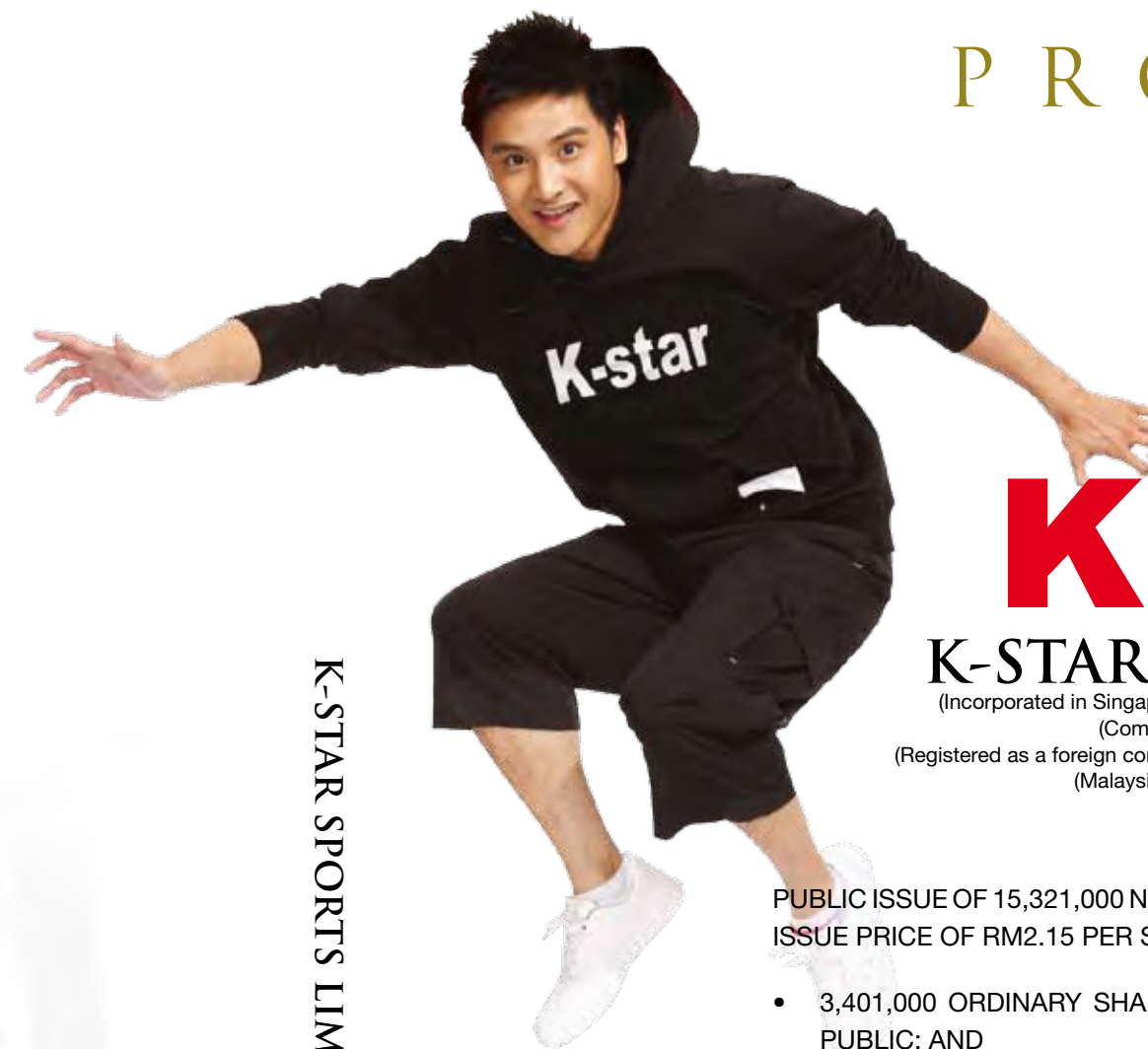


# PROSPECTUS

THIS PROSPECTUS IS DATED 11 MAY 2010



K-STAR SPORTS LIMITED

PROSPECTUS

# K-Star

## K-STAR SPORTS LIMITED

(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)  
(Company Registration Number 200820976H)  
(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia)  
(Malaysian Branch Registration Number 995214-D)

**Tian Liang**  
2 times Olympic Gold Medalist

PUBLIC ISSUE OF 15,321,000 NEW ORDINARY SHARES IN K-STAR SPORTS LIMITED AT AN ISSUE PRICE OF RM2.15 PER SHARE PAYABLE IN FULL ON APPLICATION COMPRISING:

- 3,401,000 ORDINARY SHARES AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC; AND
- 11,920,000 ORDINARY SHARES AVAILABLE BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS

IN CONJUNCTION WITH THE LISTING OF AND QUOTATION FOR THE ENTIRE ENLARGED ISSUED AND PAID-UP SHARE CAPITAL OF K-STAR SPORTS LIMITED ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD

*Adviser, Managing Underwriter, Underwriter and Placement Agent*



**PUBLIC INVESTMENT BANK BERHAD** (20027-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)  
(Wholly-Owned Subsidiary of Public Bank Berhad)

*Underwriters*

**Apex**

**JF APEX SECURITIES BERHAD**  
(47680-X)  
(A participating Organisation of Bursa Malaysia Securities Berhad)



**Mercury Securities Sdn. Bhd.** (013195-W)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

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

FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH YOU SHOULD CONSIDER,  
SEE "RISK FACTORS" AS SET OUT IN SECTION 4 OF THIS PROSPECTUS

SHARIAH-COMPLIANT  
SECURITIES

## **RESPONSIBILITY**

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

PUBLIC INVESTMENT BANK BERHAD (20027-W) ("PIVB"), BEING THE ADVISER, MANAGING UNDERWRITER, UNDERWRITER AND SOLE PLACEMENT AGENT FOR OUR INITIAL PUBLIC OFFERING ("IPO"), ACKNOWLEDGES THAT, BASED ON ALL AVAILABLE INFORMATION, AND TO THE BEST OF ITS KNOWLEDGE AND BELIEF, THIS PROSPECTUS CONSTITUTES A FULL AND TRUE DISCLOSURE OF ALL MATERIAL FACTS CONCERNING OUR IPO.

## **STATEMENT OF DISCLAIMER**

THE SECURITIES COMMISSION ("SC") HAS APPROVED OUR IPO AND A COPY OF THIS PROSPECTUS HAS BEEN REGISTERED WITH THE SC. THE APPROVAL AND REGISTRATION OF THIS PROSPECTUS, SHOULD NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE OFFERING OR ASSUMES RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENT MADE OR OPINION OR REPORT EXPRESSED IN THIS PROSPECTUS. THE SC HAS NOT, IN ANY WAY, CONSIDERED THE MERITS OF THE SECURITIES BEING OFFERED FOR INVESTMENT.

THE SC IS NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF OUR COMPANY AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS YOU MAY SUFFER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS PROSPECTUS.

**YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE IPO AND AN INVESTMENT IN US. IF YOU ARE IN ANY DOUBT ABOUT THIS PROSPECTUS OR IN CONSIDERING YOUR INVESTMENT, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS, OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

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

APPROVAL HAS BEEN OBTAINED FROM BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") FOR THE LISTING OF AND QUOTATION FOR THE SECURITIES BEING OFFERED. ADMISSION TO THE OFFICIAL LIST OF BURSA SECURITIES IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF THE INVITATION, CORPORATION, OR ITS SECURITIES.

THIS PROSPECTUS HAS BEEN REGISTERED WITH THE SC. THIS PROSPECTUS AND THE ACCOMPANYING APPLICATION FORMS, HAVE ALSO BEEN LODGED WITH THE REGISTRAR OF COMPANIES WHO TAKES NO RESPONSIBILITY FOR ITS CONTENTS.

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

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

THIS PROSPECTUS CAN BE VIEWED OR DOWNLOADED FROM BURSA SECURITIES WEBSITE AT [www.bursamalaysia.com](http://www.bursamalaysia.com).



THE CONTENTS OF THE ELECTRONIC PROSPECTUS AND THE COPY OF THIS PROSPECTUS REGISTERED WITH THE SC ARE THE SAME. YOU MAY OBTAIN A COPY OF AN ELECTRONIC PROSPECTUS (AS DEFINED HEREIN BELOW) FROM THE WEBSITE OF CIMB BANK BERHAD AT [www.cimbclicks.com.my](http://www.cimbclicks.com.my), CIMB INVESTMENT BANK BERHAD AT [www.eipocimb.com](http://www.eipocimb.com), MALAYAN BANKING BERHAD AT [www.maybank2u.com.my](http://www.maybank2u.com.my) AND AFFIN BANK BERHAD AT [www.affinonline.com](http://www.affinonline.com).

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

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

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

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

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

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

YOU SHOULD NOT TAKE THE AGREEMENT BY THE UNDERWRITERS TO UNDERWRITE THE PUBLIC ISSUE SHARES AS AN INDICATION OF THE MERITS OF OUR SHARES.

THIS PROSPECTUS DOES NOT COMPLY WITH THE LAWS OF ANY JURISDICTION OTHER THAN MALAYSIA. THIS PROSPECTUS HAS NOT BEEN AND WILL NOT BE LODGED, REGISTERED OR APPROVED PURSUANT TO OR UNDER ANY APPLICABLE SECURITIES OR EQUIVALENT LEGISLATION OR BY ANY REGULATORY AUTHORITY OF ANY JURISDICTION OTHER THAN MALAYSIA.

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

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

IT IS YOUR SOLE RESPONSIBILITY TO ENSURE THAT YOUR APPLICATION FOR THE IPO WOULD BE IN COMPLIANCE WITH THE TERMS OF THE IPO AND WOULD NOT BE IN CONTRAVENTION OF ANY LAWS OF COUNTRIES OR JURISDICTIONS OTHER THAN MALAYSIA TO WHICH YOU MAY BE SUBJECTED. WE WILL FURTHER ASSUME THAT YOU HAD ACCEPTED THE IPO IN MALAYSIA AND WILL AT ALL APPLICABLE TIMES BE SUBJECTED ONLY TO THE LAWS OF MALAYSIA IN CONNECTION THEREWITH.

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

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

WE WILL NOT, PRIOR TO ACTING ON ANY ACCEPTANCE IN RESPECT OF THE IPO MAKE OR BE BOUND TO MAKE ANY ENQUIRY WHETHER YOU HAVE A REGISTERED ADDRESS IN MALAYSIA AND WILL NOT ACCEPT OR BE DEEMED TO ACCEPT ANY LIABILITY IN RELATION THERETO WHETHER OR NOT ANY ENQUIRY OR INVESTIGATION IS MADE IN CONNECTION THEREWITH.

HOWEVER, WE RESERVE THE RIGHT, IN OUR ABSOLUTE DISCRETION TO TREAT ANY ACCEPTANCE AS INVALID IF WE BELIEVE THAT SUCH ACCEPTANCE MAY VIOLATE ANY LAW OR APPLICABLE LEGAL OR REGULATORY REQUIREMENTS.

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**INDICATIVE TIMETABLE**

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

<i>Event</i>	<i>Tentative Dates</i>
Opening date of application	11 May 2010
Tentative closing date of application	18 May 2010
Tentative date for balloting of applications	20 May 2010
Tentative date for despatch of notices of allotment to successful applicants	27 May 2010
Tentative Listing date	31 May 2010

THIS TIMETABLE IS TENTATIVE AND IS SUBJECT TO CHANGE WHICH MAY BE NECESSARY TO FACILITATE IMPLEMENTATION PROCEDURES. THE APPLICATION PERIOD WILL REMAIN OPEN UNTIL 5.00 P.M. ON TUESDAY, 18 MAY 2010 OR SUCH FURTHER PERIOD OR PERIODS AS OUR DIRECTORS AND PROMOTERS TOGETHER WITH OUR UNDERWRITERS IN THEIR ABSOLUTE DISCRETION MAY MUTUALLY DECIDE.

IF THE CLOSING DATE OF THE APPLICATION IS EXTENDED, THE DATES FOR THE BALLOTING, ALLOTMENT AND LISTING OF OUR ENTIRE ISSUED AND PAID-UP SHARE CAPITAL ON THE MAIN MARKET OF BURSA SECURITIES WOULD BE EXTENDED ACCORDINGLY. WE WILL NOTIFY THE PUBLIC VIA AN ADVERTISEMENT IN A WIDELY CIRCULATED DAILY ENGLISH AND BAHASA MALAYSIA NEWSPAPERS WITHIN MALAYSIA.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

All references to the “Government” are to the Government of Malaysia; references to “Ringgit”, “Malaysian Ringgit”, “RM” and “sen” are to the lawful currency of Malaysia; references to “Renminbi” and “RMB” are to the lawful currency of China; references to “US dollars”, “USD” and “US\$” are to the lawful currency of the United States of America. References to “HKD” are to the lawful currency of the Hong Kong Special Administrative Region of the PRC.

Certain technical terms, acronyms and abbreviations used in this Prospectus are defined in Section “Definitions” appearing in this Prospectus. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to person shall include companies and corporations.

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

In this Prospectus, we have appointed the Independent Market Researcher to provide an independent market and industry review relating to an overview of the economy and industry in which we operate. We believe that the information on the industry as contained in this Prospectus and the other statistical data and projections cited in this Prospectus are useful in helping prospective investors understand the major trends in the industry in which we operate. However, neither we nor our advisers have verified these data.

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

Unless otherwise stated, all references of dates and times are reference to dates and times in Malaysia.

The website of our Company, and the information contained therein, or any other website directly or indirectly linked to our website, does not form part of this Prospectus. Therefore, you should not rely on it.

Any reference in this Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

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## FORWARD-LOOKING STATEMENTS

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All statements contained in this Prospectus that may be made by us or our Directors, Executive Officers or employees acting on our behalf, or the Promoter that are not statements of historical fact, constitute “forward-looking statements”. These forward-looking statements involve risks and uncertainties and are subject to change based on various important factors, many of which are beyond our control. Accordingly, our Company’s future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements.

Words such as “estimate”, “project”, “plan”, “believe”, “expect”, “anticipate”, “intend”, “planned”, “project”, “potential”, “may”, “will”, “would” and “could” and similar expressions may identify forward-looking statements. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. Such forward-looking statements include, without limitation, statements relating to:

- (a) demand for our products and services;
- (b) our business strategies;
- (c) plans and objectives of our Management for future operations;
- (d) our financial position; and
- (e) our future earnings, cash flows and liquidity.

The following factors, among others, in some cases have affected and in the future could affect our Company’s financial performance and actual results. This could cause actual results to differ materially from those expressed or implied in any forward-looking statements included in this Prospectus:

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

These factors are discussed in greater detail in the Prospectus, in particular, but not limited to the discussions under Section 4 of this Prospectus. All forward looking statements by or attributable to us or our Directors, our Key Management or our employees acting on our behalf, or persons acting on our behalf, contained in this Prospectus are expressly qualified in their entirety by such factors. These forward looking statements are applicable only as of the date of this Prospectus.

The Company expressly disclaim any obligation or undertaking to make publicly available any update or other revisions to any of the forward looking statements contained in this prospectus to reflect circumstances existing after the date of this Prospectus or to reflect the occurrence of future events even if experience or future events make it clear that any expected results expressed or implied by those forward looking statements will not be realised.

