
9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

(ii) Business combination involving entities not under common control (continued)

At the acquisition date, the cost of business combination is allocated to identifiable assets acquired, liabilities assumed and contingent liabilities in the business combination which are measured initially at their fair values at the acquisition date. The excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the cost of business combination is less than the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the Group will:

- (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) recognise immediately in profit or loss any excess remaining after that reassessment.

When a business combination includes more than one exchange transaction, any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

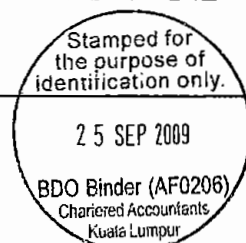
Subsidiaries are consolidated from the date of acquisition, which is the date on which the Group effectively obtains control, until the date on which the Group ceases to control the subsidiaries. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the existence and effect of potential voting rights that are currently or convertible exercisable are taken into consideration.

Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

The gain or loss on disposal of a subsidiary, which is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the carrying amount of goodwill and the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the consolidated income statement.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The annual principal depreciation rates are as follows:

Buildings	5%
Plant and machinery	10%
Electronic equipment	10% - 33.33%
Other equipment	10% - 20%

Construction in-progress represents factory and office building under construction. The depreciation of construction in-progress begin when they are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

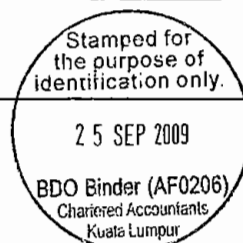
At each balance sheet date, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 2.6 on impairment of assets).

The residual values, useful lives and depreciation method are reviewed at each financial period end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investments in subsidiaries

A subsidiary is an entity in which the Group and the Company have power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. On disposal of such an investment, the difference between the net disposal proceeds and its carrying amount is included in profit or loss.

2.5 Leases

(i) Leases of land

Leasehold land that normally has an indefinite economic life and where the lease does not transfer substantially all the risk and rewards incidental to ownership is treated as an operating lease. The lump-sum upfront payments made on entering into or acquiring leasehold land are accounted for as prepaid lease payments and are amortised over the lease term on a straight line basis.

(ii) Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lease payments under operating leases are recognised as an expense in the income statements on a straight line basis over the lease period.

2.6 Impairment of assets

The carrying amount of assets, except for financial assets (the financial assets in this context do not include investments in subsidiaries), inventories and current tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

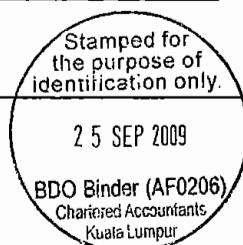
The recoverable amount of an asset is estimated for an individual asset. Where it is not probable to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated to the assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment of assets (continued)

The impairment loss is recognised in profit or loss immediately. An impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

2.7 Inventories

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

Cost is determined using the weighted average formula. The cost of raw materials comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

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

2.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

(i) Financial instruments recognised on the balance sheets

Financial instruments are recognised on the balance sheets when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument are debited directly to equity, net of any related tax effect. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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the purpose of
identification only.

25 SEP 2009

BDO Binder (AF0206)
Chartered Accountants
Kuala Lumpur

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(i) Financial instruments recognised on the balance sheets (continued)

(a) Receivables

Trade and other receivables, including amounts owing by related parties, are classified as loans and receivables under FRS 132.

Receivables are carried at anticipated realisable value. Known bad debts are written off and specific allowances are made for any debts which are considered doubtful of collection.

Receivables are not held for trading purposes. For the receivables that are factored out to financial institutions with recourse term, the corresponding payment from the financial institution is recognised as liability and any fee incurred to effect the factoring is recognised as an expense in the period in which the factoring takes place.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits placed with financial institutions and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk of changes in value. For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(c) Payables

Liabilities for trade and other amounts payable, including amounts owing to related parties are initially recognised and subsequently measured at the consideration to be paid in the future for goods and services received.

(d) Equity instruments

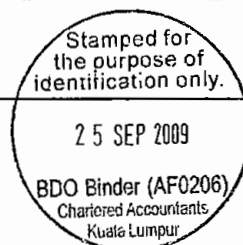
An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Group.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital (or paid-up capital) and capital reserve.

Dividends to shares or equity holders are recognised in equity in the period in which they are declared.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(i) Financial instruments recognised on the balance sheets (continued)

(e) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(ii) Financial instruments not recognised on the balance sheets

There are no financial instruments not recognised on the balance sheets.

2.9 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.10 Taxation

(i) Income taxes

Income taxes include all taxes on taxable profit. Income taxes also include other taxes, such as withholding taxes, which are payable by subsidiary incorporated in the Peoples' Republic of China (the "PRC") on the distributions of earnings to the equity holders incorporated or domiciled outside the PRC.

Taxes in the income statement comprise current tax and deferred tax.

(a) Current tax

Current tax is the amount of income taxes payable or receivable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the balance sheet date.

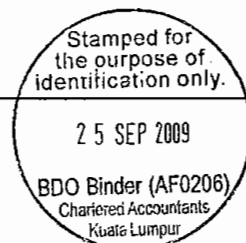
(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

(i) Income taxes (continued)

(b) Deferred tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the financial period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

(ii) Other taxes

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT together with other taxes, such as land use right tax, recoverable from, or payable to, the taxation authority is included as part of "current tax assets" or "current tax liabilities" in the balance sheets respectively in line with the requirements in PRC.

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

- (a) VAT incurred on the purchases of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and
- (b) Receivables and payables are stated with the amount of VAT included.

Land use right tax and other taxes are recognised in the administration and other expenses of the profit or loss.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Provisions

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

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

2.12 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits

(i) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial period when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Defined contribution plan

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureau, whereby the subsidiaries of the Company in the PRC make contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees.

2.14 Foreign currencies

(i) Functional and presentation currency

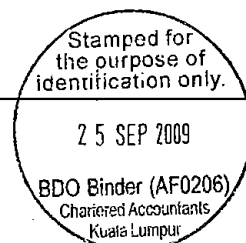
Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The financial statements of the Company are presented in USD, which is also the Company's functional currency. The financial statements of the Company's subsidiaries are presented in RMB, which is also the functional currency of the Company's subsidiaries.

(ii) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currencies at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into functional currencies at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with delivery of goods and services and acceptance by customers.

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.16 Intangible assets

Intangible assets are recognised only when the identifiability, control and future economic benefit probability criterias are met.

The costs incurred for the registrations of trademarks are immaterial and written off to the profit or loss in the financial period in which it is incurred.

Research and development expenditure including the design and production of prototypes of new samples are written off to the profit or loss in the financial period in which it is incurred.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 Significant accounting estimates and judgements

3.1.1 Critical judgements made in applying accounting policies

The following are judgement made by management in the process of applying the Group's accounting policies that has the most significant effect on the amounts recognised in the financial statements.

Basis of consolidation – business combination involving entities under common control

On 9 July 2009, the Company acquired the entire issued and fully paid-up share capital of XinYuanChan of HKD10,000, comprising 10,000 ordinary shares of HKD1.00 each, for an aggregate purchase consideration of USD29,999,999, which is to be 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 USD0.10 per Share ("Acquisition of XinYuanChan").

As at 30 June 2009, XinYuanChan had a subsidiary, namely HongPeng (Fujian). In conjunction with the Listing, on 30 April 2009, HongPeng (Fujian) acquired the entire equity interests of HongPeng Footwear and XiDeLang Sports Goods for considerations of RMB37,000,000 and RMB36,000,000 respectively. The vendors of HongPeng Footwear are Mr Ding JiaXing and Ms Ding LiHong whilst the vendors of XiDeLang Sports Goods are Mr Ding JiaXing and Mr Ding PengPeng.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Significant accounting estimates and judgements (continued)

3.1.1 Critical judgements made in applying accounting policies (continued)

The Group is regarded as continuing entity resulting from the reorganisation exercise since the management of all the entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling parties before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate controlling parties that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest or merger. Accordingly, consolidated financial statements have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries, which were under common control of the ultimate controlling parties and management that existed prior to the reorganisation exercise during the relevant period or since their respective dates of incorporation.

3.1.2 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment

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

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs.

(b) Depreciation and amortisation

The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses charge for the financial period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Contingent liabilities

The determination of treatment of contingent liabilities is based on management's view of the expected outcome of the contingencies for matters in the ordinary course of the business.



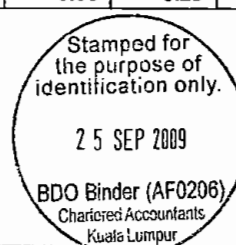
9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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4. PROFORMA CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2007, 31 DECEMBER 2008 AND FINANCIAL PERIOD FROM 1 JANUARY TO 30 JUNE 2009

The Proforma Consolidated Income Statements of XiDeLang Group for the FYE 31 December 2006, 31 December 2007, 31 December 2008 and for the FPE 30 June 2009 have been prepared for illustrative purposes only and after incorporating such adjustments as considered necessary and assuming that the XiDeLang Group had been in existence throughout the financial years/period under review.

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Revenue	207,859	95,615	350,906	158,504	573,939	275,433	375,394	197,006
Cost of sales	(159,212)	(73,237)	(258,177)	(116,618)	(409,888)	(196,705)	(260,959)	(136,951)
Gross profit	48,647	22,378	92,729	41,886	164,051	78,728	114,435	60,055
Other income	240	110	154	69	244	117	152	80
Distribution costs	(6,851)	(3,152)	(7,858)	(3,550)	(15,338)	(7,360)	(7,574)	(3,975)
Administrative and other expenses	(5,841)	(2,686)	(7,678)	(3,468)	(10,524)	(5,050)	(4,834)	(2,537)
Finance costs	(1,052)	(484)	(1,421)	(642)	(2,872)	(1,378)	(1,974)	(1,035)
Profit before tax	35,143	16,166	75,926	34,295	135,561	65,057	100,205	52,588
Tax expense	(9,309)	(4,282)	(18,533)	(8,371)	(34,733)	(16,668)	(27,435)	(14,398)
Net profit for the financial years/period	25,834	11,884	57,393	25,924	100,828	48,389	72,770	38,190
Number of ordinary shares in issue ('000)	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Gross profit margin (%)	23.40	23.40	26.43	26.43	28.58	28.58	30.48	30.48
Pre-tax profit margin (%)	16.91	16.91	21.64	21.64	23.62	23.62	26.69	26.69
Effective tax rate (%)	26.49	26.49	24.41	24.41	25.62	25.62	27.38	27.38
Earnings before interest, tax, depreciation and amortisation	37,036	17,035	78,863	35,623	140,376	67,368	102,959	54,033
Gross earnings per share (RMB/RM)	0.09	0.04	0.19	0.09	0.34	0.16	0.25	0.13
Net earnings per share (RMB/RM)	0.06	0.03	0.14	0.06	0.25	0.12	0.18	0.10



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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4. PROFORMA CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2007, 31 DECEMBER 2008 AND FINANCIAL PERIOD FROM 1 JANUARY 2009 TO 30 JUNE 2009 (continued)

NOTES TO THE PROFORMA CONSOLIDATED INCOME STATEMENTS

- (a) For the purpose of presentation, all the income statement items were translated using the average exchange rates applicable for the respective financial years/period except for the Company where the income statement items for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 were translated using the closing rate as at 30 June 2009.
- (b) The gross profit margin is computed by dividing the gross profit by revenue earned in the respective financial years/period.
- (c) The pre-tax profit margin is computed by dividing the profit before tax by revenue earned in the respective financial years/period.
- (d) The gross earnings per share is computed by dividing the profit before tax by the number of ordinary shares in issue of 400,000,000 Shares after the Public Issue.
- (e) The net earnings per share is computed by dividing the net profit for the financial years/period by the number of ordinary shares in issue of 400,000,000 Shares after the Public Issue.
- (f) All significant inter-company transactions are eliminated on consolidation and the consolidated results reflect external transactions only.
- (g) No diluted earnings per share is shown as there were no potential dilutive shares in issue during the financial years/period under review.
- (h) There were no minority interests.
- (i) There was no share of profits of joint ventures or associates.
- (j) There were no exceptional or extraordinary items throughout the financial years/period under review.



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009

The Proforma Consolidated Balance Sheets of XiDeLang Group as at 30 June 2009 have been prepared for illustrative purposes only and after making such adjustments as considered necessary assuming that the XiDeLang Group has been in existence as at 30 June 2009.

	Proforma							
	As at 30 June 2009		I After Acquisition of Xin Yuan Chan		II After Proforma I and Public Issue		III After Proforma II and Utilisation of Proceeds and Listing	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
ASSETS								
Non-current assets								
Property, plant and equipment	-	-	51,269	26,413	51,269	26,413	82,519	42,513
Prepaid lease payments for land	-	-	58,242	30,006	58,242	30,006	58,242	30,006
	-	-	109,511	56,419	109,511	56,419	140,761	72,519
Current assets								
Inventories	-	-	34,146	17,592	34,146	17,592	34,146	17,592
Trade and other receivables	-	-	287,051	147,889	287,051	147,889	287,051	147,889
Current tax assets	-	-	355	183	355	183	355	183
Cash and cash equivalents	-*	-*	73,882	38,064	186,460	96,064	139,682	71,964
	-*	-*	395,434	203,728	508,012	261,728	461,234	237,628
TOTAL ASSETS	-*	-*	504,945	260,147	617,523	318,147	601,995	310,147
EQUITY AND LIABILITIES								
Equity attributable to equity holders of the Company								
Share capital	-*	-*	204,915	105,572	273,220	140,763	273,220	140,763
Share premium	-	-	-	-	44,273	22,809	40,391	20,809
Statutory surplus reserve	-	-	7,528	3,879	7,528	3,879	7,528	3,879
Merger deficit	-	-	(205,314)	(105,777)	(205,314)	(105,777)	(205,314)	(105,777)
Retained earnings	(41)	(21)	166,896	85,985	166,896	85,985	155,250	79,985
	(41)	(21)	174,025	89,659	286,603	147,659	271,075	139,659
TOTAL EQUITY	(41)	(21)	174,025	89,659	286,603	147,659	271,075	139,659

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9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009 (continued)

	Proforma									
	As at 30 June 2009		I After Acquisition of Xin Yuan Chan		II After Proforma I and Public Issue		III After Proforma II and Utilisation of Proceeds and Listing			
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current liabilities										
Trade and other payables	41	21	236,450	121,818	236,450	121,818	236,450	121,818		
Borrowings	-	-	66,500	34,261	66,500	34,261	66,500	34,261		
Current tax liabilities	-	-	27,970	14,409	27,970	14,409	27,970	14,409		
TOTAL LIABILITIES	41	21	330,920	170,488	330,920	170,488	330,920	170,488		
TOTAL EQUITY AND LIABILITIES	-*	-*	504,945	260,147	617,523	318,147	601,995	310,147		
Net (liabilities)/assets	(41)	(21)	174,025	89,659	286,603	147,659	271,075	139,659		
Number of ordinary shares assumed in issue ('000)	***	**	300,000	300,000	400,000	400,000	400,000	400,000		
Net (liabilities)/assets per ordinary share (RMB/RM)	(4.10)	(2.10)	0.58	0.30	0.72	0.37	0.68	0.35		

* Represent USD1, equivalent to RMB6.8305 and RM3.5191

** Represent 10 ordinary shares of USD0.10 each

NOTE TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing rate applicable as at 30 June 2009.



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009 (continued)

5.1 PROFORMA ADJUSTMENTS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

(A) PROFORMA I

The proforma I is stated after the Acquisition of XinYuanChan.

On 9 July 2009, the Company acquired the entire issued and fully paid-up share capital of XinYuanChan of HKD10,000, comprising 10,000 ordinary shares of HKD1.00 each, for an aggregate purchase consideration of USD29,999,999, which to be 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 USD0.10 per Share.

As at 30 June 2009, XinYuanChan had a subsidiary, namely HongPeng (Fujian). In conjunction with the Listing, on 30 April 2009, HongPeng (Fujian) acquired the entire equity interests of HongPeng Footwear and XiDeLang Sports Goods for considerations of RMB37,000,000 and RMB36,000,000 respectively. The vendors of HongPeng Footwear are Mr Ding JiaXing and Ms Ding LiHong whilst the vendors of XiDeLang Sports Goods are Mr Ding JiaXing and Mr Ding PengPeng.

The XiDeLang Group is regarded as continuing entity resulting from the reorganisation exercise since the management of all the entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling parties before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate controlling parties that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest or merger. Accordingly, the Proforma Consolidated Balance Sheets have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries, which were under common control of the ultimate controlling parties and management that existed prior to the reorganisation exercise during the relevant period or since their respective dates of incorporation.

The merger deficit in Proforma I is based on the difference between the amount recorded as cost of merger (comprised the share capital of XiDeLang issued of USD29,999,999 (RMB204,914,993 or RM105,572,204) and stamp duty of HKD463,260 (RMB408,271 or RM210,341) and the nominal value of XinYuanChan's share capital acquired as follows:

	RMB'000	RM'000
Cost of merger	205,323	105,782
Less : Share capital of XinYuanChan (HKD10,000)	<u>(9)</u>	<u>(5)</u>
Merger deficit	<u>205,314</u>	<u>105,777</u>

In addition, the statutory surplus reserves and retained earnings of these subsidiaries as at 30 June 2009 have been combined for the purpose of this Proforma Consolidated Balance Sheets in Proforma I.



9. FINANCIAL INFORMATION (Cont'd)

*XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Proforma Consolidated Financial Information*

**5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009
 (continued)**

5.1 PROFORMA ADJUSTMENTS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (continued)

(B) PROFORMA II

The proforma II is stated after proforma I and after the incorporation of the following events:

(a) Public Issue

In conjunction with the Listing, XiDeLang proposes to undertake a public issue of 100,000,000 new XiDeLang Shares, representing 25% of the enlarged issued and paid-up share capital of XiDeLang, at an indicative IPO Price of RM0.58 per Share to Malaysian public via balloting and selected investors via private placement.

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

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

Upon completion of the abovementioned Acquisition of XinYuanChan and Public Issue, XiDeLang proposes to seek a listing and quotation of its entire enlarged issued share capital comprising 400,000,000 Shares on the Main Market of Bursa Securities (the "Listing and Quotation").

