈埭镇花厅口村阳光东路) and measuring approximately 5,720 square meters in built-up area, for a term of 10 years commencing from 1 January 2006 until 31 December 2015, at a monthly rental of RMB114,400, with a right of first refusal in respect of the renewal of the lease upon its expiry.
- (ii) HongPeng (Fujian) had on 31 December 2005 entered into a lease agreement with Ding LiHong to lease an employee dormitory, bearing the postal address of Yang Guang East Road, Hua Ting Kou Village, Chendai County, Jinjiang City (晋江市陈埭镇花厅口村阳光东路) and measuring approximately 1,160 square meters in built-up area, for a term of 10 years commencing from 1 January 2006 until 31 December 2015, at a monthly rental of RMB19,720, with a right of first refusal in respect of the renewal of the lease upon its expiry.
- (iii) HongPeng (Fujian) had on 31 December 2005 entered into a lease agreement with Ding LiHong to lease an employee dormitory, bearing the postal address of No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City (晋江市陈埭镇花厅口村七一路 81 号) and measuring approximately 1,800 square meters in built-up area, for a term of 10 years commencing from 1 January 2006 until 31 December 2015, at a monthly rental of RMB27,000, with a right of first refusal in respect of the renewal of the lease upon its expiry.
- (iv) HongPeng (Fujian) had on 31 December 2005 entered into a lease agreement with Ding JiaXing and Ding PengPeng to lease an office / factory building, bearing the postal address of No. 81, Qi Yi Road, Hua Ting Kou Village, Chendai County, Jinjiang City (晋江市陈埭镇花厅口村七一路 81 号) and measuring approximately 3,710 square meters in built-up area, for a term of 10 years commencing from 1 January 2006 until 31 December 2015, at a monthly rental of RMB55,650, with a right of first refusal in respect of the renewal of the lease upon its expiry.

Our Directors are of the opinion that the terms of all business transactions between our Group and our Directors and substantial shareholders and / or key management and / or persons connected to them as defined under Section 122A of the Malaysian Companies Act are on arm's length basis and on terms not more favourable to the related parties than those generally available to the public. The Audit Committee will supervise the terms of related-party transactions, and our Directors will report related-party transactions, if any, annually in our Company's annual report.

Kindly refer to Section 8.7 of this Prospectus for further details in relation to the shareholders' mandate for related-party transactions.

**8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

**8.1.2 Non-recurrent related-party transactions**

**(i) Advances from HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods to Ding JiaXing**

Transacting parties	Potential / actual areas of conflict of interest and / or related-party transaction	Nature of transaction	Balance as at			
			31 December			30 June 2009 RMB'000 / RM'000
			2006 RMB'000 / RM'000 <sup>(1)</sup>	2007 RMB'000 / RM'000 <sup>(1)</sup>	2008 RMB'000 / RM'000 <sup>(1)</sup>	
HongPeng (Fujian) and Ding JiaXing	Ding JiaXing is the father of Ding PengPeng and Ding LiHong	Non-trade advances granted by HongPeng (Fujian) to Ding JiaXing	2,628 / 1,188	2,253 / 1,020	1,731 / 876	- / -
HongPeng Footwear and Ding JiaXing	Ding JiaXing is the father of Ding PengPeng and Ding LiHong	Non-trade advances granted by HongPeng Footwear to Ding JiaXing	10,071 / 4,555	12,581 / 5,697	43,061 / 21,793	- / -
XiDeLang Sports Goods and Ding JiaXing	Ding JiaXing is the father of Ding PengPeng and Ding LiHong	Non-trade advances granted by XiDeLang Sports Goods to Ding JiaXing	18,982 / 8,586	26,714 / 12,097	37,282 / 18,869	- / -

**Note:-**

(1) Based on the closing exchange rate as at the respective financial years / period stated below, as set out in Paragraph 1.1 of the proforma consolidated financial information in Section 9.7 of this Prospectus:-

	FYE 2006	FYE 2007	FYE 2008	1H 2009
RMB1: RM	0.4523	0.4528	0.5061	0.5152

- (a) As at 31 December 2006, 2007 and 2008, there was an outstanding sum of approximately RMB2,628,000, RMB2,253,000 and RMB1,731,000 respectively due from Ding JiaXing to HongPeng (Fujian) in respect of non-trade advances extended by HongPeng (Fujian) to Ding JiaXing for his personal use. These advances were not made on an arm's length basis as they were interest-free, unsecured and without any fixed terms of repayment.
- (b) As at 31 December 2006, 2007 and 2008, there was an outstanding sum of approximately RMB10,071,000, RMB12,581,000 and RMB43,061,000 respectively due from Ding JiaXing to HongPeng Footwear in respect of non-trade advances extended by HongPeng Footwear to Ding JiaXing for his personal use. These advances were not made on an arm's length basis as they were interest-free, unsecured and without any fixed terms of repayment.

**8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

- (c) As at 31 December 2006, 2007 and 2008, there was an outstanding sum of approximately RMB18,982,000, RMB26,714,000 and RMB37,282,000 respectively due from Ding JiaXing to XiDeLang Sports Goods in respect of non-trade advances extended by XiDeLang Sports Goods to Ding JiaXing for his personal use. These advances were not made on an arm's length basis as they were interest-free, unsecured and without any fixed terms of repayment.

As at LPD, all the above advances were fully settled, and there are no outstanding amounts owing by Ding JiaXing to HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods. Going forward, we will not enter into any transactions of the above nature.

- (ii) Share Sale Agreements dated 30 April 2009 made between Ding LiHong and Ding JiaXing as vendors and HongPeng (Fujian) as purchaser, in relation to the sale and purchase of the entire registered capital of HongPeng Footwear for a purchase consideration of RMB37 million. Ding LiHong is a Promoter and the Executive Chairman of our Company and Ding JiaXing is the father of Ding PengPeng and Ding LiHong.
- (iii) Share Sale Agreements dated 30 April 2009 made between Ding PengPeng and Ding JiaXing as vendors and HongPeng (Fujian) as purchaser, in relation to the sale and purchase of the entire registered capital of XiDeLang Sports Goods for a purchase consideration of RMB36 million. Ding PengPeng is a Promoter and the Managing Director and CEO of our Company and Ding JiaXing is the father of Ding PengPeng and Ding LiHong.
- (iv) Share Transfer Agreement dated 10 July 2008 between XiDeLang Sports Goods and Yuen Cheng as vendors and XinYuanChan as purchaser, in relation to the sale and purchase of the entire registered capital of HongPeng (Fujian) for a purchase consideration of RMB8,500,000.

Our Directors are of the opinion that the terms of the business transactions referred to in paragraphs (ii), (iii) and (iv) above between our Group and our Directors and substantial shareholders and / or key management and / or persons connected to them as defined under Section 122A of the Malaysian Companies Act are on arm's length basis and on terms not more favourable to the related parties than those generally available to the public. The Audit Committee will supervise the terms of related-party transactions, and our Directors will report related-party transactions, if any, annually in our Company's annual report.

Upon Listing, our Audit Committee will supervise the terms of related-party transactions, and our Directors will report related-party transactions, if any, annually in our Company's annual report. In the event there are any proposed related-party transactions that involve the interest, direct or indirect, of our Directors, the interested Director(s) shall disclose his interest to our Board, of the details of the nature and extent of his interest, including all matters in relation to the proposed related-party transactions that he is aware or should reasonably be aware of, which is not in our best interests. The interested Director(s) shall also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such proposed related-party transactions.

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## **8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

In the event there are any proposed related-party transactions that require the prior approval of Shareholders, the Directors, major Shareholders and / or persons connected with a Director or major Shareholder, which have any interest, direct or indirect, in the proposed related-party transaction will abstain from voting in respect of their direct and / or indirect shareholdings. Where a person connected with a Director or major Shareholder has interest, direct or indirect, in any proposed related-party transactions, the Director or major Shareholder concerned will also abstain from voting in respect of his direct and / or indirect shareholdings. Such interested Directors and / or major Shareholders will also undertake that he shall ensure that the persons connected with him will abstain from voting on the resolution approving the proposed related-party transaction at the general meeting.

### **8.2 TRANSACTIONS OF UNUSUAL NATURE OR CONDITIONS**

Save as disclosed in Sections 8.1 and 8.3 of this Prospectus, our Directors have confirmed that to the best of their knowledge and belief, there are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which we or any of our subsidiaries was a party in respect of the past three (3) FYEs up to 31 December 2008 and 1H 2009.

### **8.3 OUTSTANDING LOANS MADE TO / FOR THE BENEFIT OF RELATED PARTIES**

Save as disclosed in Sections 8.1.2 of this Prospectus and as disclosed below, there are no outstanding loans (including guarantees of any kind) made by us or any of our subsidiaries to or for the benefit of our related parties in respect of the past three (3) FYEs up to 31 December 2008 and 1H 2009:-

<b>Transacting parties</b>	<b>Potential / actual areas of conflict of interest and / or related-party transaction</b>	<b>Nature of transaction</b>
XiDeLang Sports Goods and HongPeng Footwear	XiDeLang Sports Goods and HongPeng Footwear are wholly-owned subsidiaries of HongPeng (Fujian), which is in turn a wholly-owned subsidiary of XinYuanChan, a wholly-owned subsidiary of our Company.	Guarantee Agreement dated 11 August 2008 for the sum of RMB10 million

XiDeLang Sports Goods provided a third party pledge of land for the benefit of HongPeng Footwear in connection with a banking facility of RMB10 million granted by Industrial and Commercial Bank of China, Jinjiang Sub Branch to HongPeng Footwear. The guarantee is valid from 2 September 2009 to 11 August 2011.

### **8.4 INTERESTS IN SIMILAR AND OTHER BUSINESSES**

As at LPD, to the best knowledge and belief of our Directors, none of our Directors and / or substantial Shareholders are interested, directly or indirectly in any other businesses and / or corporations carrying on a similar trade as our Group or in any other businesses and / or corporations which are the customers or suppliers of our Group.

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## **8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

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### **8.5 CONTRACTS OR ARRANGEMENTS IN WHICH OUR DIRECTORS OR SUBSTANTIAL SHAREHOLDERS ARE INTERESTED AND SIGNIFICANT IN RELATION TO OUR BUSINESS**

Save as disclosed in Section 8.1, as at LPD, none of our Directors and / or substantial Shareholders has interest in any contracts or arrangements, which is significant in relation to the business of our Group.

### **8.6 RECURRENT RELATED-PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

Pursuant to Paragraph 10.09 of the Listing Requirements, a listed issuer may seek a shareholders' mandate in respect of related party transactions involving recurrent transactions of a revenue or trading nature, which are necessary for its day-to-day operations such as supplies of materials, subject to, *inter-alia*, the following:-

- (i) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (ii) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year where the aggregate value is equal to or exceeds the applicable prescribed threshold under paragraph 2.1 of Practice Note No. 12 / 2001 of the Listing Requirements; and
- (iii) in a meeting to obtain shareholders' mandate, the interested director, interested major shareholder or interested person connected with a director or major shareholder; and where it involves the interest of an interested person connected with a director or major shareholder, such director or major shareholder, must not vote on the resolution approving the transactions. An interested director or interested major shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions.

Our Group would in the ordinary course of our business enter into transactions, including but not limited to the transactions described in related party transactions set out in Section 8.1 of this Prospectus, with persons which are considered "related party" as defined in Chapter 10 of the Listing Requirements. It is likely that such transactions will occur with some degree of frequency and could arise at any time and from time to time.

Due to the time-sensitive nature of commercial transactions, the shareholders' mandate will enable us, in our normal course of business, to enter into the categories of related party transactions, provided such interested person transactions are made at arm's length and on normal commercial terms.

Transactions that do not fall within the ambit of the shareholders' mandate shall be subject to the relevant provisions of the Listing Requirements.

Bursa Securities had on 8 October 2009 approved an extension of time up to our next annual general meeting or extraordinary general meeting, whichever is held earlier, to obtain shareholders' ratification and mandate for recurrent related-party transactions. The said transactions shall be of revenue or trading nature to be entered between us or any of our subsidiaries and our Directors or substantial shareholders or persons connected with such Directors or substantial shareholders, commencing from our Listing date up to the annual general meeting or extraordinary general meeting.

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**8. RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**

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**8.7 DECLARATION BY THE ADVISERS, UNDERWRITER AND PLACEMENT AGENTS**

AmInvestment Bank hereby confirms that, as at the date of this Prospectus, there is no conflict of interest with respect to its capacity as Adviser to our Group for the Listing.

AmInvestment Bank is the Co-Underwriter and Placement Agent for the IPO Shares. AmInvestment Bank hereby confirms that, as at the date of this Prospectus, there is no conflict of interest with respect to its capacity as the Underwriter and Placement Agent for the IPO Shares. The Underwriting Agreement, which certain details are as set out in Section 2.10, was entered into an arms-length basis and on market terms.