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## DEFINITIONS

Acquisition	:	The acquisition of Fujian Dixing by our Company from Wing Shun, which was completed on 9 September 2009, the details of which is set out in Section 12.1.1 of this Prospectus
ADA	:	Authorised Depository Agent
ADA Code	:	ADA (Broker) Code
Applicant	:	The applicant for the Public Issue Shares by way of Application Forms or by way of Electronic Share Application or way of Internet Share Application
Application	:	The application(s) for the subscription of the Public Issue Shares by way of Application Forms or Electronic Share Application or by way of Internet Share Application
Application Form(s)	:	The printed application form(s) for the application of the Public Issue Shares
Articles	:	The Articles of Association of our Company for the time being adopted
ATM	:	Automated Teller Machine
Authorised Regional Dealers	:	The Group's authorised regional dealers in the PRC
Board	:	Board of Directors of our Company
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
Bursa Securities LR	:	Bursa Securities Main Market Listing Requirements
CCC	:	China Compulsory Certification
CDS	:	Central Depository System
Central Depositories Act	:	The Securities Industry (Central Depositories) Act, 1991 or any statutory modification, amendment or re-enactment thereof for the time being in force
CEO	:	Chief Executive Officer
China or PRC	:	The People's Republic of China, which, for the purpose of this Prospectus, excludes Hong Kong and Macau
CIQ	:	Authority for Entry-Exit Inspection & Quarantine of the PRC
CMSA	:	Capital Markets and Services Act, 2007 or any statutory modification, amendment or re-enactment thereof for the time being in force
Conversion of Loan	:	The conversion of loans amounting to SGD1,500,000 and an aggregate of RM11,000,000 into 13,320,000 Shares, which was completed on 10 March 2010, the details of which is set out in Section 12.1.2 of this Prospectus

**DEFINITIONS (Cont'd)**

CQM	:	China Certification Center for Quality Mark
CSRC	:	China Security and Regulatory Commission
Converging Knowledge or IMR	:	Converging Knowledge Pte. Ltd. (200200797W), the independent market researcher
Deposited Security	:	A security in the Company standing to the credit of a Securities Account of a Depositor subject to the provision of the Central Depositories Act and the Rules
Depositor(s)	:	A holder of a Securities Account
D&D	:	Design and development
Electronic Share Application	:	An application for the Public Issue Shares through Participating Financial Institution's ATM
EPS	:	Earnings per share
Equity Guidelines	:	Equity Guidelines issued by the SC
Executive Director	:	A natural person who holds a directorship in an executive capacity in any company within the Group and is on the payroll of that company
Financial Years under Review	:	The financial years comprising FYE 2006, FYE 2007, FYE 2008 and FYE 2009
Fujian Dixing	:	Fujian Jinjiang Dixing Shoes Plastics Co., Ltd. (福建省晋江市帝星鞋塑有限公司) (350500400012391)
FYE	:	Financial year ended or Financial year ended 31 December
Hong Kong	:	The Hong Kong Special Administrative Region of the PRC
HKD	:	Hong Kong Dollar
IFRS	:	International Financial Reporting Standards
IMR Report	:	Independent Market Research Report on The Sports Footwear Market in China, 2009 prepared by Converging Knowledge
Internet Participating Financial Institution(s)	:	The participating financial institutions for Internet Share Application as listed in Section 17 of this Prospectus
Internet Share Application	:	Application for the Issue Shares through an Internet Participating Financial Institution
IPO	:	Initial Public Offering
IPO Share(s)	:	The Issue Share(s)
IPR	:	Intellectual property rights

**DEFINITIONS (Cont'd)**

ISO	:	International Organisation for Standardisation, a world-wide federation of national standards bodies
Issue Price / IPO Price	:	The issue price pursuant to the Public Issue of RM2.15 per K-Star Share
Issue Share(s) or Public Issue Shares(s)	:	15,321,000 new Shares to be issued pursuant to the Public Issue
K-Star or Company	:	K-Star Sports Limited (Incorporated in Singapore on 3 November 2008) (Company Registration Number 200820976H and Malaysian Branch Registration No.: 995214-D)
K-Star Group or Group	:	K-Star and its subsidiary company
K-Star International	:	K-Star Sports International Limited (41828), a company incorporated in Bermuda
K-Star Share(s) or Share(s)	:	Ordinary shares in K-Star
Latest Practicable Date	:	5 April 2010, being the latest practicable date prior to the registration of our Prospectus
Listing	:	The admission to the Official List and the listing of and quotation for our entire enlarged issued and paid-up share capital of 88,800,000 Shares on the Main Market
Listing Scheme	:	The scheme for our Listing as set out in Section 12.1 of this Prospectus
Main Market	:	Main Market of Bursa Securities
Malaysian Companies Act	:	Companies Act, 1965 of Malaysia, or any statutory modifications, amendments or re-enactment thereof for the time being in force
Malaysian Public	:	Citizens of Malaysia and companies, societies, co-operatives and institutions incorporated or organised under the laws of Malaysia
Market Day	:	Any day between Monday and Friday (inclusive) which is not a public holiday and when Bursa Securities is open for trading of securities
MIH or Issuing House	:	Malaysian Issuing House Sdn Bhd (258345-X)
MOC	:	Ministry of Commerce of the People's Republic of China
N/A	:	Not applicable
NA	:	Net assets
NTA/(NTL)	:	Net tangible assets/(liabilities)
Official List	:	A list specifying all securities which have been admitted for listing on the Bursa Securities and not removed

**DEFINITIONS (Cont'd)**

Overseas Distributors	:	Customers of our Group which are engaged in distribution business and based outside PRC
Participating Financial Institution(s)	:	The participating financial institutions for Electronic Share Application as listed in Section 17 of this Prospectus
PAT/(LAT)	:	Profit/(Loss) after taxation
PBT	:	Profit before taxation
PE Multiple	:	Price earnings multiple
PIVB or Adviser or Managing Underwriter or Underwriter or Sole Placement Agent	:	Public Investment Bank Berhad (20027-W)
Promoters	:	K-Star International, Chan Kai Fly and Ding Jianping, collectively
Proprietary Brands	:	“Dixing” and “K-Star” brands, collectively
Public Issue	:	Public issue of 15,321,000 new Shares at the Public Issue Price to the Malaysian public and identified investors, subject to the terms and conditions of this Prospectus
QA	:	Quality assurance
QC	:	Quality check
RM and sen	:	Ringgit Malaysia and sen respectively
RMB	:	Renminbi
ROC	:	Registrar of Companies, Malaysia
Rules	:	The Rules of Bursa Depository
SAC	:	Shariah Advisory Council of the SC
SAFE	:	State Administration for Foreign Exchange (China)
Saifeite	:	Jinjiang Saifeite Shoes Plastics Co., Ltd (晋江市赛飞特鞋塑有限公司) (350582100019788)
SC	:	Securities Commission, Malaysia
SGD	:	Singapore Dollar
Singapore Companies Act	:	Companies Act (Chapter 50) of Singapore as amended, supplemented or modified from time to time
sq m	:	Square metres
Underwriters	:	PIVB, JF Apex Securities Berhad (47680-X) and Mercury Securities Sdn. Bhd. (113193-W), collectively



**DEFINITIONS (Cont'd)**

Underwriting Agreement	:	The underwriting agreement between the Company and the Underwriters dated 15 April 2010
USA	:	United States of America
USD	:	US Dollar
WFOE	:	Wholly foreign-owned enterprise established under the PRC laws
Wing Shun	:	Wing Shun Trading Company (永信贸易公司) (35512478-000-04-09-8), a sole proprietorship owned by Chan Kai Fly and registered under the Business Registration Ordinance (Chapter 310) of Hong Kong
WTO	:	World Trade Organisation

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**DEFINITIONS (Cont'd)**

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**Technical Definitions**

collar	:	The stitching that forms the rim of a shoe or boot
Dixing Specialty Stores	:	Standalone retail outlets which exclusively sell the K-Star Group's Proprietary Brands' sports footwear products
EVA	:	Ethylene vinyl acetate, a type of soft and light foam material used as a raw material in the production of our shoe soles
EVA base chemicals	:	The base chemicals used in the production of EVA pellets such as POE and titanium powder
EVA pellets	:	A semi-finished product in the form of pellets made of EVA, which are produced using the EVA base chemicals and used in the production of EVA shoe soles
eyelet	:	Holes in the quarters of the upper which allow the lace of the shoe to pass through
heel lining	:	Lining of the bottom of a shoe or the back part of a shoe that touches the ground and provides elevation
insole	:	A layer of material glue to the top of the midsole which form a cushion padding to the sole of the foot inside the shoe
insole board	:	The insole board is used for the attachment of the upper and the midsole and is placed just below the insole and above the midsole
last	:	A block of plastic shaped like a foot and used for shaping shoes
Midsole	:	The midsole is located between the outsole and the upper and used to cushion and provide support and protection for the feet. The primary materials used in midsoles are ethylene-vinyl acetate and polyurethane
ODM	:	Original design manufacturer, a company which manufactures a product which ultimately will be branded by another firm for sale. Such companies allow the brand firm to produce (either as a supplement or solely) without having to engage in the organization or running of a factory.
OEM	:	Original equipment manufacturer, the original manufacturer of a product, which may be resold by another company
outsole	:	The outsole is the part of the shoe that come into contact with the ground and glued to the bottom of the midsole, which provides durability, traction and absorbs shock
POE	:	Polyolefin elastomers, a type of material which is mouldable, crack resistant, weather resistant and able to be processed without significant change in its physical properties
shops-in-shops	:	Delineated or dedicated shelves or retail spaces at a retailer's premises such as department stores and chain stores, through which a vendor's products are sold
side trim	:	The ornament to the sides of the shoe
sole unit	:	The sole unit which comprises the midsole and outsole

**DEFINITIONS (Cont'd)**

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- tip : a narrow or pointed end of something
- tongue : A part of the upper which resembles a flap that protects the top of the foot against the pressure from the laces of a shoe
- tongue lining : The lining of the tongue of the shoe
- upper : All parts or sections of the shoes above the sole that are stitched or otherwise joined together to the sole to form the shoe. The upper is made up of different components including tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim stitched together

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## 1. CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Name/(Designation)	Address	Occupation	Nationality
Ding Jianping (丁建萍) (Executive Chairman and CEO)	216 Qianjin Road North Jiangtou Village, Chendai Town Jinjiang, Fujian, PRC	Company Director	Chinese
Ding Zidi (丁梓迪) (Executive Director)	216 Qianjin Road North Jiangtou Village, Chendai Town Jinjiang, Fujian, PRC	Company Director	Chinese
Lim Yeow Eng (Executive Director and Chief Financial Officer)	Block 359A Admiralty Drive #14-202 Singapore 751359	Company Director	Singaporean
Chan Kai Fly (Non-Executive Director)	Flat 1201-1203, Wai Lee Building 997 King's Road, Quarry Bay Hong Kong	Company Director	Hong Kong
Ooi Guan Hoe (Independent Non-Executive Director)	89 Adora, 2A Persiaran Residen Desa Park City 52200 Kepong Kuala Lumpur, Malaysia	Company Director	Malaysian
Lim Ghim Chai (Independent Non-Executive Director)	1107, MK 20, Kubang Ulu 14400 Bukit Mertajam Pulau Pinang, Malaysia	Company Director	Malaysian

### AUDIT COMMITTEE

Name	Designation	Directorship
Ooi Guan Hoe	Chairman	Independent Non-Executive Director
Chan Kai Fly	Member	Non-Executive Director
Lim Ghim Chai	Member	Independent Non-Executive Director

### REMUNERATION COMMITTEE

Name	Designation	Directorship
Lim Ghim Chai	Chairman	Independent Non-Executive Director
Ding Jianping (丁建萍)	Member	Executive Chairman and CEO
Ooi Guan Hoe	Member	Independent Non-Executive Director



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

**NOMINATION COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Chan Kai Fly	Chairman	Non-Executive Director
Ooi Guan Hoe	Member	Independent Non-Executive Director
Lim Ghim Chai	Member	Independent Non-Executive Director

**COMPANY SECRETARIES** : Lin Moi Heyang (SAICSA 7006243)  
Cho Form Po (SAICSA 7025677)  
Tricor Evatthouse Corporate Services  
(A division of Tricor Singapore Pte. Ltd.)  
8 Cross Street  
#11-00 PWC Building  
Singapore 048424  
Tel: (65) 6236 3333

**COMPANY AGENT IN MALAYSIA** : PFA Corporate Consultants Sdn Bhd (232360-T)  
Level 18, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Tel: (603) 2264 8888

**REGISTERED OFFICE IN SINGAPORE** : 8 Cross Street  
#11-00 PWC Building  
Singapore 048424  
Tel: (65) 6236 3333

**REGISTERED BRANCH OFFICE IN MALAYSIA** : Level 18, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Tel: (603) 2264 8888

**PRINCIPAL PLACE OF BUSINESS / MANAGEMENT OFFICE** : No. 125-127 Jiangtuo Qianjin Road North  
Jiangtuo Industrial Zone  
Jiangtuo Village, Chendai Town  
Jinjiang City  
Fujian Province  
Postal Code 362211  
People's Republic of China  
Tel: (86) 595 8518 2868

**AUDITORS** : Foo Kon Tan Grant Thornton  
47 Hill Street #05-01  
Singapore Chinese Chamber of Commerce & Industry  
Building  
Singapore 179365  
Tel: (65) 6336 3355

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

- REPORTING ACCOUNTANTS** : SJ Grant Thornton (AF 0737)  
Level 11, Faber Imperial Court  
Jalan Sultan Ismail  
P.O. Box 12337  
50774 Kuala Lumpur  
Malaysia  
Tel: (603) 2692 4022
- LEGAL ADVISER FOR THE IPO** : Teh & Lee  
A-3-3 & A-3-4, Northpoint Offices  
Mid Valley City  
No. 1, Medan Syed Putra Utara  
59200 Kuala Lumpur  
Malaysia  
Tel: (603) 2283 2800
- LEGAL ADVISER TO OUR  
COMPANY ON SINGAPORE  
LAWS** : KhattarWong  
80 Raffles Place  
UOB Plaza 1  
#25-01  
Singapore  
Tel: (65) 6535 6844
- LEGAL ADVISER TO OUR  
COMPANY ON PRC LAWS** : Grandall Legal Group (Guangzhou)  
9/F Cheng Jian Building  
189, Ti Yu Xi Road  
Guangzhou  
Postal Code 510620  
People's Republic of China  
Tel: (86) 20 3879 9345
- PRINCIPAL BANKER** : China Construction Bank Corporation  
Jinjiang Branch (中国建设银行晋江支行)  
Construction Bank Buiding  
Zhengjing Xiaoqu  
Chingyang Town  
Jinjiang City, Fujian Province  
Postal Code 362200  
People's Republic of China  
Tel: (86) 595 85075698
- ISSUING HOUSE** : Malaysian Issuing House Sdn Bhd (258345-X)  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia  
Tel: (603) 7841 8000

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

- SHARE REGISTRAR** : Tricor Investor Services Sdn Bhd (formerly known as Tenaga Koperat Sdn Bhd) (118401-V)  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia  
Tel: (603) 2264 3883
- ADVISER, MANAGING UNDERWRITER, UNDERWRITER AND SOLE PLACEMENT AGENT** : Public Investment Bank Berhad (20027-W)  
25<sup>th</sup> Floor, Menara Public Bank  
146, Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Tel: (603) 2166 9382
- UNDERWRITERS** : JF Apex Securities Berhad (47680-X)  
6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia  
Tel: (603) 8736 1118
- Mercury Securities Sdn. Bhd. (113193-W)  
Lot 6-05, Level 6, Tower Block  
Menara Milenium  
8, Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur  
Malaysia  
Tel: (603) 2094 2828
- INDEPENDENT MARKET RESEARCHER** : Converging Knowledge Pte Ltd (200200797W)  
43B & C, Tras Street  
Singapore 078982  
Tel: (65) 6225 8781
- LISTING SOUGHT** : Main Market of Bursa Securities
- SHARIAH STATUS** : Approved by the SAC

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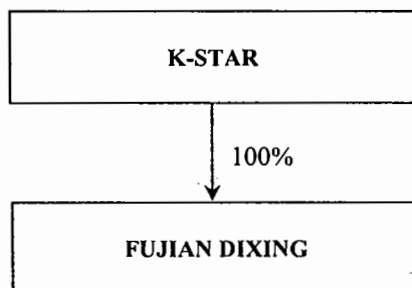
## 2. INFORMATION SUMMARY

**THIS IS A SUMMARY OF THE SALIENT INFORMATION ABOUT OUR GROUP. IT DOES NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ AND UNDERSTAND THE ENTIRE PROSPECTUS CAREFULLY BEFORE YOU DECIDE WHETHER TO INVEST IN OUR SHARES.**

### 2.1 COMPANY AND BUSINESS

Our Company was incorporated in Singapore under the Singapore Companies Act on 3 November 2008 as a private limited company under the name of K-Star Sports Pte Ltd. On 14 September 2009, we were converted into a public limited company and assumed our present name on the same day. We were registered in Malaysia as a foreign company on 16 September 2009 as K-Star Sports Pte Ltd and subsequently changed our name to K-Star Sports Limited on 17 September 2009 after registration with ROC.

Our Group structure is set out below:



We are an investment holding company whilst our subsidiary, Fujian Dixing is principally engaged in the design, manufacture and distribution of sports footwear under our own Proprietary Brands. Our product range comprises athletic footwear designed for specific sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure footwear. In addition, we are also an OEM and ODM for international sports brands including Umbro, Diadora, Kappa, Le Coq Sportif, Die Wilden Kerle, Canguro Cosby and Bridgestone, as well as PRC footwear brand, Double Star (青岛双星). As at the Latest Practicable Date, we have four production lines, approximately 1,063 employees and produce an aggregate of approximately 4 million pairs of shoes per annum.

As testament to the brand image and market awareness of our products, our Proprietary Brands has been accorded the Quanzhou Well-known Trademark (泉州市知名商标) in 2008 and the Fujian Famous Trademark (福建省著名商标) in 2009.

As at the Latest Practicable Date, our Proprietary Brands products are retailed across 18 provinces and 3 municipalities in the PRC at 769 retail locations, of which 53 were Dixing Specialty Stores, 716 were shops-in-shops and 13 wholesale points in Moscow, Russia. Our Proprietary Brands shoes are distributed overseas in countries such as Russia, Ukraine, Belarus, the Czech Republic, Poland, Romania, Finland and Hungary.

Please refer to Sections 6 and 10 for detailed information on our Group's business and our Group.

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

### **2.2 COMPETITIVE STRENGTHS AND FUTURE PLANS**

#### **2.2.1 Our Competitive Strengths**

Our Directors believe our competitive strengths are as follows:

- (i) Reputable brand and an established track record in the PRC;
- (ii) Wide distribution network;
- (iii) Strong product design and development capabilities and abilities to adopt new technology;
- (iv) Strong emphasis on product quality;
- (v) Strategic location in the PRC's largest shoes producing province; and
- (vi) Experienced, dynamic and committed management team.