(C) PROFORMA III

The proforma III is stated after proforma II and after the incorporation of the proposed utilisation of proceeds from the Public Issue.

The gross proceeds arising from the Public Issue amounting to RM58,000,000 (approximately RMB112,578,000) are expected to be utilised by XiDeLang Group in the following manner:

	RMB'000	RM'000
Advertising and branding	17,857	9,200
Expansion of marketing and distribution network	35,715	18,400
Research and extension of product portfolio	4,464	2,300
Expansion of production capacity	31,250	16,100
Working capital	7,764	4,000
Estimated Listing expenses	<u>15,528</u>	<u>8,000</u>
Total	<u>112,578</u>	<u>58,000</u>

The Listing expenses are estimated at RM8,000,000 (approximately RMB15,528,000) and will be set off against the share premium account and retained earnings by RM2,000,000 (approximately RMB3,882,000) and RM6,000,000 (approximately RMB11,646,000) respectively.



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009 (continued)
5.1 PROFORMA ADJUSTMENTS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (continued)
(D) SHARE CAPITAL AND RESERVES

The movements in the share capital and reserves of XiDeLang Group are as follows:



	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Merger deficit RMB'000	Retained earnings RMB'000	Total RMB'000
As at 30 June 2009	.*	-	-	-	(41)	(41)
Acquisition of XinYuanChan	204,915 [^]	-	7,528	(205,314)	166,937	174,066
Proforma I	204,915	-	7,528	(205,314)	166,896	174,025
Public Issue	68,305	35,191	-	-	-	112,578
Proforma II	273,220	140,763	7,528	(205,314)	166,896	286,603
Proposed utilisation of proceeds – estimated Listing expenses	-	(3,882)	-	-	(11,646)	(15,528)
Proforma III	273,220	140,763	7,528	(205,314)	155,250	271,075
		20,809	3,879		79,985	139,659

* Represent USD1, equivalent to RMB6.8305 and RM3.5191 which consist of 10 Shares
[^] Represent USD29,999,999, equivalent to approximately RMB204,915,000 (at USD1 : RMB6.8305) and approximately RM105,572,000 (at RMB1 : RM0.5152)

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

5. PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2009 (continued)

5.1 PROFORMA ADJUSTMENTS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (continued)

(E) PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment are as follows:

	RMB'000	RM'000
As at 30 June 2009	-	-
Acquisition of XinYuanChan	51,269	26,413
Proforma I	51,269	26,413
Public Issue	-	-
Proforma II	51,269	26,413
Proposed utilisation of proceeds from Public Issue - Expansion of production capacity (Note 7.1.1)	31,250	16,100
Proforma III	82,519	42,513

(F) CASH AND CASH EQUIVALENTS

The movements of cash and cash equivalents are as follows:

	RMB'000	RM'000
As at 30 June 2009	-*	-*
Acquisition of XinYuanChan - cash and cash equivalents of subsidiaries acquired	73,882	38,064
Proforma I	73,882	38,064
Proceeds from the Public Issue	112,578	58,000
Proforma II	186,460	96,064
Proposed utilisation of proceeds from Public Issue - Expansion of production capacity (Note 7.1.1) - Estimated Listing Expenses (Note 5.1(C))	(31,250) (15,528)	(16,100) (8,000)
Proforma III	139,682	71,964

* Represent USD1, equivalent to RMB6.8305 and RM3.5191



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

6. PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE FPE 30 JUNE 2009

The Proforma Consolidated Cash Flow Statement for the FPE 30 June 2009, for which the Directors of XiDeLang are solely responsible, are prepared for illustrative purposes only and is based on the audited financial statements of the Company and its subsidiaries after making such adjustments considered necessary assuming that the XiDeLang Group had been in existence throughout the FPE 30 June 2009 and adjusted for proceeds from the Public Issue and proposed utilisation of funds.

	Financial period from 1 January 2009 to 30 June 2009	
	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	100,205	52,588
Adjustments for:		
Amortisation of prepaid lease payments for land	609	320
Bad debts written off	1	1
Depreciation of property, plant and equipment	323	170
Interest expense	1,974	1,035
Interest income	(152)	(80)
Inventory written off	196	103
Property, plant and equipment written off	24	13
Operating profit before changes in working capital	103,180	54,150
Changes in working capital:		
Inventories	9,599	5,038
Trade and other receivables	(102,769)	(53,933)
Trade and other payables	79,048	41,484
Cash generated from operating activities	89,058	46,739
Corporate income tax paid	(18,353)	(9,632)
Net cash from operating activities	70,705	37,107
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to related parties	(6,463)	(3,391)
Interest received	152	80
Placement of deposits pledged to bank	(2)	(1)
Additions in property, plant and equipment	(35,004)	(18,370)
Expansion of production capacities	(31,250)	(16,100)
Net cash used in investing activities	(72,567)	(37,782)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(1,945)	(1,021)
Drawdown of bank borrowings	4,000	2,099
Dividends paid to equity holders of a subsidiary	(38,000)	(19,942)
Proceeds from Public Issue	112,578	58,000
Estimated Listing Expenses	(15,528)	(8,000)
Net cash from financing activities	61,105	31,136
Net increase in cash and cash equivalents	59,243	30,461
Cash and cash equivalents at beginning of financial period	78,290	39,622
Effect of changes in exchange rate	-	774
Cash and cash equivalents at end of financial period	137,533	70,857

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9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

6. PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE FPE 30 JUNE 2009 (continued)

Cash and cash equivalents

Cash and cash equivalents included in the Proforma Consolidated Cash Flow Statements comprise the following Proforma Consolidated Balance Sheet amounts:

	<--- As at 30 June 2009 --->	
	RMB'000	RM'000
Cash and bank balances	137,533	70,857
Deposits with a licensed bank	2,149	1,107
	<hr/>	<hr/>
As per Proforma Consolidated Balance Sheet - Proforma III	139,682	71,964
Less: Deposits pledged to a licensed bank as securities	(2,149)	(1,107)
	<hr/>	<hr/>
As per Proforma Consolidated Cash Flow Statement	<u>137,533</u>	<u>70,857</u>

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9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7. PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009

The Proforma Consolidated Statement of Assets and Liabilities of the XiDeLang Group as at 30 June 2009 for which the Directors of XiDeLang are solely responsible, are prepared for illustrative purposes only and is based on the audited financial statements of the Company and its subsidiaries after making such adjustments considered necessary and the Listing had been completed on that date. The Proforma Consolidated Statement of Assets and Liabilities should be read in conjunction with the notes thereon:-

	Note	As at 30 June 2009	
		RMB'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	7.1.1	82,519	42,513
Prepaid lease payments for land	7.1.2	58,242	30,006
		140,761	72,519
Current assets			
Inventories	7.1.3	34,146	17,592
Trade and other receivables	7.1.4	287,051	147,889
Current tax assets	7.1.5	355	183
Cash and cash equivalents	7.1.6	139,682	71,964
		461,234	237,628
TOTAL ASSETS		601,995	310,147
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	7.1.7	273,220	140,763
Share premium	7.1.8	40,391	20,809
Merger deficit	7.1.9	(205,314)	(105,777)
Statutory surplus reserve	7.1.10	7,528	3,879
Retained earnings	7.1.11	155,250	79,985
TOTAL EQUITY		271,075	139,659
Current liabilities			
Trade and other payables	7.1.12	236,450	121,818
Borrowings	7.1.13	66,500	34,261
Current tax liabilities	7.1.5	27,970	14,409
TOTAL LIABILITIES		330,920	170,488
TOTAL EQUITY AND LIABILITIES		601,995	310,147
Proforma net assets per ordinary share attributable to equity holders (RMB/RM)	7.1.14	0.68	0.35

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9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7.1 NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009

7.1.1 PROPERTY, PLANT AND EQUIPMENT

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
Carrying amount		
Buildings*	79,250	40,829
Plant and machinery	3,072	1,582
Electronic equipment	112	58
Other equipment	85	44
	82,519	42,513

* For the purpose of this Proforma Consolidated Statement of Assets and Liabilities as at 30 June 2009, it is assumed that the buildings are completed and the construction in progress of approximately RMB48,000,000 (RM24,729,000) and the expansion of production capacity of approximately RMB31,250,000 (RM16,100,000) as disclosed in Note 5.1 (E) of this Proforma Consolidated Financial Information are classified as building.

7.1.2 PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land represent land use rights situated in the PRC. The Group is granted land use rights for a period of 50 years. The prepaid lease payments for land is amortised on a straight line basis over the lease term.

Prepaid lease payments for land with carrying amount of RMB52,155,214 (RM26,870,366) have been charged to a licensed bank for the banking facilities granted to the Group (Note 7.1.13).

7.1.3 INVENTORIES

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
At cost		
Raw materials	9,898	5,099
Work-in-progress	14,225	7,329
Finished goods	10,023	5,164
	34,146	17,592



9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7.1 NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009 (continued)

7.1.4 TRADE AND OTHER RECEIVABLES

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
Trade receivables		
Third parties	280,428	144,476
Less: Allowance for doubtful debts	(197)	(101)
	280,231	144,375
Other receivables and prepayments		
Third parties	2,460	1,267
Less: Allowance for doubtful debts	(496)	(255)
	1,964	1,012
Prepayments	4,856	2,502
	6,820	3,514
	287,051	147,889

Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group is ninety (90) days.

7.1.5 CURRENT TAX ASSETS/LIABILITIES

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
Current tax assets		
Corporate income tax	355	183
Current tax liabilities		
Corporate income tax	19,647	10,122
Value added tax	5,525	2,846
Land use right tax	682	351
Withholding tax on dividend payable	2,050	1,056
Others	66	34
	27,970	14,409



7.1.6 CASH AND CASH EQUIVALENTS

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
Cash and bank balances	137,533	70,857
Deposits with a licensed bank	2,149	1,107
	139,682	71,964

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7.1 NOTES TO PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009 (continued)

7.1.7 SHARE CAPITAL

The details of the changes in the issued and paid up share capital of the Company since the date of incorporation are as follows:

Date	No of shares allotted ('000)	Cumulative no of shares allotted ('000)	Par value USD	Consideration	Cumulative total issued and fully paid-up share capital USD'000	Cumulative total issued and fully paid-up share capital RMB'000	Cumulative total issued and fully paid-up share capital RM'000
5 May 2009	-*	-*	0.05	Issue (Nil Paid)	-	-	-
30 June 2009	-	-*	0.05	Call for payment	-^	-^	-^
30 June 2009	-**	-**	0.10	Consolidation of two ordinary' shares of USD0.05 each into one Share	-^	-^	-^
9 July 2009	#299,999	300,000	0.10	Acquisition of Xin Yuan Chan	30,000	204,915	105,572
4 November 2009	100,000	400,000	0.10	Public Issue	40,000	273,220	140,763

* Represent 20 shares

^ Represent USD1, equivalent to RMB6.8305 and RM3.5191

** Represent 10 Shares

Represent 299,999,990 Shares

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7.1.8 SHARE PREMIUM

The share premium is in respect of the proceeds in excess of the nominal value of shares issued pursuant to the Public Issue after deducting the estimated Listing expenses as disclosed in Section 5.1 (C).

7.1.9 MERGER DEFICIT

The Group is regarded as continuing entity resulting from the reorganisation exercise since the management of all the entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling parties before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate controlling parties that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest or merger. Accordingly, the Proforma Consolidated Balance Sheets have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries, which were under common control of the ultimate controlling parties and management that existed prior to the reorganisation exercise during the relevant period or since their respective dates of incorporation.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7.1 NOTES TO PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009 (continued)

7.1.9 MERGER DEFICIT (continued)

The merger deficit is arising from the Acquisition of XinYuanChan based on the difference between the amount recorded as cost of merger (comprised the share capital of XiDeLang issued of USD29,999,999 (RMB204,914,993 or RM105,572,204) and stamp duty of HKD463,260 (RMB408,271 or RM210,341)) and the nominal value of XinYuanChan's share capital acquired. Details are as follows:

	RMB'000	RM'000
Cost of merger	205,323	105,782
Less: Share capital of XinYuanChan (HKD10,000)	<u>(9)</u>	<u>(5)</u>
Merger deficit	<u>205,314</u>	<u>105,777</u>

7.1.10 STATUTORY SURPLUS RESERVE

Pursuant to applicable PRC regulations, the subsidiaries incorporated in the PRC are required to allocate 10% of its net profit for the financial period (after offsetting prior financial period losses, if any) to the statutory surplus reserve until it reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiaries, provided that the balance after such issue is not less than 25% of its registered capital.

7.1.11 RETAINED EARNINGS

Pursuant to the New Tax Law and Circular of the State Administration of Taxation, the profits distributed by the Company's subsidiary incorporated in China to the Company's subsidiary incorporated in HKSAR are subject to 5% of withholding tax.

7.1.12 TRADE AND OTHER PAYABLES

Trade payables

Third parties

Other payables and accruals

Third parties

Amounts owing to related parties

Dividend payables to former shares/equity holders of the subsidiaries

Accruals



<-- As at 30 June 2009 -->

	RMB'000	RM'000
Trade payables - Third parties	175,356	90,343
Other payables and accruals - Third parties	1,282	660
Amounts owing to related parties	10,931	5,631
Dividend payables to former shares/equity holders of the subsidiaries	43,479	22,401
Accruals	<u>5,402</u>	<u>2,783</u>
	<u>61,094</u>	<u>31,475</u>
	<u>236,450</u>	<u>121,818</u>

- (a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group is ninety (90) days.
- (b) The amounts owing to related parties represent advances and payments made on behalf, which are unsecured, interest-free and repayable on demand.

9. FINANCIAL INFORMATION (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

7.1 NOTES TO PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2009 (continued)

7.1.13 BORROWINGS

	<-- As at 30 June 2009 -->	
	RMB'000	RM'000
Secured		
Short term bank loans	36,500	18,805
Recourse factoring	8,500	4,379
Bankers' acceptances	7,000	3,607
	<hr/>	<hr/>
	52,000	26,791
Unsecured		
Short term bank loans	14,500	7,470
	<hr/>	<hr/>
	66,500	34,261
	<hr/> <hr/>	<hr/> <hr/>



(a) The short term bank loans are secured by the following:-

- (i) short term loans of RMB20,000,000 (RM10,304,000) are secured by a legal charge over prepaid lease payments for land of subsidiaries; and
- (ii) short term loans of RMB16,500,000 (RM8,500,800) are secured by a legal charge over a building of a Director of the Company.

(b) The bankers' acceptances are secured by the deposits pledged to the bank, a negative pledge on the assets of HongPeng Footwear and guaranteed by a Director of the Company, a third party individual and a third party corporation.

(c) The unsecured short term loans are jointly guaranteed by two (2) Directors of the Company, a third party corporation and a third party individual.

7.1.14 PROFORMA NET ASSETS

Based on the Proforma Consolidated Statement of Assets and Liabilities of XiDeLang Group as at 30 June 2009, the proforma net assets per ordinary share of USD0.10 each is as follows:-

	<--- As at 30 June 2009 --->	
Proforma net assets (RMB'000/RM'000)	271,075	139,659
Number of ordinary shares in issue ('000)	400,000	400,000
Proforma net assets attributable to equity holders per ordinary share of USD0.10 (RMB/RM)	<hr/>	<hr/>
	0.68	0.35
	<hr/> <hr/>	<hr/> <hr/>

9. FINANCIAL INFORMATION (Cont'd)

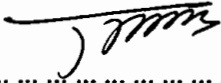
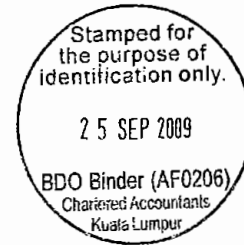
XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Proforma Consolidated Financial Information

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated **25 SEP 2009**.



.....
DING PENGPENG
DIRECTOR
XIDELANG HOLDINGS LTD



.....
DING LIHONG
DIRECTOR
XIDELANG HOLDINGS LTD

10. ACCOUNTANTS' REPORT

(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
ACCOUNTANTS' REPORT (the "Report")

1. INTRODUCTION

This Report has been prepared by BDO Binder, Malaysia, an international accounting firm of chartered accountants registered in Malaysia and an approved company auditor, for inclusion in the prospectus of XiDeLang Holdings Ltd (the "Company" or "XiDeLang") to be dated 23 October 2009 in connection with the listing of and quotation for the enlarged issued and paid-up share capital of XiDeLang on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Scheme"), and should not be relied on for any other purposes. The details of the Listing Scheme are disclosed in Section 2 of this Report.

2. DETAILS OF THE LISTING SCHEME

In conjunction with and as an integral part of the listing of XiDeLang on the Main Market of 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 Share payable in full on application in conjunction with the listing of XiDeLang on the Main Market of Bursa Securities.

3. GENERAL INFORMATION

The Company was incorporated in Bermuda on 17 April 2009 as an exempted company under the Companies Act 1981 of Bermuda. On 12 August 2009, the Company was registered with the Companies Commission of Malaysia as a foreign company in Malaysia.