OSK is the Managing Underwriter, Lead Placement Agent and Co-Underwriter for the IPO Shares. OSK hereby confirms that, as at the date of this Prospectus, there is no conflict of interest with respect to its capacity as the Managing Underwriter, Lead Placement Agent and Co-Underwriter for the IPO Shares. The Underwriting Agreement, which certain details are as set out in Section 2.10, was entered into an arms-length basis and on market terms.

Mah-Kamariyah & Philip Koh hereby confirm that, as at the date of this Prospectus, there is no conflict of interest in their capacity as Solicitors for the Listing and Legal Advisers to our Company on Malaysian Law for the IPO.

Conyers Dill & Pearman Pte. Ltd. hereby confirms that, as at the date of this Prospectus, there is no conflict of interest in its capacity as Legal Advisers to our Company on Bermuda Law for the IPO.

Chiu, Szeto & Cheng Solicitors hereby confirm that, as at the date of this Prospectus, there is no conflict of interest in their capacity as Legal Advisers to our Company on Hong Kong Law for the Listing.

B.D.L. International Law Firm hereby confirms that, as at the date of this Prospectus, there is no conflict of interest in its capacity as Legal Advisers to our Company on PRC Law for the Listing.

BDO Binder hereby confirms that, as at the date of this Prospectus, there is no conflict of interest in their capacity as Auditors for our Group and Reporting Accountants for the Listing.

Vital Factor Consulting Sdn Bhd hereby confirms that, as at the date of this Prospectus, there is no conflict of interest in its capacity as Independent Business and Market Research Consultants for the Listing.

PFA Corporate Consultants Sdn Bhd hereby confirms that, as at the date of this Prospectus, there is no conflict of interest in its capacity as Company Agent in Malaysia to our Group.

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## 9. FINANCIAL INFORMATION

### 9.1 HISTORICAL FINANCIAL INFORMATION

The following table sets out a summary of the proforma consolidated results of our Group for the past three (3) FYEs 2006, 2007 and 2008, as well as for the 1H 2008 and the 1H 2009. The proforma consolidated results were prepared on the assumption that our Group had been in existence throughout the financial periods under review. The proforma consolidated results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB'000	RM' 000 <sup>(2)</sup>	RMB'000	RM' 000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>
Revenue	207,859	95,615	350,906	158,504	573,939	275,433	255,040	116,298	375,394	197,006
Cost of sales	(159,212)	(73,237)	(258,177)	(116,618)	(409,888)	(196,705)	(184,738)	(84,241)	(260,959)	(136,951)
Gross profit	48,647	22,378	92,729	41,886	164,051	78,728	70,302	32,057	114,435	60,055
Other income	240	110	154	69	244	117	116	53	152	80
Distribution costs	(6,851)	(3,152)	(7,858)	(3,550)	(15,338)	(7,360)	(4,861)	(2,216)	(7,574)	(3,975)
Administrative and other expenses	(5,841)	(2,686)	(7,678)	(3,468)	(10,524)	(5,050)	(4,493)	(2,049)	(4,834)	(2,537)
Operating profits	36,195	16,650	77,347	34,937	138,433	66,435	61,064	27,845	102,179	53,623
Finance costs	(1,052)	(484)	(1,421)	(642)	(2,872)	(1,378)	(1,072)	(489)	(1,974)	(1,035)
PBT	35,143	16,166	75,926	34,295	135,561	65,057	59,992	27,356	100,205	52,588
Taxation	(9,309)	(4,282)	(18,533)	(8,371)	(34,733)	(16,668)	(15,581)	(7,105)	(27,435)	(14,398)
PAT	25,834	11,884	57,393	25,924	100,828	48,389	44,411	20,251	72,770	38,190
Attributable to:										
- Equity holders of XiDeLang	25,834	11,884	57,393	25,924	100,828	48,389	44,411	20,251	72,770	38,190
- MI	-	-	-	-	-	-	-	-	-	-
Number of Shares in XiDeLang had our Group been in existence <sup>(1)</sup>	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
EPS (RMB / RM)										
- Basic	0.065	0.030	0.143	0.065	0.252	0.121	0.222 <sup>(4)</sup>	0.101 <sup>(4)</sup>	0.364 <sup>(4)</sup>	0.191 <sup>(4)</sup>
- Diluted <sup>(3)</sup>	0.065	0.030	0.143	0.065	0.252	0.121	0.222 <sup>(4)</sup>	0.101 <sup>(4)</sup>	0.364 <sup>(4)</sup>	0.191 <sup>(4)</sup>



**9. FINANCIAL INFORMATION (Cont'd)**

	FYE 2006		FYE 2007		FYE 2008		1H 2008		1H 2009	
	RMB'000	RM' 000 <sup>(2)</sup>	RMB'000	RM' 000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>	RMB'000	RM'000 <sup>(2)</sup>
EBIDTA	37,036	17,035	78,863	35,623	140,376	67,368	62,035	28,287	102,959	54,033
Interest income	148	68	154	69	231	111	116	53	152	80
Depreciation	913	419	953	431	958	460	479	218	323	170
Amortisation	76	34	717	324	1,216	584	608	277	609	320
Gross profit margin (%)	23.4	23.4	26.4	26.4	28.6	28.6	27.6	27.6	30.5	30.5
PBT margin (%)	16.9	16.9	21.6	21.6	23.6	23.6	23.5	23.5	26.7	26.7
PAT margin (%)	12.4	12.4	16.4	16.4	17.6	17.6	17.4	17.4	19.4	19.4
Effective tax rate (%)	26.5	26.5	24.4	24.4	25.6	25.6	26.0	26.0	27.4	27.4

**Notes:-**

- (1) Based on the issued share capital of 400,000,000 Shares after completion of the Consolidation, Acquisition of XinYuanChan and the Public Issue.  
 (2) For the purpose of this Prospectus, the balance sheet items and income statement items were translated using the closing exchange rates and average exchange rates for the respective financial years / period as summarised below:-

	FYE 2006	FYE 2007	FYE 2008	1H 2008	1H 2009
Average rate	RMB1 : RM 0.4600	RMB1 : RM0.4517	RMB1 : RM0.4799	RMB1 : RM0.4560	RMB1 : RM0.5248
Closing rate	RMB1 : RM 0.4523	RMB1 : RM0.4528	RMB1 : RM0.5061	RMB1 : RM0.4766	RMB1 : RM0.5152

- (3) There were no potential dilutive shares in issue during the financial years / period under review.  
 (4) Annualised to 12 months for comparison purposes.

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## 9. FINANCIAL INFORMATION (Cont'd)

The proforma consolidated results of our Group are mainly extracted from the audited financial statements of HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods for the FYEs 2006, 2007 and 2008, as well as the 1H 2009 and the audited financial statements of XinYuanChan for the 1H 2009 and the audited financial statements of XiDeLang for financial period from 17 April 2009 (date of incorporation) to 30 June 2009 which have been prepared in accordance with applicable approved FRS in Malaysia, and the audited financial statements of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 which have been prepared in accordance with applicable approved Hong Kong FRS, where relevant, adjustments have been made to comply with applicable approved FRSs in Malaysia for the purpose of inclusion in the preparation of the proforma consolidated financial information. The 1H 2008 results are extracted from the management accounts of the subsidiaries of XiDeLang.

Further information on the proforma consolidated results is set out in Section 9.7 of this Prospectus.

### 9.2 CAPITALISATION AND INDEBTEDNESS

The following table summarises our cash and cash equivalents, capitalisation and indebtedness:-

- (i) as at 30 June 2009 based on our proforma consolidated financial information after the Acquisition of XinYuanChan; and
- (ii) as adjusted for the net proceeds arising from the issue of the 100,000,000 IPO Shares pursuant to our IPO and the utilisation of proceeds as set out in Section 2.7 of this Prospectus.

	Proforma consolidated as at 30 June 2009 after the Acquisition of XinYuanChan		After the IPO and utilisation of proceeds	
	RMB '000	RM '000 <sup>(1)</sup>	RMB '000	RM '000 <sup>(1)</sup>
Cash and cash equivalents	73,882	38,064	139,682	71,964
<b>Indebtedness</b>				
Short-term indebtedness:				
- Borrowings (secured and guaranteed)	36,500	18,805	36,500	18,805
- Borrowings (unsecured and guaranteed)	14,500	7,470	14,500	7,470
- Bankers' acceptance (secured and guaranteed)	7,000	3,607	7,000	3,607
- Recourse factoring	8,500	4,379	8,500	4,379
Long-term indebtedness	-	-	-	-
<b>Total indebtedness</b>	<b>66,500</b>	<b>34,261</b>	<b>66,500</b>	<b>34,261</b>
Total shareholders' equity / capitalisation	174,025	89,659	271,075	139,659
<b>Total capitalisation / equity and indebtedness</b>	<b>240,525</b>	<b>123,920</b>	<b>337,575</b>	<b>173,920</b>

Note:-

- (1) Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

The indirect and contingent liabilities of our Group are as set out in Section 9.4.8 of this Prospectus.

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**9. FINANCIAL INFORMATION (Cont'd)**

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**9.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS**

The following management's discussion and analysis of our Group's past financial performances and results of operations should be read in conjunction with the proforma consolidated financial information and the related notes thereon for the past three (3) FYEs 2006, 2007 and 2008, as well as for the 1H 2009, included in Section 9.7 of this Prospectus.

This discussion and analysis contains data derived from our audited financial statements, management accounts as well as forward-looking statements that involve risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 3 of this Prospectus.

**9.3.1 Overview of operations**

We are primarily engaged in the design, manufacturing and marketing of sports shoes under our 'XiDeLang' brand. We also design and market sports apparel, accessories and equipment under our own brand, in collaboration with third party manufacturers.

Our primary focus is on marketing and brand management. We are complemented with the necessary technical expertise and manufacturing capabilities to design, develop and manufacture sports shoes.

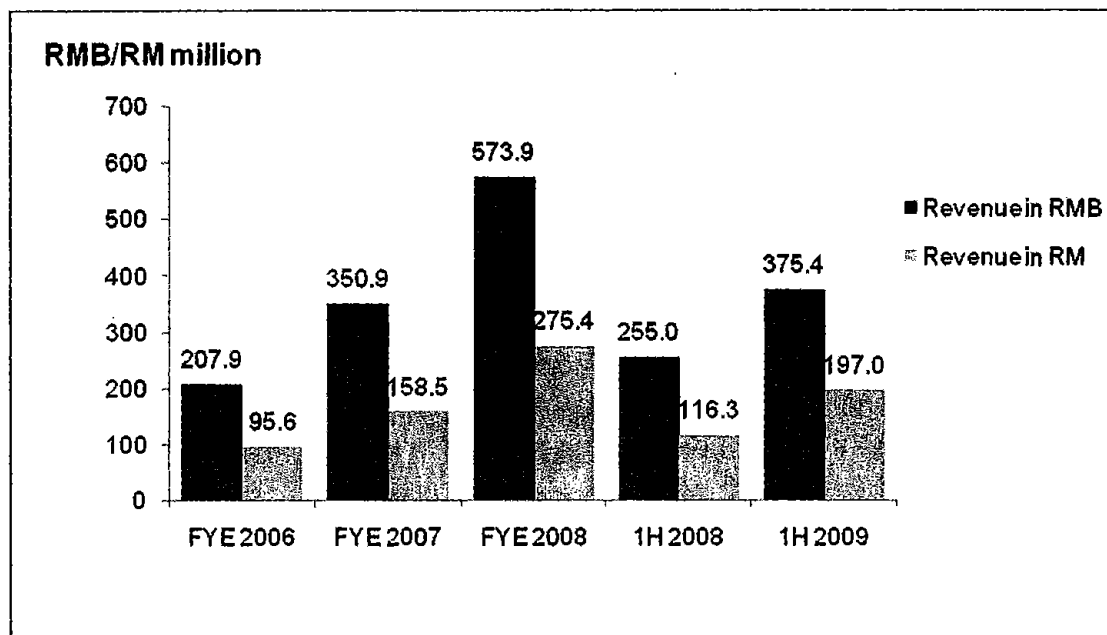
Our target market is the PRC consumer mass market. Our branded products reach our target consumers through an extensive network of distributors and retailers who manage retail outlets exclusively carrying our 'XiDeLang' branded products in 24 provinces and municipalities across China. This indirect distribution strategy enables us to cover a wider geographical market without incurring high capital investments for developing and maintaining retail infrastructure.

Our subsidiary, HongPeng (Fujian) is involved in the design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment under our own brand. On the other hand, HongPeng Footwear manufactures sports shoes for other brand owners. These sports shoes are sold to agents or foreign trade enterprises mainly located in Fujian Province, who distribute to overseas market. XiDeLang Sports Goods does not undertake any marketing or manufacturing initiatives. Nevertheless, it forms an integral part of our Group as it is the holder of our proprietary 'XiDeLang' brand.