Please refer to Section 6.3 of this Prospectus for more details on our competitive strengths and advantages.

#### **2.2.2 Our Future Plans**

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

- (i) Expand our market presence and distribution network;
- (ii) Expand our production facilities and capacity;
- (iii) Expand our business segment to sports fashion apparel; and
- (iv) Expand our business segment to shoe soles.

Please refer to Section 5.10 of this Prospectus for more details on our Business Strategies and Future Plans.

### **2.3 FINANCIAL HIGHLIGHTS**

#### **2.3.1 Proforma Consolidated Income Statements**

Our proforma consolidated income statement have been prepared based on the audited consolidated financial statements of our Group for the Financial Years under Review for illustrative purposes only and is to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

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## 2. INFORMATION SUMMARY (Cont'd)

	Audited							
	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	156,729	72,001	300,519	135,774	501,069	241,816	571,063	294,497
Cost of sales	(122,902)	(56,461)	(227,540)	(102,802)	(374,486)	(180,727)	(431,852)	(222,706)
Gross profit	33,827	15,540	72,979	32,972	126,583	61,089	139,211	71,791
Other income	41	19	230	104	57	28	112	57
Selling and distribution expenses	(4,908)	(2,255)	(9,122)	(4,121)	(15,331)	(7,399)	(9,502)	(4,900)
Administrative expenses	(4,269)	(1,961)	(5,216)	(2,357)	(7,978)	(3,850)	(10,426)	(5,377)
Operating profit	24,691	11,343	58,871	26,598	103,331	49,868	119,395	61,571
Finance cost	(454)	(209)	(969)	(438)	(843)	(407)	(565)	(291)
PBT	24,237	11,134	57,902	26,160	102,488	49,461	118,830	61,280
Income tax	(5,724)	(2,629)	(15,370)	(6,944)	(25,249)	(12,185)	(30,522)	(15,740)
PAT	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Attributable to:								
Equity holder	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Minority interest	-	-	-	-	-	-	-	-
	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Depreciation	1,930	887	2,249	1,016	2,497	1,205	2,918	1,505
Amortisation	194	89	197	89	197	95	197	102
Interest expense	454	209	969	438	843	407	565	291
EBITDA	26,815	12,319	61,317	27,703	106,025	51,168	122,510	63,178
Gross Profit Margin (%)	21.58	21.58	24.28	24.28	25.26	25.26	24.38	24.38
PBT margin (%)	15.46	15.46	19.27	19.27	20.45	20.45	20.81	20.81
PAT margin (%)	11.81	11.81	14.15	14.15	15.41	15.41	15.46	15.46
No. of Shares assumed in issue ('000) <sup>(1)</sup>	73,479	73,479	73,479	73,479	73,479	73,479	73,479	73,479
Gross EPS (RMB/RM) <sup>(2)</sup>	0.33	0.15	0.79	0.36	1.39	0.67	1.62	0.83
Net EPS (RMB/RM) <sup>(3)</sup>	0.25	0.12	0.58	0.26	1.05	0.51	1.20	0.62

**Notes:**

- (1) Being the number of K-Star Shares assumed in issue immediately prior to the Public Issue.
- (2) Computed based on the consolidated PBT divided by the number of K-Star Shares assumed in issue.
- (3) Computed based on the consolidated PAT divided by the number of K-Star Shares assumed in issue.

## 2. INFORMATION SUMMARY (Cont'd)

### 2.3.2 Proforma Consolidated Cashflow Statements

Our proforma consolidated cashflow statement have been prepared based on the audited consolidated financial statements of our Group for the Financial Years under Review for illustrative purposes only.

The proforma consolidated cashflow statements is to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

	FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
PBT	102,488	49,461	110,407	57,052
Adjustments for:				
Depreciation of property, plant and equipment	2,497	1,205	2,918	1,505
Amortisation of land use rights	197	95	197	102
Property, plant and equipment written off	33	17	-	-
Gain on disposal of property, plant and equipment	-	-	(36)	(18)
Interest expenses	843	407	565	291
Interest income	(57)	(28)	(73)	(38)
Listing expenses written off	-	-	8,423	4,228
Operating profit before working capital changes	106,001	51,157	122,401	63,122
Changes in working capital:-				
(Increase)/decrease in inventories	(11,622)	(5,905)	8,401	4,218
Increase in receivables	(54,309)	(27,594)	(87,628)	(43,881)
Increase/(decrease) in payables	12,748	6,477	(7,815)	(3,922)
Cash generated from operations	52,818	24,135	35,359	19,537
Interest received	57	28	73	38
Interest paid	(843)	(407)	(565)	(291)
Income tax paid	(24,941)	(12,037)	(27,182)	(13,990)
Net cash generated from operating activities	27,091	11,719	7,685	5,294
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment				
- by working capital	(11,125)	(5,369)	(12,038)	(6,208)
- by listing proceeds	-	-	(8,289)	(4,160)
Proceed from disposal of property, plant and equipment	-	-	80	41
Downpayment for purchase of land	-	-	(7,200)	(3,713)
Acquisition of land use rights	-	-	(9,643)	(4,840)
Net cash used in investing activities	(11,125)	(5,369)	(37,090)	(18,880)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Listing proceed through Public Issue	-	-	65,631	32,940
Proceed from convertible loan	3,045	1,470	26,054	13,436
Payment of dividends	(7,763)	(3,746)	-	-
Payment of listing expenses	-	-	(4,851)	(2,435)
Proceed of bank borrowings	8,000	3,861	19,300	10,003
Repayment of bank borrowings	(10,600)	(5,116)	(12,000)	(6,188)
(Increase)/Upliftment of fixed deposits pledged	(830)	(401)	2,320	1,196
Net cash (used in)/from financing activities	(8,148)	(3,932)	96,454	48,952
Effect of foreign exchange transaltion	-	1,555	-	(1,715)
<b>CASH AND CASH EQUIVALENTS</b>				
Net increase	7,818	3,973	67,049	33,651
Brought forward:				
- As previously reported	2,623	1,197	10,441	5,306
- Effect of exchange rate changes	-	136	-	(65)
As restated	2,623	1,333	10,441	5,241
Carried forward	10,441	5,306	77,490	38,892

## 2. INFORMATION SUMMARY (Cont'd)

### 2.3.3 Proforma Consolidated Balance Sheet

Our proforma consolidated balance sheet have been prepared based on the audited consolidated balance sheet of our Group as at 31 December 2009 under review to show the effects of our Listing Scheme on the assumption that certain events had been effected on that date.

The proforma consolidated balance sheet is to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

	Audited Group FYE 2009		Proforma I After Conversion of Loan		Proforma II After I and Public Issue		Proforma III After II and Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Share capital	189,268	96,905	218,367	111,489	283,998	144,429	280,466	142,657
Merger deficit	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)
Statutory reserve	7,556	3,460	7,556	3,460	7,556	3,460	7,556	3,460
Equity component – convertible loan	1,467	736	-	-	-	-	-	-
Exchange fluctuation reserve	-	2,672	-	2,693	-	2,693	-	2,693
Retained earnings	213,787	105,572	213,787	105,572	213,787	105,572	205,364	101,344
Total shareholders' equity	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
Represented by:								
<b>NON-CURRENT ASSETS</b>								
Property, plant and equipment	62,570	31,404	62,570	31,404	62,570	31,404	70,859	35,564
Land use rights	9,048	4,541	9,048	4,541	9,048	4,541	18,691	9,381
Total non-current assets	71,618	35,945	71,618	35,945	71,618	35,945	89,550	44,945
<b>CURRENT ASSETS</b>								
Inventories	11,006	5,524	11,006	5,524	11,006	5,524	11,006	5,524
Trade receivables	164,858	82,742	164,858	82,742	164,858	82,742	164,858	82,742
Other receivables	32,278	16,200	32,278	16,200	32,278	16,200	25,174	12,635
Fixed deposits with a licensed bank	900	452	900	452	900	452	900	452
Cash and bank balances	34,642	17,387	34,642	17,387	100,273	50,327	77,490	38,892
Total current assets	243,684	122,305	243,684	122,305	309,315	155,245	279,428	140,245
<b>CURRENT LIABILITIES</b>								
Trade payables	18,076	9,072	18,076	9,072	18,076	9,072	18,076	9,072
Other payables	8,345	4,188	8,345	4,188	8,345	4,188	8,345	4,188
Borrowings	42,932	21,548	15,300	7,679	15,300	7,679	15,300	7,679
Income tax payable	8,027	4,029	8,027	4,029	8,027	4,029	8,027	4,029
Total current liabilities	77,380	38,837	49,748	24,968	49,748	24,968	49,748	24,968
<b>NET CURRENT ASSETS</b>	166,304	83,468	193,936	97,337	259,567	130,277	229,680	115,277
	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
<b>NUMBER OF SHARES ('000)</b>								
	60,159	60,159	73,479	73,479	88,800	88,800	88,800	88,800
	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>
<b>NET ASSETS PER SHARE</b>	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80
<b>NET TANGIBLE ASSETS PER SHARE</b>	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80

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

### 2.4 PRINCIPAL STATISTICS RELATING TO THE IPO

#### 2.4.1 Our Share Capital

	No. of Shares	SGD
<b>Issued and paid-up share capital</b>		
As at the date of this Prospectus	73,479,000	45,775,152
To be issued and credited pursuant to the Public Issue	15,321,000	13,489,786*
<b>Enlarged issued and fully paid-up share capital upon Listing</b>	88,800,000	59,264,938

*Note:*

\* Translated based on the exchange rate between the SGD and the RM of SGD1.00 : RM2.3105 as at the Latest Practicable Date after the set-off of estimated listing expenses of RM1,772,000. The actual SGD registered share capital will differ based on the exchange rate prevailing on the date of the actual issuance of the Shares.

2.4.2 Price per IPO Share RM2.15

#### 2.4.3 Market Capitalisation

Market capitalisation based on the IPO Price RM190,920,000

#### 2.4.4 Proforma Consolidated NTA as at 31 December 2009

Our Group Proforma NTA (RM)  
(After the IPO and utilisation of proceeds) 160,222,000

Our Group Proforma NTA per Share (RM)  
(based on our enlarged share capital of 88,800,000 Shares) 1.80

#### 2.4.5 Classes and ranking

We have only one class of shares, being ordinary shares. The IPO Shares will rank pari passu in all respects with our other existing shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date of allotment thereof.

Please refer to Section 3 of this Prospectus for detailed information of the IPO.

### 2.5 DIVIDENDS

It will be the policy of our Directors in recommending dividends to allow shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

Subject to the factors outlined in Section 7.8, our Directors intend to recommend and distribute dividends of 10% to 20% of our net profit distributable to our shareholders from FYE 2010 onwards. Dividends, if any, will be declared and paid in RM.

Further details on our dividend policy are set out in Section 7.8 of this Prospectus.

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

### 2.6 RISK FACTORS

There are a number of risk factors (which may not be exhaustive), both specific to our Group and relating to the general business environment, which may impact the operating performance and financial position of our Group, and affect the achievability of our forecast. To appreciate the risk factors associated with an investment in us, you should read this entire Prospectus carefully, taking into consideration the following summary of key risk factors:

**(a) Risks relating to our business and operations**

- (i) Operate in highly competitive sports footwear industry;
- (ii) May not be able to respond promptly to changing fashion and market trends;
- (iii) Exposed to fluctuations in economic condition of the PRC and other overseas markets;
- (iv) Reliant on Proprietary Brands and the image and quality associated with Proprietary Brands;
- (v) Inappropriate or poor service rendered by PRC Authorised Regional Dealers, Dixing Specialty Store and shops-in-shops operators may affect performance;
- (vi) May face shortages of skilled labour and rising labour costs in the PRC;
- (vii) May be affected by complaints from consumers and negative publicity;
- (viii) Dependent on quality, prices and timely supply of raw materials;
- (ix) Dependent on our major customers;
- (x) Loss of Executive Chairman and CEO, Ding Jianping and the management team or any failure to attract similarly qualified personnel in the future will adversely impact business and growth prospects;
- (xi) May face possible infringements of our intellectual property rights such as the counterfeiting of our Proprietary Brands in the market;
- (xii) May be subject to claims for infringement of third parties intellectual property rights;
- (xiii) Retailers of our Proprietary Brands products face increasing competition for retail locations and space;
- (xiv) May not have sufficient insurance coverage for certain events, in particular product liability claims;
- (xv) Our business operations may face significant disruptions;
- (xvi) Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations;
- (xvii) We are dependent on third-party authorised regional dealers and third-party retailers over whom we have limited control for promotion and the retail prices of our Proprietary Brands' products;
- (xviii) We are reliant on our contract manufacturers;

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

- (xix) Selling prices of our products are subject to changes which may be beyond our control;
- (xx) Overseas countries where our products are sold in may impose import restrictions on our products;
- (xxi) We are exposed to credit risks of our customers;
- (xxii) Terrorist attacks, armed conflicts, and/or outbreak of communicable diseases, may affect the markets in which we operate and our financial performance;
- (xxiii) Our business activities are subject to certain laws and regulations;
- (xxiv) We cannot assure you of the success of our business expansion or that we will be able to manage our business expansion and growth effectively;
- (xxv) We may not be able to implement successfully our plans to expand production capacity and improve production efficiency; and
- (xxvi) We have not obtained land-use-right and property ownership certificates for some of our production facilities.

### (b) Risks relating to our business in the PRC

- (i) Highly susceptible to changes in PRC's political, economic and social conditions;
- (ii) May be adversely affected by changes to the laws and regulations of the PRC and the interpretation and implementation thereof;
- (iii) Restriction on dividends / payments from subsidiary;
- (iv) Negative publicity on PRC products may adversely affect our business and profits;
- (v) Changes in labour policy in the PRC;
- (vi) Foreign exchange control in the PRC may affect the repatriation of funds from our PRC subsidiary;
- (vii) Fluctuations in foreign exchange rates may materially affect our financial condition and results of operations;
- (viii) Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in China may cause us to incur additional capital expenditures; and
- (ix) Fluctuations in consumer spending caused by changes in macro economic conditions in the PRC may significantly affect our business and financial performance.

### (c) Risks relating to our Company being incorporated in Singapore

- (i) Difficulties when pursuing legal action in relation to the enforcement of Malaysian judgement against our Group or Management under a different law;
- (ii) Malaysia and Singapore laws including the different take-over codes may affect the regulation of our Company;
- (iii) Depositors as Shareholders; and
- (iv) Rights and protection accorded to our Shareholders.

## 2. INFORMATION SUMMARY (Cont'd)

### (d) Risks relating to investment in our Shares

- (i) Our Controlling Shareholder, K-Star International, will retain 58.40% of our total issued Shares after the IPO which will allow them to exercise significant control over our Group;
- (ii) New investors will incur immediate dilution and may experience further dilution;
- (iii) Future sale of our Shares could adversely affect our Share price;
- (iv) Our Share price may be volatile and this may affect your investment in our Shares;
- (v) Negative publicity may adversely affect our Share price;
- (vi) No prior market for our Shares; and
- (vii) We may issue future securities for additional funding for our future growth which will result in a dilution to our shareholders.

Please refer to the Section 4 of this Prospectus for more details on our risk factors.

### 2.7 UTILISATION OF PROCEEDS

The total gross proceeds of approximately RM32.94 million from the Public Issue will be utilised by our Group in the following manner:

Use of the proceeds arising from the issue of the new Shares	Estimated timeframe for utilisation	Amount (RM'000)	Percentage (%)
Expansion of production capacity	18 months	9,000	27.32
Expansion of sales and marketing network	12 months	5,000	15.18
Branding and advertising	12 months	3,000	9.11
Enhance product D&D capabilities	12 months	4,500	13.66
General working capital	12 months	5,440	16.52
Listing expenses	6 months	6,000	18.21
<b>Gross proceeds</b>		<b>32,940</b>	<b>100.00</b>

Please refer to Section 3.7 for further details on the utilisation of proceeds.

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### 3. PARTICULARS OF OUR IPO

#### 3.1 INTRODUCTION

This Prospectus is dated 11 May 2010.

A copy of this Prospectus has been registered with the SC. We have also lodged a copy of this Prospectus, together with the Application Forms with the ROC. Neither the SC nor the ROC takes any responsibility for their contents.

The approval of the SC for the IPO obtained via its letter dated 20 January 2010, shall not be taken to indicate that the SC recommends the IPO. We have voluntarily submitted an application to the SC for a Shariah compliance review to be carried out by the SAC as part of the process of determining our Shariah status at IPO. On 28 December 2009 and 12 April 2010, the SAC has classified our Shares as Shariah-compliant based on the audited consolidated financial statements of our Group for the FYE 2008 and FYE 2009 respectively. This classification will remain valid from the date of issue of this Prospectus until the next Shariah compliance review is undertaken by the SAC. The new status will be released in the updated list of Shariah-compliant securities on the last Friday of the month of May and November of each year.