10. ACCOUNTANTS' REPORT (Cont'd)

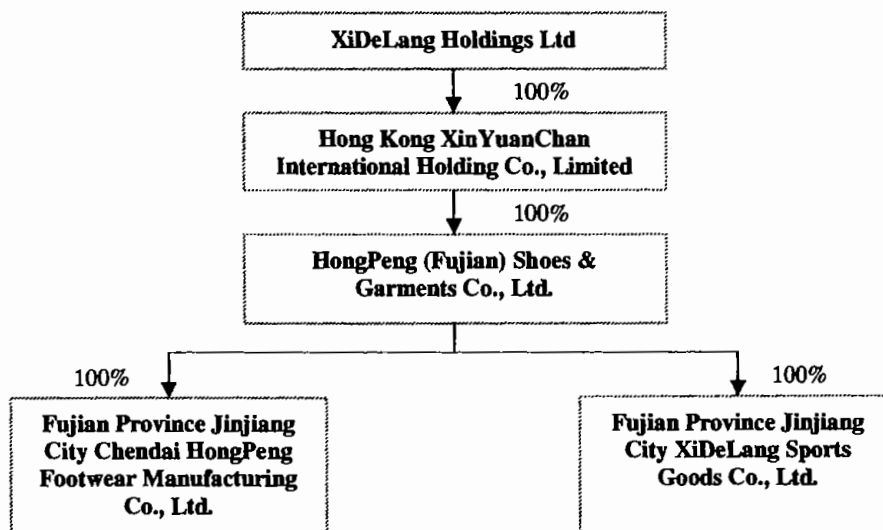
XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



3. GENERAL INFORMATION (continued)

3.1 Group structure

As at the date of this Report, the corporate structure of XiDeLang Group is as follows:



3.2 Principal activities

The principal activity of the Company is investment holding whilst the details of the wholly-owned subsidiaries as at the date of this Report are as follows:

Subsidiaries	Date and place of incorporation	Paid-up capital '000	Effective equity interest	Principal activities
Hong Kong XinYuanChan International Holding Co., Limited ("XinYuanChan")	19 June 2008, Hong Kong Special Administrative Region ("HKSAR")	HKD10	100%	Investment holding
<i>Subsidiary of XinYuanChan</i>				
HongPeng (Fujian) Shoes & Garments Co., Ltd. ("HongPeng (Fujian)")	29 November 1996, Peoples' Republic of China ("PRC")	RMB8,500	100%	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



3. GENERAL INFORMATION (continued)
 3.2 Principal activities (continued)

Subsidiaries	Date and place of incorporation	Paid-up capital '000	Effective equity interest	Principal activities
Subsidiaries of HongPeng (Fujian)				
Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. ("HongPeng Footwear")	10 May 1993, PRC	RMB37,000	100%	Design, manufacturing and marketing of sports shoes
Fujian Province Jinjiang City XiDeLang Sports Goods Co., Ltd. ("XiDeLang Sports Goods")	24 July 1995, PRC	RMB36,000	100%	The registered scope of business under its business license is the manufacturing of shoes and apparels. Since its incorporation and up to the date of this Report, XiDeLang Sports Goods has not engaged in any manufacturing activity. However, it is the owner of the proprietary 'XiDeLang' brand.

4. SHARE CAPITAL

The details of the changes in the issued and paid up share capital of the Company since the date of incorporation are as follows:

Date of allotment	No of shares allotted ('000)	Cumulative no of shares allotted ('000)	Par value USD	Consideration	Cumulative total issued and fully paid-up share capital USD'000
5 May 2009	-*	-*	0.05	Issue (Nil paid)	-
30 June 2009	-	-*	0.05	Call for payment	-^
30 June 2009	-**	-**	0.10	Consolidation of every two (2) ordinary shares of USD0.05 each into one (1) Shares	-^
9 July 2009	299,999#	300,000	0.10	For acquisition of XinYuanChan	30,000

- * Represent 20 Shares of USD0.05 each
- ^ Represent USD1
- ** Represent 10 Shares
- # Represent 299,999,990 Shares

Upon completion of the Public Issue as mentioned in the Section 2, the issued and fully paid-up share capital of the Company will be enlarged to USD40,000,000 comprising 400,000,000 Shares.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



5. DIVIDEND

No dividend was declared by the Company since the date of its incorporation.

6. FINANCIAL STATEMENTS AND AUDITORS

Set out below are the relevant financial years/period of audited financial statements presented for the purpose of this Report, and the respective auditors (where applicable) of the companies in XiDeLang Group:

<u>Company</u>	<u>Financial years/periods</u>	<u>Auditors</u>
XiDeLang	Period from 17 April 2009 (date of incorporation) to 30 June 2009	Messrs BDO Binder, Malaysia
XinYuanChan	Period from 19 June 2008 (date of incorporation) to 31 December 2008	Messrs Vision A.S. Limited, HKSAR
	Period from 1 January 2009 to 30 June 2009	Messrs BDO Binder, Malaysia
HongPeng (Fujian)	Years ended 31 December 2006, 2007, 2008, and Period from 1 January 2009 to 30 June 2009	Messrs BDO Binder, Malaysia
HongPeng Footwear	Years ended 31 December 2006, 2007, 2008, and Period from 1 January 2009 to 30 June 2009	Messrs BDO Binder, Malaysia
XiDeLang Sports Goods	Years ended 31 December 2006, 2007, 2008, and Period from 1 January 2009 to 30 June 2009	Messrs BDO Binder, Malaysia

The financial statements of HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods for the financial years ended ("FYE") 31 December 2006, 2007, 2008, and for the financial period from 1 January 2009 to 30 June 2009 ("FPE 30 June 2009") have been prepared in accordance with applicable approved Financial Reporting Standards ("FRSs") in Malaysia and audited by BDO Binder, Malaysia, ("BDO") for the purpose of submission to Securities Commission ("SC") and preparation of the prospectus in relation to this Listing Scheme. These audited financial statements used in the preparation of this Report for the financial years/period under review were not subject to any qualification.

The separate financial statements of XiDeLang for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 have been prepared in accordance with applicable approved FRSs in Malaysia and audited by BDO for the purpose of preparation of the prospectus in relation to this Listing Scheme and were not subject to any qualification. As the XiDeLang Group was only formed on 9 July 2009, there were no consolidated financial statements prepared for XiDeLang Group for the FYE 31 December 2006, 2007, 2008 and FPE 30 June 2009.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



6. FINANCIAL STATEMENTS AND AUDITORS (continued)

The statutory financial statements of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 have been prepared in accordance with applicable approved Hong Kong Financial Reporting Standards ("HKFRSs") and audited by Vision A.S. Limited, HKSAR. The audited statutory financial statements of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 were qualified on no consolidated financial statements being prepared in accordance with the requirements of HKFRSs. As XinYuanChan is merely an investment holding company, its contribution is not significant to XiDeLang Group and the financial information of XinYuanChan and its subsidiaries have been included in the proforma consolidated financial information, which was prepared for the inclusion in the prospectus of XiDeLang in relation to this Listing Scheme, the qualified opinion would not have any significant impact to the XiDeLang Group as a whole for the purpose of this Listing Scheme.

The separate financial statements of XinYuanChan for the FPE 30 June 2009 have been prepared in accordance with applicable approved FRs in Malaysia and audited by BDO for the purpose of preparation of the prospectus in relation to this Listing Scheme and were not subject to any qualification. There is no significant difference between the FRs 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. The financial information (based on the audited separate financial statements) of XinYuanChan for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and FPE 30 June 2009 are presented in Section 9.1 of this Report.

The financial information (based on the audited separate financial statements) of HongPeng (Fujian), HongPeng Footwear, XiDeLang Sports Goods and XiDeLang are presented in Section 9.2, 9.3, 9.4 and 9.5 of this Report respectively. The consolidated financial information of HongPeng (Fujian) Group (consist of HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods) for the FYE 31 December 2006, 2007, 2008 and FPE 30 June 2009 were not presented in this Report as HongPeng (Fujian) Group was only formed on 30 April 2009.

The financial statements of the Economic Entity (comprise the investor's operations and the interest in its associate) of XiDeLang Sports Goods are not presented for the financial years/period under review as the share of results of its associate (25% in HongPeng (Fujian)) will be eliminated at proforma consolidated financial information prepared for the inclusion in the prospectus of XiDeLang in relation to this Listing Scheme.

7. BASIS OF PREPARATION AND ACCOUNTING POLICIES

7.1 Basis of preparation

The audited financial statements of XiDeLang's subsidiaries, where applicable, are prepared in accordance with applicable approved FRs in Malaysia except as otherwise stated in this Report.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

The functional currencies of XiDeLang and XiDeLang's subsidiaries are US Dollar ("USD") and Renminbi ("RMB") respectively. For the purpose of this Report, the financial information and financial statements were translated into Ringgit Malaysia for information purposes.

The exchange rates 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

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.1 New FRSs and Amendments to FRSs adopted

The Group has adopted all the following 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, 2007, 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 ₂₀₀₄	<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 ₂₀₀₄	<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 ₂₀₀₄	<i>Borrowing Costs</i>
FRS 124	<i>Related Party Disclosures</i>
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>

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.1 New FRSs and Amendments to FRSs adopted (continued)

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 114₂₀₀₄, Amendment to FRS 119₂₀₀₄, FRS 120, Amendment to FRS 121 and FRS 131 and the 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, 2007, 2008 and FPE 30 June 2009.

7.1.2 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.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.3 New FRSs and IC Interpretations not adopted

The disclosure of the below New FRSs and IC Interpretations not adopted 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 202₂₀₀₄ *General Insurance Business* and FRS 203₂₀₀₄ *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 financial statements upon first adoption of the FRS as required by paragraph 30(b) of FRS 108 is not disclosed.

- (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.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.3 New FRSs and IC Interpretations not adopted (continued)

New FRSs not adopted (continued)

- (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 FRS 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.

- (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.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.3 New FRSs and IC Interpretations not adopted (continued)

New IC Interpretations not adopted

- (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 significant impact on the Group's 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.

- (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.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

7.1 Basis of preparation (continued)

7.1.3 New FRSs and IC Interpretations not adopted (continued)

New IC Interpretations not adopted (continued)

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.

- (1) 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.

7.2 Significant accounting policies

The significant accounting policies adopted by the XiDeLang Group in the preparation of this Report are as follows:

7.2.1 Basis of accounting

The financial statements of XiDeLang and its subsidiaries respectively have been prepared under the historical cost convention except as otherwise stated in the financial statements. The preparation of these 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 7.3 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.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.2 Basis of consolidation

The consolidated financial statements, where applicable, 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.

At the acquisition date, the cost of business combination is allocated to identifiable assets acquired, liabilities assumed and contingent liabilities in the business combination which are measured initially at their fair values at the acquisition date. The excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the cost of business combination is less than the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the Group will:

- (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) recognise immediately in profit or loss any excess remaining after that reassessment.

When a business combination includes more than one exchange transaction, any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.2 Basis of consolidation (continued)

(ii) Business combination involving entities not under common control(continued)

Subsidiaries are consolidated from the date of acquisition, which is the date on which the Group effectively obtains control, until the date on which the Group ceases to control the subsidiaries. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the existence and effect of potential voting rights that are currently convertible or exercisable are taken into consideration.

Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

The gain or loss on disposal of a subsidiary, which is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the carrying amount of goodwill and the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the consolidated income statement.

7.2.3 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The annual principal depreciation rates are as follows:

Buildings	5%
Plant and machinery	10%
Electronic equipment	10% - 33.33%
Other equipment	10% - 20%

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.3 Property, plant and equipment and depreciation (continued)

Construction in-progress represents factory and office buildings under construction. The depreciation of construction in-progress begins when they are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

At each balance sheet date, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 7.2.7 on impairment of assets).

The residual values, useful lives and depreciation method are reviewed at each financial period end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

7.2.4 Investment in subsidiaries

A subsidiary is an entity in which the Group and the Company have power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. On disposal of such an investment, the difference between the net disposal proceeds and its carrying amount is included in profit or loss.

7.2.5 Investment in associates

An associate is an entity over which the Group and the Company have significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In the Company's separate financial statements, an investment in associate is stated at cost less impairment losses, if any.

An investment in associate is accounted for in the consolidated financial statements using the equity method of accounting. The investment in associate in the consolidated balance sheet is initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the investments.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.5 Investment in associates (continued)

The interest in the associate is the carrying amount of the investment in the associate under the equity method together with any long term interest that, in substance, form part of the Group's net interest in the associate.

The Group's share of the profit or loss of the associate during the financial period is included in the consolidated financial statements, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's equity that have not been recognised in the associate's profit or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognised directly in equity of the Group.

Unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in the associate equals to or exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the Group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on its behalf.

The most recent available financial statements of the associate are used by the Group in applying the equity method. When the reporting dates of the financial statements are not coterminous, the share of profit or loss is arrived at using the latest audited financial statements for which the difference in reporting dates is no more than three (3) months. Adjustments are made for the effects of any significant transactions or events that occur between the intervening period.

Upon disposal of an investment in associate, the difference between the net disposal proceeds and its carrying amount is included in profit or loss.

7.2.6 Leases

(i) Leases of land

Leasehold land that normally has an indefinite economic life and where the lease does not transfer substantially all the risk and rewards incidental to ownership is treated as an operating lease. The lump-sum upfront payments made on entering into or acquiring leasehold land are accounted for as prepaid lease payments and are amortised over the lease term on a straight line basis.

(ii) Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lease payments under operating leases are recognised as an expense in the income statements on a straight line basis over the lease period.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.7 Impairment of assets

The carrying amount of assets, except for financial assets (the financial assets in this context do not include investments in subsidiaries and associates), current tax assets and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is estimated for an individual asset. Where it is not probable to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in the profit or loss when the carrying amount of the asset or the CGU exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated to the assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in the profit or loss immediately. An impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

7.2.8 Inventories

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

Cost is determined using the weighted average method. The cost of raw materials comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

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

7.2.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.9 Financial instruments (continued)

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

(i) Financial instruments recognised on the balance sheets

Financial instruments are recognised on the balance sheets when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument are debited directly to equity, net of any related tax effect. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

(a) Receivables

Trade and other receivables, including amounts owing by related parties, are classified as loans and receivables under FRS 132.

Receivables are carried at anticipated realisable value. Known bad debts are written off and specific allowances are made for any debts which are considered doubtful of collection.

Receivables are not held for trading purposes. For the receivables that are factored out to financial institutions with recourse term, the corresponding payment from the financial institution is recognised as liability and any fee incurred to effect the factoring is recognised as an expense in the period in which the factoring takes place.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits placed with financial institutions and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk of changes in value. For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(c) Payables

Liabilities for trade and other amounts payable, including amounts owing to related parties, are initially recognised and subsequently measured at the consideration to be paid in the future for goods and services received.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.9 Financial instruments (continued)

(i) Financial instruments recognised on the balance sheets (continued)

(d) Equity instruments

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital (or paid-up capital) and capital reserve.

Dividends to shares or equity holders are recognised in equity in the period in which they are declared.

(e) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(ii) Financial instruments not recognised on the balance sheets

There are no financial instruments not recognised on the balance sheets.

7.2.10 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

7.2.11 Taxation

(i) Income taxes

Income taxes include all taxes on taxable profit. Income taxes also include other taxes, such as withholding taxes, which are payable by subsidiary incorporated in the PRC on the distributions of earnings to the equity holders incorporated or domiciled outside the PRC.

Taxes in the income statement comprise current tax and deferred tax.

(a) Current tax

Current tax is the amount of income taxes payable or receivable in respect of the taxable profit or loss for a period.

Current taxes for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.11 Taxation (continued)

(i) Income taxes (continued)

(b) Deferred tax (continued)

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the financial period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

(ii) Other taxes

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT together with other taxes, such as land use right tax, recoverable from, or payable to, the taxation authority is included as part of "current tax assets" or "current tax liabilities" in the balance sheets respectively in line with the requirements in PRC.

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

(a) VAT incurred on the purchases of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and

(b) Receivables and payables are stated with the amount of VAT included.

Land use right tax and other taxes are recognised in the administration and other expenses of the profit or loss.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.12 Provisions

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

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

7.2.13 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

7.2.14 Employee benefits

(i) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial period when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

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XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.14 Employee benefits (continued)

(i) Short term employee benefits (continued)

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(ii) Defined contribution plan

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureau, whereby the subsidiaries of the Company in the PRC make contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees.

7.2.15 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The financial statements of the Company are presented in USD, which is also the functional currency of the Company. The financial statements of Company's subsidiaries are presented in RMB, which is also the functional currency of the Company's subsidiaries.

(ii) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currencies at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into functional currencies at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

7.2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

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XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.2 Significant accounting policies (continued)

7.2.16 Revenue recognition (continued)

(i) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with delivery of goods and services and acceptance by customers.

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

7.2.17 Intangible assets

Intangible assets are recognised only when the identifiability, control and future economic benefit probability criterias are met.

The costs incurred for the registrations of trademarks are immaterial and written off to the profit or loss in the financial period in which it is incurred.

Research and development expenditure including the design and production of prototypes of new samples are written off to the profit or loss in the financial period in which it is incurred.

7.3 Significant accounting estimates and judgements

7.3.1 Critical judgements made in applying accounting policies

The following are judgement made by management in the process of applying the Group's accounting policies that has the most significant effect on the amounts recognised in the financial statements.

Basis of consolidation – business combination involving entities under common control

On 9 July 2009, the Company acquired the entire issued and fully paid-up share capital of XinYuanChan of HKD10,000, comprising 10,000 ordinary shares of HKD1.00 each, for an aggregate purchase consideration of USD29,999,999, which is to be 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 USD0.10 per Share.

As at 30 June 2009, XinYuanChan had a subsidiary, namely HongPeng (Fujian). In conjunction with the Listing, on 30 April 2009, HongPeng (Fujian) acquired the entire equity interests of HongPeng Footwear and XiDeLang Sports Goods for considerations of RMB37,000,000 and RMB36,000,000 respectively. The vendors of HongPeng Footwear are Mr Ding JiaXing and Ms Ding LiHong whilst the vendors of XiDeLang Sports Goods are Mr Ding JiaXing and Mr Ding PengPeng.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (continued)

7.3 Significant accounting estimates and judgements (continued)

7.3.1 Critical judgements made in applying accounting policies (continued)

The Group is regarded as continuing entity resulting from the reorganisation exercise since the management of all the entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling parties before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate controlling parties that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest or merger. Accordingly, consolidated financial statements have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries, which were under common control of the ultimate controlling parties and management that existed prior to the reorganisation exercise during the relevant period or since their respective dates of incorporation.

7.3.2 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment

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

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs.

(b) Depreciation and amortisation

The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses charge for the financial period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Contingent liabilities

The determination of treatment of contingent liabilities is based on management's view of the expected outcome of the contingencies for matters in the ordinary course of the business.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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8. FINANCIAL INFORMATION AND LIMITATION

The scope of work conducted in the preparation of this Report does not, in itself, constitute an audit in accordance with the approved standards on auditing in Malaysia. Except where otherwise explicitly stated, information contained in this Report had not been independently verified by us. In preparing the Report, we have relied upon information and representations given to us by the directors, officers and employees of the respective companies and sought explanations for apparent discrepancies, if any.