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## 9. FINANCIAL INFORMATION (Cont'd)

The following chart depicts our Group's revenue for the last three (3) financial years and for the 1Hs 2008 and 2009:-



Our Group's revenue experienced rapid growth from RMB207.9 million in the FYE 2006 to RMB573.9 million in the FYE 2008, with growth rates of 25.2%, 68.8% and 63.6% in the FYEs 2006, 2007 and 2008 respectively. We continued to achieve double digit growth in 1H 2009 where the Group posted RMB375.4 million revenue which represents 47.2% of growth compared with the 1H 2008. Our strong growth in revenue during the financial years / period under review is an indication of the acceptance of our products as a result of our commitment to market quality products as well as broadening of our product range, expansion of our sales network and the successful building of our 'XiDeLang' brand.

In addition, consumer demand for sports goods in China is one of the key drivers of our revenue growth. The growth of China's GDP, rising household disposable income and increase in consumption expenditure are all potent macro factors that steer our growth. Furthermore, China's successful hosting and illustrious victory in the 2008 Beijing Olympic Games has raised interest and passion for sports amongst its general public, which had stimulated greater demand for sports goods.

Our growth was primarily derived from the increased sales to our existing distributors. More than two-third of our distributors as at 30 June 2009 have maintained business relationships with us for more than four (4) years. As at 31 December 2006, 2007 and 2008, as well as 30 June 2009, we had 21, 28, 31 and 32 distributors respectively.

We expanded our portfolio of products and ventured into the marketing of sports apparel, accessories and equipment in 2007 and received encouraging response from the public. Currently, we outsource all of our sports apparel, accessories and equipment to external contract manufacturers. Diversifying into the sports apparel, accessories and equipment market is also part of our strategy to minimise risk of over dependence on a narrow range of product and to achieve better economies of scale of our distribution network. This is to ensure growth and sustainability of our business.

**9. FINANCIAL INFORMATION (Cont'd)**

**Segmental analysis – revenue by subsidiaries**

Subsidiary	Revenue for FYE						Revenue for 1H			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
XinYuanChan <sup>(1)(2)</sup>	-	-	-	-	-	-	-	-	-	-
HongPeng (Fujian)	164,664	79.2	316,102	90.1	537,662	93.7	242,846	95.2	359,890	95.9
HongPeng Footwear	43,195	20.8	34,804	9.9	36,277	6.3	12,194	4.8	15,504	4.1
XiDeLang Sports Goods <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-
Total revenue (RMB'000)	207,859	100.0	350,906	100.0	573,939	100.0	255,040	100.0	375,394	100.0
Growth rate (%)	25.2		68.8		63.6		-		47.2 <sup>(3)</sup>	
Total revenue (RM'000)	95,615		158,504		275,433		116,298		197,006	
Growth rate (%)	24.5		65.8		73.8		-		69.4 <sup>(3)</sup>	

**Segmental analysis – revenue by major product categories**

Major product categories	Revenue for FYE						Revenue for 1H			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sports shoes	207,859	100.0	286,003	81.5	384,815	67.0	179,487	70.4	245,286	65.3
Sports apparel, accessories and equipment	-	-	64,903	18.5	189,124	33.0	75,553	29.6	130,108	34.7
Total revenue (RMB'000)	207,859	100.0	350,906	100.0	573,939	100.0	255,040	100.0	375,394	100.0
Growth rate (%)	25.2		68.8		63.6		-		47.2 <sup>(3)</sup>	
Total revenue (RM'000)	95,615		158,504		275,433		116,298		197,006	
Growth rate (%)	24.5		65.8		73.8		-		69.4 <sup>(3)</sup>	

**Notes:-**

- (1) Investment holding.
- (2) Only received dividend income from HongPeng (Fujian) during the financial years / period under review, which have been fully eliminated on proforma consolidated income statement.
- (3) As compared to the corresponding 1H 2008.

## 9. FINANCIAL INFORMATION (Cont'd)

The products of the Group can be broken down into two (2) broad categories, namely sports shoes and sports apparel, accessories and equipment. The analysis of volume sold and average selling price for each category of products is depicted as follows:-

Product categories	Revenue for FYE						Revenue for 1H			
	2006		2007		2008		2008		2009	
	Quantity sold	Average selling price	Quantity sold	Average selling price	Quantity sold	Average selling price	Quantity sold	Average selling price	Quantity sold	Average selling price
	Pairs'000	RMB	Pairs'000	RMB	Pairs'000	RMB	Pairs'000	RMB	Pairs'000	RMB
Sports shoes (pairs)	3,734	55.67	4,727	60.50	6,112	62.96	2,845	63.09	3,573	68.65
Sports apparel, accessories and equipment (pieces)	-	-	987	65.77	3,649	51.83	2,029	37.24	3,246	40.08

As can be seen from the table above, the average selling prices for our sports shoes have been gradually revised upwards between FYE 2006 and FYE 2008 as well as in the 1H 2009 as compared to the 1H 2008. Despite this, due to increased market awareness of our brand name, our Group has been able to demand for higher selling prices without jeopardising our sales volume. This is evidenced by the increase in the quantity sold for sports shoes between FYE 2006 and FYE 2008 on average by 27.9%, as well as in the 1H 2009 by 25.6% as compared to the corresponding 1H 2008, despite us increasing the selling prices of our products.

We had revised the prices of our sport shoes between FYE 2006 and FYE 2008, by an average of 6.4%. This had contributed positively to our Group's revenue without erosion of our sales volume. This we believed was primarily attributable to improved product quality as well as contemporary designs that suit the market preference. In view that our products are being well accepted by the market with increasing demand noted, the average selling prices for all of our sports shoes products have been revised further upward in the 1H 2009 by 8.8% as compared to the corresponding 1H 2008.

The average selling price set for sports apparel, accessories and equipment is largely affected by seasonal factors. Higher selling prices are set for sport apparels launched for the autumn / winter seasons which fall in the second half of the year as compared to the spring / summer seasons which fall in the first half of the year. This is mainly due to our higher sale prices for winter clothes due to different material specifications. As a result of this, the average selling price for sports apparel, accessories and equipment recorded in FYE 2008 was lower than that in FYE 2007 as the sports apparels, accessories and equipment were first launched in the last quarter of 2007 where the products sold comprised mainly of the autumn / winter series which were sold for higher prices. Quantity sold for sports apparels, accessories and equipment increased by a significant 269.7% between FYE 2007 and FYE 2008 due in part to the low average selling prices as mentioned above. In the 1H 2009, quantity sold increased by 60.0% as compared to the corresponding 1H 2008, despite average selling prices for sports apparel, accessories and equipment increasing by 7.6% between these two (2) periods.

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## 9. FINANCIAL INFORMATION (Cont'd)

### Segmental analysis – revenue by geographical area

Our revenue consisted only of local market sales in China throughout the last three (3) financial years and for the 1Hs 2008 and 2009. Revenue contribution segmented by region within China is depicted as follows:-

Region	Revenue for FYE						Revenue for 1H			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Eastern region <sup>(1)</sup>	13,300	6.4	29,206	8.3	67,152	11.7	26,098	10.2	59,720	15.9
Southern region <sup>(2)</sup>	101,837	49.0	143,762	41.0	205,537	35.8	92,330	36.2	117,267	31.2
Western region <sup>(3)</sup>	51,601	24.8	99,120	28.2	168,455	29.4	76,704	30.1	103,914	27.7
Northern region <sup>(4)</sup>	41,121	19.8	78,818	22.5	132,795	23.1	59,908	23.5	94,493	25.2
Total revenue (RMB'000)	207,859	100.0	350,906	100.0	573,939	100.0	255,040	100.0	375,394	100.0
Growth rate (%)	25.2		68.8		63.6		-		47.2 <sup>(5)</sup>	
Total revenue (RM'000)	95,615		158,504		275,433		116,298		197,006	
Growth rate (%)	24.5		65.8		73.8		-		69.4 <sup>(5)</sup>	

**Notes:-**

- (1) Eastern region includes Jiangsu, Zhejiang, Shandong and Shanghai.
- (2) Southern region includes Fujian, Guangdong, Hubei, Hunan, Jiangxi and Anhui.
- (3) Western region includes Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu and Shaanxi.
- (4) Northern region includes Beijing, Hebei, Henan, Heilongjiang, Liaoning, Shanxi and Tianjin.
- (5) As compared to the corresponding 1H 2008.

The Southern region recorded the highest sales of the four regions between the FYEs 2006 and 2008, as well as the 1H 2009. Sales in Zhuzhou in Hunan Province, Guangzhou in Guangdong Province, Nanchang in Jiangxi Province and Wuhan in Hubei Province accounted for more than 20% of our total revenue for the past three (3) financial years. This is mainly due to our focus placed in these densely populated cities.

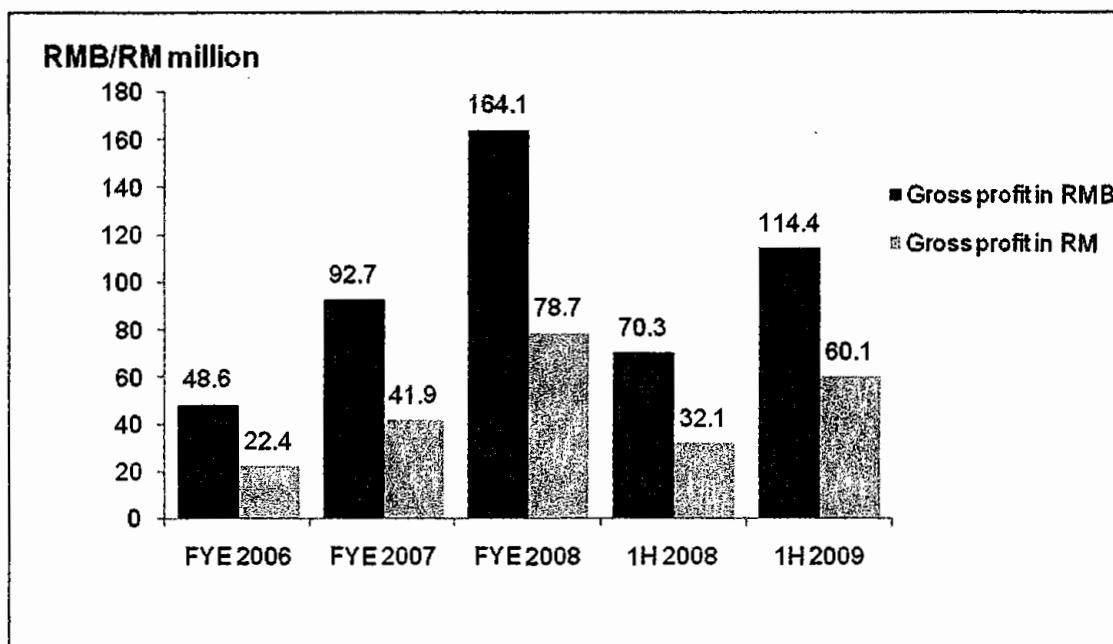
The Western region recorded our second highest sales for the FYEs 2006 to 2008 and the 1H 2009. Our sales were mainly concentrated in Chengdu in Sichuan Province, Kunming in Yunnan Province and Guiyang in Guizhou Province. The distributors in these three (3) areas are amongst our earliest distributors and have been working closely and growing together with us through the years. Besides, our product ambassador, Zhang Jie, is from Chengdu and we believe that his appointment in 2007 has contributed to our sales in the Western region.

The region with the lowest sales for the FYEs 2006 to 2008 and the 1H 2009 was the Eastern region. The sales in this region are particularly low as our expansion was initially concentrated in the Northern and Western regions, and subsequently in the Southern region. In recent years, we have recruited new distributors to further penetrate into the market in the Eastern region.

## 9. FINANCIAL INFORMATION (Cont'd)

### Gross profit

The following chart depicts our Group's gross profit for the last three (3) financial years and for the 1Hs 2008 and 2009:-



For the FYE 2008, our Group's gross profit escalated and recorded a historical 12 months high gross profit of RMB164.1 million or 76.9% as compared with the FYE 2007. Between the FYEs 2006 and 2008, our Group's gross profit increased from RMB48.6 million to RMB164.1 million with growth rates of 35.3%, 90.6% and 76.9% in the FYEs 2006, 2007 and 2008 respectively. For the 1H 2009, gross profit registered an increased of RMB44.1 million or 62.8% as compared to the corresponding 1H 2008.

The increase in gross profit is coherent with the increase in revenue, which grew at 25.2%, 68.8%, 63.6% and 47.2% in the FYEs 2006, 2007 and 2008, as well as the 1H 2009 respectively as mentioned earlier.

Between the FYE 2006 and the 1H 2009, our Group's gross profit margin increased from 23.4% to 30.5%. The improvement in gross profit margin is primarily attributed to our Group's increase in overall selling prices coupled with improvement in economies of scale in terms of production and sales volumes. The upward revision of our selling price has not adversely affected our sales volumes. This we believe is primarily attributable to higher brand recognition and the competitiveness of our products.

As general living standards in China continue to improve, greater attention is placed on healthy and active lifestyles. We believe that consumer demand in China will continue to grow and positively impact our product sales and gross profit.