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act 1991, Bursa Securities has prescribed our Shares as a prescribed security. In consequence thereof, the Shares offered through this Prospectus will be deposited with the Bursa Depository and any dealings in these Shares will be carried out in accordance with the Securities Industry (Central Depositories) Act 1991 and the Rules of Bursa Depository. We will not issue share certificates to successful applicants.**

We have applied to Bursa Securities for the admission of our Company to the Official List of the Main Market and for permission to deal in and the listing of and quotation for our entire issued and paid-up ordinary shares including the IPO Shares which is the subject of this Prospectus, on the Main Market. Our Shares will be admitted to the Official List of the Main Market and the official quotation will commence upon receipt of confirmation from the Bursa Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of the applications for the IPO Shares will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for our entire enlarged issued and paid-up ordinary shares on the Main Market. Accordingly, all monies paid in respect of any application accepted from you will be returned in full without interest if the said permission for the listing is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that we are notified by or on behalf of Bursa Securities within the aforesaid timeframe. If any such monies are not repaid within fourteen (14) days after we become liable to repay it, the provision of sub-section 243(2) of the CMSA shall apply accordingly.

Pursuant to the Bursa Securities LR, at least 25% of the total number of Shares in which listing is sought must be held by a minimum of 1,000 public shareholders holding not less than 100 shares each upon Listing. In the event that the above requirement is not met pursuant to the IPO, we may not be allowed to proceed with our listing on the Main Market. In such an event, monies paid in respect of all applications will be returned in full without interest.

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### 3. PARTICULARS OF OUR IPO (Cont'd)

Persons submitting applications by way of Application Forms or by way of Electronic Share Application or Internet Share Application must have a CDS account. In the case of an application by way of Application Form, an applicant should state his CDS account in the space provided in the Application Form. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his CDS account number to the Participating Financial Institutions by way of keying in his CDS account number if the instructions on the ATM screen at which he enters his Electronic Share Application requires him to do so. In the case of an application by way of Internet Share Application, the applicant can make an application only if he has a CDS account and an existing account with access to the Internet financial services facilities with the Internet Participating Financial Institutions by way of keying in his CDS account number into the online application form. A corporation or institution cannot apply for the IPO Shares by way of Electronic Share Application or Internet Share Application.

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

This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for or an offer to sell any IPO Share in any jurisdiction in which such invitation or offer is not authorised or lawful or to any person to whom it is unlawful to make such an invitation or offer. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. The distribution of this Prospectus is subject to Malaysian laws and we take no responsibility for the distribution of this Prospectus outside Malaysia.

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

**YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE IPO AND AN INVESTMENT IN US. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN DOUBT ABOUT THIS PROSPECTUS, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

#### 3.2 INDICATIVE TIMETABLE

The indicative timetable of events leading up to the listing of and quotation for our entire issued and paid-up capital are as follows:

Event	Tentative Dates
Opening date of application	11 May 2010
Closing date of application	18 May 2010
Tentative date for balloting of applications	20 May 2010
Tentative date for despatch of notices of allotment to successful applicants	27 May 2010
Tentative Listing date	31 May 2010

### 3. PARTICULARS OF OUR IPO (Cont'd)

The timetable is tentative and subject to changes which may be necessary to facilitate the implementation plan. The application period will open at 10.00 a.m. on Tuesday, 11 May 2010 and will remain open until 5.00 p.m. on Tuesday, 18 May 2010 or such further period or periods as our Directors and Underwriters in their absolute discretion may mutually decide.

If the closing date of the application is extended, the dates for the balloting, allotment and listing of our entire issued and paid-up share capital on the Main Market would be extended accordingly and we will notify the public via an advertisement in a widely circulated daily English and Bahasa Malaysia newspaper within Malaysia.

#### 3.3 PURPOSE OF OUR IPO

The main purposes of our IPO are as follows:

- (i) to achieve listing status for our Company;
- (ii) to enable us to gain recognition and corporate stature and further enhance our corporate reputation and to assist us to market our products and Proprietary Brands and expand our market position;
- (iii) to provide an opportunity for the investing community including the Malaysian public to participate in our continuing growth by way of equity participation;
- (iv) to raise proceeds for the purposes stated in Section 3.7 of this Prospectus; and
- (v) to enable us to have access to the capital market for cost effective capital raising in order to give us the financial flexibility to pursue future growth opportunities.

#### 3.4 DETAILS OF OUR IPO

The details of our IPO, which consists of the Public Issue are as follows:

##### 3.4.1 Public Issue

The Public Issue of 15,321,000 Shares, representing approximately 17.25% of our enlarged issued and paid-up share capital, at the Issue Price payable in full upon application, is subject to the terms and conditions of this Prospectus and will be allotted in the following manner:

(i) **Malaysian Public**

3,401,000 Public Issue Shares, representing 3.83% of our enlarged issued and paid-up share capital will be made available for application by the Malaysian Public to be allocated via ballot.

(ii) **Selected investors by way of private placement**

11,920,000 Public Issue Shares, representing approximately 13.42% of our enlarged issued and paid-up share capital will be made available for application by way of private placement to selected investors.

The Public Issue Shares will increase our issued and paid up capital from 73,479,000 Shares to 88,800,000 Shares.

All the Public Issue Shares under Section 3.4.1 (i) above have been fully underwritten by the Underwriters.

### 3. PARTICULARS OF OUR IPO (Cont'd)

Any of the Public Issue Shares not subscribed for under Section 3.4.1 (i) may be made available to selected investors via private placement. Thereafter any remaining re-offered Public Issue Shares that we are not subscribed will be subscribed by the Underwriters based on the terms of the Underwriting Agreement.

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

#### 3.5 SHARE CAPITAL

	No. of Shares	SGD
<b>Issued and paid-up capital</b>		
As at the date of this Prospectus	73,479,000	45,775,152
To be issued and credited pursuant to the Public Issue	15,321,000	13,489,786*
Enlarged issued and fully paid-up share capital upon listing	88,800,000	59,264,938
<b>IPO Price per Share</b>		RM2.15
<b>Market Capitalisation</b>		
Market capitalisation (based on the Issue Price and enlarged issued and paid-up share capital after listing)		RM190,920,000
<b>Proforma Consolidated NTA as at 31 December 2009</b>		
Our Group Proforma NTA (RM) (After the IPO and utilisation of proceeds)		160,222,000
Our Group Proforma NTA per Share (RM) (based on our enlarged share capital of 88,800,000 Shares)		1.80

Note:

\* Translated based on the exchange rate between the SGD and the RM of SGD1.00 : RM2.3105 as at the Latest Practicable Date after the set-off of estimated listing expenses of RM1,772,000. The actual SGD registered share capital will differ based on the exchange rate prevailing on the date of the actual issuance of the Shares.

Our market capitalisation upon Listing based on the IPO Price and our enlarged issued share capital of 88,800,000 Shares amounts to RM190,920,000. The IPO Price is payable in full upon the Application subject to the terms and conditions of this Prospectus. The board lot size of our enlarged issued and paid up share capital upon Listing will be standardised to 100 units per board lot.

We have only one (1) class of shares, being ordinary shares. Upon allotment and issuance, the IPO Shares shall rank *pari passu* in all respect with our existing issued and paid-up ordinary Shares, including voting rights, entitlement to all rights and any dividend distribution that may be declared subsequent to the date of allotment and issue of the IPO Shares.

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

### 3. PARTICULARS OF OUR IPO (Cont'd)

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

#### 3.6 BASIS OF ARRIVING AT THE IPO PRICE

The IPO price of RM2.15 per Share was determined and agreed upon by our Directors and PIVB as the Adviser, Managing Underwriter, Underwriter and Sole Placement Agent, after taking into consideration the following factors:

- (i) our Group's operating and financial history and position as outlined in Sections 6 and 7 of this Prospectus;
- (ii) our competitive strengths and advantages as set out in Section 6.3 of this Prospectus;
- (iii) our net EPS of RM0.51 for the FYE 2009 based on our enlarged issued and paid-up share capital of 88,800,000 Shares upon Listing;
- (iv) our proforma consolidated NTA per Share after the IPO and utilisation of proceeds of RM1.80 computed based on the proforma consolidated NTA of RM160.22 million as at 31 December 2009 and the enlarged issued and paid-up share capital of 88,800,000 Shares as set out in Section 3.5 of this Prospectus;
- (v) future plans, strategies and prospects of our Group as outlined in Sections 5.9 and 5.10 of this Prospectus; and
- (vi) the overview and prospects of the industry of which our Group operates in as set out in Section 5 of this Prospectus.

However, you should note that the market prices of our Shares upon and subsequent to the listing on the Main Market are subject to vagaries of the market forces and other uncertainties, which may affect the price of Shares being traded. You should also bear in mind the risk factors set out in Section 4 of this Prospectus before deciding on whether or not to invest in our Shares.

#### 3.7 UTILISATION OF PROCEEDS

The total gross proceeds of approximately RM32.94 million from the Public Issue will be utilised by our Group in the following manner:

Use of the proceeds arising from the issue of the new Shares	Estimated timeframe for utilisation	Amount (RM'000)	Percentage (%)
Expansion of production capacity <sup>(1)</sup>	18 months	9,000	27.32
Expansion of sales and marketing network <sup>(2)</sup>	12 months	5,000	15.18
Branding and advertising <sup>(3)</sup>	12 months	3,000	9.11
Enhance product D&D capabilities <sup>(4)</sup>	12 months	4,500	13.66
General Working Capital <sup>(5)</sup>	12 months	5,440	16.52
Listing expenses <sup>(6)</sup>	6 months	6,000	18.21
<b>Gross proceeds</b>		<b>32,940</b>	<b>100.00</b>

### 3. PARTICULARS OF OUR IPO (Cont'd)

**Notes:**

- (1) We intend to increase our production capacity with 2 additional production lines to cater to demands for our products. For this purpose, an estimated RM9 million of the IPO proceeds raised will be set aside to acquire a piece of land in Jiangtuo Industrial Park, construct new factory and dormitories, install plant, equipment, plant and machineries etc. We had on 15 September 2009 concluded a land transfer agreement with the Villagers Committee Jiangtuo Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭镇江头回族村民委员会) ("Villagers Committee"), under which the Villagers Committee agreed to transfer a plot of land measuring approximately 40,000 sq m located in Jiangtuo Industry Zone, Chendai Town, Jinjiang City, to Fujian Dixing for a consideration amounting to RMB24 million ("Purchase Consideration"). The Purchase Consideration shall be satisfied as follows:

- (i) Payment of 30% of the Purchase Consideration is to be settled on 15 January 2010 (of which an amount equivalent to RMB7.2 million has been paid); and
- (ii) Remaining balance of the Purchase Consideration is to be settled within one month before the land is handed over to Fujian Dixing, subject to the approval of the relevant PRC authority.

The estimated costs for the installation of the 2 additional production lines are as follows:

Description	RM'000
To acquire land of approximately 40,000 sq m	12,000
To construct new building with a built-up area of approximately 30,000 sq m for factory and dormitories	22,500
Set-up cost of equipments and machineries	5,000
<b>Total</b>	<b>39,500</b>

As shown in the table above, we estimate that the total cost for the expansion of 2 additional production lines to be approximately RM39.5 million. This will be funded via the proceeds raised from the net IPO proceeds amounting to RM9 million, proceeds from the Conversion of Loan amounting to RM11 million and the remaining balance of RM19.5 million to be funded via internally generated funds and / or bank borrowings.

Please refer to Section 5.10 of this Prospectus for more details.

- (2) We propose to use part of the proceeds to fund the expansion of our sales and distribution network such as penetrating into other province, municipalities and cities by increasing the number of distributors and direct retailers to indirectly increase the number of specialty and retail stores. We expect to incur costs of promotional materials (approximately RM100,000) and sponsor fees for renovation (approximately RM4.9 million) for the setting up of the new specialty and retail stores. If the actual expenses are higher than estimated, the deficit will be funded out of the portion allocated for working capital. Conversely, any surplus arising from the utilisation for this purpose shall be allocated for general working capital to fund our daily operations including procurement of raw materials and additional labour cost.

Please refer to Section 5.10 of this Prospectus for more details.

- (3) Our Company intends to invest in the branding, marketing and promotion of our Proprietary Brands. For this purpose, we plan to invest in advertisement through various channels such as television, internet, public busses and highway sign billboards, to achieve greater consumer recognition and loyalty towards our brand and products

Please refer to Section 7.2.6 of this Prospectus for the historical branding, advertising and promotion expenses incurred during the Financial Years under Review

- (4) We intend to set aside RM4.5 million of the proceeds to strengthen our product D&D capabilities including D&D of sports fashion apparels. We plan to invest in additional advanced equipment and machinery to facilitate our D&D activities, to recruit more personnel as well as to conduct more joint research activities with external researchers. The breakdown of costs of enhance product D&D capabilities is as follows:

Description	RM'000
Purchase of advance equipment and machinery	500
Recruitment of D&D personnel mainly for development of K-Star's sports fashion apparels and related overseas traveling costs to develop its D&D capabilities	2,500
Cost of moulds and materials mainly for the development of K-Star's sports fashion apparels	1,500
<b>Total</b>	<b>4,500</b>

Please refer to Section 7.2.7 of this Prospectus for the historical D&D expenses incurred during the Financial Years under Review.

- (5) The utilisation for general working capital requirements shall be used primarily for our Group's daily operations including procurement of raw materials and additional labour cost. Due to the nature of our procurement, production and sales cycles, we require additional working capital funds in order to increase our raw material procurement, production volumes and expand sales activities.

### 3. PARTICULARS OF OUR IPO (Cont'd)

(6) *The following table is the estimated listing expenses:*

	<i>RM'000</i>
<i>Professional fees</i>	4,355
<i>Underwriting, placement fees and brokerage</i>	1,010
<i>Printing of Prospectus and advertising fees</i>	250
<i>Fees to the authorities</i>	185
<i>Miscellaneous</i>	200
<i>Total</i>	<u>6,000</u>

*The estimated listing expenses of approximately RM1,772,000 will be set-off against share capital. The remaining balance of the estimated listing expenses of approximately RM4,228,000 is to be expensed to the statement of comprehensive income.*

*Any difference arising from the proposed utilisation as set out above will be adjusted accordingly to our working capital requirements.*

All listing expenses will be borne by our Company.

### 3.8 BROKERAGE, PLACEMENT FEES AND UNDERWRITING COMMISSION

#### 3.8.1 Brokerage

Brokerage fees is payable by us in respect of the Public Issue Shares at the rate of 1.0% on the IPO Price in respect of successful applications which bear the stamps of PIVB, member companies of Bursa Securities, members of the Association of Banks in Malaysia, members of Malaysian Investment Banking Association or MIH.

#### 3.8.2 Placement Fees

The placement fees is payable by our Company to the Sole Placement Agent at a placement commission of up to 3.0% of the IPO Price for each Public Issue Share placed.

#### 3.8.3 Underwriting Commission

We had entered into a conditional underwriting agreement with and the Underwriters on 15 April 2010 to underwrite 3,401,000 Public Issue Shares available for application by the Malaysian Public ("Underwritten Shares").

The underwriting commission is payable by our Company at a rate of 3.0% of the IPO Price for the 3,401,000 Public Issue Share underwritten by each of the respective Underwriters.

### 3.9 FINANCIAL IMPACT FROM THE UTILISATION OF PROCEEDS

#### 3.9.1 Expansion of Production Capacity

Part of our proceeds is intended to be allocated towards the expansion of our production capacity including the purchase of new or upgrading of existing equipments and machineries. Upon completion of our two additional production lines, our annual in-house shoe production capacity is expected to increase from 4.0 million pairs per annum to approximately 6.0 million pairs per annum.

### **3. PARTICULARS OF OUR IPO (Cont'd)**

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#### **3.9.2 Expansion of Sales and Marketing Networks**

Part of the proceeds is intended to be allocated to fund the expansion of our sales and distribution network into other provinces and cities as well as to increase the number of specialty and retail stores by approximately 100 stores through our distributors or direct retailers. We expect that the increase in the number of specialty and retail stores in various locations across China will result in positive contributions to the revenue and profits of our Group.

#### **3.9.3 Expansion into Sports Fashion Apparels**

To complement our existing products range and expansion plan, we intend to expand our business to sports apparel segment. We believe that such expansion is necessary as part of our brand building process and it will help to increase our competitiveness against our competitors and consequently contribute to the increase in our revenue.

#### **3.9.4 Branding and Advertising**

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

#### **3.9.5 Enhancement of Product Design and Development Capabilities**

Part of our proceeds are intended to be allocated towards the enhancement of our D&D capabilities via the investment in additional advanced equipment and machinery to facilitate our D&D activities, recruitment of more D&D personnel as well as to conduct more joint research activities with external researchers.

#### **3.9.6 Enhance Capital Structure**

The increase in shareholders' funds enables our Group to expand without having to rely on borrowings although the existing Group's gearing ratio is low. This allows the Company to have the flexibility to adjust its capital structure, and be able to involve in additional capital financing in the secondary market. A public status may provide the Company relatively favourable terms for alternative financing.

Without the IPO proceeds, we are expected to incur the incremental borrowings of approximately RM21.5 million to fund our plans for expansion of our production capacity, sales and marketing network, branding and advertising, enhancement of product D&D capabilities. As such, with the IPO proceeds, and based on an assumed interest rate of 7% per annum, we expect to effect interest savings of approximately RM1.5 million per annum.