9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

9.1 XinYuanChan

9.1.1 Income statements of XinYuanChan

The income statements of XinYuanChan, which are extracted from the audited financial statements for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and FPE 30 June 2009 are set out below:

	19 June 2008 to 31 December 2008		1 January 2009 to 30 June 2009	
	RMB'000	RM'000	RMB'000	RM'000
Revenue - Dividend income	-	-	41,000	21,517
Administrative and other expenses	(30)	(14)	(17)	(9)
(Loss)/profit before tax	9.1.5 (30)	(14)	40,983	21,508
Tax expense	9.1.6 -	-	(2,050)	(1,076)
Net (loss)/profit for the financial period	(30)	(14)	38,933	20,432
Paid-up share capital	9	5	9	5
Pre-tax profit margin (%)	N/A	N/A	99.96	99.96
Effective tax rate (%)	N/A	N/A	5.00	5.00
(Loss)/earnings before interest, tax, depreciation and amortisation	(30)	(14)	40,983	21,508
Gross (loss)/earnings per share (RMB/RM)	(3.00)	(1.40)	4,098.34	2,150.80
Net (loss)/earnings per share (RMB/RM)	(3.00)	(1.40)	3,893.34	2,043.20

Note: For the purpose of presentation, all the income statement items were translated using the average exchange rates and share capital was translated using the closing rates applicable for the respective financial periods.

N/A represents not applicable.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.1 XinYuanChan (continued)

9.1.2 Balance sheets of XinYuanChan

The balance sheets of XinYuanChan, which are extracted from the audited financial statements for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and FPE 30 June 2009 are set out below:

	As at 31 December		As at 30 June	
	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
ASSETS				
Non-current asset				
Investment in a subsidiary 9.1.7	8,500	4,302	8,500	4,379
Current assets				
Amount owing by a subsidiary 9.1.8	-	-	38,950	20,067
Cash and cash equivalents	*-	*-	**-	**-
	-	-	38,950	20,067
TOTAL ASSETS	8,500	4,302	47,450	24,446
EQUITY AND LIABILITIES				
Equity attributable to equity holder of the Company				
Share capital 9.1.9	9	5	9	5
(Accumulated loss)/ Retained earnings	(30)	(15)	903	465
TOTAL EQUITY	(21)	(10)	912	470
Current liabilities				
Accruals	12	6	22	11
Amount owing to a shareholder 9.1.10	8,509	4,306	46,516	23,965
TOTAL LIABILITIES	8,521	4,312	46,538	23,976
TOTAL EQUITY AND LIABILITIES	8,500	4,302	47,450	24,446
Net (liabilities)/assets	(21)	(10)	912	470
Net (liabilities)/assets per share (RMB/RM)	(2.13)	(1.00)	91.20	47.00

* Represent RMB43 equivalent to RM22 at RMB1 : RM0.5061

** Represent RMB131 equivalent to RM67 at RMB1 : RM0.5152

Note: For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing exchange rates applicable for the respective financial periods.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.1 XinYuanChan (continued)

9.1.3 Cash flow statements of XinYuanChan

The cash flow statements of XinYuanChan, which are extracted from the audited financial statements financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and FPE 30 June 2009 are set out below:

	19 June 2008 to 31 December 2008		1 January 2009 to 30 June 2009	
	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/profit before tax	(30)	(14)	40,983	21,508
Adjustment for: Dividend income	-	-	(41,000)	(21,517)
Operating loss before change in working capital	(30)	(14)	(17)	(9)
Changes in working capital: Accruals	12	6	10	5
Net cash used in operating activities	(18)	(8)	(7)	(4)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	9	4	-	-
Advances from a shareholder	9	4	7	4
Net cash from financing activities	18	8	7	4
Net increase in cash and cash equivalents	*-	*-	** -	** -
Cash and cash equivalents at beginning of financial period	-	-	*-	*-
Cash and cash equivalents at end of financial period	*-	*-	***-	***-

* Represent RMB43 equivalent to RM22 at RMB1 : RM0.5061 as at 31 December 2008 and at RMB1 : RM0.5152 as at 30 June 2009

** Represent RMB88 equivalent to RM47 at RMB1 : RM0.5248

*** Represent RMB131 equivalent to RM67 at RMB1 : RM0.5152

Cash and cash equivalents represent cash and bank balances.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.1 XinYuanChan (continued)

9.1.4 Statements of changes in equity of XinYuanChan

The statements of changes in equity of XinYuanChan, which are extracted from the audited financial statements for the financial period from 19 June 2008 (date of incorporation) to 31 December 2008 and FPE 30 June 2009 are set out below:

	Capital RMB'000	(Accumulated loss)/ Retained earnings RMB'000	Total RMB'000
Balance at 19 June 2008 (date of incorporation)	9	-	9
Net loss for the financial period	-	(30)	(30)
Balance at 31 December 2008	9	(30)	(21)
Net profit for the financial period	-	38,933	38,933
Dividend	-	(38,000)	(38,000)
Balance at 30 June 2009	9	903	912

	Capital RM'000	(Accumulated loss)/ Retained earnings RM'000	Total RM'000
Balance at 19 June 2008 (date of incorporation)	5	-	5
Difference on foreign currency translations	-	(1)	(1)
Net loss for the financial period	-	(14)	(14)
Balance at 31 December 2008	5	(15)	(10)
Difference on foreign currency translations	-	(10)	(10)
Net profit for the financial period	-	20,432	20,432
Dividend	-	(19,942)	(19,942)
Balance at 30 June 2009	5	465	470

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.1 XinYuanChan (continued)

9.1.5 (Loss)/profit before tax

	19.6.2008 to 31.12.2008		1.1.2009 to 30.6.2009	
	RMB'000	RM'000	RMB'000	RM'000
(Loss)/profit before tax is arrived at after charging:				
Auditors' remuneration	-	-	10	5
And crediting:				
Dividend income received and receivable from a subsidiary	-	-	41,000	21,517
Interest income	*-	*-	-	-

* Represent RMB9 equivalent to RM4 at RMB1 : RM0.4799

9.1.6 Tax expense

	19.6.2008 to 31.12.2008		1.1.2009 to 30.6.2009	
	RMB'000	RM'000	RMB'000	RM'000
Current tax expense based on profit for the financial period:				
- Foreign income tax*	-	-	2,050	1,076

* Represent 5% withholding tax in the PRC on dividend payable by a subsidiary in PRC to XinYuanChan (a HKSAR investor), effective from 1 January 2008.

9.1.7 Investment in a subsidiary

	31.12.2008		30.6.2009	
	RMB'000	RM'000	RMB'000	RM'000
Unquoted equity, at cost	8,500	4,302	8,500	4,379

Details of the subsidiaries of XinYuanChan are disclosed in Note 3.2 to this Report.

9.1.8 Amount owing by a subsidiary

Amount owing by a subsidiary represents dividend receivable, which is unsecured, interest free and repayable on demand.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.1 XinYuanChan (continued)

9.1.9 Share capital

	31.12.2008		30.6.2009	
	RMB'000	RM'000	RMB'000	RM'000
Authorised, issued and fully paid:- 10,000 ordinary share of HK\$1.00 each	9	5	9	5

9.1.10 Amount owing to a shareholder

Amount owing to a shareholder represents dividend payable, advances and payments made on behalf, which is unsecured, interest-free and repayable on demand.

9.1.11 Related party disclosures

Identities of related parties

Parties are considered to be related to XinYuanChan if XinYuanChan has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where XinYuanChan and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between XinYuanChan and its related parties are as follows:

Identities of related parties	Relationship with XinYuanChan
Ding PengPeng	Director and ultimate controlling party
HongPeng (Fujian)	Subsidiary
HongPeng Footwear and XiDeLang Sports Goods	Indirect subsidiaries

9.1.12 Significant events

- (i) On 30 April 2009, in conjunction with a proposed initial public offering ("IPO") in Malaysia involving XinYuanChan, its subsidiary, HongPeng (Fujian) acquired the entire equity interests in HongPeng Footwear and XiDeLang Sports Goods from the existing equity holders of these companies for considerations of RMB37,000,000 and RMB36,000,000 respectively.
- (ii) On 29 June 2009, a proposed IPO in Malaysia involving XinYuanChan and its subsidiaries was conditionally approved by the authorities.

9.1.13 Event after the balance sheet date

On 9 July 2009, in conjunction with the proposed IPO, XiDeLang acquired the entire issued fully paid-up share capital of the XinYuanChan.

Subsequent to the acquisition of XinYuanChan by XiDeLang, the Directors regard HongPeng International Holdings Limited ("HongPeng International"), a company incorporated in British Virgin Island and XiDeLang, a company incorporated in Bermuda, as the ultimate holding company and immediate holding company respectively.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian)

9.2.1 Income statements of HongPeng (Fujian)

The income statements of HongPeng (Fujian), which are extracted from the audited financial statements for the past three (3) financial years and the FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Revenue	164,664	75,745	316,102	142,783	537,662	258,024	359,890	188,870
Cost of sales	(122,203)	(56,213)	(227,053)	(102,560)	(376,640)	(180,750)	(247,430)	(129,851)
Gross profit	42,461	19,532	89,049	40,223	161,022	77,274	112,460	59,019
Other income	55	25	94	42	202	97	20,145	10,572
Distribution costs	(3,131)	(1,441)	(6,642)	(3,000)	(15,275)	(7,330)	(7,557)	(3,966)
Administrative and other expenses	(4,899)	(2,253)	(6,317)	(2,853)	(7,442)	(3,571)	(3,580)	(1,879)
Profit before tax	9.2.5 34,486	15,863	76,184	34,412	138,507	66,470	121,468	63,746
Tax expense	9.2.6 (8,277)	(3,807)	(18,284)	(8,259)	(34,627)	(16,617)	(25,385)	(13,322)
Net profit for the financial years/period	26,209	12,056	57,900	26,153	103,880	49,853	96,083	50,424
Paid-up capital	8,500	3,845	8,500	3,849	8,500	4,302	8,500	4,379
Gross profit margin (%)	25.79	25.79	28.17	28.17	29.95	29.95	31.25	31.25
Pre-tax profit margin (%)	20.94	20.94	24.10	24.10	25.76	25.76	33.75	33.75
Effective tax rate (%)	24.00	24.00	24.00	24.00	25.00	25.00	20.90	20.90
Earnings before interest, tax, depreciation and amortisation	35,320	16,247	77,066	34,812	139,286	66,844	121,658	63,846
Gross earnings per paid-up capital (times)	4.06	4.13	8.96	8.94	16.29	15.45	14.29	14.56
Net earnings per paid-up capital (times)	3.08	3.14	6.81	6.80	12.22	11.59	11.30	11.51

Note: For the purpose of presentation, all the income statement items were translated using the average exchange rates and paid-up capital was translated using the closing exchange rates applicable for the respective financial years/period.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.2 Balance sheets of HongPeng (Fujian)

The balance sheets of HongPeng (Fujian), which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	As at 31 December						As at 30 June		
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000	
ASSETS									
Non-current assets									
Property, plant and equipment	9.2.7	4,722	2,136	3,960	1,793	3,089	1,563	2,796	1,440
Prepaid lease payments for land	9.2.8	5,436	2,459	5,326	2,412	5,216	2,640	5,161	2,659
Investment in subsidiaries	9.2.9	-	-	-	-	-	-	73,000	37,610
		10,158	4,595	9,286	4,205	8,305	4,203	80,957	41,709
Current assets									
Inventories	9.2.10	22,479	10,167	60,067	27,198	38,104	19,284	27,914	14,381
Trade and other receivables	9.2.11	56,507	25,558	128,450	58,162	179,797	90,995	287,764	148,256
Cash and cash equivalents		13,054	5,904	18,536	8,393	69,924	35,389	66,358	34,188
		92,040	41,629	207,053	93,753	287,825	145,668	382,036	196,825
TOTAL ASSETS		102,198	46,224	216,339	97,958	296,130	149,871	462,993	238,534
EQUITY AND LIABILITIES									
Equity attributable to equity holder of the Company									
Capital	9.2.12	8,500	3,845	8,500	3,849	8,500	4,302	8,500	4,379
Statutory surplus reserve		4,250	1,922	4,250	1,924	4,250	2,151	4,250	2,190
Retained earnings		26,914	12,173	84,814	38,404	104,389	52,831	159,472	82,160
TOTAL EQUITY		39,664	17,940	97,564	44,177	117,139	59,284	172,222	88,729
Current liabilities									
Trade and other payables	9.2.13	57,903	26,189	109,222	49,455	161,919	81,947	264,883	136,468
Current tax liabilities	9.2.14	4,631	2,095	9,553	4,326	17,072	8,640	25,888	13,337
		62,534	28,284	118,775	53,781	178,991	90,587	290,771	149,805
TOTAL LIABILITIES		62,534	28,284	118,775	53,781	178,991	90,587	290,771	149,805
TOTAL EQUITY AND LIABILITIES		102,198	46,224	216,339	97,958	296,130	149,871	462,993	238,534

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.2 HongPeng (Fujian) (continued)

9.2.2 Balance sheets of HongPeng (Fujian) (continued)

	As at 31 December						As at 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Net assets	39,664	17,940	97,564	44,177	117,139	59,284	172,222	88,729
Net assets per paid-up capital (times)	4.67	4.67	11.48	11.48	13.78	13.78	20.26	20.26

Note: For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing exchange rates applicable for the respective financial years/period.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.2 HongPeng (Fujian) (continued)

9.2.3 Cash flow statements of HongPeng (Fujian)

The cash flow statements of HongPeng (Fujian), which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit before tax	34,486	15,863	76,184	34,412	138,507	66,470	121,468	63,746
Adjustments for:								
Amortisation of prepaid lease payments for land	64	29	110	50	110	53	55	29
Depreciation of property, plant and equipment	825	380	866	392	871	418	280	147
Property, plant and equipment written off	-	-	-	-	-	-	13	7
Inventories written off	-	-	-	-	-	-	196	103
Interest income	(55)	(25)	(94)	(42)	(202)	(97)	(145)	(76)
Dividend income	-	-	-	-	-	-	(20,000)	(10,496)
Operating profit before changes in working capital	35,320	16,247	77,066	34,812	139,286	66,844	101,867	53,460
Changes in working capital:								
Inventories	(3,507)	(1,613)	(37,588)	(16,978)	21,962	10,540	9,994	5,245
Trade and other receivables	(18,266)	(8,402)	(72,318)	(32,666)	(51,869)	(24,892)	(103,948)	(54,552)
Trade and other payables	11,015	5,067	61,635	27,841	10,015	4,806	79,091	41,507
Cash generated from operations	24,562	11,299	28,795	13,009	119,394	57,298	87,004	45,660
Corporate income tax paid	(7,640)	(3,515)	(13,678)	(6,179)	(31,032)	(14,892)	(18,245)	(9,575)
Net cash from operating activities	16,922	7,784	15,117	6,830	88,362	42,406	68,759	36,085
CASH FLOWS FROM INVESTING ACTIVITIES								
Interest received	55	25	94	42	202	97	145	76
Advances to subsidiaries (Advances to)/repayments from a related party	-	-	-	-	-	-	(34,470)	(18,090)
Acquisition of prepaid lease payments for land	(1,201)	(553)	375	169	522	251	-	-
Purchase of property, plant and equipment	(5,500)	(2,530)	-	-	-	-	-	-
	(371)	(171)	(104)	(46)	-	-	-	-
Net cash (used in)/from investing activities	(7,017)	(3,229)	365	165	724	348	(34,325)	(18,014)

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.3 Cash flow statements of HongPeng (Fujian) (continued)

	Financial years ended 31 December						6-month period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
CASH FLOWS FROM FINANCING ACTIVITY								
Dividend paid	(13,142)	(6,046)	(10,000)	(4,517)	(37,698)	(18,091)	(38,000)	(19,942)
Net cash used in financing activity	(13,142)	(6,046)	(10,000)	(4,517)	(37,698)	(18,091)	(38,000)	(19,942)
Net (decrease)/increase in cash and cash equivalents	(3,237)	(1,491)	5,482	2,478	51,388	24,663	(3,566)	(1,871)
Effect of exchange rate changes	-	(234)	-	11	-	2,333	-	670
Cash and cash equivalents at beginning of financial years/period	16,291	7,629	13,054	5,904	18,536	8,393	69,924	35,389
Cash and cash equivalents at end of financial years/period	13,054	5,904	18,536	8,393	69,924	35,389	66,358	34,188

Cash and cash equivalents

Cash and cash equivalents represent cash and bank balances.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.2 HongPeng (Fujian) (continued)

9.2.4 Statements of changes in equity

The statements of changes in equity of HongPeng (Fujian), which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Capital RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	8,500	4,250	22,071	34,821
Net profit for the financial year	-	-	26,209	26,209
Dividends	-	-	(21,366)	(21,366)
Balance at 31 December 2006	8,500	4,250	26,914	39,664
Net profit for the financial year	-	-	57,900	57,900
Balance at 31 December 2007	8,500	4,250	84,814	97,564
Net profit for the financial year	-	-	103,880	103,880
Dividends	-	-	(84,305)	(84,305)
Balance at 31 December 2008	8,500	4,250	104,389	117,139
Net profit for the financial period	-	-	96,083	96,083
Dividends	-	-	(41,000)	(41,000)
Balance at 30 June 2009	8,500	4,250	159,472	172,222

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.2 HongPeng (Fujian) (continued)

9.2.4 Statements of changes in equity (continued)

The statements of changes in equity of HongPeng (Fujian), which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:
 (continued)

	Capital RM'000	Statutory surplus reserve RM'000	Retained earnings RM'000	Total RM'000
Balance at 1 January 2006	3,980	1,990	10,336	16,306
Difference on foreign currency translations	(135)	(68)	(391)	(594)
Net profit for the financial year	-	-	12,056	12,056
Dividends	-	-	(9,828)	(9,828)
Balance at 31 December 2006	3,845	1,922	12,173	17,940
Difference on foreign currency translations	4	2	78	84
Net profit for the financial year	-	-	26,153	26,153
Balance at 31 December 2007	3,849	1,924	38,404	44,177
Difference on foreign currency translations	453	227	5,032	5,712
Net profit for the financial year	-	-	49,853	49,853
Dividends	-	-	(40,458)	(40,458)
Balance at 31 December 2008	4,302	2,151	52,831	59,284
Difference on foreign currency transactions	77	39	422	538
Net profit for the financial period	-	-	50,424	50,424
Dividends	-	-	(21,517)	(21,517)
Balance at 30 June 2009	4,379	2,190	82,160	88,729

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.5 Profit before tax

	-----> FYE 31 December <-----						---< FPE 30 June >---	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit before tax is arrived at after charging:								
Amortisation of prepaid lease payments for land	64	29	110	50	110	53	55	29
Depreciation of property, plant and equipment	825	380	866	392	871	418	280	147
Inventories written off	-	-	-	-	-	-	196	103
Property, plant and equipment written off	-	-	-	-	-	-	13	7
Rental of:								
- premises	2,041	939	2,041	922	2,041	979	1,020	535
- hostels	561	258	561	253	561	269	281	148
Research and development expenses	474	218	728	329	855	410	425	223
And crediting:								
Interest income	55	25	94	42	202	97	145	76
Dividend income	-	-	-	-	-	-	20,000	10,496

9.2.6 Tax expense

	-----> FYE 31 December <-----						---< FPE 30 June >---	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current tax expense based on profit for the financial years/period:								
- Corporate income tax	8,277	3,807	18,284	8,259	34,627	16,617	25,385	13,322

On 16 March 2007, the National People's Congress promulgated the PRC Enterprise Income Tax Law (the "New Tax Law"), which became effective from 1 January 2008. Prior to 1 January 2008, HongPeng (Fujian) enjoyed preferential tax rate of 24% and according to the New Tax Law, the standard enterprise tax rate applicable to HongPeng (Fujian) increased to 25% effective from 1 January 2008.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.7 Property, plant and equipment

	----- As at 31 December ----->						<--- As at 30 June --->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Carrying amount								
Plant and machinery	4,351	1,968	3,644	1,650	2,860	1,447	2,606	1,342
Electronic equipment	212	96	190	86	136	69	112	58
Other equipment	159	72	126	57	93	47	78	40
	<u>4,722</u>	<u>2,136</u>	<u>3,960</u>	<u>1,793</u>	<u>3,089</u>	<u>1,563</u>	<u>2,796</u>	<u>1,440</u>

9.2.8 Prepaid lease payments for land

The prepaid lease payments for land represent land use rights situated in the PRC. HongPeng (Fujian) is granted land use rights for a period of 50 years. The prepaid lease payments for land is amortised on a straight line basis over the lease term.