Between the FYEs 2006 and 2008, gross profit from sports shoes registered an average annual growth rate of 50.7%, while that for the 1H 2009 registered a growth rate of 45.9% as compared to the 1H 2008. Nevertheless, for the FYE 2008, gross profit derived from sports shoes represented 67.2% of our Group's gross profit, which is lower by 14.6% as compared to the 81.8% recorded in the FYE 2007 due to the successful broadening of our product range to include sports apparel, accessories and equipment. In the 1H 2009, the contribution from sports shoes to the Group's gross profit further declined to 64.0%.



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**9. FINANCIAL INFORMATION (Cont'd)**

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Our sports apparel, accessories and equipment were well received in the market and registered gross profit of RMB53.7 million for the FYE 2008 or an impressive growth of 218.9% compared to the FYE 2007. In the 1H 2009, gross profit from this category was higher than that for the 1H 2008 by 104.9%. We expect higher contribution from the marketing of sports apparel, accessories and equipment in terms of revenue and gross profit in the near future.

The gross profit margin of sports apparel, accessories and equipment for the FYEs 2007 and 2008 as well as the 1H 2009 were registered at 26.0%, 28.4% and 31.7% respectively. The increasing trend in the gross profit margin was mainly contributed by the upward revision on the average selling price as mentioned earlier coupled with more effective control over our cost of sales.

Gross profit margin contributed by HongPeng (Fujian) was on an increasing trend of 25.8%, 28.2%, 30.0% and 31.3% for the FYEs 2006, 2007 and 2008 as well as the 1H 2009 respectively. As mentioned earlier, HongPeng (Fujian) markets sports shoes and apparel under our 'XiDeLang' brand, therefore it is able to demand better pricing resulting from the strength of our brand.

On the other hand, HongPeng Footwear's gross profit margin experienced a decreasing trend of 14.3%, 10.6% and 8.4% for the FYEs 2006, 2007 and 2008 respectively. HongPeng Footwear manufactures sports shoes for other brand owners based on the specifications and requirements set by them. Without the support of strong brand equity, HongPeng Footwear is consistently confronted with intense competition from other local manufacturers, resulting in a lower profit margin. Nevertheless, HongPeng Footwear managed to improve in the 1H 2009 where the gross profit margin reported was improved to 12.7% as compared to the gross profit margin of 8.4% for the FYE 2008. This was mainly attributable to HongPeng Footwear successfully securing new customers at higher contract prices during the financial period.

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**9. FINANCIAL INFORMATION (Cont'd)**

**Segmental analysis - gross profit by subsidiaries**

Subsidiary	Gross profit for FYE						Gross profit for 1H			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
XinYuanChan <sup>(1)(2)</sup>	-	-	-	-	-	-	-	-	-	-
HongPeng (Fujian)	42,461	87.3	89,049	96.0	161,022	98.2	70,466	100.2	112,460	98.3
HongPeng Footwear	6,186	12.7	3,680	4.0	3,029	1.8	(164)	(0.2)	1,975	1.7
XiDeLang Sports Goods <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-
Total gross profit (RMB'000)	48,647	100.0	92,729	100.0	164,051	100.0	70,302	100.0	114,435	100.0
Growth rate (%)	35.3		90.6		76.9		-		62.8 <sup>(3)</sup>	
Total gross profit (RM'000)	22,378		41,886		78,728		32,057		60,055	
Growth rate (%)	34.5		87.2		88.0		-		87.3 <sup>(3)</sup>	
Gross profit / (loss) margin (%):										
Group	23.4		26.4		28.6		27.6		30.5	
XinYuanChan <sup>(1)(2)</sup>	-		-		-		-		-	
HongPeng (Fujian)	25.8		28.2		30.0		29.0		31.3	
HongPeng Footwear	14.3		10.6		8.4		(1.3)		12.7	
XiDeLang Sports Goods <sup>(2)</sup>	-		-		-		-		-	

**Segmental analysis - gross profit by major product categories**

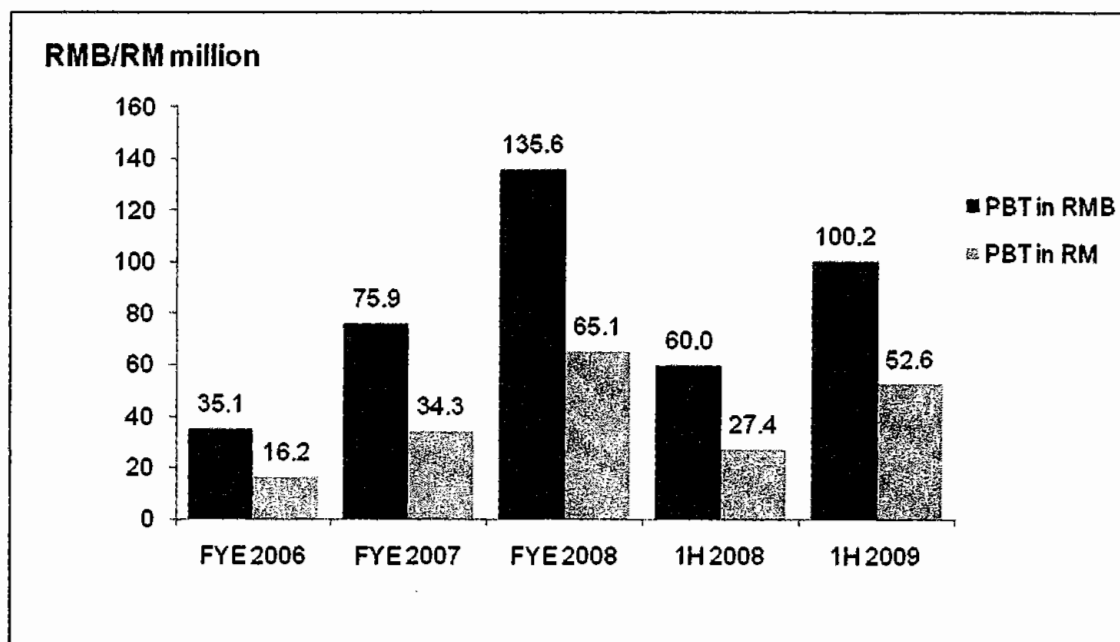
Major Product Categories	Gross profit for FYE						Gross profit for 1H			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sports shoes	48,647	100.0	75,880	81.8	110,318	67.2	50,199	71.4	73,237	64.0
Sports apparel, accessories and equipment	-	-	16,849	18.2	53,733	32.8	20,103	28.6	41,198	36.0
Total gross profit (RMB'000)	48,647	100.0	92,729	100.0	164,051	100.0	70,302	100.0	114,435	100.0
Growth rate (%)	35.3		90.6		76.9		-		62.8 <sup>(3)</sup>	
Total gross profit (RM'000)	22,378		41,886		78,728		32,057		60,055	
Growth rate (%)	34.5		87.2		88.0		-		87.3 <sup>(3)</sup>	
Gross profit margin (%):										
Group	23.4		26.4		28.6		27.6		30.5	
Sports shoes	23.4		26.5		28.7		28.0		29.9	
Sports apparel, accessories and equipment	-		26.0		28.4		26.6		31.7	

**9. FINANCIAL INFORMATION (Cont'd)**

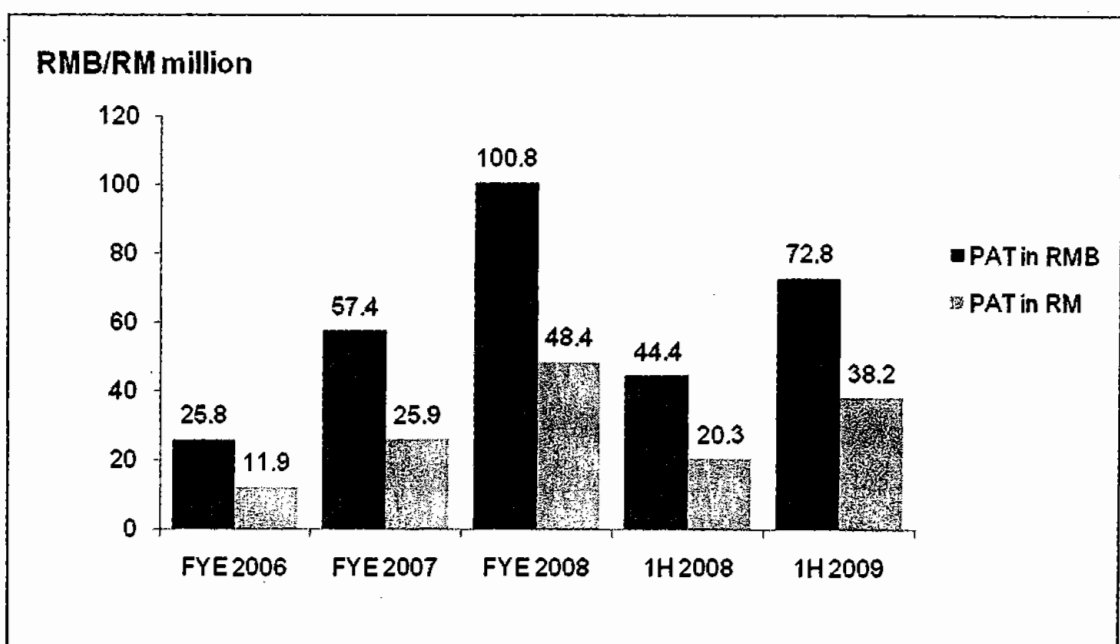
**Notes:-**

- (1) Investment holding
- (2) Only received dividend income from HongPeng (Fujian) during the financial years / period under review, which have been fully eliminated on proforma consolidated income statement.
- (3) As compared to the corresponding 1H 2008

**Profit before tax**



**Profit after tax**



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## 9. FINANCIAL INFORMATION (Cont'd)

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Our PBT registered a remarkable average annual growth rate of 97.4% between the FYEs 2006 and 2008 and 67.1% in the 1H 2009 as compared to the 1H 2008 due to strong sales performance in all of XiDeLang's branded products and higher gross profit as discussed earlier. Our PAT also grew by an average annual growth rate of 99.0% between the FYEs 2006 and 2008 and 63.9% in the 1H 2009 as compared to the 1H 2008.

Tax expense of the Group arose mainly from HongPeng (Fujian) in which its effective tax rate was consistent with the statutory tax rates of 24% in the FYEs 2006 and 2007 (which was applicable to foreign-owned companies in the PRC) and 25% in the FYE 2008 and the 1H 2009. However, the Group's effective tax rates over the FYEs 2006, 2007 and 2008, as well as for the 1H 2009 were 26.5%, 24.4%, 25.6% and 27.4% respectively mainly due to the statutory tax rate of 33.0% applied to HongPeng Footwear and XiDeLang Sports Goods in the FYEs 2006 and 2007. XinYuanChan was subjected to 5% withholding tax amounting to RMB2.1 million for the 1H 2009 which arose from the dividends distributed by HongPeng (Fujian).

On 16 March 2007, the National Peoples' Congress promulgated the New Tax Law, which took effect on 1 January 2008. According to the New Tax Law, the standard enterprise tax rate for all enterprises in China will be standardised at 25.0%. The amount of provision for taxation was adequate to cover all known tax liabilities owing to the tax authorities. Furthermore, distributions of earnings to HKSAR equity holders are subject to 5% withholding tax in the PRC which was effective from 1 January 2008.

Our Company, which was incorporated in Bermuda, has not been subject to any taxation since its incorporation. XinYuanChan, which was incorporated in Hong Kong, is an investment holding company. It had no assessable profit since incorporation and thus was not subject to any taxation.

### **Factors and trends affecting future financial conditions and results**

After taking into consideration the risk factors relating to our business and industry, and our ability to mitigate such risk factors as set out in Section 3 of this Prospectus, we are of the opinion that our future financial condition and results will remain favourable.

This is due to the large market size of the footwear industry in China, as set out in Section 5.6 of this Prospectus, which provides favourable prospects for product penetration and market-share growth. Expenditure on shoes by end-users are likely to increase due to shoes becoming fashion accessories rather than being a functional item to protect the feet and in view of the increase in China's per capita GDP.

Our competitive strengths and advantages as set out in Section 4.5 of this Prospectus provide the foundation for the sustainability of our business and financial growth. Our future plans and strategies as set out in Section 4.21 of this Prospectus, will further contribute to sustainable growth for our business.

Despite the uncertain outlook for the global and Chinese economy in the near term as set out in Section 5.12 of this Prospectus, we have outlined that in 2008, China experienced real GDP growth of 9.0% and is forecasted to achieve a continuing growth of 8.3% in 2009. In contrast, many advanced economies experienced very low or negative GDP growth in 2008, and 2009 is expected to be similar. As such, China's economy is expected to be better off compared to many of the more advanced economies.

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## 9. FINANCIAL INFORMATION (Cont'd)

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It is likely that consumer spending on shoes and sport apparel will still continue to be maintained at the same level or grow, albeit at a slower pace, during an economic slowdown. We believe that with our strong brand equity, high product quality, financial stability and diverse range of products and designs, we will be in a better position to withstand the impact of a slowdown in China's economy and / or the global economies.