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### 3. PARTICULARS OF OUR IPO (Cont'd)

#### 3.10 DILUTION

Our proforma NTA per Share after the Acquisition and the Conversion of Loan, but before the Public Issue is RM1.81.

Pursuant to the IPO in respect of 15,321,000 Public Issue Shares at the Issue Price, our proforma NTA per Share after the IPO and after adjusting for the estimated net proceeds from the IPO, based on the enlarged issued and paid-up share capital of 88,800,000 Shares, would have been RM1.80. This represents an immediate decrease in NTA per Share of RM0.01 to our existing shareholders and an immediate dilution in NTA per Share of RM0.35 to our new investors. The following table illustrates such dilution on a per Share basis:

	RM
Issue Price	2.15
Proforma NTA per Share (After the Acquisition and the Conversion of Loan but before the Public Issue)	1.81
Decrease in NTA per Share attributable to the existing shareholders	0.01
NTA per Share after the IPO	1.80
Dilution in NTA per Share to new public investors	0.35

*Note: The computed NTA does not take into account actual financial performance from 31 December 2009 up to the Latest Practicable Date. Depending on our audited financial results, our NTA per Share may be higher or lower than the computed NTA.*

The following table summarises the total number of Shares acquired by our Directors, key management and substantial shareholders or persons connected during the period of three years prior to the date of this Prospectus, the total cash consideration paid by them and the effective cash cost per Share to our Directors, key management and substantial shareholders or persons connected:

	Number of Shares	Cash Consideration RM	Average price per Share RM
<b>Substantial shareholder</b> K-Star International	51,858,000	97,224,643	1.87

#### 3.11 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

The following salient terms are reproduced from the Underwriting Agreement. The capitalised terms and numbering references used in this section shall have the respective meanings and numbering references as prescribed thereto in the Underwriting Agreement:

- (i) Pursuant to Clause 4.1 of the Underwriting Agreement, the obligations of the Managing Underwriter and the Underwriters to underwrite the Underwritten Shares is conditional upon, *inter alia*, the following:
  - (a) the acceptance for registration with the SC and the lodgement with the ROC respectively of the Prospectus together with copies of all documents required under Section 42 of the Companies Act prior to the issuance of the Prospectus to the public;

3. PARTICULARS OF OUR IPO (Cont'd)

- (b) *the issuance of the Prospectus (including advertisement of the Prospectus and all other procedures, requirements, letters and documents) required under Section 42 of the Companies Act to the public within three (3) months from the date hereof or such extension as consented by the Underwriters*
- (c) *the Underwriters receiving a certificate in the form or substantially in the form contained in Second Schedule (Certificate by Company) of the Agreement, one dated the date of registration of the Prospectus and the other dated the Closing Date, both of which are to be signed by the Director of the Company (on behalf of the Board) stating that, to the best of his knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as referred to in Clause 3 (Representations, Warranties and Undertakings) of this Agreement and being provided with the reports or confirmation and being satisfied at the date of registration of the Prospectus and Closing Date that (a) there has not occurred any material change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group taken as a whole subsequent to the Agreement Date; or (b) there has not occurred any event or the discovery of any facts or circumstances which would render any representations, warranties or undertakings in Clause 3 (Representations, Warranties and Undertakings) materially untrue or inaccurate or result in a material breach of this Agreement by the Company;*
- (d) *the issue, offering and subscription of the Public Issue Shares in accordance with the provisions hereof and the Prospectus not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority of Malaysia (including Bursa Securities);*
- (e) *all necessary approvals and consents required in relation to the Public Issue including but not limited to governmental approvals having been obtained and are in full force and effect and that all conditions to the approvals (except for which can only be complied with after the Public Issue has been completed) have been complied with;*
- (f) *the Underwriters being satisfied that the Company will, following completion of the Public Issue be admitted to the Official List and its issued and paid-up share capital listed and quoted on the Main Board without undue delay;*
- (g) *the Underwriters having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 13; and*
- (h) *the delivery to the Managing Underwriter prior to the date of registration of the Prospectus of (i) a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors of the Company and the shareholders in general meeting approving this Agreement, the Prospectus, the Public Issue and authorising the execution of this Agreement and the issuance of the Prospectus; (ii) a certificate dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as referred to in Clause 4.1(c);*

3. PARTICULARS OF OUR IPO (Cont'd)

- (ii) *In the event any of the conditions set forth in Clause 4.1 are not satisfied by the Closing Date, the Underwriters shall thereupon be entitled but not bound to terminate this Agreement by notice given to the Company not later than three (3) market days after the Closing Date and upon such termination the Company and the Underwriters shall be released and discharged from their obligations save for the Company's obligations pursuant to Clause 3.3 and 13 and none of the parties shall have a claim against the other save for antecedent breaches by the Company and claims arising therefrom. Each party shall in such event return any and all moneys paid to the other under this Agreement within seventy-two (72) hours of the receipt of such notice (except for monies paid by the Company for the payment of the expenses as provided in Clause 13). The Underwriters reserve the right to waive or modify any of the conditions aforesaid and such waiver or modification shall not prejudice the Underwriters' rights under this Agreement.*
- (iii) *Pursuant to Clause 14.1 of the Underwriting Agreement, notwithstanding anything therein contained, the Underwriters, acting through the Managing Underwriters, may by notice in writing to the Company given at any time on or before the allotment and issuance of the Issue Shares, terminate and cancel and withdraw its commitment to underwrite the Underwritten Shares if:*
- (a) *there is any breach by the Company of any of the representations, warranties or undertakings, which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, or by the Closing Date, whichever is earlier, or withholding of information of a material nature from the Underwriters, which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Company's Group, the success of the Public Issue, or the distribution of the Public Issue Shares; or*
- (b) *there is withholding of information of a material nature from the Underwriters, which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, which, in the opinion of the Managing Underwriter and/or the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Company's group and the success of the Public Issue, or the distribution of the Public Issue Shares; or*
- (c) *there shall have occurred, happened or come into effect any material and/or adverse change to the business or financial condition of the Company or any of its subsidiaries; or*
- (d) *there shall have occurred, happened or come into effect any of the following circumstances:*
- *any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or*

3. PARTICULARS OF OUR IPO (Cont'd)

- *any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Company and/or the Underwriters (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents); which, (in the reasonable opinion of the Underwriters), would have or can reasonably be expected to have, a material adverse effect on and/or materially prejudice the business or the operations of the Company or any of its subsidiaries and the success of the Public Issue, or the distribution of the Public Issue Shares, or which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms; or*
  - *if in the reasonable opinion of the Underwriters that the success of the Public Issue is seriously and/or materially jeopardised by the FTSE Bursa Malaysia Kuala Lumpur Composite Index falling below 1,000 points and remaining below 1,000 points for three (3) consecutive Market Days at any time between the date of this Agreement and up to and including the Closing Date;*
- (e) *there is failure on the part of the Company to perform any of their respective obligations herein contained.*
- (iv) *Pursuant to Clause 14.2 of the Underwriting Agreement, upon such notice(s) being given under Clause 14.1, the Managing Underwriter and/or the Underwriters shall be released and discharged of its obligations without prejudice to its rights whereby this Agreement shall be of no further force or effect and no Party shall be under any liability to any other in respect of this Agreement, except that the Company shall remain liable in respect of its obligations and liabilities for the payment of the costs and expenses already incurred prior to or in connection with such termination, for the payment of any taxes, duties or levies or such outstanding fees payable pursuant to Clause 11.3 hereof, and for any antecedent breach, and its undertaking to indemnify the Underwriters pursuant to the provisions of Clause 3.3.*

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## 4. RISK FACTORS

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

### 4.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

#### 4.1.1 We operate in a highly competitive sports footwear industry

We operate in a highly competitive sports footwear industry and are subject to intense competition from both international and domestic brands. The competitive factors in our industry include, amongst others, brand loyalty, product variety, design, quality and price. The sports footwear is ever-evolving and with low business entry of barrier to this industry and therefore, we could also face competition from brands with similar brand positioning, target consumers and/or market segment. In the light of the constantly changing and competitive market environment, there is no assurance that we will be able to compete effectively against new and existing competitors, who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors, and increase capital expenditures, which may in turn negatively affect our profit margins and financial performance.

#### 4.1.2 We may not be able to respond promptly to changing fashion and market trends

We believe our success depends largely on our ability to stay abreast of fashion and market trends in the sports footwear industry, as well as our ability to anticipate and respond promptly to the fast changing market trends. There is no assurance that we will be able to continue to react effectively to the changing fashion and market trends and produce products which would successfully appeal to our target market. If we are unable to consistently design and produce commercially viable products to meet the fast changing market trends, the demand for our products may decrease and thus, adversely affect our sales and financial performance.

#### 4.1.3 We are exposed to fluctuations in the economic condition of the PRC and our other overseas markets

Our manufacturing operations are located in the PRC and we derive our revenue from both PRC domestic sales and from sales to overseas markets through our exporters to countries such as Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary. Accordingly, the success of our business depends to a large extent on the conditions and the continued growth in both consumer markets in PRC and overseas, respectively. The growth in such markets in turn depends on the conditions and the continued growth in their respective economies and individual income levels. We believe that consumer spending habits are adversely affected during periods of economic downturn, recession in the economy or uncertainties regarding future economic prospects which may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including our Group. Any future slowdown or decline in the economy of the PRC and/or our overseas markets and general consumer spending habits would adversely affect our business, operating results and financial condition.

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

##### **4.1.4 We are reliant on our Proprietary Brands and the image and quality associated with our brands**

We believe that our Proprietary Brands is critical for our success. Over the years, we have established our Proprietary Brands as a brand for trend-setting, high-quality and fashionable sports footwear. We believe that this is one of the key factors for the growth in our revenue. The future sales of our Proprietary Brands products will continue to be dependent on the successful promotion of our Proprietary Brands and the image and quality associated with our brand. If we are unsuccessful in promoting and maintaining the image of, and quality associated with, our Proprietary Brands, our business and financial performance may be adversely affected.

##### **4.1.5 Any inappropriate or poor service rendered by our PRC Authorised Regional Dealers, Dixing Specialty Store and shops-in-shops operators may affect our performance**

The sales of our Proprietary Brands products in the PRC depend solely on our PRC Authorised Regional Dealers and operators who operate Dixing Specialty Stores and shops-in-shops. As at the Latest Practicable Date, there were 53 Dixing Specialty Stores and 716 shops-in-shops in the PRC. Even though we exercise supervision and management on our Authorised Regional Dealers, Specialty Stores and shops-in-shops through regular monitoring and inspection by our product audit team, there can be no assurance that such supervision will be sufficient to avoid our brand name being associated with inappropriate and poor service and any such negative association arising out of low quality or inappropriate service and poor management of our PRC Authorised Regional Dealers, the Dixing Specialty Store and shops-in-shops could damage our brand name and reputation and thus, have a material adverse effect on our business and financial performance.

##### **4.1.6 We may face shortages of skilled labour and rising labour costs in the PRC**

The sports footwear manufacturing industry is labour intensive. Labour costs in the PRC have been experiencing an upward trend in the past few years and there is no assurance that the cost of labour in the PRC will not continue to increase in the future or that we will be able to offset such increase in labour cost against corresponding increases in the prices of our products. In the event that we fail to pass on increasing labour costs to our customers, our business and financial performance may be adversely affected.

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

We may be the subject of complaints, whether valid or invalid, from consumers with regard to the quality of our sports footwear products. We may also be affected by factors such as negative publicity resulting from the publication of industry findings, research reports and health concerns concerning our products (regardless of their accuracy or validity). Such complaints and negative publicity relating to any of our Directors, Executive Officers, substantial shareholders or major customers may adversely affect our Share price and will in turn affect our brand image and the sales of our products. In such event, our business and financial performance will be adversely affected.

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

##### **4.1.8 We are dependent on the quality, prices and timely supply of the raw materials for our products**

Leather, nylon, fabrics, rubber and EVA shoe soles, are the principal raw materials used in the production of our products. Substantially all of our raw materials are sourced from PRC suppliers, with a relatively small portion from the international markets and we do not enter into long-term contracts with any of our raw material suppliers. Our footwear manufacturing operations depend on obtaining adequate supplies of footwear materials on a timely basis. We can give no assurance that our suppliers will continue to maintain the quality of the raw material supplied to us or continue to supply raw materials to us on a timely basis. In such event, our production may be disrupted and therefore, our order delivery may be adversely affected. In addition, market prices for our raw materials are subject to fluctuation and may be dependent on the prices of commodities. Our Group neither hedges our exposure to the fluctuations in commodity prices nor enters into any long-term contracts with our suppliers. Our total cost of materials of our products accounted for 79.2%, 83.8%, 82.2% and 83.3% of the cost of sales in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Our financial performance will be adversely affected if we are unable to pass on the increased cost of raw materials to our customers by selling our products at higher prices.

##### **4.1.9 We are dependent on our major customers**

Sales to our major customers including Xiamen Waitu Import-Export Co., Ltd and Qingdao Double Star Celebrity Industrial Co., Ltd accounted in aggregate for 40.4%, 30.0%, 19.4% and 15.8% of our Group's revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Please refer to the Section 6.11 of this Prospectus for further details. We have not entered into any long-term contracts with any of our major customers. Our ability to retain these major customers is important to the continued success of our Group. There is however no assurance that these customers will continue to purchase our products at current levels in the future. There is also no assurance that we will be able to decrease our dependence on these major customers over time. In the event that these major customers cease or reduce significantly their purchase of our products and we are unable to obtain substitute orders of comparable sizes from other existing or new customers, there will be a material adverse impact on our business and financial performance.

##### **4.1.10 Loss of our Executive Chairman and CEO, Ding Jianping and the management team or any failure to attract similarly qualified personnel in the future will adversely impact our business and growth prospects**

Notwithstanding that Chan Kai Fly is the largest shareholder of K-Star via K-Star International, the main driver for the growth and development of K-Star is Ding Jianping. As such, we believe that the success of our business depends to a significant extent on the continued services of our Promoter, Executive Chairman and CEO, Ding Jianping who is spearheading the growth and development of our Group. Notwithstanding that Ding Jianping has entered into service agreements with our Company for a period of three years, there is no assurance that we will be successful in retaining him or hiring qualified management personnel to replace him should such a need arise.

Our success also depends heavily on our ability to attract, retain and motivate key employees, including senior managerial, design and technical personnel. There is high demand for such qualified and experienced personnel and the search for personnel with the relevant skills set and experience can be time consuming. In addition, we may need to offer higher compensation and other benefits in order to attract and retain such key management personnel. As such, the loss of our key management personnel without suitable and timely replacements will lead to a material adverse impact on our business and financial performance. Even if we manage to replace them, we may still suffer loss of business network and key customers/suppliers/distributors relationships.

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

We believe that our continued and future success is therefore dependent to a large extent on our ability to retain our key management personnel who are responsible for formulating and implementing our business strategies, business development and daily management and operations. For further details on the qualifications of our management team, please refer to the Section 11 of this Prospectus.

##### **4.1.11 We face possible infringements of our intellectual property rights such as the counterfeiting of our Proprietary Brands in the market**

Our primary intellectual property rights include our Proprietary Brands, which we have registered in the PRC. For further details, please refer to the Section 6.13 of this Prospectus. We consider the recognition of our trademarks to be vital in the sale of our products. Any unauthorised use of our trademarks may damage the brand recognition and reputation of our Group. Although we have registered our trademarks, it may be possible for third parties to unlawfully pass off their products as ours or to infringe our copyright in the design and/or manufacture of their products. We depend to a significant extent on PRC laws for the protection of our intellectual property rights. In the event that third parties infringe upon our intellectual property rights in respect of our trademark by unlawfully passing off their products as our products, imitating or using our trademarks without authorisation from us, we may face considerable difficulties and costly litigation in order to fully protect these intellectual property rights, which may affect our reputation, sales and financial performance.

##### **4.1.12 We may be subject to claims for infringement of third parties intellectual property rights**

As at the Latest Practicable Date, we are not aware of any violations or infringements of intellectual property rights of third parties by our Group. Nevertheless, we cannot give any assurance that our products do not and will not infringe other registered trademarks or intellectual property rights belonging to third parties in the future, with such risk increasing as we continue to expand and diversify our product mix. As such, we may be subject to legal proceedings and claims relating to such alleged infringement. In the event of any claims or litigation involving alleged infringement of the intellectual property rights of third parties, whether with or without merit, it could result in a diversion of our management time and resources and our business operations may be materially and adversely affected. In the event of a successful claim against us arising out of such proceedings, we may be subject to substantial monetary liability which may materially affect our reputation and the continued sale of the affected products and consequently, our business and financial performance.

##### **4.1.13 Retailers of our Proprietary Brands products face increasing competition for retail locations and space**

In recent years, retailers of our Proprietary Brands products have faced increasing competition for suitable retail locations and space for Dining Specialty Stores and other retail locations respectively to merchandise and sell our Proprietary Brands products. Such competition is expected to continue into the future. As such, such retailers could incur more costs (for example, in paying higher rental costs to secure preferred locations) or unable to find commercially optimal locations to sell its products. In such events, the business and financial performance of these retailers will be affected, which will in turn, affect the business and financial performance of our Authorised Regional Dealers and/or our Group.