9.2.9 Investments in subsidiaries

	----- As at 31 December ----->						<--- As at 30 June --->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Unquoted equity, at cost	-	-	-	-	-	-	73,000	37,610

The details of the subsidiaries are disclosed in the Note 3.2 to this Report.

9.2.10 Inventories

	----- As at 31 December ----->						<--- As at 30 June --->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
At cost								
Raw materials	10,716	4,847	11,469	5,193	14,086	7,129	5,018	2,585
Work-in-progress	1,427	645	5,334	2,415	5,752	2,911	13,839	7,130
Finished goods	10,336	4,675	43,264	19,590	18,266	9,244	9,057	4,666
	<u>22,479</u>	<u>10,167</u>	<u>60,067</u>	<u>27,198</u>	<u>38,104</u>	<u>19,284</u>	<u>27,914</u>	<u>14,381</u>

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.11 Trade and other receivables

	----- As at 31 December ----->						<-- As at 30 June -->	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Trade receivables								
Third parties	53,879	24,370	126,197	57,142	169,453	85,760	273,401	140,856
Other receivables								
Third parties	-	-	-	-	8,613	4,359	-	-
Amount owing by subsidiaries	-	-	-	-	-	-	9,507	4,898
Amount owing by a related party	2,628	1,188	2,253	1,020	1,731	876	-	-
Prepayments	-	-	-	-	-	-	4,856	2,502
	2,628	1,188	2,253	1,020	10,344	5,235	14,363	7,400
	56,507	25,558	128,450	58,162	179,797	90,995	287,764	148,256

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by HongPeng (Fujian) is ninety (90) days.
- (b) Other receivables – third parties in 2008 represented rebates/incentives receivables from the suppliers.
- (c) Amounts owing by subsidiaries and a related party represented advances and payments made on behalf, which are unsecured, interest free and repayable on demand.

The ageing analysis of the trade receivables as at 30 June 2009 were as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	Total
Trade receivables (RMB'000)	107,410	76,253	73,328	16,410	273,401
Trade receivables (RM'000)	55,338	39,286	37,778	8,454	140,856
% of total receivables	39.29	27.89	26.82	6.00	100.00

9.2.12 Capital

	----- As at 31 December ----->						<-- As at 30 June -->	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Registered and paid-up	8,500	3,845	8,500	3,849	8,500	4,302	8,500	4,379

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.13 Trade and other payables

	----- As at 31 December -----						-- As at 30 June -->	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Trade payables								
Third parties	35,095	15,873	95,809	43,382	102,063	51,654	170,096	87,633
Other payables and accruals								
Third parties	-	-	-	-	-	-	347	179
Dividend payables	16,025	7,248	8,524	3,859	43,480	22,005	5,479	2,823
Amount owing to ultimate holding company	-	-	-	-	-	-	38,950	20,067
Amounts owing to subsidiaries	5,341	2,416	2,842	1,287	14,493	7,335	43,343	22,330
Amount owing to a related party	-	-	-	-	-	-	1,965	1,013
Accruals	1,442	652	2,047	927	1,883	953	4,703	2,423
	22,808	10,316	13,413	6,073	59,856	30,293	94,787	48,835
	57,903	26,189	109,222	49,455	161,919	81,947	264,883	136,468

- (a) Trade payables are non-interest bearing and the normal trade credit terms granted to the HongPeng (Fujian) is ninety (90) days.
- (b) The amount owing to ultimate holding company represents dividend payable, which is unsecured, interest free and repayable on demand.
- (c) The amounts owing to subsidiaries and a related party represent advances and payments made on behalf, which are unsecured, interest-free and repayable on demand.

The ageing analysis of the trade payables as at 30 June 2009 were as follows:

	0-30 days	31-60 days	61-90 days	91-120 days	> 120 days	Total
Trade payables (RMB'000)	69,550	47,784	52,710	52	-*	170,096
Trade payables (RM'000)	35,832	24,618	27,156	27	-*	87,633
% of total payables	40.89	28.09	30.99	0.03	-**	100.00

* Represent RMB432 equivalent to RM223 at RMB1 : RM0.5152

** Less than 0.01%

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.14 Current tax liabilities

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Corporate income tax payable	2,953	1,336	7,559	3,423	11,154	5,645	18,294	9,425
Value added tax payable	1,661	751	1,974	894	5,860	2,966	5,477	2,822
Land use right tax	-	-	-	-	-	-	12	6
Withholding tax on dividend payable	-	-	-	-	-	-	2,050	1,056
Others	17	8	20	9	58	29	55	28
	4,631	2,095	9,553	4,326	17,072	8,640	25,888	13,337

In addition to the corporate income tax, the types of other taxes applicable to HongPeng (Fujian) include land use right taxes, value added tax (VAT) and land appreciation tax, etc.

Type of taxes	Tax basis and applicable rate
Land use right taxes	Applicable tax rate per square meter of the land area determined by the tax authority.
VAT	Output VAT is 17% of product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.
Land appreciation tax	Appreciation amount in transferring property at applicable tax rate.
Withholding tax on dividends	Represent 5% withholding tax in the PRC on the distribution of earnings to investors from HKSAR, effective from 1 January 2008.

9.2.15 Related party disclosures

(a) Identities of related parties

Parties are considered to be related to HongPeng (Fujian) if HongPeng (Fujian) has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HongPeng (Fujian) and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between HongPeng (Fujian) and its related parties are as follows:

Identities of related parties	Relationship with HongPeng (Fujian)
XinYuanChan	Ultimate holding company
Ding PengPeng	Director and the ultimate controlling party
Ding LiHong	Director of HongPeng (Fujian)
Ding JiaXing	Family member of two of the Directors of HongPeng (Fujian)
HongPeng Footwear and XiDeLang Sports Goods	Subsidiaries

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.2 HongPeng (Fujian) (continued)

9.2.15 Related party disclosures (continued)

(b) HongPeng (Fujian) had the following transactions with related parties:

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Acquisition of the entire equity interest in subsidiaries from related parties	-	-	-	-	-	-	73,000	37,610
Rental paid to related parties	2,602	1,197	2,602	1,175	2,602	1,248	1,301	683

(c) Compensation of key management personnel

The remuneration of Directors and other key management personnel were as follows:

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Short term employee benefits	626	288	845	382	1,034	523	360	189
Contributions to defined contribution plans	9	4	10	5	11	5	6	3
	635	292	855	387	1,045	528	366	192

9.2.16 Capital commitments

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Capital expenditure in respect of purchase of property, plant and equipment: - Approved but not contracted for	-	-	-	-	10,000	5,061	10,000	5,152

9.2.17 Significant events

The details of the significant events are disclosed in Note 9.1.12 to this Report.

9.2.18 Events after the balance sheet date

The details of the events after the balance sheet date are disclosed in Note 9.1.13 to this Report.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.2 HongPeng (Fujian) (continued)

9.2.19 Comparative figures

Certain comparative figures have been reclassified in order to conform with the current financial period's presentation following HongPeng (Fujian) acquired the entire equity interests in HongPeng Footwear and XiDeLang Sports Goods on 30 April 2009.

	As reported in audited financial statements		Reclassification		As presented	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
31 December 2006						
Dividends payable	21,366	9,664	(5,341)	(2,416)	16,025	7,248
Amounts owing to subsidiaries	-	-	5,341	2,416	5,341	2,416
31 December 2007						
Dividends payable	11,366	5,146	(2,842)	(1,287)	8,524	3,859
Amounts owing to subsidiaries	-	-	2,842	1,287	2,842	1,287
31 December 2008						
Dividends payable	57,973	29,340	(14,493)	(7,335)	43,480	22,005
Amounts owing to subsidiaries	-	-	14,493	7,335	14,493	7,335

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear

9.3.1 Income statements of HongPeng Footwear

The income statements of HongPeng Footwear, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Revenue	43,195	19,870	34,804	15,721	36,277	17,409	15,504	8,136
Cost of sales	(37,009)	(17,024)	(31,124)	(14,059)	(33,248)	(15,956)	(13,529)	(7,100)
Gross profit	6,186	2,846	3,680	1,662	3,029	1,453	1,975	1,036
Other income	185	85	60	27	42	20	7	4
Distribution costs	(3,720)	(1,711)	(1,216)	(549)	(63)	(30)	(17)	(9)
Administrative and other expenses	(942)	(434)	(1,066)	(482)	(2,260)	(1,084)	(809)	(424)
Finance costs	(696)	(320)	(722)	(326)	(1,379)	(662)	(1,324)	(695)
Profit/(loss) before tax 9.3.5	1,013	466	736	332	(631)	(303)	(168)	(88)
Tax expense 9.3.6	(400)	(184)	(249)	(112)	(106)	(51)	-	-
Net profit/(loss) for the financial years/period	613	282	487	220	(737)	(354)	(168)	(88)
Paid-up capital	10,800	4,885	37,000	16,754	37,000	18,726	37,000	19,063
Gross profit margin (%)	14.32	14.32	10.57	10.57	8.35	8.35	12.74	12.74
Pre-tax profit/(loss) margin (%)	2.35	2.35	2.11	2.11	(1.74)	(1.74)	(1.08)	(1.08)
Effective tax rate (%)	39.51	39.51	33.83	33.83	(16.80)	(16.83)	N/A	N/A
Earnings before interest, tax, depreciation and amortisation	1,715	788	1,810	816	1,347	647	1,463	768
Gross earnings/(loss) per paid-up capital (times)	0.09	0.09	0.02	0.02	(0.02)	(0.02)	(0.005)	(0.005)
Net earnings/(loss) per paid-up capital (times)	0.06	0.06	0.01	0.01	(0.02)	(0.02)	(0.005)	(0.005)

Note: For the purpose of presentation, all the income statement items were translated using the average exchange rates and paid-up capital was translated using the closing exchange rates applicable for the respective financial years/period.

N/A represents not applicable.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.2 Balance sheets of HongPeng Footwear

The balance sheets of HongPeng Footwear, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	As at 31 December						As at 30 June		
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000	
ASSETS									
Non-current assets									
Property, plant and equipment	9.3.7	697	315	610	276	523	265	31,473	16,215
Prepaid lease payments for land	9.3.8	975	441	26,750	12,113	26,209	13,264	25,938	13,363
		1,672	756	27,360	12,389	26,732	13,529	57,411	29,578
Current assets									
Inventories	9.3.9	9,057	4,097	7,799	3,532	5,837	2,954	6,232	3,211
Trade and other receivables	9.3.10	19,274	8,717	20,223	9,157	53,034	26,841	52,136	26,861
Current tax assets	9.3.13	499	226	377	171	246	125	355	183
Cash and cash equivalents		2,606	1,179	4,963	2,247	6,746	3,414	5,888	3,033
		31,436	14,219	33,362	15,107	65,863	33,334	64,611	33,288
TOTAL ASSETS		33,108	14,975	60,722	27,496	92,595	46,863	122,022	62,866
EQUITY AND LIABILITIES									
Equity attributable to equity holder of the Company									
Capital	9.3.11	10,800	4,885	37,000	16,754	37,000	18,726	37,000	19,063
Statutory surplus reserve		397	179	446	202	446	226	446	230
Retained earnings		3,572	1,616	4,010	1,816	3,273	1,656	3,105	1,600
TOTAL EQUITY		14,769	6,680	41,456	18,772	40,719	20,608	40,551	20,893
Current liabilities									
Trade and other payables	9.3.12	4,448	2,012	3,441	1,558	7,698	3,897	33,264	17,137
Current tax liabilities	9.3.13	91	41	25	12	378	191	407	209
Borrowings	9.3.14	13,800	6,242	15,800	7,154	43,800	22,167	47,800	24,627
		18,339	8,295	19,266	8,724	51,876	26,255	81,471	41,973
TOTAL LIABILITIES		18,339	8,295	19,266	8,724	51,876	26,255	81,471	41,973
TOTAL EQUITY AND LIABILITIES		33,108	14,975	60,722	27,496	92,595	46,863	122,022	62,866

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
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9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.3 HongPeng Footwear (continued)

9.3.2 Balance sheets of HongPeng Footwear (continued)

	As at 31 December						As at 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Net assets	14,769	6,680	41,456	18,772	40,719	20,608	40,551	20,893
Net assets per paid-up capital (times)	1.37	1.37	1.12	1.12	1.10	1.10	1.10	1.10

Note: For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing exchange rates applicable for the respective financial years/period.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.3 Cash flow statements of HongPeng Footwear

The cash flow statements of HongPeng Footwear, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit/(Loss) before tax	1,013	466	736	332	(631)	(303)	(168)	(88)
Adjustments for:								
Amortisation of prepaid lease payments for land	12	5	325	146	541	260	271	142
Allowance for doubtful debts	200	92	-	-	493	237	-	-
Bad debts written off	-	-	-	-	1	-*	1	1
Property, plant and equipment written off	-	-	-	-	-	-	11	6
Depreciation of property, plant and equipment	87	40	87	39	87	42	43	23
Interest expenses	696	320	722	326	1,379	662	1,324	695
Interest income	(93)	(43)	(60)	(27)	(29)	(14)	(7)	(4)
Operating profit before changes in working capital	1,915	880	1,810	816	1,841	884	1,475	775
Changes in working capital:								
Inventories	(3,400)	(1,564)	1,258	568	1,962	942	(395)	(207)
Trade and other receivables	(4,796)	(2,206)	1,661	750	(2,925)	(1,404)	1,179	619
Trade and other payables	(2,935)	(1,349)	(779)	(351)	4,268	2,048	(198)	(104)
Cash (used in)/generated from operations	(9,216)	(4,239)	3,950	1,783	5,146	2,470	2,061	1,083
Corporate income tax paid	(473)	(218)	(421)	(190)	(263)	(126)	(108)	(57)
Net cash (used in)/from operating activities	(9,689)	(4,457)	3,529	1,593	4,883	2,344	1,953	1,026
CASH FLOWS FROM INVESTING ACTIVITIES								
Placements of deposits pledged to bank	(2,104)	(968)	(29)	(13)	(14)	(7)	(2)	(1)
Advances to immediate holding company	-	-	-	-	-	-	(530)	(278)
Advance from a related company	-	-	-	-	630	302	10,268	5,389
Repayments from/(advances to) a related party	3,360	1,546	(2,610)	(1,179)	(30,380)	(14,579)	(15,228)	(7,992)
Interest received	93	43	60	27	29	14	7	4
Acquisition of prepaid lease payments for land	(987)	(454)	(26,100)	(11,789)	-	-	-	-
Acquisition of property, plant and equipment	-	-	-	-	-	-	(4)	(2)
Net cash from/(used in) investing activities	362	167	(28,679)	(12,954)	(29,735)	(14,270)	(5,489)	(2,880)

* Less than RM1,000

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.3 Cash flow statements of HongPeng Footwear (continued)

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES								
Interest paid	(696)	(320)	(722)	(326)	(1,379)	(662)	(1,324)	(695)
Draw down of short term borrowings	4,000	1,840	2,000	903	28,000	13,437	4,000	2,099
Proceeds arising from additional capital	-	-	26,200	11,835	-	-	-	-
Net cash from financing activities	3,304	1,520	27,478	12,412	26,621	12,775	2,676	1,404
Net (decrease)/increase in cash and cash equivalents	(6,023)	(2,770)	2,328	1,051	1,769	849	(860)	(450)
Effect of exchange rate changes	-	(59)	-	3	-	197	-	49
Cash and cash equivalents at beginning of financial years/period	6,525	3,056	502	227	2,830	1,281	4,599	2,327
Cash and cash equivalents at end of financial years/period	502	227	2,830	1,281	4,599	2,327	3,739	1,926

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	As at 31 December						As at 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Cash and bank balances	502	227	2,830	1,281	4,599	2,327	3,739	1,926
Deposits with licensed bank	2,104	952	2,133	966	2,147	1,087	2,149	1,107
	2,606	1,179	4,963	2,247	6,746	3,414	5,888	3,033
Less: Deposits pledged as security	(2,104)	(952)	(2,133)	(966)	(2,147)	(1,087)	(2,149)	(1,107)
	502	227	2,830	1,281	4,599	2,327	3,739	1,926

Deposits with licensed bank represent deposits pledged as security for bankers' acceptance facilities granted to HongPeng Footwear.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.4 Statements of changes in equity of HongPeng Footwear