### 9.3.2 Internal factors affecting operations and financial results

Some of the pertinent internal factors that have an impact on our operations and financial results are discussed below.

#### (i) Ability to maintain brand loyalty and marketing success of our products

Due to the rising purchasing power of China's consumers, we believe brand recognition and loyalty is crucial to consumers' purchasing decisions. Our foresight in cultivating brand awareness has positioned us to capitalise on the growing affluence of China's consumers and reap the benefits of the increasing desire for branded consumer items in China. We believe that our 'XiDeLang' brand equity is one of our most valuable assets.

We place great emphasis on brand building through continuous advertising and promotions of 'XiDeLang' products. We also embark on proactive brand management as outlined in Section 4.6.1 of this Prospectus.

Our Group spent more than RMB15 million and RMB7 million on marketing and brand building for the FYE 2008 and the 1H 2009 respectively. We project to increase our marketing budgets for advertising and promotional activities during the next three (3) to five (5) years in order to further strengthen our brand and market position. Our ability to maintain the position of our 'XiDeLang' brand in the market through our marketing efforts will affect our market share and sales growth.

#### (ii) Product mix

Every year, we develop approximately 2,000 designs of sports shoes, of which 500 are commercialised. Our XiDeLang brand of sports shoes now covers an extensive range of sports shoes such as running, basketball, tennis, skateboarding, hiking, trekking, and casual-wear shoes.

We continuously monitor our product mix and develop new products that we believe will appeal to our target consumers. During the financial years / period under review, we increased the proportion of our revenue derived from sports apparel, accessories and equipment from 18.5% in the FYE 2007 to 33.0% in the FYE 2008. In the 1H 2009, the contribution of revenue from this category to our revenue had increased to 34.7%.

We will continuously tailor our product mix to market demand and enhance our product positioning in an effort to increase our average selling price, revenue and gross profit margin. As we adjust our product mix, our combined gross profit will be affected by changes in the sales volume and gross margin of each product category.

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## 9. FINANCIAL INFORMATION (Cont'd)

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**(iii) The business performance of our distributors and retailers and our ability to supervise and manage them**

The majority of our 'XiDeLang' products are sold to distributors, who in turn distribute them through sub-distributors and retailers. Some of our distributors also operate retail outlets. Our customers also include retailers. The number of our distributors and retailers expanded from 21 as at 31 December 2006 to 32 as at 30 June 2009.

Our Group is currently supported by a large network of approximately 2,330 retail outlets in 25 provinces and municipalities in China. Our growth is dependent on our ability to secure more distributors and retailers, their business performance and how quickly they can expand their network. If our distributors and retailers do not consistently perform or grow, our growth in revenue may be impeded. Based on past experience, we strongly believe that our ability to effectively supervise and manage our distributors and retailers will enhance their performance, which in turn will improve our financial performance. We strive to work closely with them to explore and penetrate into new markets and expand our market share.

**(iv) R&D capabilities**

Our financial performance, growth and sustainability depend on our ability to address consumer preferences and changes in fashion and market trends. We recognise the importance of ongoing R&D in the success of our business and aim to continuously develop well designed, innovative and quality shoes, apparel, accessories and equipment that are functional, contemporary and appealing. Further details of our Group's R&D are set out in Section 4.11 of this Prospectus.

### 9.3.3 External factors affecting operations and financial results

Some of the pertinent external factors that have an impact on our operations and financial results are discussed below.

**(i) Competition**

Our financial condition and results of operations is affected by our ability to address the competitive pressures in the industry that we operate in. This in turn is characterised by factors such as the existing competitive intensity among the many industry players as well as the threat of new entrants.

Our 'XiDeLang' brand is key in differentiating ourselves from other industry players. Our strong brand equity has allowed us to command a premium on our 'XiDeLang' branded products and this is not commonly attainable by original equipment manufacturers. We appreciate the importance of brand management and product development and this is reflected in our investment in marketing and branding as well as R&D to keep abreast with the latest in sports fashion. Our competitive strengths and advantages, as outlined in Section 4.5 of this Prospectus, are important factors that have contributed to our growth and success.

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**9. FINANCIAL INFORMATION (Cont'd)**

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**(ii) Supply of raw materials and finished products**

To stay competitive, we must obtain from our suppliers sufficient quantities of good quality materials in a timely manner and at competitive prices. The costs of some of our key raw materials and finished products are affected by factors such as fluctuations in crude oil prices as well as our relationship and bargaining power with suppliers. Fluctuations in the costs of our raw materials and our ability to pass on any increase in raw material costs to our customers will affect our profits.

In addition, the uninterrupted supply of raw materials is crucial in our manufacturing activities. Any downtime resulting from disruption in supply of raw materials may lead to significant opportunity cost.

For the financial years / period under review, we have enjoyed a good rapport and business relationship with our suppliers, which has provided the basis for continuing supply of raw materials and finished products in a timely manner and at reasonable prices.

**(iii) Shortage in supply of skilful labours and increases in labour costs in China**

The sports goods manufacturing industry is labour intensive. Lack of skilful labour adversely affects production efficiency and ultimately translates into higher cost of sale.

Labour costs in China have been gradually increasing in recent years and if we are not able to pass these increases on to our consumers, our business, profitability and results of operations will be adversely affected.

For the financial years / period under review, we have not experienced any significant disruption to our operations due to labour dispute, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Furthermore, it is our long-term policy to train, develop and equip our employees with all necessary skills and knowledge through continuous training and development.

**(iv) Tax consideration**

**Bermuda**

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, and there is no Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable to it or any of its operations until 28 March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

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## **9. FINANCIAL INFORMATION (Cont'd)**

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### **9.3.4 Material changes in sales / revenue**

A discussion on the reasons on material changes in our revenue for the FYEs 2006, 2007 and 2008, as well as the 1H 2009 is as set out in Section 9.3.1 above.

### **9.3.5 Impact of foreign exchange / interest rate / commodity prices**

Our business operations and customers are primarily within China. The majority of our sales and purchases have been made in RMB for the last three (3) financial years and the 1H 2009, and as such, the foreign exchange exposure of our Group is minimal. Accordingly, we do not require any hedging policies nor have we entered into any forward contracts with respect to our foreign exchange exposure.

As for fluctuations in the price of inputs, we believe that we are able to pass on any prolonged price increase of inputs to end consumers leveraging on the strength of our 'XiDeLang' brand. Thus, we believe that we are not materially affected by fluctuations in commodity prices.

There was no direct material impact of foreign exchange, interest rate and commodity prices on our Group's historical financial results for the past three (3) FYEs 2006, 2007 and 2008, as well as the 1H 2009.

### **9.3.6 Impact of inflation**

There was no material impact of inflation on our Group's historical financial results for the past three (3) FYEs 2006, 2007 and 2008, as well as the 1H 2009.

### **9.3.7 Exceptional and extraordinary items**

There were no exceptional and extraordinary items for the past three (3) FYEs 2006, 2007 and 2008, as well as the 1H 2009.

### **9.3.8 Government / economic / fiscal / monetary policies**

Risks relating to government, economic, fiscal or monetary policies or factors, which may materially affect our operations, are as set out in Section 3.1, Section 3.2, Section 3.3 and Section 3.4 of this Prospectus.

There was no material impact of government, economic, fiscal or monetary policies or factors on our historical financial results for the past three (3) FYEs 2006, 2007 and 2008, as well as the 1H 2009.

## **9.4 LIQUIDITY AND CAPITAL RESOURCES**

### **9.4.1 Working capital**

We have been funding our operations through a combination of cash generated from our operations, share capital, retained profits and external sources of funds. Our external sources of funds comprise short term bank loans, bankers' acceptance, recourse factoring and credit from our suppliers. As at 30 June 2009, we have a cash and cash equivalent position of approximately RMB73.9 million.



## 9. FINANCIAL INFORMATION (Cont'd)

As at 30 June 2009, we have total current assets of RMB395.4 million and current liabilities of RMB330.9 million amounting to RMB64.5 million of net working capital and a current ratio of 1.19 times. The current assets comprise mainly of inventories, cash and bank balances and trade receivables. Please refer to Section 9.4.9 of this Prospectus for the key financial ratios of our trade receivables, trade payables and inventories.

Our Directors are of the opinion that, based on our existing cash and cash equivalents, the cash flows generated from our operations and the gross proceeds from the IPO Shares, we will have adequate working capital for a period of at least twelve (12) months from the date of this Prospectus.

### 9.4.2 Proforma cash flow

A summary of our Group's proforma cash flow for the 1H 2009 based on the proforma consolidated cash flow statement as set out in Section 9.7 of this Prospectus, is as follows:-

	Proforma Cash Flow <sup>(1)</sup>	
	RMB'000	RM'000 <sup>(2)</sup>
Net cash from operating activities	70,705	37,107
Net cash used in investing activities	(72,567)	(37,782)
Net cash from financing activities	61,105	31,136
Net increase in cash and cash equivalents	59,243	30,461
Foreign exchange difference on opening balance	-	774
Cash and cash equivalents at beginning of year	78,290	39,622
<b>Cash and cash equivalents at end of the period</b>	<b>137,533</b>	<b>70,857</b>

Notes:-

- (1) After adjustments for proceeds from our IPO and the utilisation of proceeds as set out in Section 2.7 of this Prospectus.
- (2) Based on the average exchange rate of RMB1: RM0.5248 for the 1H 2009 and the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009, as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.

For further information on the financial and legal restrictions on the ability of our subsidiaries to transfer funds to XiDeLang in the form of cash dividends, loans or advances, please refer to Sections 3 and 14 of this Prospectus. Subject to the above and the legal requirements set out in Section 14 of this Prospectus, our Directors are of the opinion that there are no economic restrictions on the ability of our subsidiaries to transfer funds to XiDeLang in the form of cash dividends, loans or advances and we can reasonably meet our cash obligations.

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## 9. FINANCIAL INFORMATION (Cont'd)

### Net cashflow from operating activities

In the 1H 2009, proforma operating profit before changes in working capital stood at approximately RMB103.2 million. Out of this, approximately RMB102.8 was used to finance debtors. This was partly offset by financing provided by creditors of approximately RMB79.0 million. Inventory levels also dropped by RMB9.6 million. During the financial period under review, our Group paid corporate income tax of approximately RMB18.3 million. Thus, this gave rise to net cash from operating activities of approximately RMB70.7 million.

### Net cashflow used in investing activities

Net cash outflow in investing activities was mainly due to purchase of property, plant and equipment of RMB35.0 million. For proforma purposes, our Group's actual cash flow used in investing activities has been adjusted to take into account the expected capital expenditure incurred for expansion of our production capacities upon the completion of the Listing of RMB31.3 million. During the financial period, our Group had also granted advances of RMB6.5 million to related parties.

### Net cashflow from financing activities

In the 1H 2009, our Group drew-down bank borrowings of RMB4.0 million and paid dividends of RMB38.0 million to equity holders of a subsidiary. For proforma purposes, our Group's net cash inflow in financing activities has been adjusted to RMB61.1 million, taking into account the gross proceeds raised via the Public Issue of RMB112.6 million. Out of this, approximately RMB15.5 million will be used to defray Listing expenses.

### 9.4.3 Borrowings

As at LPD, the details of our borrowings are as follows:-

	RMB'000	RM'000 <sup>(1)</sup>
<b>Short-term (interest-bearing)</b>		
Bank loans	71,300	36,734
Bankers' acceptance	11,000	5,667
Recourse factoring	8,500	4,379
<b>Long-term</b>	-	-
<b>Total</b>	<b>90,800</b>	<b>46,780</b>
Gearing ratio (times) <sup>(2)</sup>	0.33	0.33

**Notes:-**

- (1) Based on the closing exchange rate of RMB1: RM0.5152 as at 30 June 2009 as set out in Paragraph 1.1 of the proforma consolidated financial information set out in Section 9.7 of this Prospectus.
- (2) Computed based on our Group's total interest bearing borrowings as at LPD divided by our Group's proforma consolidated shareholders' equity as at 30 June 2009 of RMB271.1 million (equivalent to RM139.7 million) upon completion of the IPO.

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## **9. FINANCIAL INFORMATION (Cont'd)**

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Borrowings of our Group mainly comprised short-term bank loans and bankers' acceptance with repayment terms of less than one (1) year.

As at LPD, we have not defaulted on payments of either interest and / or principal sums in respect of these borrowings throughout the past one (1) financial year and the subsequent financial period up to 30 June 2009.

Save as disclosed above, we do not have any other borrowings as at LPD.

### **9.4.4 Breach of terms and conditions / covenants associated with credit arrangement / bank loan**

To the best of our Directors' knowledge, as at LPD, neither us nor any of our subsidiaries are in breach of any terms and conditions or covenants associated with credit arrangements or bank loans, which can materially affect our financial results or business operations, or the investments by holders of securities in our Company.

### **9.4.5 Type of financial instruments used**

As at LPD, we do not have nor are we using any financial instruments.