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

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

We maintain certain insurance coverage such as property insurance for our factories, machinery, fixed assets and inventory, motor vehicle insurance for our motor vehicles and social insurance coverage for our employees. However, we currently do not maintain any insurance policies against product liability claims and PRC does not have consequential loss insurance. We may be subject to claims from consumers alleging injuries or other negative side effects from the use of our products. In the event that we are faced with any significant product liability claims or any other form of adverse event where we have insufficient insurance coverage, our business and financial performance may be materially and adversely affected. Our Directors are of the view that after taking into account the limited types of insurance coverage that are currently available in the PRC and our knowledge of the sports footwear in the PRC, our current insurance policies are in line with the general practice in the industry. There has been no material litigation brought against our Group in relation to product claims in the last four financial years from FYE 2006 to FYE 2009. In addition, our production processes are ISO9001:2000 certified, hence we believe that our quality assurance system is adequate to ensure our products comply with the necessary hygiene and safety requirements.

##### **4.1.15 Our business operations may face significant disruptions**

Our production processes are semi-automated. As such, our production processes may be interrupted by system disruptions arising from disruption of electricity supply or machinery breakdown. Such disruptions may cause production downtime and delay in the delivery of products to our customers. In addition, floods, natural disasters and other calamities or emergencies such as breakout of fire and other crises may also disrupt or cause a cessation in production at our production facilities, and can result in significant damage to our inventory and our production facilities. In the event that we experience any major system disruptions or any major machine breakdown, floods, natural disasters, fire breakouts, energy crisis and any other emergency risk which significantly disrupt our business operations, our businesses and financial performance will be materially and adversely affected.

##### **4.1.16 Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations**

Our ability to meet the demand of, and our contractual obligations with, our distributors and our ability to grow our business are heavily dependent on efficient, proper and uninterrupted operations at our facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters such as hurricanes, fire or earthquakes would severely affect our ability to continue our operations. We currently do not carry any business interruption insurance. No assurance can be given that our insurance coverage would be adequate to compensate us for the actual cost of replacing such buildings, equipment and infrastructure nor can we assure you that such events would not have a material adverse effect on our business, financial condition and results of operations and prospects.

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

##### 4.1.17 We are dependent on third-party authorised regional dealers and third-party retailers over whom we have limited control for promotion and the retail prices of our Proprietary Brands' products

We rely on our distributors and third-party retailers over whom we have limited control to promote and distribute our products. As we rely on and will continue to rely on our distributors as well as their network of third-party retailers for substantially all of our sales, our future success is dependent on the growth of our distributors and their ability to grow their network of retailers.

Further, our Regional Authorised Dealers are generally given exclusivity in dealership in their respective territories. Save for our authorised dealers in Shenyang who is in charge of distribution in Liaoning and Jilin provinces and in Beijing who is in charge of Beijing City, Inner Mongolia and Hebei provinces, we mainly rely on one distributor for each relevant province in PRC to distribute our Proprietary Brands products. The distributorship agreement is renewable on a yearly basis whereby we have the right to terminate the aforesaid distributorship agreement if there is a breach of any material terms contained therein. If any of them terminates or does not renew its distributorship agreement with us, we may not be able to replace it with a new distributor in a timely manner, or the replacement distributor(s) may not be able to manage the same network of third-party retailers or a network of third-party retailers of similar scale. As a result, our business, financial condition and results of operations may be materially and adversely affected.

As we rely on third-party retailers over whom we only have limited direct control and with whom we do not have direct contractual relationships, our ability to ensure their adherence to our retail policies, which cover, among other operational requirements, exclusivity, customer service, store image and pricing, is limited. There is no assurance that current arrangements for controlling quality, operations and pricing at the retail level are sufficient to ensure the success of, or to prevent negative market opinion about, our brands. While we sell our Proprietary Brands products to all of our distributors at a fixed discount to the suggested retail prices, we have no control over our distributors and third-party retailers regarding sales of our Proprietary Brands products to end customers at a discount to the suggested retail prices. There is no assurance that our distributors and the third-party retailers will not aggressively discount the sales price of our branded products to end consumers in order to reduce their inventory levels or for other reasons. Further, material deviations from our policies by a substantial number of third-party retailers, or aggressive discounting of the sales prices of our Proprietary Brands products by our distributors or third-party retailers could result in, among others, erosion of goodwill, decrease in the market value of our brands and an unfavourable public perception about the quality of our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our recourse in the event of a deviation or breach is generally limited to payment of fines by the relevant distributor or termination of the distributorship agreement with the relevant distributor.

##### 4.1.18 We are reliant on our contract manufacturers

We outsource part of our footwear production to external third party contract manufacturers. Revenue generated from products produced by contract manufacturers accounted for approximately 15.9%, 15.5%, 44.5% and 42.6% of our revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Notwithstanding that we exercise careful consideration in identifying our contract manufacturers based on their number of years of shoe manufacturing experiences. In general, our contract manufacturers must have at least 5 years of shoe manufacturing experience with appropriate production facilities. We would inspect their production facilities and conduct quality test on their finished products prior to awarding them the outsourcing contract.

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

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Notwithstanding that, we exercise careful consideration in identifying our contract manufacturers, they may be unable to deliver the required products to us on time or at all or in accordance with the quality required. Therefore, we may not be able to fulfill our orders with our customers on time or in accordance with their delivery requirements. In such event, our business and financial performance may be materially and adversely affected. As at the Latest Practicable Date and to our best knowledge, we are not aware of any events where our products are returned due to defects.

##### 4.1.19 Selling prices of our products are subject to changes which may be beyond our control

We have limited control over the prices at which our customers sell our products as prices are driven mainly by economic factors such as demand and supply. We do not enter into any agreements with our distributors which provide for a minimum selling price by the distributors of our products. For instance, under our current business model, we sell most of our products to distributors rather than directly to consumers or retailers. Using this model, the selling prices of our products are generally lower than the selling prices of those sold directly to consumers or retailers despite having a more extensive distribution network which is intended to generate higher sales. Should the selling prices of our products decrease or if we are unable to maintain the prices of our products at desired levels, our growth targets, and our business, financial condition, and results of operations may be negatively affected.

Notwithstanding that, we provide regular training on our product pricing strategy to our distributors during the trade sales which will be conducted in the months of May and October every year. We would also invite our distributors to attend training sessions which are held every quarter in order to familiarise them with our sales policies and procedures inclusive that of our fixed price policy. In addition, our sales and marketing personnel will conduct periodic on-site inspections to ensure that our distributors comply with our policies and procedures.

##### 4.1.20 Overseas countries where our products are sold in may impose import restrictions on our products

Overseas sales of our Proprietary Brands and OEM/ODM products contributed approximately 36.3%, 18.6%, 29.1% and 26.7% of our revenue for FYE 2006 to FYE 2009, respectively. As at the Latest Practicable Date, we are not aware of any import restrictions on our products in those overseas countries where our products are sold. However, there is no assurance that the relevant government authorities will not impose such import restrictions in the future. In such an event, our business, financial condition and operating results may be adversely affected.

##### 4.1.21 We are exposed to credit risks of our customers

We generally grant our customers credit terms of 90 days for PRC sales and 60 days for the export market. We are subject to credit risks of our customers which may arise from events and circumstances beyond our control or events which are difficult to anticipate or detect, such as economic downturn or deterioration. Although there has not been any bad debt or material collection problem for trade receivables during the FYE 2006 to FYE 2009, there is no assurance that we will not encounter bad debt problems in the future. In the event of delay or default in payments by our customers, we will have to make provisions for doubtful debts or incur bad debts write-offs, which may adversely affect our financial performance. Please refer to the Section 7.4.10 of this Prospectus for more details.

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

##### 4.1.22 Terrorist attacks, armed conflicts, and/or outbreak of communicable diseases, may affect the markets in which we operate and our financial performance

The effects of terrorist attacks such as those that occurred in Indonesia and Spain or armed conflicts may negatively affect our operations and your investment. They may directly impact our physical facilities or those of our suppliers or customers. Such terrorist attacks or armed conflicts could have an adverse impact on the demand for our products, our supply chain, our production capacity and our ability to deliver our products to our customers in a timely and cost-effective manner, which in turn could have a material adverse impact on our business and financial performance. Political and economic instability in some regions of the world may also result from such terrorist attacks and armed conflicts and could negatively impact our business and financial performance. The consequences of any of these terrorist attacks or armed conflicts are unpredictable, and we are not able to foresee such events that could have an adverse effect on our business and financial performance.

The outbreak of Severe Acute Respiratory Syndrome ("SARS"), avian influenza, commonly known as bird flu, influenza A(H1N1) and/or other communicable diseases could have an adverse effect on business sentiments and environment, which may in turn have an adverse impact on our business and financial performance. In addition, if any of our employees are affected by SARS, influenza A(H1N1) and/or other outbreaks of communicable diseases, it could adversely affect and/or disrupt our manufacturing activities and impact our business and financial performance.

##### 4.1.23 Our business activities are subject to certain laws and regulations

The conduct of our business and the manufacture of our products at our production facilities in the PRC are subject to applicable laws and regulations. Please see Appendix C on "Summary of PRC Relevant Laws and Regulations" of this Prospectus for a summary of the material laws and regulations that apply to our Group. Any breach or non-compliance by us with the laws and regulations to which we are subject may lead to the termination, withdrawal or suspension of some or all of our business activities or penalties being imposed on us. The occurrence of any of these events may adversely affect our business and financial performance.

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

We intend to expand our business by, inter alia, expanding our production capacities and facilities, our market presence and distribution network in existing as well as new markets. Please refer to Section 5.10 of this Prospectus for further details.

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

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

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

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

We believe that achieving economies of scale can yield competitive advantages, such as the ability to negotiate better prices for raw materials and to leverage existing administrative and other fixed costs. Greater scale in production and improvements in production processes can result in a lower cost structure that may make us more competitive in our industry. As a result, we seek to expand production capacity and improve production efficiencies through our research and development efforts. We plan to increase our production capacity from approximately 4 million to approximately 6 million pairs of shoes per annum by establishing a new production facility. We also plan to enhance production efficiencies of our existing production facilities and production lines by introducing advanced facility design. If we are unsuccessful in expanding our production facilities or improving our existing production processes, we may become less competitive, and our business and financial performance may be materially and adversely affected. There are a number of factors that could delay these expansion projects or increase the costs of building and installing the necessary equipment for these and future production facilities in accordance with our plans. Such factors include, but are not limited to, unexpected increases in equipment and construction material costs, delays, shortages and late delivery of quality building materials and manufacturing equipment, seasonal factors, such as a long and intensive typhoon season that limits productive construction time, labour disputes with our employees or a labour dispute, work stoppage or slowdown at any of our service providers, such as raw material or equipment providers, or at construction or engineering firms engaged in the build-out of our production facilities, design or construction changes with respect to building spaces or equipment layout, delays in securing the necessary governmental approvals, and changes in technologies, capacity and other changes to our plans for new facilities necessitated by changes in market conditions or customer demands.

As a result of any of the above factors, our projections relating to production capacity, process technology capabilities or technology developments may significantly differ from actual production capacity, process technology capabilities or technology developments. In addition, delays in the construction or expansion of our production facilities could result in the loss or delay in receipt of revenues, may cause us to breach the material terms of our contracts with our distributors, and/or cause an increase in financing costs, any of which could materially and adversely affect our business, financial performance and results of operations and prospects.

##### **4.1.26 We have not obtained land-use-right and property ownership certificates for some of our production facilities**

As at the Latest Practicable Date, we have not obtained the land-use-right certificates and property ownership certificates for two plots of land located in Jiangtou Village, Chendai town, Jinjiang City, Fujian Province, PRC, one of which lies within Factory A of Fujian Dixing with an approximate land area of 2,581 sq m ("Factory A Land") and the other with an approximate land area of 3,100 sq m where Fujian Dixing's Factory B was erected ("Factory B Land").

The Factory A Land is an adjoining land to the premises which are legally owned by Fujian Dixing and is currently used for our production operations and accommodation, comprising mainly of a nine storey factory building, housing two of our production lines and catering for approximately 55% of our production capacity (excluding sub-contracts). The Factory B Land is presently used for our production operations and accommodation, comprising a two storey factory building and a dormitory, housing one of our production lines and catering for approximately 20% of our production capacity (excluding sub-contracts).

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

Vide its certificate dated 10 August 2009 the Jinjiang State-owned Land Resource Bureau confirmed that there are no legal obstacles to complete the procedures for the issuance of land-use-right certificates for Factory A Land and Factory B Land. In addition, the Jinjiang Planning Construction and Real Property Administration Bureau (晋江市规划建设与房产管理局) had on 10 August 2009 certified that upon issuance of the respective land-use-right certificates, there are no legal obstacles for Fujian Dixing to obtain the property ownership certificates for the properties located on Factory A Land and Factory B Land respectively. In addition, the Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭镇江头回族村民委员会) had via its letters dated 11 August 2009 confirmed that Fujian Dixing has paid the compensation for the use of the Factory A Land and Factory B Land respectively, and consequently, the Villagers Committee agrees to allow Fujian Dixing apply for the respective land-use-right certificates. Our PRC legal adviser, Grandall Legal Group (Guangzhou) had via its legal opinion dated 24 September 2009 opined that based on the aforementioned certificates, (1) Fujian Dixing has the right to occupy and/or use the Factory A Land and Factory B Land as well as the buildings thereon; (2) there should be no legal obstacle for Fujian Dixing to obtain the relevant land-use-right certificates after completion of the land transfer procedures processed by the government authorities; and (3) upon issuance of the relevant land-use-right certificates, Fujian Dixing may apply to relevant government authorities for property ownership certificates and there should be no legal obstacles for Fujian Dixing to obtain relevant property ownership certificates after going through the government procedures for issuance of property ownership certificates.

We are in the process of applying for the land-use-right certificates and property ownership certificates for the Factory A Land and the Factory B Land. In the event that we fail to obtain the relevant land-use-right and property ownership certificates, our rights to use or occupy the relevant land and buildings may be challenged. If we are ordered by the relevant PRC authorities to vacate the land and demolish the buildings, we will have to vacate these properties and relocate the production lines presently installed at the properties. In which event, our operations and financial performance may be adversely affected. However, our Directors are of the view that since the remaining adjoining buildings forming part of Factory A is legally owned and coupled with the relevant letters abovementioned, the chances of this materialising is minimal.

#### 4.2 RISKS RELATING TO OUR BUSINESS IN THE PRC

##### 4.2.1 Our operating results and financial conditions are highly susceptible to changes in PRC's political, economic and social conditions as major part of our revenue is currently derived from our operations in PRC

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

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

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

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

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

##### New rules on mergers and acquisitions of domestic enterprise by foreign investors

On 8 August 2006, the MOC, CSRC, SAFE and three other PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors ("New M&A Rules"), which came into effect on 8 September 2006. Essentially, the New M&A Rules will apply to mergers and acquisitions of domestic investment enterprises by foreign investors. With respect to the transfer of equity interests in foreign-invested enterprises ("FIE") (which includes Sino-foreign equity joint venture enterprises ("EJV"), Sino-foreign cooperative joint venture enterprises ("CJV"), and WFOEs) under PRC law, the generally applicable regulations are the Regulations on the Change of Ownership of Foreign-Invested Enterprises (外商投资企业投资者股权变更的若干规定) ("FIE Equity Change Regulations"), which was jointly promulgated by the State Administration for Industry and Commerce ("SAIC") and the former Ministry of Foreign Trade and Economic Cooperation on 28 May 1997. The New M&A Rules will apply where there are no applicable stipulations in the FIEs Equity Change Regulations relating to the transfer of equity interests in FIEs.

Grandall Legal Group (Guangzhou), our legal advisers on PRC law, has, for the purpose of this Prospectus, advised on 16 September 2009 that our Group and our controlling shareholders have obtained all necessary government approvals required from the PRC authorities under the relevant PRC laws and regulations, and that our Group and our controlling shareholders are not required to obtain further approvals from the PRC authorities (including but not limited to that of CSRC, MOC and SAFE), for the Acquisitions, the restructuring exercise and the proposed listing by the Company on Bursa Malaysia. However, there is no assurance that the PRC authorities will not issue further directives, regulations, clarifications or implementation rules, which may require us to obtain further approvals with respect to our restructuring exercise and proposed listing on Bursa Malaysia.

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

##### Impact of new enterprise income tax law

On 16 March 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of PRC ("New EIT law"), which took effect as of 1 January 2008. In accordance with the New EIT law, a unified enterprise income tax rate of 25% and unified tax deduction standards are applied equally to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to 16 March 2007 shall continue to be eligible for preferential tax treatment in accordance with the original tax laws and administrative regulations. However, under the regulations of the State Council, such enterprises shall gradually become subject to the new tax rate over a five-year transition period starting from 1 January 2008, the effective date of the New EIT law.

The effective income tax rate for our PRC subsidiary, Fujian Dixing for FYE 2006 and FYE 2007 is 27%. As the New EIT law came into effect on 1 January 2008, Jinjiang Dixing has thereafter been subject to 25% enterprise income tax rate.