The statements of changes in equity of HongPeng Footwear, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Capital RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	10,800	336	3,020	14,156
Net profit for the financial year	-	-	613	613
Transfer to statutory surplus reserve	-	61	(61)	-
Balance at 31 December 2006	10,800	397	3,572	14,769
Increase of paid-up capital	26,200	-	-	26,200
Net profit for the financial year	-	-	487	487
Transfer to statutory surplus reserve	-	49	(49)	-
Balance at 31 December 2007	37,000	446	4,010	41,456
Net loss for the financial year	-	-	(737)	(737)
Balance at 31 December 2008	37,000	446	3,273	40,719
Net loss for the financial period	-	-	(168)	(168)
Balance at 30 June 2009	37,000	446	3,105	40,551

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.4 Statements of changes in equity of HongPeng Footwear (continued)

The statements of changes in equity of HongPeng Footwear, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:
 (continued)

	Capital RM'000	Statutory surplus reserve RM'000	Retained earnings RM'000	Total RM'000
Balance at 1 January 2006	5,058	157	1,414	6,629
Difference on foreign currency translations	(173)	(7)	(51)	(231)
Net profit for the financial year	-	-	282	282
Transfer to statutory surplus reserve	-	29	(29)	-
Balance at 31 December 2006	4,885	179	1,616	6,680
Difference on foreign currency translations	34	1	2	37
Increase of paid-up capital	11,835	-	-	11,835
Net profit for the financial year	-	-	220	220
Transfer to statutory surplus reserve	-	22	(22)	-
Balance at 31 December 2007	16,754	202	1,816	18,772
Difference on foreign currency translations	1,972	24	194	2,190
Net loss for the financial year	-	-	(354)	(354)
Balance at 31 December 2008	18,726	226	1,656	20,608
Difference on foreign currency translations	337	4	32	373
Net loss for the financial period	-	-	(88)	(88)
Balance at 30 June 2009	19,063	230	1,600	20,893

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.5 Profit/(loss) before tax

	----- FYE 31 December ----->						<- FPE 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit/(loss) before tax is arrived at after charging:								
Amortisation of prepaid lease payments for land	12	5	325	146	541	260	271	142
Allowance for doubtful debts	200	92	-	-	493	237	-	-
Bad debts written off	-	-	-	-	1	-*	1	1
Depreciation of property, plant and equipment	87	40	87	39	87	42	43	23
Property, plant and equipment written off	-	-	-	-	-	-	11	6
Interest expense on short term borrowings	696	320	722	326	1,379	662	1,324	695
Rental of premises	20	9	20	9	20	10	10	5
And crediting:								
Interest income	93	43	60	27	29	14	7	4

* Less than RM1,000

9.3.6 Tax expense

	----- FYE 31 December ----->						<- FPE 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current tax expense based on profit for the financial years/period:								
- Corporate income tax	400	184	249	112	106	51	-	-

On 16 March 2007, the National Peoples' Congress promulgated the New Tax Law, which became effective from 1 January 2008. According to the New Tax Law, the standard enterprise tax rate applicable to HongPeng Footwear reduced from 33% to 25%.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.7 Property, plant and equipment

	----- As at 31 December ----->						<-- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Carrying amount								
Construction in progress	-	-	-	-	-	-	31,000	15,971
Plant and machinery	681	308	600	271	518	262	466	240
Other equipment	16	7	10	5	5	3	7	4
	<u>697</u>	<u>315</u>	<u>610</u>	<u>276</u>	<u>523</u>	<u>265</u>	<u>31,473</u>	<u>16,215</u>

9.3.8 Prepaid lease payments for land

The prepaid lease payments for land represent land use rights situated in the PRC. HongPeng Footwear is granted land use rights for a period of 50 years. The prepaid lease payments for land is amortised on a straight line basis over the lease term.

A prepaid lease payments for land with carrying amount of RMB25,012,500 has been charged to a licensed bank for the banking facilities granted to HongPeng Footwear.

9.3.9 Inventories

	----- As at 31 December ----->						<-- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
At cost								
Raw materials	7,134	3,227	4,984	2,257	4,748	2,403	4,880	2,514
Work-in-progress	478	216	471	214	373	189	386	199
Finished goods	1,445	654	2,344	1,061	716	362	966	498
	<u>9,057</u>	<u>4,097</u>	<u>7,799</u>	<u>3,532</u>	<u>5,837</u>	<u>2,954</u>	<u>6,232</u>	<u>3,211</u>

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.3 HongPeng Footwear (continued)

9.3.10 Trade and other receivables

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade receivables								
Third parties	7,365	3,331	3,682	1,667	8,112	4,106	7,027	3,620
Less: Allowance for doubtful debts	-	-	-	-	(197)	(100)	(197)	(101)
	<u>7,365</u>	<u>3,331</u>	<u>3,682</u>	<u>1,667</u>	<u>7,915</u>	<u>4,006</u>	<u>6,830</u>	<u>3,519</u>
Other receivables								
Third parties	2,038	922	4,060	1,838	2,554	1,293	2,460	1,267
Amount owing by immediate holding company	-	-	-	-	-	-	43,342	22,330
Amount owing by a related party	10,071	4,555	12,581	5,697	43,061	21,793	-	-
Amount owing by a related company	-	-	100	45	-	-	-	-
	<u>12,109</u>	<u>5,477</u>	<u>16,741</u>	<u>7,580</u>	<u>45,615</u>	<u>23,086</u>	<u>45,802</u>	<u>23,597</u>
Less: Allowance for doubtful debts	(200)	(91)	(200)	(90)	(496)	(251)	(496)	(255)
	<u>11,909</u>	<u>5,386</u>	<u>16,541</u>	<u>7,490</u>	<u>45,119</u>	<u>22,835</u>	<u>45,306</u>	<u>23,342</u>
	<u>19,274</u>	<u>8,717</u>	<u>20,223</u>	<u>9,157</u>	<u>53,034</u>	<u>26,841</u>	<u>52,136</u>	<u>26,861</u>

- (a) Trade receivables are non-interest bearing and the normal trade credit terms granted by HongPeng Footwear is ninety (90) days.
- (b) Amount owing by immediate holding company represents advances and payments made on behalf, which are unsecured, interest free and repayable on demand.
- (c) Amounts owing by a related party (a former equity holder) and a related company represent advances and payments made on behalf, which are unsecured, interest-free and repayable on demand.

The ageing analysis of the trade receivables as at 30 June 2009 were as follows:

	0-30 days	31-60 days	61-90 days	91-180 days	>180 days	Total
Trade receivables (RMB'000)	2,044	1,268	998	900	1,817	7,027
Trade receivables (RM'000)	1,053	653	514	464	936	3,620
% of total receivables	29.09	18.04	14.20	12.81	25.86	100.00

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.11 Capital

	As at 31 December						As at 30 June	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Registered and paid up:								
Balance at 1 January	10,800	5,058	10,800	4,885	37,000	16,754	37,000	18,726
Issued during the financial year	-	-	26,200	11,835	-	-	-	-
Difference on foreign currency translations	-	(173)	-	34	-	1,972	-	337
Balance at 31 December	10,800	4,885	37,000	16,754	37,000	18,726	37,000	19,063

9.3.12 Trade and other payables

	As at 31 December						As at 30 June	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Trade payables								
Third parties	2,980	1,348	2,124	962	6,399	3,239	5,260	2,710
Other payables and accruals								
Third parties	959	434	937	424	157	79	935	482
Amount owing to a related company	-	-	-	-	630	319	26,422	13,613
Accruals	509	230	380	172	512	260	647	332
	1,468	664	1,317	596	1,299	658	28,004	14,427
	4,448	2,012	3,441	1,558	7,698	3,897	33,264	17,137

- (a) Trade payables are non-interest bearing and the normal trade credit terms granted to HongPeng Footwear is ninety (90) days.
- (b) Amount owing to a related company represents advances and payments made on behalf, which are unsecured, interest-free and repayable on demand.

The ageing analysis of the trade payables as at 30 June 2009 were as follows:

	0-30 days	31-60 days	61-90 days	91-180 days	> 180 days	Total
Trade payables (RMB'000)	390	288	807	1,661	2,114	5,260
Trade payables (RM'000)	201	148	416	856	1,089	2,710
% of total payables	7.41	5.48	15.34	31.58	40.19	100.00

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.3 HongPeng Footwear (continued)

9.3.13 Current tax

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current tax assets								
Value added tax recoverable	499	226	288	130	-	-	-	-
Corporate income tax recoverable	-	-	89	41	246	125	355	183
	<u>499</u>	<u>226</u>	<u>377</u>	<u>171</u>	<u>246</u>	<u>125</u>	<u>355</u>	<u>183</u>
Current tax liabilities								
Value added tax payable	-	-	-	-	123	62	48	25
Corporate income tax payable	83	38	-	-	-	-	-	-
Land use right tax payable	-	-	18	3	237	120	348	179
Others	8	3	7	9	18	9	11	5
	<u>91</u>	<u>41</u>	<u>25</u>	<u>12</u>	<u>378</u>	<u>191</u>	<u>407</u>	<u>209</u>

In addition to the corporate income tax, the types of other taxes applicable to HongPeng Footwear include land use right taxes, value added tax (VAT) and land appreciation tax. The details of the tax basis and applicable rate for each type of tax are disclosed in the Note 9.2.14 of this Report.

9.3.14 Borrowings

	----- As at 31 December ----->						<- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Secured								
Short term bank loans	-	-	-	-	23,500	11,893	23,500	12,107
Recourse factoring	-	-	-	-	8,500	4,302	8,500	4,379
Bankers' acceptances	7,000	3,166	7,000	3,170	7,000	3,543	7,000	3,607
	<u>7,000</u>	<u>3,166</u>	<u>7,000</u>	<u>3,170</u>	<u>39,000</u>	<u>19,738</u>	<u>39,000</u>	<u>20,093</u>
Unsecured								
Short term bank loans	6,800	3,076	8,800	3,984	4,800	2,429	8,800	4,534
	<u>13,800</u>	<u>6,242</u>	<u>15,800</u>	<u>7,154</u>	<u>43,800</u>	<u>22,167</u>	<u>47,800</u>	<u>24,627</u>

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.3 HongPeng Footwear (continued)

9.3.14 Borrowings (continued)

(a) The short term bank loans are secured by the following:-

- (i) short term loans of RMB10,000,000 are secured by a legal charge over prepaid lease payments for land of a related company, XiDeLang Sports Goods;
 - (ii) short term loans of RMB10,000,000 are secured by a legal charge over prepaid lease payments for land of HongPeng Footwear; and
 - (iii) a short term loan of RMB3,500,000 is secured by a legal charge over a building of HongPeng Footwear's legal representative.
- (b) The bankers' acceptances are guaranteed by a third party corporation and are secured by the deposits pledged to the bank and a negative pledge on the assets of HongPeng Footwear. For the FPE 30 June 2009, the bankers' acceptances are further guaranteed by the HongPeng Footwear's legal representative and a third party individual.
- (c) The unsecured short term loans are jointly guaranteed by the legal representative of HongPeng Footwear, a third party corporation and a third party individual. In 2006, a short term loan of RMB800,000 was also guaranteed by XiDeLang Sports Goods.

9.3.15 Related party disclosures

(a) Identities of related parties

Parties are considered to be related to HongPeng Footwear if HongPeng Footwear has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where HongPeng Footwear and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between HongPeng Footwear and its related parties are as follows:

Identities of related parties	Relationship with HongPeng Footwear
Ding LiHong	Legal representative and Director of HongPeng Footwear
Xin YuanChan	Ultimate holding company
HongPeng (Fujian)	Immediate holding company
Ding JiaXing	Family member of Ding LiHong and a former equity holder
XiDeLang Sports Goods	Related company

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.3 HongPeng Footwear (continued)

9.3.15 Related party disclosures (continued)

(b) HongPeng Footwear had the following transactions with related parties:

	----- As at 31 December -----				<- As at 30 June ->			
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Corporate guarantee given by XiDeLang Sports Goods to bank for credit facilities granted to HongPeng Footwear	800	362	-	-	-	-	-	-
Corporate guarantee given to a bank for credit facilities granted to XiDeLang Sports Goods	700	317	-	-	-	-	-	-
A building of HongPeng Footwear's Director pledged to a bank for banking facilities granted to HongPeng Footwear	-	-	-	-	3,500	1,771	3,500	1,803
Joint guarantees given by HongPeng Footwear's Director with other third parties for banking facilities granted to HongPeng Footwear	-	-	-	-	4,800	2,429	15,800	8,141
A prepaid lease payments for land of XiDeLang Sports Goods pledged to a bank for credit facilities granted to HongPeng Footwear	-	-	-	-	10,000	5,061	10,000	5,152

9.3.16 Capital commitments

	----- As at 31 December -----				<- As at 30 June ->			
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Capital commitment in respect of construction of factories and staff quarters:								
- Contracted but not provided for	-	-	-	-	75,000	37,958	44,000	22,669

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.3 HongPeng Footwear (continued)

9.3.17 Contingent liabilities – unsecured

	←----- As at 31 December ----->						←- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Corporate guarantee in respect of the banking facilities granted to third parties	4,900	2,216	5,900	2,671	5,900	2,986	3,900	2,009

9.3.18 Significant events

The details of the significant events are disclosed in Note 9.1.12 to this Report.

9.3.19 Events after the balance sheet date

The details of the events after the balance sheet date are disclosed in Note 9.1.13 to this Report.

9.3.20 Comparative figures

Certain comparative figures have been reclassified in order to conform with the current financial period's presentation following HongPeng (Fujian) acquired the entire equity interests in HongPeng Footwear and XiDeLang Sports Goods on 30 April 2009.

	As reported in audited financial statements		Reclassification		As presented	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
31 December 2006						
Amount owing by an equity holder	10,071	4,555	(10,071)	(4,555)	-	-
Amount owing by a related party	-	-	10,071	4,555	10,071	4,555
31 December 2007						
Amount owing by an equity holder	12,581	5,697	(12,581)	(5,697)	-	-
Amount owing by a related party	100	45	12,481	5,652	12,581	5,697
Amount owing by a related company	-	-	100	45	100	45
31 December 2008						
Amount owing by an equity holder	43,061	21,793	(43,061)	(21,793)	-	-
Amount owing by a related party	-	-	43,061	21,793	43,061	21,793
Amount owing to a related party	630	319	(630)	(319)	-	-
Amount owing to a related company	-	-	630	319	630	319

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods

9.4.1 Income statements of XiDeLang Sports Goods

The income statements of XiDeLang Sports Goods, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Revenue	5,341	2,457	-	-	21,076	10,114	-	-
Administrative and other expenses	-	-	(295)	(133)	(792)	(380)	(387)	(204)
Finance costs	(356)	(164)	(699)	(316)	(1,493)	(716)	(650)	(340)
Profit/(loss) before tax 9.4.5	4,985	2,293	(994)	(449)	18,791	9,018	(1,037)	(544)
Tax expense 9.4.6	(632)	(291)	-	-	-	-	-	-
Net profit/(loss) for the financial years/period	4,353	2,002	(994)	(449)	18,791	9,018	(1,037)	(544)
Paid-up capital	9,900	4,478	36,000	16,301	36,000	18,220	36,000	18,547
Pre-tax profit/(loss) margin (%)	93.33	93.33	N/A	N/A	89.16	89.16	N/A	N/A
Effective tax rate (%)	12.69	12.69	N/A	N/A	N/A	N/A	N/A	N/A
Earnings/(loss) before interest, tax, depreciation and amortisation	5,341	2,457	(12)	(5)	20,849	10,005	(104)	(55)
Gross earnings/(loss) per paid-up capital (times)	0.50	0.50	(0.03)	(0.03)	0.52	0.49	(0.03)	(0.03)
Net earnings/(loss) per paid-up capital (times)	0.44	0.44	(0.03)	(0.03)	0.52	0.49	(0.03)	(0.03)

Note: For the purpose of presentation, all the income statement items were translated using the average exchange rates and paid-up capital was translated using the closing exchange rates applicable for the respective financial years/period.