### **9.4.6 Treasury policies and objectives**

We have been financing our operations through a combination of cash generated from our operations, share capital, retained profits, credit from our suppliers as well as shareholders' advances. Other than those, our external sources of funds comprise mainly bank borrowings as set out in Section 9.4.3 above.

The interest rates for our floating rate bank loans are based on the prevailing base lending rate plus a margin agreed upon by our bankers when the respective term loans were granted while our fixed rate bank loans are based on the market rates prevailing at the dates of the respective transactions. The principal uses of these cash resources were for the purchase of raw materials and consumables and to defray other expenses such as advertising and promotional expenses, repair and maintenance, upkeep of equipment, transport and travelling expenses. Our funds were also used to finance capital expenditure and to extend trade credit to our customers.

All our sales and purchases are denominated in RMB, and as such, the foreign exchange exposure of our Group is minimal. Accordingly, we do not have any hedging policies nor have we entered into any forward contracts with respect to our foreign exchange exposure.

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**9. FINANCIAL INFORMATION (Cont'd)**

**9.4.7 Material commitments**

As at LPD, save as disclosed below, our Directors are not aware of any material commitments for capital expenditure, which upon becoming enforceable may have a material effect on the financial position of our Group:-

	RMB'000	RM'000
Contracted but not provided for:-		
- Construction of factories and staff quarters	44,000	22,669
- Construction of an office building	64,000	32,973
Approved but not contracted for:-		
- Purchase of property, plant and equipment	10,000	5,152
	118,000	60,794

The above capital expenditure will be financed via the gross proceeds from the Public Issue as detailed in Section 2.7 of this Prospectus and our internally generated funds.

**9.4.8 Material litigation / arbitration and contingent liabilities**

**(i) Material litigation / arbitration**

As at LPD, our Group is not engaged whether as plaintiff or defendant in any legal action, proceedings, arbitration or prosecution for any criminal offence, which has a material effect on the financial position of our Group, and our Directors do now know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Group.

**(ii) Contingent liabilities**

As at LPD, our Directors are not aware of any material contingent liabilities, which upon becoming enforceable may have a material effect on the financial position of our Group save as disclosed below:-

	RMB'000	RM'000
Corporate guarantee in respect of the banking facilities granted to third parties - unsecured	3,900	2,009
	3,900	2,009

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## 9. FINANCIAL INFORMATION (Cont'd)

The details of the unsecured corporate guarantees for banking facilities granted to third parties ("**Guarantees**") are as follows: -

Transacting parties	Nature of transaction
HongPeng Footwear and Jinjiang ShuLeMei Industry Co., Ltd.	HongPeng Footwear provided a guarantee of RMB2.6 million for the benefit of Jinjiang ShuLeMei Industry Co., Ltd. in connection with a banking facility granted by Jinjiang Rural Cooperation Bank, Meiling Sub Branch to Jinjiang ShuLeMei Industry Co., Ltd. The guarantee is valid from 7 January 2010 to 7 January 2012.
HongPeng Footwear and Jinjiang DaLiLai Leather Industry Co., Ltd.	HongPeng Footwear provided a guarantee of RMB3.3 million for the benefit of Jinjiang DaLiLai Leather Industry Co., Ltd. in connection with a banking facility granted by Jinjiang Rural Cooperation Bank, Meiling Sub Branch to Jinjiang DaLiLai Leather Industry Co., Ltd. The guarantee is valid from 10 October 2009 to 10 October 2011.

Neither Jinjiang ShuLeMei Industry Co., Ltd. nor Jinjiang DaLiLai Leather Industry Co., Ltd. are our related parties or our subsidiaries and the provision of such guarantees to unrelated third parties were permitted transactions under the laws of the PRC.

In respect of the aforesaid Guarantees, the promoter of our Group, Mr. Ding PengPeng, had given an irrevocable written undertaking that he will:-

- (i) indemnify and keep us / HongPeng Footwear harmless against all damages, claims, losses, demands, charges, costs, expenses and payments for which we / HongPeng Footwear may be liable or become liable, and against all actions, suits, liabilities and proceedings, of whatever nature and howsoever arising, which may be taken or made against us / HongPeng Footwear howsoever arising from the non-payment of any monies payable by the borrowers of the above-mentioned loans (including but not limited to Jinjiang ShuLeMei Industry Co., Ltd. and Jinjiang DaLiLai Leather Industry Co., Ltd.) (collectively, the "**Borrowers**") in respect of any of the loans granted to them or as a result of any breach on our part or on the part of HongPeng Footwear of the Guarantees; and
- (ii) pay or reimburse us / HongPeng Footwear immediately upon demand from us / HongPeng Footwear, in respect of all costs, expenses and fees (including without limitation, all legal costs on a solicitors and clients' basis) of whatever nature howsoever arising, which are incurred by us / HongPeng Footwear as a result of or arising from the non-payment of any monies payable by the Borrowers in respect of any of the loans granted to them or as a result of any breach on our part or on the part of HongPeng Footwear of the Guarantees.

Our Company has also undertaken not to enter into any transactions of such a nature in the future that could or would involve the provision of financial assistance to or in favour of third parties save and except as permitted under the provisions of the Listing Requirements.

## 9. FINANCIAL INFORMATION (Cont'd)

### 9.4.9 Key financial ratios

The key financial ratios of our Group are as follows:-

	FYE			1H
	2006	2007	2008	2009 <sup>(2)</sup>
Trade receivable turnover (days) <sup>(1)</sup>	107	135	113	135
Trade payable turnover (days) <sup>(1)</sup>	104	142	118	136
Inventory turnover (days) <sup>(1)</sup>	72	96	39	24

Notes:-

(1) Based on closing balance as at balance sheet dates.

(2) Turnover period computed based on 181 days.

### 9.4.10 Trade receivables

Our Group's normal credit period given to our trade debtors is 90 days. Trade debts exceeding the normal credit period are not significant as at 30 June 2009.

The trade receivables collection period throughout the three (3) financial years under review exceeded the normal credit period given, due to slow repayments from certain customers. Nevertheless, the turnover period was still within an acceptable and manageable level. In FYE 2007, the receivables turnover period was slightly higher due to an increase in revenue. In FYE 2008, the receivables turnover period was successfully reduced to 113 days, due to better credit control and prompt payments by major customers. However, the turnover period extended to 135 days in 1H 2009, due to favourable market response towards new products launched for the new season, which was corroborated by an increase in sales being achieved in the 2<sup>nd</sup> quarter of FYE 2009, coupled with new distributors being appointed in that period.

In the FYE 2008, bad debts of RMB1,259 and allowance for doubtful debts of RMB196,527 have been recognised in the proforma consolidated financial information for the long outstanding debts where the management is in the opinion that the recoverability of these amounts are uncertain.

In the 1H 2009, bad debts of RMB628 have been recognised in the proforma consolidated financial information for the long outstanding debts where the management is in the opinion that the recoverability of these amounts are uncertain. No further allowance for doubtful debts were provided in the 1H 2009 as the remaining trade receivables maintained good repayment history.

Other than the above, no allowance for doubtful debts or bad debts written off have been made for trade receivables in our proforma consolidated financial information.

Our Group's audited trade receivables balance and the ageing analysis thereon as at 30 June 2009 were as follows:-

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**9. FINANCIAL INFORMATION (Cont'd)**

As at 30 June 2009	Within normal credit periods			Exceeding normal credit periods	Total RMB'000
	0-30 days RMB'000	31-60 days RMB'000	61-90 days RMB'000	> 91 days RMB'000	
Gross trade receivables	109,454	77,521	74,326	19,127	280,428
Allowance for doubtful debts	-	-	-	(197)	(197)
Net Group trade receivables (RMB'000)	109,454	77,521	74,326	18,930	280,231
Net Group trade receivables (RM'000)	56,391	39,939	38,293	9,752	144,375
% of total trade receivables	39.1	27.7	26.5	6.7	100.0

**9.4.11 Trade payables**

The normal credit period granted to us by our trade suppliers is 90 days. In view of the good relationship with our major suppliers, there were no significant matters in dispute with respect to trade payables for the three (3) financial years and the 1H 2009 under review and there was no legal action initiated by any of the suppliers to demand for payment. Trade payables exceeding the normal credit period were not significant as at 30 June 2009.

Our Group's audited trade payables balance and the ageing analysis thereon as at 30 June 2009 were as follows:-

As at 30 June 2009	Within normal credit periods			Exceeding normal credit periods	Total RMB'000
	0-30 days RMB'000	31-60 days RMB'000	61-90 days RMB'000	> 91 days RMB'000	
Net Group trade payables (RMB'000)	69,940	48,072	53,517	3,827	175,356
Net Group trade payables (RM'000)	36,033	24,767	27,572	1,971	90,343
% of total trade payables	39.9	27.4	30.5	2.2	100.0

Due to significant improvements in our performance in the second half of FYE 2007, our trade payables turnover period extended from 104 days in FYE 2006 to 142 days in FYE 2007. Trade payables turnover period in FYE 2008 was reduced to 118 days; which is close to the 90 days credit period granted by our various suppliers. This was mainly due to prompt payments made to suppliers as a result of our improved cash flows position. The longer turnover period in 1H 2009 was attributable to higher amounts of purchases made between April to June 2009, due to an upsurge in production in preparation for the coming Autumn/Winter season and improvement in sales during the 2<sup>nd</sup> quarter of FYE 2009.

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## 9. FINANCIAL INFORMATION (Cont'd)

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### 9.4.12 Inventories

Raw materials held by our Group comprised shoe soles, fabrics and synthetic leather. Fabrics and synthetic leathers are the key materials used to form the body of the sports shoes manufactured by our Group.

Finished goods mainly consist of different categories of shoes manufactured by our Group. Major products include skateboarding shoes, basketball shoes, running shoes and tennis shoes. Included in finished goods as at 31 December 2007 were sport apparel of RMB10.2 million, which were directly purchased from suppliers for resale to distributors.

Inventories level increased by 115% to RMB67.9 million as at 31 December 2007 as compared with 31 December 2006. The higher inventories balance was mainly due to additional finished goods that had been maintained for sports apparel following our penetration into the sports apparel market in the 2<sup>nd</sup> quarter of 2007.

The inventories turnover period of our Group has been maintained as low as possible during recent financial years / period. Production planning based on sales orders, coupled with strong supply chain for raw materials due to the long term relationship with key suppliers and concentration of raw materials suppliers within neighbouring areas to our factory, enable lower inventory levels to be maintained by our Group for finished goods and raw materials. This had contributed to the significant improvement in the average inventories turnover period in FYE 2008, which reduced to 39 days from 96 days in FYE 2007. In 1H 2009, inventory turnover further improved to 24 days due to better inventory management.

## 9.5 TREND INFORMATION

As at LPD, to the best of our Directors' knowledge and belief, our operations have not been and are not expected to be affected by any of the following:-

- (i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those disclosed in this section, Section 3, Section 4 and Section 5 of this Prospectus;
- (ii) material commitments for capital expenditure, save as set out in Section 9.4.7 of this Prospectus;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as disclosed in this section and in Section 3 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our Group revenue and / or profits, save for those that have been disclosed in this section, Section 4.21, Section 4.22 and Section 5 of this Prospectus;
- (v) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources, other than those disclosed in this section, Section 3, Section 4 and Section 5 of this Prospectus; and



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**9. FINANCIAL INFORMATION (Cont'd)**

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- (vi) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of our future financial performance and position other than those disclosed in this section and in Section 3 of this Prospectus.

Our Board of Directors is optimistic about the future prospects of our Group, and the outlook of the sports footwear industry, due to the factors set out in Sections 5.11, 5.6, 5.3, 5.12, and 4.22 of this Prospectus, in consideration of our Group's competitive strengths as set out in Section 4.5 of this Prospectus, the factors and trends affecting our future financial condition and results as set out in Sections 9.3.1, 9.3.2 and 9.3.3 of this Prospectus, and our Group's dedication to implement the future plans and strategies as set out in Section 4.21 of this Prospectus.

As at LPD, our sales orders (based on sales contracts signed with our customers) for the next three (3) months stands at approximately RMB251.1 million whereby RMB161.2 million is for sports shoes and RMB89.9 million is for sports apparel, accessories and equipment. These orders may be subjected to cancellation, deferral or rescheduling by our customers. As such, our order book may not be indicative of our revenue for the succeeding period.

The significant size of our order book is a barometer of the continuing consumer-market demand for our sports shoes and apparel, accessories and equipment across our extensive distribution network. In addition, it is indicative of the continuing health of China's domestic demand for mass-market sports shoes and apparel, accessories and equipment.

**9.6 DIVIDEND POLICY**

Subject to the Bermuda Companies Act, shareholders in general meeting may from time to time declare 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 Bermuda Companies Act, our Directors may also from time to time declare a dividend or other distribution. Any declaration and payment of dividends in the future will be determined at the sole discretion of the Board of Directors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

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 will depend, *inter-alia*, upon our Group's operating results, financial conditions, other cash requirements including capital expenditures, the terms of the borrowing arrangements (if any), and other factors deemed relevant by our Directors.