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

Besides, capital gains realised by shareholders from sales of shares and dividends payable on shares in the PRC are subject to PRC income tax. As such, if we are required under the New EIT Law to withhold PRC income tax on capital gains on sales of shares in the PRC and/or dividends on shares in the PRC payable to shareholders, the value of our shareholders' investment in our Shares may be materially and adversely affected.

##### **4.2.3 Restrictions on dividends / payments from our subsidiary**

Our Company is an investment holding company, and our main source of income is dividends derived from Fujian Dixing, our operating subsidiary which is established in PRC.

If our subsidiary incur debt or losses, such indebtedness or loss may impair its ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions to our shareholders will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require FIEs to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiary may enter into in the future may also restrict the ability of our subsidiary to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions and any other legal or regulatory restrictions on the availability and usage of our major source of income may materially impact our ability to pay dividends or other distributions to our shareholders.

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

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

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

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

As at the Latest Practicable Date, we have 1,063 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely, the Labour Contract Law of the PRC ("New Labour Law") which became effective on 1 January 2008. The New Labour Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce; requiring new actions to be taken by employers to ensure the welfare of their employees are protected, by no means exhaustive, this includes, employers to provide written contracts to their workers, restricts the use of temporary labourers and makes it harder to lay off employees. Further, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected.

Under the "Interim Regulation on the Collection and Payment of Social Insurance Premiums" (社会保险费征缴暂行条例), "Regulation on Labour Injury Insurance" (工伤保险条例) and some local regulations on the maternity insurance, we are required to make relevant contributions for the benefit of our employees. In the effort to comply with these regulations, our Company has been practicing social insurance coverage for our employees which includes basic pension insurance, unemployment insurance, medical care insurance and industrial accident insurance.

There are no assurances that the PRC Government will not make any further amendments to the Labour Law and the insurance coverage issues which may affect our financial result. Nevertheless, our Management is confident that they will in their power, comply with any amendments promulgated by the PRC Government in the future and not to evade legislation.

##### **4.2.6 Foreign exchange control in the PRC may affect the repatriation of funds from our PRC subsidiary**

Our PRC subsidiary is subject to the rules and regulations imposed by the PRC government on currency conversion. In the PRC, the SAFE regulates the conversion of RMB into foreign currencies, and vice versa. Currently, foreign investment enterprises (the "FIEs") are required to apply to SAFE for "Foreign Exchange Registration Certificate for Foreign Investment Enterprise". Such registration certificates are renewable annually and allow FIEs to open foreign currency accounts for the payment of:

- (a) recurring items, including the distribution of dividends and profits to foreign investors of FIEs upon presentation of board resolutions which authorise the distribution of profits or dividends ("Current Account"); and

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

- (b) capital items, such as repatriation of capital, repayment of loans and for securities investment ("Capital Account").

Currency transactions within the scope of the "Current Account" can be effected without requiring the approval of SAFE, while the conversion of currency in the "Capital Account" still requires the approval of SAFE.

There is no assurance that PRC's regulatory authorities will not impose restrictions on the convertibility of RMB for FIEs. As most of our sales are denominated in RMB, any future restrictions on currency exchanges may limit our ability to utilise funds generated in PRC to fund any potential business activities outside PRC, and / or to distribute dividends to our Shareholders. Kindly refer to Appendix E of this Prospectus for further details on PRC's foreign exchange controls that are applicable to us.

##### 4.2.7 **Fluctuations in foreign exchange rates may materially affect our financial condition and results of operations**

The value of the RMB against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under previous unified floating exchange rate system, the conversion of RMB into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People's Bank of China ("PBOC"), which has generally been stable. However, the PRC Government reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 23 September 2006, the PRC Government widened the daily trading band for RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

There has been pressure from foreign countries on the PRC recently to adopt a more flexible currency system that could lead to further appreciation of the RMB. The RMB may be revalued further against the US dollar or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the RMB against the US dollar or other currencies. It is uncertain if the exchange rates of Hong Kong and US dollars against RMB will further fluctuate. Any appreciation of the RMB may subject us to increased competition from imported sportswear products. Also, since our revenues and profits are denominated in RMB, any depreciation of RMB would materially and adversely affect our financial position and the value of any dividends payable on, our Shares in foreign currency terms, as well as our ability to service our foreign currency obligations.

##### 4.2.8 **We are exposed to environmental liability. Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in PRC may cause us to incur additional capital expenditures**

Our business operation in the PRC is subject to the environmental laws and regulations issued by the PRC Government. These laws and regulations require enterprises engaged in manufacturing that may cause environmental wastes to adopt effective measures to control and properly dispose of industrial wastes. If failure to comply with such laws or regulations results in pollution, the administrative department for environmental protection can levy fines. Moreover, the PRC government has the discretion to cease or close any operation if the failure to comply with such laws or regulations is serious. There can also be no assurance that the PRC government will not change the existing laws or regulations or impose additional or stricter laws or regulations. Compliance with any of these additional or stricter laws or regulations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers through higher prices for our products.

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

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

Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, where all of our revenues have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy, where the PRC's nominal GDP was estimated by the National Bureau of Statistics to have grown at a compounded annual growth rate of approximately 17.1% from 2004 to 2008.

We can provide no assurance that the PRC will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our prospects and operating results.

#### **4.3 RISKS RELATING TO OUR COMPANY BEING INCORPORATED IN SINGAPORE**

##### **4.3.1 Difficulties when pursuing legal action in relation to the enforcement of Malaysian judgement against our Group or Management under a different law**

Our business operations as well as our assets are significantly located in the PRC, outside of Malaysia. Our Management team comprise non-residents of Malaysia and whose substantial assets are located outside Malaysia.

Any enforcement of Malaysian judgement against our Group or Management, or the enforcement of a Malaysian judgement against the assets of our Group or Management, by our shareholders, may be difficult in effecting services of process. Furthermore, the Act may provide Malaysian shareholders of certain companies rights and protection for which there may be no corresponding or similar provisions under PRC laws and regulations.

##### **4.3.2 Malaysia and Singapore laws including the different take-over codes may affect of the regulation of our Company**

As we are a Singapore incorporated company, we are subject to the Singapore Companies Act and Singapore Code on Take-overs and Mergers ("Singapore Code"). The Singapore Companies Act has different provisions compared to the Malaysia Companies Act. The Singapore Code is non-statutory in that it does not have the force of law. Further, Section 139(8) of the Securities and Futures Act of Singapore provides that failure of any party concerned in a take-over offer or a matter connected therewith to observe any of the provisions of the Singapore Code shall not of itself render that party liable to criminal proceedings. Therefore, failure of any party to observe any of the provisions of the Singapore Code may, in any civil or criminal proceedings, be relied upon by any party to the proceedings as tending to establish or to negate any liability which is in question in the proceedings.

In view of our Listing, we have adopted the provisions of Division 2 of Part VI of the CMSA (excluding Section 222 to Section 225) and the Malaysian Code on Take-overs and Mergers 1998 ("Malaysian Code"). We have also incorporated provisions in our Articles of Association which is reflective of the Malaysia Companies Act wherever possible and to the extent that such differences in the laws of the two jurisdictions may affect the investors' rights from the Malaysian perspective. Please refer to Appendix B of this Prospectus for the summary of the key differences of the relevant laws.

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

With the adoption of the Malaysian Code, the Securities Industry Council, Singapore ("SIC") had granted us a waiver on the applicability of the Singapore Code subject to the following:

- (a) that we are to state clearly in this Prospectus that our Company is subject to the Malaysian Code and not the Singapore Code;
- (b) that our Company remains listed in Malaysia; and
- (c) that our Company consults SIC on the application of the Singapore Code if it should seek a listing in Singapore.

It is our intention to comply with the above conditions. Article 153 of our Articles of Association provides that for so long as the shares of the Company are listed on Bursa Securities, the provisions of Division 2 of Part VI of the CMSA (excluding Section 222 to Section 225) and the Malaysian Code or their respective statutory modification or re-enactment or successor for the time being in force shall apply, *mutatis mutandis*, to all take-over offers for the Company. If the waiver is revoked for whatsoever reason, we may be subject to the Singapore Code by virtue of our status of incorporation under Singapore laws, as well as the Malaysian Code, by virtue of the provisions in our Articles of Association. In this regards, our Articles of Association provides that the stricter of the parallel provisions of the two codes will apply.

Our changes in the Articles of Association which are different from the Singapore Companies Act will mean that we would have to comply with the more onerous rules and be subject to more regulatory authority(ies). In this connection, additional costs, time and resources could possibly be incurred.

Further, despite our adoption of the Malaysian Code, our Company remains subject to and governed by the Singapore Companies Act in relation to compulsory acquisition of our Shares. Therefore any compulsory acquisition of our Shares will be carried out in accordance to the provisions of the Singapore Companies Act. However, our Company will conduct itself in line with and abide by the best practices provided for under Section 222 to Section 225 of the CMSA in the interest and for the protection of our minority shareholders in the event of a compulsory acquisition of our Shares.

##### 4.3.3 Depositors as Shareholders

Under the Singapore Companies Act, only those persons whose names are entered in the register of the company are members with rights to attend and vote at general meetings. Being listed on Bursa Securities, our Shares will be deposited with Bursa Depository as deposited securities and the share certificate in respect of any deposited security shall be issued in the name of, and delivered to Bursa Depository or its nominee. No share certificate will be issued to the Depositor. Hence Bursa Depository or its nominee shall be the only registered member of our Company.

Although the Singapore Companies Act recognises the Singapore depository as a member, it is silent as to whether depositories of other jurisdictions are recognised. Therefore where our Shares are deposited with Bursa Depository or its nominee, the Singapore Companies Act does not have any express provision which deem (a) Bursa Depository or its nominee not to be a member of the company; or (b) Depositors listed in the Record of Depositors as members. In this regards, there is a risk that the Depositor may not be recognised as a member of our Company and hence may not be able to rely on the relevant provisions relating to members in the Singapore Companies Act.

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

We have provided in our Articles that where our Shares are deposited with Bursa Depository or its nominee, Bursa Depository or its nominee (as the case may be) shall be a bare trustee and be deemed not to be a member of the Company. In addition, the Depositors are recognised as members of our Company by virtue of their names being listed on the Record of Depositors and therefore are accorded full rights of membership with voting rights, rights of appointment of proxies and notices. Investors are advised to take note that the legal applicability of these provisions has not been legally tested in the courts of either Singapore or Malaysia.

Depositors who wish to be a registered member and exercise their rights as shareholder of our Company have the right to withdraw their securities from Bursa Depository but should be aware of the disadvantages of doing so, mainly:

- (a) that the Depositor may not be able to succeed in his complaint if the acts and/or omissions were made during the period in which he was a Depositor and not a registered member per se; and
- (b) any securities withdrawn from Bursa Depository cannot be traded on Bursa Securities.

##### 4.3.4 Rights and protection accorded to our Shareholders

The Malaysian Companies Act provides the shareholders of Malaysian incorporated companies rights and protection of which there may be no corresponding or similar provisions under the Singapore Companies Act. Therefore, if you invest in our Shares, you may or may not be accorded the same level of shareholder rights and protection that a shareholder of a Malaysian incorporated company may be accorded under the Malaysian Companies Act.

In addition, the rights of our Shareholders and the fiduciary responsibilities of our Directors under Singapore law may not be as clearly established as it is under statutes or judicial precedent in Malaysia.

We have set out in Appendix B of this Prospectus a summary comparison of Singapore Companies law and Malaysian Companies law. Each of the summaries is not intended to be and does not constitute legal advice.

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

#### 4.4 RISKS RELATING TO INVESTMENT IN OUR SHARES

##### 4.4.1 Control by our existing controlling shareholder K-Star International may limit your ability to influence the outcome of decisions requiring the approval of shareholders

Upon the completion of the IPO, our controlling shareholder, K-Star International, will own approximately 58.40% of our enlarged share capital. As a result, K-Star International will be able to significantly influence all matters requiring approval by our shareholders. K-Star International will also have veto power with respect to any shareholders' action or approval requiring a majority vote except where K-Star International is required by the rules of the Bursa Securities LR to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group that could conflict with the interests of our public shareholders.

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

In the effort to promote good corporate governance, we have appointed Independent Directors and set up an audit committee, to ensure that, *inter-alia*, all future related party transactions are entered into on an arm's length basis to minimise any conflict of interest, and commercially viable which are not more favourable to our related parties than the third party, and not detrimental to our minority shareholders.

##### 4.4.2 New investors will incur immediate dilution and may experience further dilution

Our IPO Price of RM2.15 per Share is substantially higher than our NTA per Share of RM1.80 as at 31 December 2009 (based on the adjusted NTA as referred to in Section 3.10 of this Prospectus and as adjusted for the net proceeds from the IPO Shares). If we were liquidated immediately following this IPO, each investor subscribing to this IPO would receive less than the price paid for their Shares. Please refer to Section 3.10 of this Prospectus for further details.

##### 4.4.3 Future sale of our Shares could adversely affect our Share price

Any future sale or availability of our Shares can have a downward pressure on our share price. The sale of a significant amount of Shares in the public market after the IPO, or the perception that such sales may occur, could adversely affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. Except as otherwise described in Sections 12.2 and 12.3 of this Prospectus, there will be no restrictions imposed on our pre-IPO investors and Promoters to dispose of their shareholdings.

##### 4.4.4 Our Share price may be volatile and this may affect your investment in our Shares

The market price of our Shares may fluctuate significantly and rapidly in response to, *inter-alia*, the following factors, some of which are beyond our control:

- (i) change in analysts' recommendations and projections;
- (ii) variations in our operating results;
- (iii) differences between our actual financial operating results and those expected of by investors and securities analysts;
- (iv) changes in market valuations of similar companies;
- (v) announcements by our competitors or ourselves, of gain or loss of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- (vi) additions or departures of key personnel;
- (vii) broad market fluctuation including weakness of the equity market and increase in interest rates;
- (viii) any involvement in litigation;
- (ix) changes in political regimes and taxation regimes;
- (x) foreign exchange rates;
- (xi) increase in competition;
- (xii) success or failure and our manager in implementing business and growth strategies;  
or

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

- (xiii) changes in conditions affecting the industry, general economic and stock market conditions.

##### 4.4.5 Negative publicity may adversely affect our Share price

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

##### 4.4.6 No prior market for our Shares

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

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

##### 4.4.7 We may issue future securities for additional funding for our future growth which will result in a dilution to our shareholders

Secondary issue(s) of securities after the IPO may be necessary to raise the required capital to fund our growth capital. If new Shares placed to new and/or existing shareholders are issued after the Invitation, they may be priced at a discount to the then prevailing market price of our Shares trading on the Bursa Securities, in which case, existing shareholders' equity interest may be diluted. If we fail to utilise the new equity to generate a commensurate increase in earnings, our EPS will be diluted, and this could lead to a decline in our Share price. Any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

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## 5. INDUSTRY OVERVIEW

### 5.1 OVERVIEW OF PRC

The PRC is one of the largest and among the most heavily populated countries in the world. One of IMR's sources forecasts the country's population to rise to 1.41 billion by 2012.

Chinese cities are classified by a "tier-system" – there are four tiers. City tiers are basically defined by population size, the average income earned, and average Gross Domestic Product ("GDP") per capita. We note that there is, however, no official income range that can precisely determine the tier-classification of each city in the country.

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

#### *The Middle Class – an important target consumer group*

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

IMR's source reported that the PRC's middle class increased by 22.1% to 80 million in January 2007, from 65.50 million in January 2005. IMR's source expects this segment of middle class to increase to 700 million by 2020.

#### *Gravitation toward second-tier cities*

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

#### *Potential of the rural market*

Although the average disposable incomes of rural residents are lower than urban residents, the rural market has been an increasing influence on the PRC's overall consumption.

The rural population constitutes in excess of 50% of the PRC's total population, indicating a huge rural consumer base of more than 700 million. Steady income increases, coupled with tax reliefs and agricultural policies, have increased the purchasing power of the rural residents.

#### *Sports participation grows with increasing consumer affluence*

Increasing consumer affluence and the government's active encouragement for a greater level of sports participation in the PRC is assisting an increase in demand for sports. The recently concluded Beijing Olympics has also heightened the level of awareness of sports amongst the Chinese.