N/A represents not applicable.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.2 Balance sheets of XiDeLang Sports Goods

The balance sheets of XiDeLang Sports Goods, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	As at 31 December						As at 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
ASSETS								
Non-current assets								
Property, plant and equipment 9.4.7	-	-	-	-	-	-	17,000	8,758
Prepaid lease payments for land 9.4.8	-	-	27,991	12,674	27,426	13,880	27,143	13,984
Investment in an associate 9.4.9	2,125	961	2,125	962	-	-	-	-
	2,125	961	30,116	13,636	27,426	13,880	44,143	22,742
Current assets								
Other receivables 9.4.10	24,323	11,002	29,556	13,384	52,405	26,523	26,422	13,613
Cash and cash equivalents	34	15	5,027	2,276	3,767	1,906	1,636	843
	24,357	11,017	34,583	15,660	56,172	28,429	28,058	14,456
TOTAL ASSETS	26,482	11,978	64,699	29,296	83,598	42,309	72,201	37,198
EQUITY AND LIABILITIES								
Equity attributable to equity holder of the Company								
Capital 9.4.11	9,900	4,478	36,000	16,301	36,000	18,220	36,000	18,547
Statutory surplus reserve	953	431	953	432	2,832	1,433	2,832	1,459
Retained earnings	8,576	3,879	7,582	3,433	24,494	12,396	3,457	1,781
TOTAL EQUITY	19,429	8,788	44,535	20,166	63,326	32,049	42,289	21,787
Current liabilities								
Other payables 9.4.12	-	-	100	45	-	-	9,537	4,914
Current tax liabilities 9.4.13	1,353	612	1,364	618	1,572	796	1,675	863
Borrowings 9.4.14	5,700	2,578	18,700	8,467	18,700	9,464	18,700	9,634
	7,053	3,190	20,164	9,130	20,272	10,260	29,912	15,411
TOTAL LIABILITIES	7,053	3,190	20,164	9,130	20,272	10,260	29,912	15,411
TOTAL EQUITY AND LIABILITIES	26,482	11,978	64,699	29,296	83,598	42,309	72,201	37,198
Net assets	19,429	8,788	44,535	20,166	63,326	32,049	42,289	21,787
Net assets per paid-up capital (times)	1.96	1.96	1.24	1.24	1.76	1.76	1.17	1.17

Note: For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing exchange rates applicable for the respective financial years/period.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.3 Cash flow statements of XiDeLang Sports Goods

The cash flow statements of XiDeLang Sports Goods, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit/(loss) before tax	4,985	2,293	(994)	(449)	18,791	9,018	(1,037)	(544)
Adjustments for:								
Amortisation of prepaid lease payments for land	-	-	283	128	565	271	283	149
Dividend income	(5,341)	(2,457)	-	-	(21,076)	(10,114)	-	-
Interest expenses	356	164	699	316	1,493	716	650	340
Operating loss before changes in working capital	-	-	(12)	(5)	(227)	(109)	(104)	(55)
Changes in working capital:								
Other payables	(113)	(51)	111	50	107	51	104	55
Net cash (used in)/ from operating activities	(113)	(51)	99	45	(120)	(58)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES								
Advances to a related company (Advances to) / repayments from a related party	-	-	-	-	(630)	(302)	(10,268)	(5,389)
Acquisition of prepaid lease payments for land	(2,560)	(1,178)	(5,233)	(2,364)	983	472	8,758	4,597
Net cash (used in)/from investing activities	(2,560)	(1,178)	(33,507)	(15,135)	353	170	(1,510)	(792)

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.3 Cash flow statements of XiDeLang Sports Goods (continued)

	Financial years ended 31 December						6-months period ended 30 June	
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES								
Interest paid	(356)	(164)	(699)	(316)	(1,493)	(716)	(621)	(326)
Draw down of borrowings	3,000	1,380	13,000	5,872	-	-	-	-
Proceeds arising from additional capital	-	-	26,100	11,789	-	-	-	-
Net cash from/(used in) financing activities	2,644	1,216	38,401	17,345	(1,493)	(716)	(621)	(326)
Net (decrease)/increase in cash and cash equivalents	(29)	(13)	4,993	2,255	(1,260)	(604)	(2,131)	(1,118)
Effect of exchange rate changes	-	(1)	-	6	-	234	-	55
Cash and cash equivalents at beginning of financial years/period	63	29	34	15	5,027	2,276	3,767	1,906
Cash and cash equivalents at end of financial years/period	34	15	5,027	2,276	3,767	1,906	1,636	843

Cash and cash equivalents represent cash and bank balances.

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.4 Statements of changes in equity of XiDeLang Sports Goods

The statements of changes in equity of XiDeLang Sports Goods, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below:

	Capital RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	9,900	518	4,658	15,076
Net profit for the financial year	-	-	4,353	4,353
Transfer to statutory surplus reserve	-	435	(435)	-
Balance at 31 December 2006	9,900	953	8,576	19,429
Increase of paid-up capital	26,100	-	-	26,100
Net loss for the financial year	-	-	(994)	(994)
Balance at 31 December 2007	36,000	953	7,582	44,535
Net profit for the financial year	-	-	18,791	18,791
Transfer to statutory surplus reserve	-	1,879	(1,879)	-
Balance at 31 December 2008	36,000	2,832	24,494	63,326
Net loss for the financial period	-	-	(1,037)	(1,037)
Dividend	-	-	(20,000)	(20,000)
Balance at 30 June 2009	36,000	2,832	3,457	42,289

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.4 Statements of changes in equity of XiDeLang Sports Goods (continued)

The statements of changes in equity of XiDeLang Sports Goods, which are extracted from the audited financial statements for the past three (3) financial years and FPE 30 June 2009 are set out below: (continued)

	Capital RM'000	Statutory surplus reserve RM'000	Retained earnings RM'000	Total RM'000
Balance at 1 January 2006	4,636	243	2,182	7,061
Difference on foreign currency translations	(158)	(12)	(105)	(275)
Net profit for the financial year	-	-	2,002	2,002
Transfer to statutory surplus reserve	-	200	(200)	-
Balance at 31 December 2006	4,478	431	3,879	8,788
Difference on foreign currency translations	34	1	3	38
Increase of paid-up capital	11,789	-	-	11,789
Net loss for the financial year	-	-	(449)	(449)
Balance at 31 December 2007	16,301	432	3,433	20,166
Difference on foreign currency translations	1,919	99	847	2,865
Net profit for the financial year	-	-	9,018	9,018
Transfer to statutory surplus reserve	-	902	(902)	-
Balance at 31 December 2008	18,220	1,433	12,396	32,049
Difference on foreign currency translations	327	26	425	778
Net loss for the financial period	-	-	(544)	(544)
Dividend	-	-	(10,496)	(10,496)
Balance at 30 June 2009	18,547	1,459	1,781	21,787

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods

9.4.5 Profit/(loss) before tax

	----- FYE 31 December ----->						<-- FPE 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit/(loss) before tax is arrived at after charging:								
Amortisation of prepaid lease payments for land	-	-	283	128	565	271	283	149
Interest expense on short term bank loans	356	164	699	316	1,493	716	650	340
Land use right tax	-	-	11	5	207	99	104	55
And crediting:								
Dividend income received and receivable from a former associate	5,341	2,457	-	-	21,076	10,114	-	-

9.4.6 Tax expense

	----- FYE 31 December ----->						<-- FPE 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Current tax expense based on profit for the financial year:								
- Corporate income tax	632	291	-	-	-	-	-	-

On 16 March 2007, the National Peoples' Congress promulgated the New Tax Law, which became effective from 1 January 2008. According to the New Tax Law, the standard enterprise tax rate applicable to XiDeLang Sports Goods reduced from 33% to 25%.

9.4.7 Property, plant and equipment

	----- As at 31 December ----->						<-- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Carrying amount								
Construction in-progress	-	-	-	-	-	-	17,000	8,758

9.4.8 Prepaid lease payments for land

The prepaid lease payments for land represent land use rights situated in the PRC. XiDeLang Sports Goods is granted land use rights for a period of 50 years. The prepaid lease payments for land is amortised on a straight line basis over the lease term.

The prepaid lease payments for land has been charged to a licensed bank for the banking facilities granted to HongPeng Footwear.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.9 Investment in an associate

	----- As at 31 December ----->				<-- As at 30 June -->			
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Unquoted equity, at cost	2,125	961	2,125	962	-	-	-	-

The summarised financial information of the associate is as follows:-

	----- As at 31 December ----->				<-- As at 30 June -->			
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Assets and liabilities								
Non-current assets	10,158	4,595	9,286	4,205	-	-	-	-
Current assets	92,040	41,629	207,053	93,753	-	-	-	-
Total assets	102,198	46,224	216,339	97,958	-	-	-	-
Current liabilities	62,534	28,284	118,775	53,781	-	-	-	-
Total liabilities	62,534	28,284	118,775	53,781	-	-	-	-
	----- FYE 31 December ----->				<-- FPE 30 June -->			
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Results								
Revenue	164,664	75,745	316,102	142,783	537,662	258,024	N/A	N/A
Net profit for the financial years	26,209	12,056	57,900	26,153	103,880	49,853	N/A	N/A

The details of the associate, which incorporated in the PRC, are as follows:

Name of company	Interest in equity				Principal activities
	2006	2007	2008	2009	
	%	%	%	%	
HongPeng (Fujian)	25	25	-	-	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment

On 21 October 2008, XiDeLang Sports Goods disposed of the 25% equity interest in HongPeng (Fujian) to Xin Yuan Chan for a consideration of RMB2,125,000.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.10 Other receivables

	<----- As at 31 December ----->						<- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Amount owing by a related party	18,982	8,586	26,714	12,097	37,282	18,869	-	-
Amount owing by a related company	-	-	-	-	630	319	26,422	13,613
Amount owing by immediate holding company	5,341	2,416	2,842	1,287	14,493	7,335	-	-
	<u>24,323</u>	<u>11,002</u>	<u>29,556</u>	<u>13,384</u>	<u>52,405</u>	<u>26,523</u>	<u>26,422</u>	<u>13,613</u>

- (a) The amounts owing by a related party, a former equity holder, represented advances and payments made on behalf, which are unsecured, interest free and repayable on demand.
- (b) The amounts owing by a related company and immediate holding company represent advances and payments made on behalf, which are unsecured, interest free and repayable on demand.

9.4.11 Capital

	<----- As at 31 December ----->						<- As at 30 June-->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Registered and paid-up:								
Balance at 1 January	9,900	4,636	9,900	4,478	36,000	16,301	36,000	18,220
Issued during the financial year	-	-	26,100	11,789	-	-	-	-
Difference on foreign currency translations	-	(158)	-	34	-	1,919	-	327
Balance at 31 December	<u>9,900</u>	<u>4,478</u>	<u>36,000</u>	<u>16,301</u>	<u>36,000</u>	<u>18,220</u>	<u>36,000</u>	<u>18,547</u>

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
(continued)

9.4 XiDeLang Sports Goods (continued)

9.4.12 Other payables

	←----- As at 31 December ----->						←-- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Amount owing to immediate holding company	-	-	-	-	-	-	9,507	4,898
Amount owing to a related company	-	-	100	45	-	-	-	-
Accruals	-	-	-	-	-	-	30	16
	-	-	100	45	-	-	9,537	4,914

The amounts owing to immediate holding company and a related company represent advances and payments made on behalf, which are unsecured, interest free and repayable on demand.

9.4.13 Current tax liabilities

	←----- As at 31 December ----->						←-- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Corporate income tax payable	1,353	612	1,353	613	1,353	685	1,353	697
Land use right tax payable	-	-	11	5	219	111	322	166
	1,353	612	1,364	618	1,572	796	1,675	863

In addition to the corporate income tax, the types of other taxes applicable to XiDeLang Sports Goods include land use right taxes and land appreciation tax. The details of the tax basis and applicable rate of each type of tax are disclosed in the Note 9.2.14 of this Report.

9.4.14 Borrowings

	←----- As at 31 December ----->						←- As at 30 June -->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Secured								
Short term bank loans	-	-	-	-	13,000	6,579	13,000	6,698
Unsecured								
Short term bank loans	5,700	2,578	18,700	8,467	5,700	2,885	5,700	2,936
	5,700	2,578	18,700	8,467	18,700	9,464	18,700	9,634

(a) The short term bank loans are secured by legal charge over a building of a related party.

(b) The unsecured short term bank loans are jointly guaranteed by a former Director, legal representative of XiDeLang Sports Goods, a third party corporation and a third party individual. In 2006, a short term bank loan of RMB700,000 was also guaranteed by HongPeng Footwear.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.15 Related party disclosures

(a) Identities of related parties

Parties are considered to be related to XiDeLang Sports Goods if XiDeLang Sports Goods has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where XiDeLang Sports Goods and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between XiDeLang Sports Goods and its related parties are as follows:

Identities of related parties	Relationship with XiDeLang Sports Goods
Ding PengPeng	Legal representative, Director and the ultimate controlling party
XinYuanChan	Ultimate holding company
HongPeng (Fujian)	Immediate holding company
HongPeng Footwear	Related company
Ding JiaXing, Ding LiHong	Family members of Ding PengPeng

(b) XiDeLang Sports Goods had the following transactions with related parties:

	<----- As at 31 December ----->				<-- As at 30 June -->			
	2006 RMB'000	2006 RM'000	2007 RMB'000	2007 RM'000	2008 RMB'000	2008 RM'000	2009 RMB'000	2009 RM'000
Corporate guarantee given to a bank for credit facilities granted to HongPeng Footwear	800	362	-	-	-	-	-	-
Corporate guarantee given by HongPeng Footwear to a bank for credit facilities granted to XiDeLang Sports Goods	700	317	-	-	-	-	-	-
Dividend from HongPeng (Fujian)	5,341	2,457	-	-	21,076	10,114	-	-

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.15 Related party disclosures (continued)

(b) XiDeLang Sports Goods had the following transactions with related parties: (continued)

	←----- As at 31 December ----->						←- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Prepaid lease payments for land pledged to bank for credit facilities granted to HongPeng Footwear	-	-	-	-	10,000	5,061	10,000	5,152
Building of a related party pledged to bank for credit facilities granted to XiDeLang Sports Goods	-	-	-	-	13,000	6,579	13,000	6,698
Personal guarantee given by XiDeLang Sports Goods' legal representative and other parties to a bank for the credit facilities granted to the XiDeLang Sports Goods	-	-	-	-	5,700	2,885	5,700	2,936

9.4.16 Capital commitments

	←----- As at 31 December ----->						←- As at 30 June ->	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Capital commitment in respect of construction of office building: - Contracted but not provided for	-	-	-	-	81,000	40,994	64,000	32,973

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES (continued)

9.4 XiDeLang Sports Goods (continued)

9.4.17 Contingent Liabilities

	As at 31 December						As at 30 June	
	2006	2006	2007	2007	2008	2008	2009	2009
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Secured								
A prepaid lease payments for land to a bank for credit facilities granted to HongPeng Footwear	-	-	-	-	10,000	5,061	10,000	5,152
Unsecured								
Corporate guarantee given to a bank for credit facilities granted to HongPeng Footwear	800	362	-	-	-	-	-	-

9.4.18 Significant events

The details of the significant events are disclosed in Note 9.1.12 to this Report.

9.4.19 Events after the balance sheet date

The details of the events after the balance sheet date are disclosed in Note 9.1.13 to this Report.

9.4.20 Comparative figures

Certain comparative figures have been reclassified in order to conform with the current financial period's presentation following HongPeng (Fujian) acquired the entire equity interests in HongPeng Footwear and XiDeLang Sports Goods on 30 April 2009.

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10. ACCOUNTANTS' REPORT (Cont'd)

**XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report**



**9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)**

9.4 XiDeLang Sports Goods (continued)

9.4.20 Comparative figures (continued)

	As reported in audited financial statements		Reclassification		As presented	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
31 December 2006						
Dividend receivable from a former associate	5,341	2,416	(5,341)	(2,416)	-	-
Amount owing by immediate holding company	-	-	5,341	2,416	5,341	2,416
31 December 2007						
Dividend receivable from a former associate	2,842	1,287	(2,842)	(1,287)	-	-
Amount owing by immediate holding company	-	-	2,842	1,287	2,842	1,287
Amount owing to a related party	100	45	(100)	(45)	-	-
Amount owing to a related company	-	-	100	45	100	45
31 December 2008						
Dividend receivable from a former associate	14,493	7,335	(14,493)	(7,335)	-	-
Amount owing by immediate holding company	-	-	14,493	7,335	14,493	7,335
Amount owing by a related party	630	319	(630)	(319)	-	-
Amount owing by a related company	-	-	630	319	630	319

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.5 XiDeLang

9.5.1 Income statement of XiDeLang

The income statement of XiDeLang, which are extracted from the audited financial statements for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 are set out below:

	17 April 2009 to 30 June 2009	
	USD'000	RM'000
Administrative and other expenses	(6)	(21)
Loss before tax	(6)	(21)
Tax expense	-	-
Net loss for the financial period	(6)	(21)
Paid-up share capital	*-	*-
Pre-tax profit margin (%)	N/A	N/A
Effective tax rate (%)	N/A	N/A
Loss before interest, tax, depreciation and amortisation	(6)	(21)
Gross loss per share (USD/RM)	(600)	(2,100)
Net loss per share (USD/RM)	(600)	(2,100)

* Represent USD1 equivalent to RM3.5191 at USD1 : RM3.5191

Note: For the purpose of presentation, all the income statement items and share capital were translated using the closing rate as at 30 June 2009.

N/A represents not applicable.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.5 XiDeLang (continued)

9.5.2 Balance sheet of XiDeLang

The balance sheet of XiDeLang, which are extracted from the audited financial statements for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 are set out below:

	As at 30 June	
	2009 USD'000	2009 RM'000
ASSET		
Current asset		
Cash and cash equivalent	*_	*_
	*_	*_
TOTAL ASSET	*_	*_
EQUITY AND LIABILITY		
Equity attributable to equity holder of the Company		
Share capital	9.5.5	*_
Accumulated loss		(21)
TOTAL EQUITY		(21)
		(6)
Current liability		
Amount owing to a director	9.5.6	21
TOTAL LIABILITY		*_
		*_
TOTAL EQUITY AND LIABILITIES		*_
		(6)
Net liabilities		(21)
Net liabilities per share (USD/RM)		(600) (2,100)

* Represent USD1 equivalent to RM3.5191 at USD1 : RM3.5191

Note: For the purpose of presentation, all the balance sheet items, which include the equity instruments and reserves, were translated using the closing exchange rate as at 30 June 2009.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.5 XiDeLang (continued)

9.5.3 Cash flow statement of XiDeLang

The cash flow statement of XiDeLang, which are extracted from the audited financial statements for financial period from 17 April 2009 (date of incorporation) to 30 June 2009 are set out below:

	17 April 2009 to 30 June 2009	
	USD'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITY		
Loss before tax/Net cash used in operating activity	(6)	(21)
CASH FLOWS FROM INVESTING ACTIVITY		
Advances from a director	6	21
Net cash from investing activity	6	21
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from issue of shares	*_	*_
Net cash from financing activity	*_	*_
Net increase in cash and cash equivalent	*_	*_
Cash and cash equivalent at beginning of financial period	-	-
Cash and cash equivalent at end of financial period	*_	*_

* Represent USD1 equivalent to RM3.5191 at USD1 : RM3.5191

Cash and cash equivalent represents cash balance.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.5 XiDeLang (continued)

9.5.4 Statement of changes in equity of XiDeLang

The statement of changes in equity of XiDeLang, which are extracted from the audited financial statements for the financial period from 17 April 2009 (date of incorporation) to 30 June 2009 are set out below:

	Capital USD'000	Accumulated loss USD'000	Total USD'000
Balance at 17 April 2009 (date of incorporation)	-	-	-
Issued of shares	*-	-	*-
Net loss for the financial period	-	(6)	(6)
Balance at 30 June 2009	*-	(6)	(6)

	Capital RM'000	Accumulated loss RM'000	Total RM'000
Balance at 17 April 2009 (date of incorporation)	-	-	-
Issued of shares	*-	-	*-
Net loss for the financial period	-	(21)	(21)
Balance at 30 June 2009	*-	(21)	(21)

* Represent USD1 equivalent to RM3.5191 at USD1 : RM3.5191

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10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
 Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
 (continued)

9.5 XiDeLang (continued)

9.5.5 Share capital

	Number of share '000	USD'000	RM'000
Authorised: -			
As at 17 April 2009 (date of incorporation)			
- ordinary share of USD0.05 each	200	10	35
Consolidation	(100)	-	-
Creation during the financial period	499,900	49,990	174,840
Balance as at 30 June 2009			
- ordinary share of USD0.10 each	500,000	50,000	174,875
Issued and fully paid: -			
As at 17 April 2009 (date of incorporation)	-	-	-
Issued of ordinary shares of USD0.05 each	* ₋	-	-
Call for payment	-	** ₋	** ₋
Consolidation	*** ₋	-	-
Balance as at 30 June 2009			
- ordinary share of USD0.10 each	**** ₋	** ₋	** ₋

* Represent 20 ordinary shares of USD0.05 each issued at Nil paid

** Represent USD1 equivalent to RM3.5191 at USD1 : RM3.5191

*** Reduction of 10 ordinary shares by consolidation of every two (2) ordinary shares of USD0.05 each into one (1) ordinary share of USD0.10 each

**** Represent 10 ordinary shares of USD0.10 each

On 5 May 2009, the Company has issued 20 ordinary shares as subscriber shares of USD0.05 each at par and called for payment on 30 June 2009. On the same day, the Company effected a consolidation of every two (2) ordinary shares of USD0.05 each in its authorised and issued share capital into one (1) ordinary share of USD0.10 ("Shares"), resulting in an authorised share capital of USD10,000 divided into 100,000 Shares and an issued share capital of USD1.00 divided into 10 Shares ("Consolidation").