Subject to the aforesaid factors, our Directors intend to recommend and distribute dividends of up to 30% of our net profit distributable to our Shareholders with respect to FYE 2010 and 2011.

Our Company will declare dividends, if any, in RM and make payment of the dividends in RM. 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.

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**9. FINANCIAL INFORMATION (Cont'd)**

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**9.7 PROFORMA CONSOLIDATED FINANCIAL INFORMATION TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON**

*(Prepared for inclusion in this Prospectus)*



**BDO Binder** (AF 0206)  
Chartered Accountants

12th Floor Menara Uni.Asia  
1008 Jalan Sultan Ismail  
50250 Kuala Lumpur Malaysia  
Telephone : (603) 2616 2888  
Facsimile : (603) 2616 3190, 2616 3191  
Website : www.bdobinder.com

Our ref: BDOB/GHS/TSF

25 September 2009

**The Board of Directors**  
**XiDeLang Holdings Ltd**  
Clarendon House, 2 Church Street  
Hamilton HM11, Bermuda  
c/o HongPeng Building, Yangguang East Road  
Hua Ting Kou Industrial Zone, Chendai County  
Jinjiang City, Fujian Province  
Peoples' of Republic of China

Dear Sirs

**XIDELANG HOLDINGS LTD ("XiDeLang" or "the Company")**  
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

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We have reviewed the proforma consolidated financial information of XiDeLang Holdings Ltd ("XiDeLang" or "the Company") and its subsidiaries ("XiDeLang Group", "Proforma Group" or "the Group") for the three (3) financial years ended ("FYE") 31 December 2006, 31 December 2007, 31 December 2008 and for the financial period from 1 January 2009 to 30 June 2009 ("FPE 30 June 2009"), with the accompanying notes thereon (stamped by us for identification purpose only) prepared for illustration purpose only. These proforma consolidated financial information are prepared based on the audited financial statements of the Company, Hong Kong XinYuanChan International Holding Co., Limited ("XinYuanChan"), HongPeng (Fujian) Shoes & Garments Co., Ltd. ("HongPeng (Fujian)"), Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. ("HongPeng Footwear") and Fujian Province Jinjiang City XiDeLang Sports Goods Co., Ltd. ("XiDeLang Sports Goods"), after making certain assumptions and such adjustments to show the effects on:-

- (a) the consolidated financial results of XiDeLang Group for the financial years/period under review had XiDeLang Group structure as of the date of the prospectus been in existence throughout the financial years/period under review;
- (b) the financial position of XiDeLang Group as at 30 June 2009 had XiDeLang Group structure as of the date of the prospectus been in existence on 30 June 2009; and
- (c) the consolidated cash flows of XiDeLang Group for the FPE 30 June 2009 had XiDeLang Group structure as of the date of the prospectus been in existence throughout the FPE 30 June 2009.

The proforma consolidated financial information, because of its nature, may not reflect the XiDeLang 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.

The proforma consolidated financial information have been prepared for inclusion in the prospectus of XiDeLang to be dated 23 October 2009 in connection with the listing of and quotation for the entire issued and paid-up share capital of XiDeLang on Main Market of Bursa Malaysia Securities Berhad.

**9. FINANCIAL INFORMATION (Cont'd)**

*XiDeLang Holdings Ltd (Bermuda Company No. 43136)*  
*Proforma Consolidated Financial Information*



It is the sole responsibility of the Directors of XiDeLang Group to prepare the proforma consolidated financial information in accordance with the requirements of the Prospectus Guidelines – Equity and Debt issued by Securities Commission (“Prospectus Guidelines”). Our responsibility is to form an opinion as required by the Prospectus Guidelines on the proforma consolidated financial information.

In providing this opinion, we are not updating or re-issue any reports or opinion previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept the responsibility for such reports or opinions beyond that is owed to those to whom those letter or opinions were addresses by us at the date of their issue.

Our work consisted primarily of comparing the unadjusted financial information presented with their original form, considering the adjustments and discussing the proforma consolidated financial information with management of XiDeLang Group. Our works involve no independent examination of any of the underlying financial information other than our audit of the financial statements of HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods for the FYE 31 December 2006, 31 December 2007, 31 December 2008 and FPE 30 June 2009, financial statements of XinYuanChan for the FPE 30 June 2009 and financial statements of the Company for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 prepared in accordance with applicable approved Financial Reporting Standards (“FRSs”) in Malaysia for the purpose of submissions to Securities Commission and preparation of the prospectus in relation to the proposed initial public offering (“IPO”) in Malaysia.

In our opinion:

- (i) the proforma consolidated financial information of XiDeLang Group, which are prepared for illustrative purposes only, have been properly compiled on the basis and assumptions as set out in the notes thereon, and such basis is consistent with the accounting policies to be adopted by XiDeLang Group;
- (ii) the audited financial statements used in the preparation of the proforma consolidated financial information, have been prepared in accordance with applicable approved FRSs in Malaysia (other than as disclosed in Note (iii) below) and the proforma consolidated financial information have been properly prepared in a manner consistent with the format of the financial statements to be adopted by XiDeLang Group;
- (iii) the audited statutory financial statements (which have been prepared in accordance with applicable approved Hong Kong Financial Reporting Standards (“HKFRSs”) and audited by another certified public accountants in Hong Kong Special Administrative Region (“HKSAR”) for the local statutory purpose) of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 used in the preparation of the proforma consolidated financial information, whose report dated 18 July 2009, expressed a qualified opinion on no consolidated financial statements being prepared in accordance with the HKFRSs. We have considered the qualified audit opinion on XinYuanChan’s financial statements and are of the opinion that there will not be any impact on the proforma consolidated financial information presented in this report as the proforma consolidated financial information has consolidated the financial statements of XinYuanChan and its subsidiaries after taking into account of consolidation adjustments at XiDeLang Group. In addition, there is no significant difference between the FRSs in Malaysia and HKFRSs in the context of XinYuanChan’s financial statements for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and neither adjustment is required nor reconciliation is presented for the financial statements prepared under these two accounting standards; and
- (iv) each material adjustment made to the information used in the preparation of the proforma consolidated financial information are appropriate for the purposes of preparing the proforma consolidated financial information.

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**9. FINANCIAL INFORMATION (Cont'd)**

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*XiDeLang Holdings Ltd (Bermuda Company No. 43136)*  
*Proforma Consolidated Financial Information*



This letter has been prepared solely for the purpose stated above, in connection with the listing of and quotation for the entire issued and paid-up share capital of XiDeLang on the Main Market of Bursa Malaysia Securities Berhad. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

*BDO Binder*

**BDO Binder**  
AF : 0206  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Gan Hock Soon', with a horizontal line underneath.

**Gan Hock Soon**  
2853/07/10 (J)  
Partner

## 9. FINANCIAL INFORMATION (Cont'd)

### *XiDeLang Holdings Ltd (Bermuda Company No. 43136)* *Proforma Consolidated Financial Information*

#### 1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME

##### 1.1 Proforma Group and basis of preparation

The proforma consolidated financial information of XiDeLang Holdings Ltd (“XiDeLang” or “the Company”) and its subsidiaries (“XiDeLang Group”, “Proforma Group” or “the Group”) are prepared for illustrative purposes only and have been prepared using the bases and the accounting policies consistent with those to be adopted by XiDeLang Group, after giving effect to the adjustments considered appropriate, based on the following:

- (a) the audited financial statements (which have been prepared in accordance with applicable approved Financial Reporting Standards (“FRSs”) in Malaysia and audited by BDO Binder, Malaysia) of the Company for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 and of HongPeng (Fujian) Shoes & Garments Co., Ltd. (“HongPeng (Fujian)”), Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. (“HongPeng Footwear”) and Fujian Province Jinjiang City XiDeLang Sports Goods Co., Ltd. (“XiDeLang Sports Goods”) for the financial years ended (“FYE”) 31 December 2006, 31 December 2007, 31 December 2008 and financial period from 1 January 2009 to 30 June 2009 (“FPE 30 June 2009”);
- (b) the audited statutory financial statements for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 (which have been prepared in accordance with applicable approved Hong Kong Financial Reporting Standards (“HKFRSs”) and audited by Vision A.S. Limited, Hong Kong Special Administrative Region (“HKSAR”) for the local statutory purpose) of Hong Kong XinYuanChan International Holding Co., Limited (“XinYuanChan”) and the audited financial statements of XinYuanChan for the FPE 30 June 2009 (which have been prepared in accordance with applicable approved Financial Reporting Standards (“FRSs”) in Malaysia and audited by BDO Binder, Malaysia for the purpose of the preparation of the prospectus).



The audited financial statements used in the preparation of this report for the financial years/period under review were not subject to any qualification except for the audited statutory financial statements of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008, which were qualified on no consolidated financial statements being prepared in accordance with the requirements of HKFRSs. As the proforma consolidated financial information has consolidated the financial statements of XinYuanChan and its subsidiaries after taking into account of consolidation adjustments at XiDeLang Group, the qualified opinion would not have any impact on the proforma consolidated financial information.

Where relevant, adjustments have been made to comply with applicable approved FRSs in Malaysia for the purpose of inclusion in the proforma consolidated financial information.

Elimination of intra-group transactions has also been made on the assumption that XiDeLang Group had been in existence throughout the financial years/period under review.

The proforma consolidated financial information comprises the following:-

Section 4 – Proforma Consolidated Income Statements for the FYE 31 December 2006, 31 December 2007, 31 December 2008 and FPE 30 June 2009 on the assumption that the XiDeLang Group structure as of the date of the prospectus been in existence throughout the financial years/period under review;

**9. FINANCIAL INFORMATION (Cont'd)**

**XiDeLang Holdings Ltd (Bermuda Company No. 43136)**  
**Proforma Consolidated Financial Information**

**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.1 Proforma Group and Basis of preparation (continued)**

Section 5 – Proforma Consolidated Balance Sheets as at 30 June 2009 on the assumption that the XiDeLang Group structure as of the date of the prospectus been in existence on 30 June 2009;

Section 6 – Proforma Consolidated Cash Flow Statement for the FPE 30 June 2009 on the assumption that the XiDeLang Group structure as of the date of the prospectus been in existence throughout the FPE 30 June 2009; and

Section 7 – Proforma Consolidated Statement of Assets and Liabilities as at 30 June 2009 on the assumption that the XiDeLang Group structure as of the date of the prospectus been in existence on 30 June 2009.

The proforma consolidated financial information were also prepared, together with the accompanying notes thereto, which have been prepared solely for illustrative purposes, to show the effects of the listing scheme disclosed in Section 1.2 had the listing scheme been implemented and completed throughout the financial years/period under review.

The proforma consolidated financial information, because of its nature, may not reflect the XiDeLang 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.

The audited financial statements of the Company were presented in US Dollar ("USD") and the audited financial statements of its subsidiaries were presented in Renminbi ("RMB"). In preparing this report, the financial information was translated into Ringgit Malaysia ("RM") for information purposes.

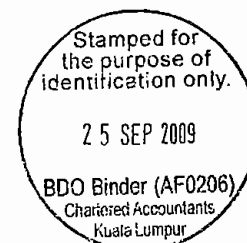
The exchange rates as used for the purpose of this report are as follows:

**Financial years/period ended (average rate)**

31 December 2006	RMB1.00: RM0.4600
31 December 2007	RMB1.00: RM0.4517
31 December 2008	RMB1.00: RM0.4799
30 June 2009	RMB1.00: RM0.5248

**As at (closing rate)**

31 December 2006	RMB1.00: RM0.4523
31 December 2007	RMB1.00: RM0.4528
31 December 2008	RMB1.00: RM0.5061
30 June 2009	RMB1.00: RM0.5152
31 December 2008	HKD1.00: RM0.4455
30 June 2009	HKD1.00: RM0.4541
31 December 2008	USD1.00: RM3.4675
30 June 2009	USD1.00: RM3.5191
31 December 2008	USD1.00: RMB6.8277
30 June 2009	USD1.00: RMB6.8305
31 December 2008	HKD1.00: RMB0.8804
30 June 2009	HKD1.00: RMB0.8813



**9. FINANCIAL INFORMATION (Cont'd)**

**XiDeLang Holdings Ltd (Bermuda Company No. 43136)**  
**Proforma Consolidated Financial Information**

**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.2 Listing Scheme**

In conjunction with and as an integral part of the listing of XiDeLang on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing"), the Company will undertake the Public issue of 100,000,000 new ordinary shares of USD0.10 each ("Shares") ("Public Issue") comprising:-

- (i) 10,000,000 Shares available for application by the Malaysian Public; and
- (ii) 90,000,000 Shares available for private placement to selected investors;

at an issue / offer price of RM0.58 per Shares ("IPO Price") in full on application in conjunction with the listing of XiDeLang on the Main Market of Bursa Securities.