Following the Consolidation, the Company increased its authorised share capital from USD10,000 divided into 100,000 Shares to USD50,000,000 divided into 500,000,000 Shares.

9.5.6 Amount owing to a director

Amount owing to a director represents payments made on behalf, which is unsecured, interest-free and repayable on demand.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



9. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES
(continued)

9.5 XiDeLang (continued)

9.5.7 Related party disclosures

Identities of related parties

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between the Company and its related parties are as follows:

Identities of related parties	Relationship with the Company
HongPeng International Holdings	Holding company
Ding PengPeng	Director and ultimate controlling party
XinYuanChan and its subsidiaries, HongPeng (Fujian), HongPeng Footwear and XiDeLang Sports Goods	Subsidiaries, after completion of acquisition of XinYuanChan as disclosed in Note 9.5.8(i) below

9.5.8 Significant events

- (i) Pursuant to a conditional Share Sale Agreement dated 18 May 2009 entered into between the Company as the purchaser, and Ding PengPeng as the vendor, the Company proposed to acquire the entire issued and fully paid-up share capital of XinYuanChan of HKD10,000, comprising 10,000 ordinary shares of HKD1 each, for an aggregate purchase consideration of USD29,999,999, which was to be satisfied entirely by the issuance of an aggregate of 299,999,990 new Shares in the Company, each credited as fully paid-up at par value of USD0.10 per Share.

The Shares were issued on 9 July 2009 and the acquisition was completed on the same date. 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 the Company to HongPeng International (239,999,990 Shares) and the remaining 60,000,000 Shares to certain other parties not related to him.

As the Group is under common control before and after the reorganisation exercise, the consolidated financial statements will be prepared on the basis of merger accounting and the financial statements of the Company and its subsidiaries will be included in the consolidated financial statements as if they have been in effect since the beginning of the previous financial year.

The cost of merger are fully cancelled against the nominal values of the paid-up capital of XinYuanChan and the difference of approximately USD30,000,000 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.

- (ii) On 29 June 2009, a proposed IPO in Malaysia undertaking by the Company and its subsidiaries was conditionally approved by the authorities.

9.5.9 Comparative figures

No comparative figures are presented as this is the first set of financial statements of the Company since its incorporations.

10. ACCOUNTANTS' REPORT (Cont'd)

XiDeLang Holdings Ltd (Bermuda Company No. 43136)
Accountants' Report



10. SUBSEQUENT EVENTS

Other than as disclosed elsewhere in this Report, there were no significant event between the date of the last financial statements used in the preparation of this Report and the date of this Report which will affect the materially content of this Report.

11. AUDITED FINANCIAL STATEMENTS

As at the date of this Report, no audited financial statements have been prepared in respect of any period subsequent to 30 June 2009 for XiDeLang Group.

Yours faithfully

BDO Binder

BDO Binder
AF : 0206
Chartered Accountants

Gan Hock Soon

Gan Hock Soon
2853/07/10 (J)
Partner

11. INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

28 SEP 2009

The Board of Directors
XiDeLang Holdings Ltd
Level 18, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

Dear Sirs and Madam

Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China

The following is an independent assessment of the footwear industry focusing on sports shoes in China prepared by Vital Factor Consulting Sdn Bhd for inclusion in the prospectus of XiDeLang Holdings Ltd (herein together with all or any one or more of its subsidiaries will be referred as XiDeLang Group or the Group) in relation to its listing on the Main Market of Bursa Malaysia Securities Berhad.

1. BACKGROUND

- XiDeLang Group is primarily a marketing and brand management company specialising in sports shoes and apparels. Almost all of the Group's products are marketed under the proprietary brand of 'XiDeLang'. The Group's marketing and brand management focus is supported by in-house design and manufacturing of sports shoes.
- XiDeLang Group currently operates in Jinjiang City within the Fujian Province in China, primarily servicing customers across twenty provinces and four municipalities in China. Jinjiang City has one of the largest concentrations of footwear manufacturing and supporting industries in China.
- For the financial year ended 31 December 2008, the total revenue of XiDeLang Group amounted to RMB573.9 million.
- As marketing, brand management, design and manufacturing of sports shoes are the key business activities of the Group, the focus of this report is on the sports shoe market in China. All references to shoes in this report are for sports shoes, unless mentioned otherwise. This report refers to footwear for humans only.
- All figures converted from USD to RMB is based on an exchange rate of USD1 = RMB6.8321 as at 21 April 2009.

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Email: enquires@vitalfactor.com
Website: www.vitalfactor.com

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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2. SOCIAL-ECONOMIC PERFORMANCE OF CHINA

2.1 Economic Performance

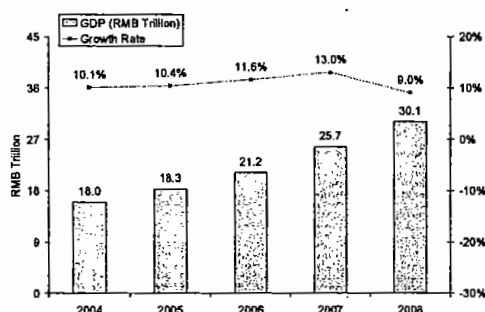


Figure 1. Real GDP Growth in China

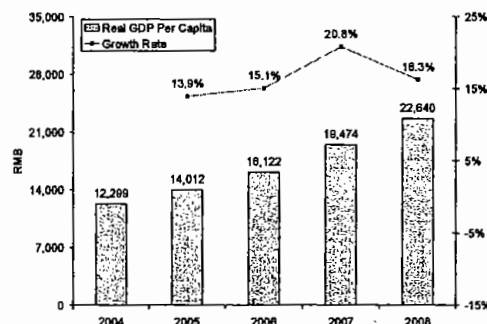


Figure 2. Per Capita GDP Growth in China

- 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 United States (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 United States (-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 XiDeLang Group who is serving the China market for its sports shoes.
- Reflecting similar trends with real GDP growth, China's GDP per capita growth also experienced 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 XiDeLang 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.

(Sources: China's GDP and GDP per capita figures were sourced from National Bureau of Statistics of China, while GDP figures for the United States, the United Kingdom and Japan were sourced from International Monetary Fund)

2.2 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 XiDeLang Group.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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3. OVERALL INDUSTRY STRUCTURE

3.1 Structure of the Footwear Industry

- In general, the Footwear Industry comprises six segments as depicted in the figure below:

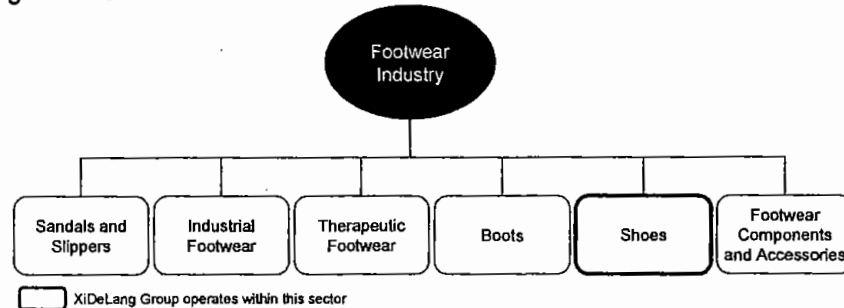


Figure 3. Structure of the Footwear Industry

- **Sandals** are a type of open footwear comprising a sole, which is fastened to the foot by straps or bands.
- **Slippers** are a type of low footwear that can be slipped on or off easily.
- **Industrial footwear** focuses on protecting the feet and providing safety for the wearer for use in a working environment.
- **Therapeutic footwear** focuses on corrective and health promoting functions for the foot.
- **Boots** are a type of protective or fashionable footwear covering the foot, ankles, and also commonly extending beyond the ankles. Examples include dress boots, riding boots, ski boots and cowboy boots.
- **Shoes** are a type of footwear commonly covering the foot and not extending beyond the ankle. Examples include sports shoes (sometimes referred to as athletic shoes or sneakers), dress shoes, climbing shoes, clogs and loafers.
- **Components** of footwear include soles, heels and grommets (eyelets).
- **Accessories** of footwear include adornments, shoe polishes, shoehorn and others. Socks are commonly classified under apparel.
- XiDeLang Group operates within the shoe sector of the overall Footwear Industry focusing on sports shoes.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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3.2 Types of Sports Shoes

- 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.

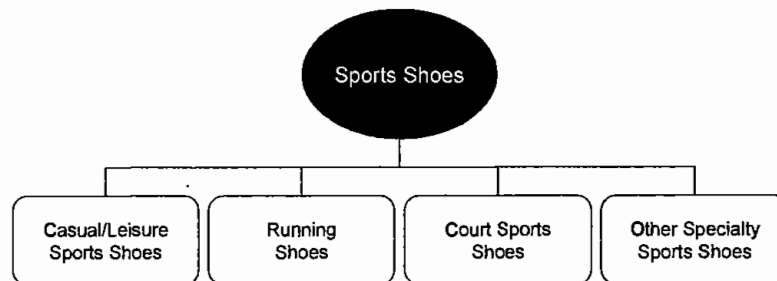


Figure 4. Common Types of Sports Shoes

- Sports shoes are commonly used in sporting activities including:
 - casual/leisure sports shoes for casual walking and outdoor activities such as hiking, trekking, climbing and caving;
 - running shoes for running and training;
 - court sports shoes for racquet and court sports such as tennis, badminton, squash, basketball volleyball and others;
 - Other specialty sports shoes include shoes used for aerobic, ballet, skateboarding, bowling, golf, cycling and others.

Sports shoe in this report does not include field sports shoes such as shoes used in soccer, baseball, softball, hockey, rugby, cricket, 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.

- XiDeLang Group designs and manufactures various types of sports shoes including:
 - Running shoes;
 - 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 primarily basketball and tennis shoes;
 - Skateboarding shoes.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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3.3 Vertical Structure of the Footwear Industry

- The Footwear Industry can also be vertically extended to include upstream, midstream and downstream activities. These are as depicted in the diagram below:

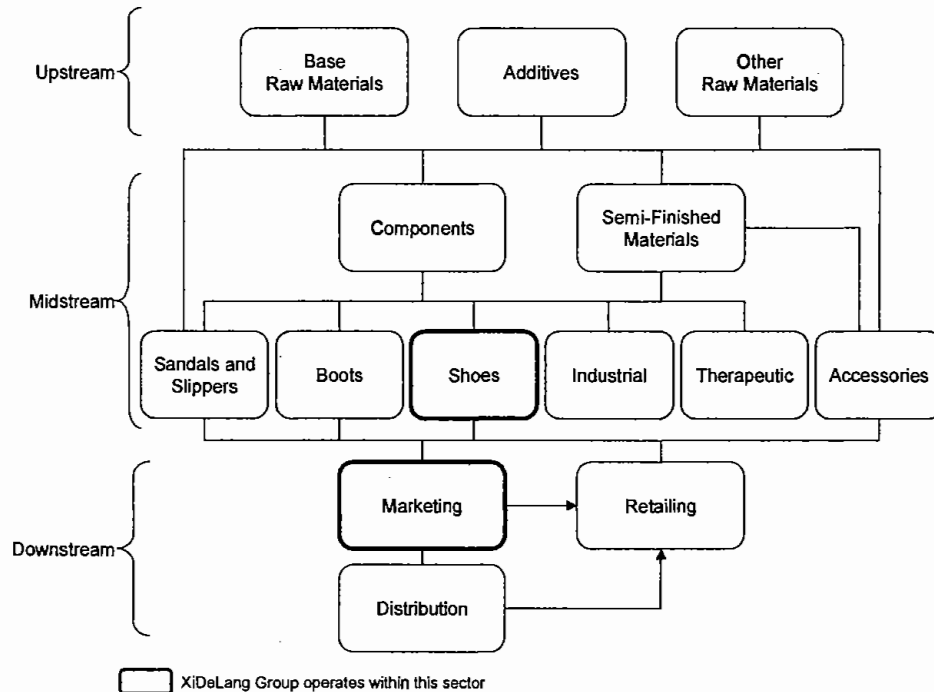


Figure 5. Vertical Structure of the Footwear Industry

- The footwear industry can be segmented into the following:
 - Upstream activities;
 - Midstream activities;
 - Downstream activities.
- XiDeLang Group is involved in midstream activities in the manufacturing of sports shoes as well as downstream activities in the marketing of sports shoes.

Upstream

- 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).

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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- 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.

Midstream

- 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.

Downstream

- Downstream activities involve marketing, distribution and retailing of footwear. Marketing and distribution activities are usually undertaken by brand owners, agents, importers, stockists and wholesalers.

4. 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.

5. GOVERNMENT REGULATIONS, POLICIES AND INCENTIVES

5.1 Business Licence

- Application for a business licence with the Administration for Industry and Commerce is required for establishing an enterprise in China.
- All the subsidiaries of XiDeLang Group have obtained the following business licences from the respective authorities in China:

By subsidiary	Issuing Authority	Descriptions	Validity Period
Hong Peng (Fujian)	Quanzhou Administration for Industry and Commerce	Manufacturing of Shoes, Apparel and Sports Goods	29 November 1996 until 29 November 2016
Hong Peng	Jinjiang Administration for	Manufacturing of	10 May 1993 until 23

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



VITAL FACTOR CONSULTING

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By subsidiary	Issuing Authority	Descriptions	Validity Period
Footwear	Industry and Commerce	Shoes	April 2017
XiDeLang Sports Goods	Jinjiang Administration for Industry and Commerce	Manufacturing of Shoes and Apparel	24 July 1995 until 23 July 2015

5.2 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 years from the date of approval of the registration.

(Source: Trademark Office State Administration for Industry and Commerce of People's Republic of China)

- XiDeLang Group's subsidiaries including XiDeLang Sports Goods and 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.

5.3 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.
- The 'XiDeLang' trademark has been affirmed as a 'Well-known Mark'.



中国驰名商标

5.4 Environmental Regulations

- As part of the manufacturing process for sports shoes, XiDeLang Group creates wastes 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 the waste collection centre.
- However, these are bulk wastes, which do not have a significant impact on the environment as long as they are properly disposed.

11. **INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**



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6. SUPPLY

6.1 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 such products 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 sales value of such products grew by 15.3% to reach RMB744.8 billion.
- The production statistics on rubber shoes include, 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 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 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, it registered a growth of 14.9% to 17.0 billion pieces.

(Source: National Bureau of Statistics of China)

6.2 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 such products 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).

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



VITAL FACTOR CONSULTING

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- 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.

(Source: National Bureau of Statistics of China and China Customs)

7. SUPPLY DEPENDENCIES – RAW MATERIALS

- The major raw materials used in the manufacture of sports shoes are as follows:
 - 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.
- There are many types of sports shoe soles depending on the application, technical requirements and cost considerations. Some examples include the following:
 - insole are commonly made from a 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).
 - As the outsole comes into contact with the ground, materials used are expected to be lightweight, durable, provides traction and highly abrasion resistant. Common materials that are used to make outsoles for sports shoes include various types of latex rubber and thermoplastic rubber.

7.1 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 such products 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 such products grew at an average annual rate of 27.4%.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



VITAL FACTOR CONSULTING

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- 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 such products 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 value of such products grew at an average annual rate of 22.7%.

(Source: National Bureau of Statistics of China)

7.2 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.
- 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: China Customs and National Bureau of Statistics of China)

8. DEMAND

Local 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.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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- 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 such products 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 such products 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, the per capita annual purchases of shoes 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, 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, 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, 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: National Bureau of Statistics of China)

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 such products 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 of these types of shoes increased by 20.6% to reach USD3.4 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 these types of shoes increased by 12.1% to 1.4 billion pairs.

11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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- 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 such footwear grew by 14.7% to reach US\$4.0 billion (equivalent to RMB27.2 billion).
- Between 2004 and 2008, the export 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 11.8%. In 2008, the export value of such footwear grew by 4.6% to reach USD1.1 billion (equivalent to RMB7.5 billion). In 2008, China's export markets for these types of products include, among others, United States, Japan, Hong Kong, France, Belgium, Holland, Germany, Canada, Brazil and Korea.
- Between 2004 and 2007, the export value of leather shoes increased at an average annual rate of 14.8%. In 2007, export value of leather shoes grew by 9.0% to reach USD9.6 billion (equivalent to RMB65.3 billion).
- Between 2004 and 2007, the export quantity of leather shoes increased at an average annual rate of 4.4%. However, in 2007, the export quantity of leather shoes declined by 5.7% to 1.3 billion pairs.
- 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 such articles 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 such articles grew by 3.8% to reach RMB363.6 billion.

(Source: National Bureau of Statistics of China and China Customs)

9. DEMAND DEPENDENCIES

- As XiDeLang Group's market is mainly focused on China, demand dependencies will be based on factors impacting on the consumption of sports shoes in China including the following:
 - Population growth in China;
 - Growth in household disposable income;
 - 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.