**1.3 New FRSs and Amendments to FRSs adopted**

The Group has adopted all the following new FRSs and amendments to FRSs that are effective on or before 1 January 2008 for the preparation of the financial statements for the FYE 31 December 2006, 31 December 2007, 31 December 2008 and FPE 30 June 2009:

FRS 1	<i>First-time Adoption of Financial Reporting Standards</i>
FRS 2	<i>Share-based Payment</i>
FRS 3	<i>Business Combinations</i>
FRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
FRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
FRS 101	<i>Presentation of Financial Statements</i>
FRS 102	<i>Inventories</i>
FRS 107	<i>Cash Flow Statements</i>
FRS 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
FRS 110	<i>Events after the Balance Sheet Date</i>
FRS 111	<i>Construction Contracts</i>
FRS 112	<i>Income Taxes</i>
FRS 114 <sup>2004</sup>	<i>Segmental Reporting</i>
FRS 116	<i>Property, Plant and Equipment</i>
FRS 117	<i>Leases</i>
FRS 118	<i>Revenue</i>
FRS 119	<i>Employee Benefits</i>
Amendment to FRS 119 <sup>2004</sup>	<i>Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures</i>
FRS 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
FRS 121	<i>The Effects of Changes in Foreign Exchange Rates</i>
Amendment to FRS 121	<i>The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation</i>
FRS 123 <sup>2004</sup>	<i>Borrowing Costs</i>
FRS 124	<i>Related Party Disclosures</i>



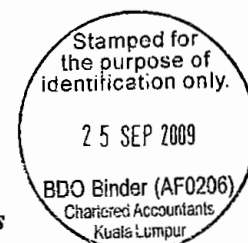
**9. FINANCIAL INFORMATION (Cont'd)**

***XiDeLang Holdings Ltd (Bermuda Company No. 43136)***  
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**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.3 New FRSs and Amendments to FRSs adopted (continued)**

FRS 127	<i>Consolidated and Separate Financial Statements</i>
FRS 128	<i>Investments in Associates</i>
FRS 131	<i>Interests in Joint Ventures</i>
FRS 132	<i>Financial Instruments: Disclosure and Presentation</i>
FRS 133	<i>Earnings Per Share</i>
FRS 134	<i>Interim Financial Reporting</i>
FRS 136	<i>Impairment of Assets</i>
FRS 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
FRS 138	<i>Intangible Assets</i>
FRS 140	<i>Investment Property</i>
IC Interpretation 107	<i>Introduction of the Euro</i>
IC Interpretation 110	<i>Government Assistance - No Specific Relation to Operating Activities</i>
IC Interpretation 112	<i>Consolidation - Special Purpose Entities</i>
IC Interpretation 113	<i>Jointly Controlled Entities - Non Monetary Contributions by Ventures</i>
IC Interpretation 115	<i>Operating Leases – Incentives</i>
IC Interpretation 121	<i>Income Taxes - Recovery of Revalued Non-Depreciable Assets</i>
IC Interpretation 125	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>
IC Interpretation 127	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
IC Interpretation 129	<i>Disclosure - Service Concession Arrangements</i>
IC Interpretation 131	<i>Reserve - Barter Transactions Involving Advertising Transactions</i>
IC Interpretation 132	<i>Intangible Assets - Web Site Costs</i>
IC Interpretation 201	<i>Preliminary and Pre-operating Expenditure</i>
IC Interpretation 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
IC Interpretation 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
IC Interpretation 5	<i>Rights to Interests arising From Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IC Interpretation 6	<i>Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment</i>
IC Interpretation 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IC Interpretation 8	<i>Scope of FRS 2: Share-based Payments</i>



FRS 2, FRS 5, FRS 6, FRS 111, FRS 114<sub>2004</sub>, Amendment to FRS 119<sub>2004</sub>, FRS 120, Amendment to FRS 121 and FRS 131, and abovementioned IC Interpretations are not relevant to the Group during the financial years /period under review.

The adoption of other FRSs and IC Interpretations did not result in changes to the Group's accounting policies and did not materially affect the net profit of the Group for the FYE 31 December 2006, 31 December 2007, 31 December 2008 and FPE 30 June 2009.



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**9. FINANCIAL INFORMATION (Cont'd)**

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**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.4 Framework for the Preparation and Presentation of Financial Statements (“Framework”)**

The Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. It is not a Malaysian Accounting Standard Board’s approved FRS as defined in paragraph 11 of FRS 101 Presentation of Financial Statements and hence, does not define standards for any particular measurement or disclosure issue.

**1.5 New FRSs and IC Interpretations not adopted**

The disclosures of the below New FRSs and IC Interpretations not adopted by the Company and its subsidiaries are based on audited financial statements for the FPE 30 June 2009 of XiDeLang and its subsidiaries respectively.

***New FRSs not adopted***

- (a) **FRS 8 *Operating Segments*** and the consequential amendments resulting from FRS 8 are mandatory for annual financial periods beginning on or after 1 July 2009.

FRS 8 sets out the requirements for disclosure of information on an entity’s operating segments, products and services, the geographical areas in which it operates and its customers. The requirements of this Standard are based on the information about the components of the entity that management uses to make decisions about operating matters. This Standard requires identification of operating segments on the basis of 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.

This Standard also requires the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. Segment information for prior years that is reported as comparative information for the initial year of application would be restated to conform to the requirements of this Standard.

The Group does not expect any impact on the financial statements arising from the adoption of this Standard in future.

- (b) **FRS 4 *Insurance Contracts*** and the consequential amendments resulting from FRS 4 are mandatory for annual financial periods beginning on or after 1 January 2010. FRS 4 replaces the existing FRS 202<sub>2004</sub> *General Insurance Business* and FRS 203<sub>2004</sub> *Life Insurance Business*.

This Standard applies to all insurance contracts, including reinsurance contracts that an entity issues and to reinsurance contracts that it holds. This Standard prohibits provisions for potential claims under contracts that are not in existence at the reporting date, and requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets. This Standard also requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

By virtue of the exemption provided under paragraph 41AA of FRS 4, the impact of applying FRS 4 on the consolidated financial statements upon first adoption of the FRS as required by paragraph 30(b) of FRS 108 is not disclosed.



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**9. FINANCIAL INFORMATION (Cont'd)**

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**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.5 New FRSs and IC Interpretations not adopted (continued)**

***New FRSs not adopted (continued)***

- (c) ***FRS 7 Financial Instruments: Disclosures*** and the consequential amendments resulting from FRS 7 are mandatory for annual financial periods beginning on or after 1 January 2010. FRS 7 replaces the disclosure requirements of the existing FRS 132 *Financial Instruments: Disclosure and Presentation*.

This Standard applies to all risks arising from a wide array of financial instruments and requires the disclosure of the significance of financial instruments for an entity's financial position and performance. By virtue of the exemption provided under paragraph 44AB of FRS 7, the impact of applying FRS 7 on the financial statements upon first adoption of the FRS as required by paragraph 30(b) of FRS 108 is not disclosed.

- (d) ***FRS 123 Borrowing Costs*** and the consequential amendments resulting from FRS 123 are mandatory for annual periods beginning on or after 1 January 2010.

This Standard removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. However, capitalisation of borrowing costs is not required for assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

The Group does not expect any impact on the financial statements arising from the adoption of this Standard in future.

- (e) ***FRS 139 Financial Instruments: Recognition and Measurement*** and the consequential amendments resulting from FRS 139 are mandatory for annual financial periods beginning on or after 1 January 2010.

This Standard establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted. By virtue of the exemption provided under paragraph 103AB of FRS139, the impact of applying FRS 139 on the financial statements upon first adoption of the standard as required by paragraph 30(b) of FRS 108 is not disclosed.

- (f) ***Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations*** are mandatory for annual financial periods beginning on or after 1 January 2010.

These amendments clarify that vesting conditions comprise service conditions and performance conditions only. Cancellations by parties other than the Group are accounted for in the same manner as cancellations by the Group itself and features of a share-based payment that are non-vesting conditions are included in the grant date fair value of the share-based payment.

Amendments to FRS 2 are not relevant to the Group's financial statements.



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**9. FINANCIAL INFORMATION (Cont'd)**

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**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.5 New FRSs and IC Interpretations not adopted (continued)**

***New FRSs not adopted (continued)***

- (g) Amendments to FRS 1 *First-time Adoption of Financial Reporting Standards* and FRS 127 *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* is mandatory for annual periods beginning on or after 1 January 2010.

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The cost method of accounting for an investment has also been removed pursuant to these amendments.

Amendments to FRS 1 and FRS 127 are not relevant to the Group's financial statements.

- (h) IC Interpretation 9 *Reassessment of Embedded Derivatives* is mandatory for annual financial periods beginning on or after 1 January 2010.

This Interpretation prohibits the subsequent reassessment of embedded derivatives unless there is a change in the terms of the host contract that significantly modifies the cash flows that would otherwise be required by the host contract.

IC Interpretation 9 is not relevant to the Group's financial statements.

- (i) IC Interpretation 10 *Interim Financial Reporting and Impairment* is mandatory for annual financial periods beginning on or after 1 January 2010.

This Interpretation prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The Group does not expect any material impact on the consolidated financial statements arising from the adoption of this Interpretation in the future.

- (j) IC Interpretation 11 *FRS 2 – Group and Treasury Share Transactions* is mandatory for annual periods beginning on or after 1 January 2010.

This Interpretation requires share-based payment transactions in which the Company receives services from employees as consideration for its own equity instruments to be accounted for as equity-settled, regardless of the manner of satisfying the obligations to the employees.

If the Company grants rights to its equity instruments to the employees of its subsidiaries, this Interpretation requires the Company to recognise the equity reserve for the obligation to deliver the equity instruments when needed whilst the subsidiaries shall recognise the remuneration expense for the services received from employees.

If the subsidiaries grant rights to equity instruments of the Company to its employees, this Interpretation requires the Company to account for the transaction as cash-settled, regardless of the manner the subsidiaries obtain the equity instruments to satisfy its obligations.

IC Interpretation 11 is not relevant to the Group's financial statements.



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**9. FINANCIAL INFORMATION (Cont'd)**

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***XiDeLang Holdings Ltd (Bermuda Company No. 43136)***  
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**1. PROFORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)**

**1.5 New FRSs and IC Interpretations not adopted (continued)**

***New IC Interpretations not adopted (continued)***

- (k) IC Interpretation 13 *Customer Loyalty Programmes* is mandatory for annual periods beginning on or after 1 January 2010.

This Interpretation requires the separation of award credits as a separately identifiable component of sales transactions involving the award of free or discounted goods or services in the future. The fair value of the consideration received or receivable from the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, the consideration allocated to the award credits shall only be recognised as revenue when the award credits are redeemed. If a third party supplies the awards, the Group shall assess whether it is acting as a principal or agent in the transaction.

If the Group is acting as the principal in the transaction, it shall measure its revenue as the gross consideration allocated to the award credits. If the Group is acting as an agent, it shall measure its revenue as the net amount retained on its own account, and recognise the net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive the consideration for doing so.

IC Interpretation 13 is not relevant to the Group's financial statements.

- (l) IC Interpretation 14 *FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* is mandatory for annual periods beginning on or after 1 January 2010.

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. This Interpretation clarifies that an economic benefit is available if the Group can realise it at some point during the life of the plan or when the plan liabilities are settled, and that it does not depend on how the Group intends to use the surplus.

A right to refund is available to the Group in stipulated circumstances and the economic benefit available shall be measured as the amount of the surplus at the balance sheet date less any associated costs. If there are no minimum funding requirements, the economic benefit available shall be determined as a reduction in future contributions as the lower of the surplus in the plan and the present value of the future service cost to the Group. If there is a minimum funding requirement for contributions relating to the future accrual of benefits, the economic benefit available shall be determined as a reduction in future contributions at the present value of the estimated future service cost less the estimated minimum funding required in each financial period.

IC Interpretation 14 is not relevant to the Group's financial statements.



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9. FINANCIAL INFORMATION (Cont'd)

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*XiDeLang Holdings Ltd (Bermuda Company No. 43136)*  
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2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The proforma financial information of XiDeLang Group and financial statements of XiDeLang and its subsidiaries have been prepared under the historical cost convention except as otherwise stated in the financial statements. The preparation of these proforma financial information and financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Section 3 of this report. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from these estimates.

2.2 Basis of consolidation

The proforma consolidated financial information incorporate the financial statements of the Company and all its subsidiaries made up to the end of the financial period.

(i) Business combination involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being combined at the combination date.

In the consolidated financial statements of the merged enterprise, the cost of the merger should be cancelled against the nominal values of the shares/paid-up capital received. The difference between the cost of the merger and nominal values of the shares/paid-up capital received will remain and continue to be classified as part of equity of the Group and will be adjusted against suitable reserve in future, where appropriate. The combination date is the date on which one combining entity effectively obtains control of the other combining entities.

(ii) Business combination involving entities not under common control

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

The subsidiaries acquired under this scenario will be consolidated using the purchase method of accounting.

Under the purchase method of accounting, the cost of business combination is measured at the aggregate of fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the business combination.