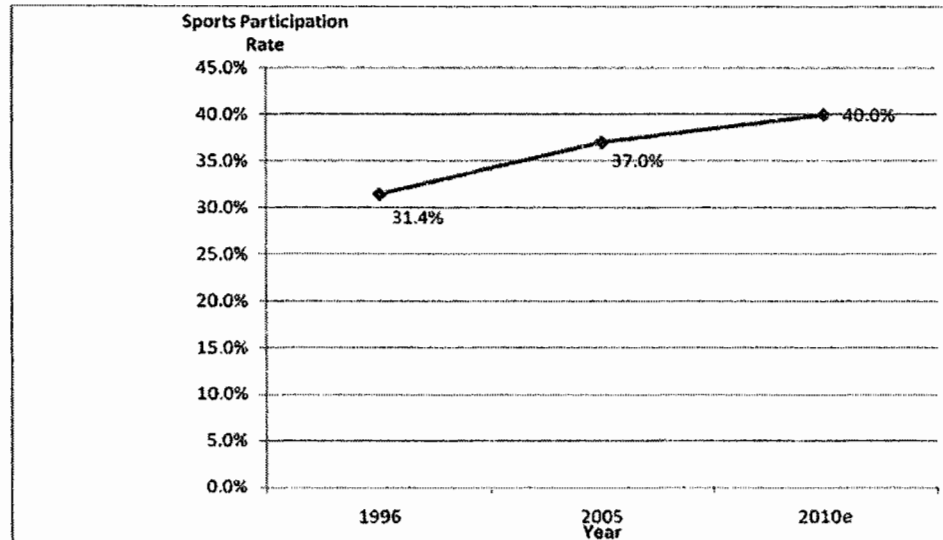
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## 5. INDUSTRY OVERVIEW (Cont'd)

According to one of IMR's sources, the PRC's sports participation rate rose by 6.6% from 1996 to 2005, estimating that more than 100 million Chinese participate in some form of sports. IMR's source expects the sports participation rate of the Chinese to grow, estimating it to reach 40% by 2010. Please see Figure 1 below:

**Figure 1: Sports Participation Rate of PRC**



Note:  
 e – estimated

(Source: IMR Report)

### 5.1.1 Historical and Forecast GDP Growth

The GDP of the PRC rose at a double-digit rate for the review period from 2004 to 2007. With the onset of the economic crisis, the PRC's GDP growth dipped from 13% to 8.7% in 2009. Please refer to Figure 2 below:

**Figure 2: Overview of the PRC's GDP performance from 2004 to 2009**

	2004	2005	2006	2007	2008	2009
<b>GDP (billion yuan)</b>	15,988	18,322	21,192	25,731	31,405	33,535
<b>GDP growth</b>	10.1%	10.4%	11.6%	13.0%	9.6%	8.7%
<b>GDP per capita (yuan)</b>	12,299	14,012	16,122	19,474	22,641	N.A.

From 2004 to 2009, the PRC's GDP has been growing at a Compound Annual Growth Rate ("CAGR") of 15.97% per annum.

#### *A result of fuelling domestic consumption*

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

## 5. INDUSTRY OVERVIEW (Cont'd)

### **Better-than-expected 2009 economic performance sets foundation for sustainable economic development in 2010**

The PRC's GDP growth in 2009 was an approximate 0.9%-point decline from that of 2008. Despite that, this annual expansion of 8.7% has exceeded the Chinese government's annual growth target of 8%. One of IMR's sources has attributed this better-than-expected economic performance to efforts by the Chinese government to deal with the global crisis. This includes the implementation of a proactive fiscal policy and moderately loose monetary policy, as well as the government's stimulus package to cope with the global financial crisis. 2009's GDP performance is said to provide a solid foundation for sustainable economic development.

Since November 2008, the Chinese government has adopted a series of stimulus measures. These include a RMB4-trillion stimulus package, tax cuts and consumer subsidies to support growth and employment.

In response to the deteriorating global economy, the PRC announced a RMB4 trillion (USD586 billion) fiscal stimulus package to boost the PRC's economy through domestic demand. Domestic demand would be boosted through loosened credit conditions, massive infrastructure spending program, tax cuts and employment growth. Considered highly aggressive among other countries, the PRC's fiscal package aims to shield the PRC's GDP growth from the global slowdown through 2010.

#### *About the PRC's stimulus package*

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

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

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

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

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

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

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

## 5. INDUSTRY OVERVIEW (Cont'd)

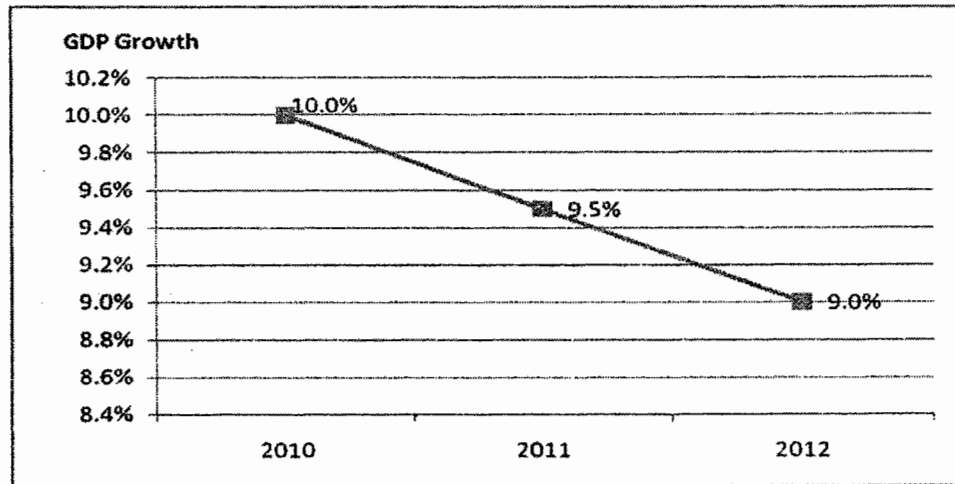
Of the first investment allocation of RMB100 billion, it is reported that RMB10 billion would be spent on housing projects for low-income families, RMB34 billion on rural infrastructure projects, RMB25 billion on large infrastructure projects such as railways, roads and airports, RMB13 billion on grassroots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

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

### *The PRC's GDP growth to rise before declining*

According to the latest forecast released by IMR's source, the PRC's GDP growth rate is forecast to rise to 10% in 2010. Thereafter, the PRC's GDP will ease gradually to reach 9% in 2012. Please see Figure 3 below.

**Figure 3: PRC's GDP growth forecast**



The PRC's economy is beginning to respond quickly to the economic stimulus package, which saw large injections of liquidity into the domestic economy since late 2008. This was a response to the wider global economic crisis, and reversed the deliberate slowing down of the economy by the Chinese government in 2007, which was meant to avoid overheating in the economy. The stimulus package has already helped to slow the decline in manufacturing growth of output and orders. The second half of 2009 is expected to see accelerated growth. Although there was talk of recession in the PRC, a recession would mean negative growth over at least three quarters, whereas the PRC has continued to see positive growth, and only a significant slowdown in that growth over the last quarter of 2008. Forecasts for the PRC's GDP vary widely, but IMR's source predicts that growth in GDP in the PRC will reach the 8% mark in 2009.

## 5. INDUSTRY OVERVIEW (Cont'd)

It was reported that the Chinese government would continue to tap into the domestic market for a stable and relatively rapid economic growth in 2010. The PRC would continue with its current policies, and strengthen those that boost consumption. Expansion of domestic consumption continues to be the highlight as the Chinese government expects the PRC's economy to continue to face many challenges in 2010. To promote domestic consumption, policies to subsidise rural households in their purchase of electric appliances and automobiles would see continuance. In addition, policies to reduce tax on passenger cars would persist, albeit an adjustment to 7.5% for models with engine displacements of less than 1.6 litres.

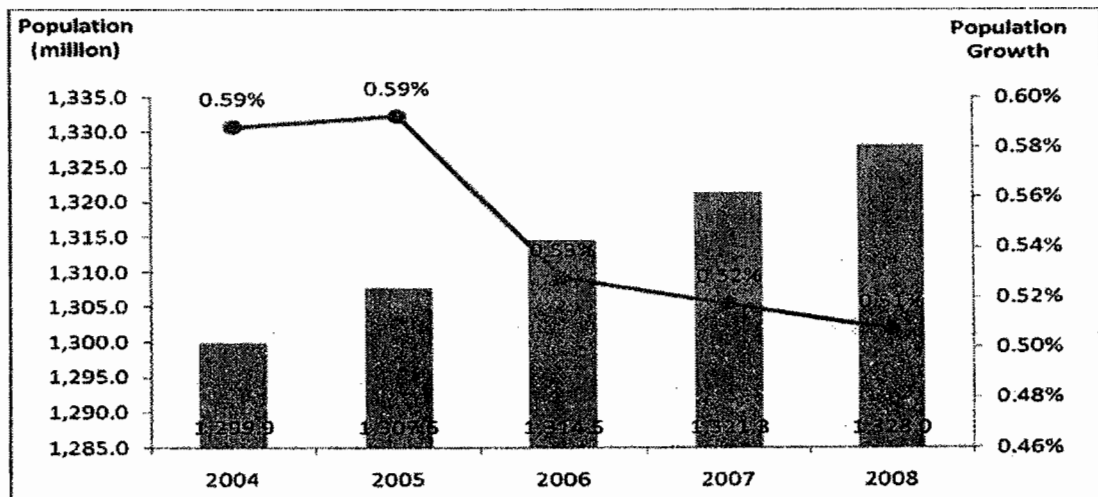
(Source: IMR Report)

### 5.1.2 Population

#### 5.1.2.1 Historical and Forecast Total Population and Growth Rate

The PRC is one of the most heavily populated countries in the world, with a total population of 1.33 billion in 2008. Population growth year-on-year for the PRC was approximately 0.6% for the period from 2004 to 2008. Please refer to the Figure 4 below.

Figure 4: Total Population in PRC (2004 to 2008)



Different industry players have derived different forecast figures of the PRC's population. IMR's source forecasted that the Chinese population would reach 1,408.7 million by 2012. Another of IMR's sources expected the Chinese population to reach 1,408.8 million by 2050. The average growth rate for the Chinese population is 0.6%.

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

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

- a) The government's enforcement of its One Child Policy (one single child per household);

**5. INDUSTRY OVERVIEW (Cont'd)**

- b) High population base due to the increase in life span from improved healthcare and living standards; and
- c) Young urban couples starting a family at a later stage of their lives, choosing first to enjoy a higher disposable income due to rising salaries.

(Source: IMR Report)

**5.1.2.2 Historical and Forecast Urban Population and Growth Rate**

*Urban population continues to expand*

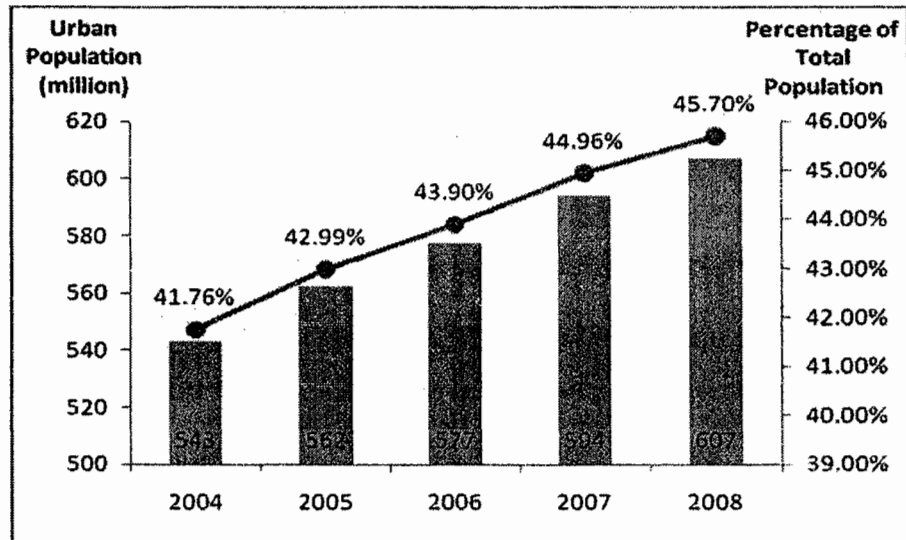
The urban population of the PRC continues to expand from large-scale migration from rural areas. The influx of population to urban cities from the rural areas can be attributed to the pursuit of better opportunities in employment (higher paying jobs or higher growth potential for businesses), education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

*Construction of smaller towns and cities fuels urbanisation*

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

From 2004 to 2008, the urban population in the PRC has been steadily increasing, accounting for above 40% of the entire population of the country. In 2008, urban population constituted 45.70%, up from 44.96% in 2007. Please refer to the Figure 5 below.

**Figure 5: Absolute and Relative Growth of Urban Population in the PRC (2004 to 2008)**



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

(Source: IMR Report)

5. INDUSTRY OVERVIEW (Cont'd)

5.1.2.3 Rural vs. urban population (historical and forecast)

Based on Figure 6 below, the proportion of rural population in the PRC, albeit declining, hovers above 50% from 2004 to 2008. The percentage of rural population against the total population decreased by 3.94% from 58.24% in 2004 to 54.30% in 2008. Despite the falling trend, note that the rural population base is still large, at 721 million in 2008.

Figure 6: Absolute and Relative Growth of Rural Population in the PRC (2004 to 2008)

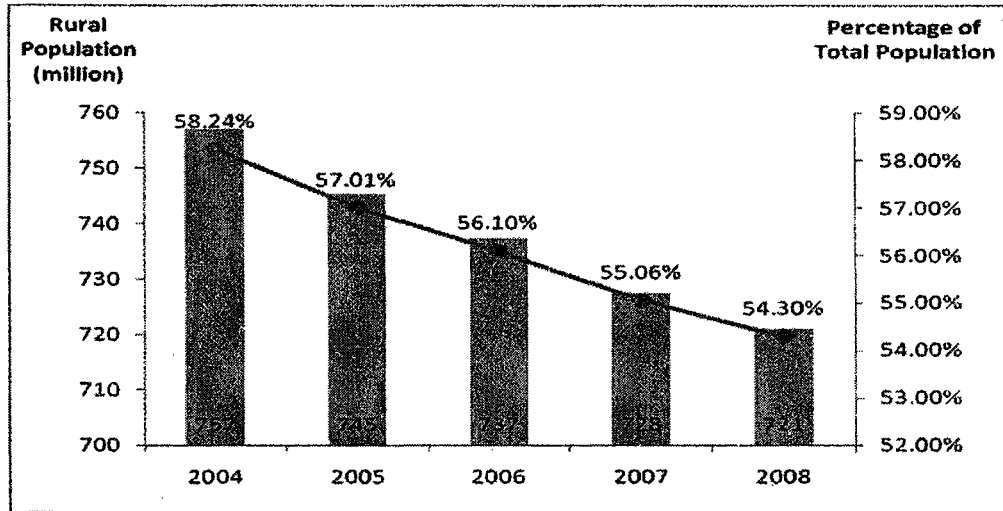
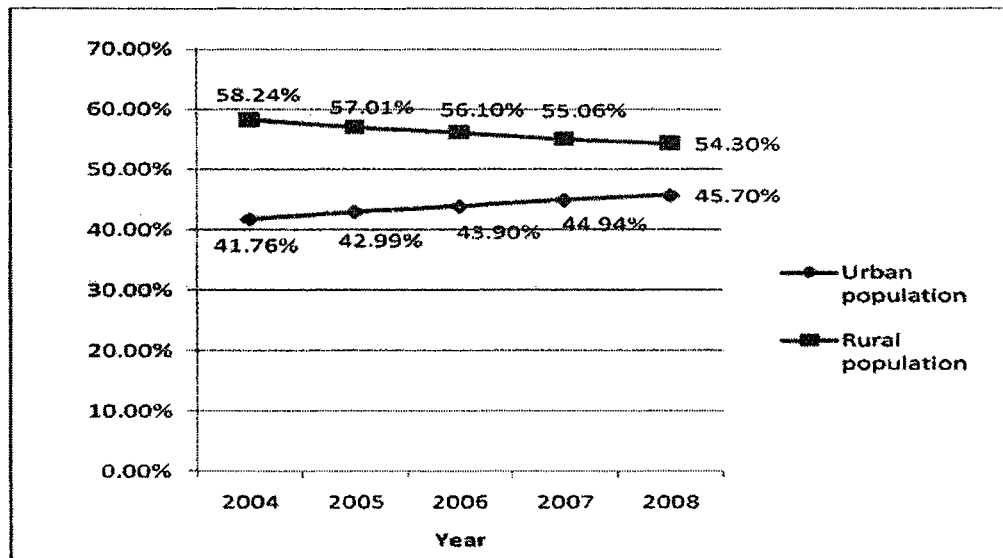


Figure 7 below shows the proportion of rural population following a declining trend from 2004 to 2008.

Figure 7: Proportion of Urban Population versus Rural Population



(Source: IMR Report)

## 5. INDUSTRY OVERVIEW (Cont'd)

### 5.1.2.4 Population breakdown by age and historical

#### Population of 15 to 39 years of Age

From 2003 to 2007, an average of 39.92% of the Chinese population fell under the age range of 15 to 39 years. Please refer to Figure 8 below.

Figure 8: Population of 15 to 39 years of Age

	2003	2004	2005	2006	2007
15 to 19 years old	104,716	109,259	1,443,484	105,023	98,916
20 to 24 years old	80,596	79,604	1,036,723	76,160	78,601
25 to 29 years old	93,892	88,490	1,110,290	74,110	76,755
30 to 34 years old	123,497	117,954	1,445,908	93,398	86,753
35 to 39 years old	123,252	122,574	1,651,487	113,952	115,391
<b>Total Sample Population</b>	1,260,498	1,253,065	16,985,766	1,192,666	1,188,739
<b>Percentage</b>	41.73%	41.33%	39.37%	38.79%	38.39%

Note: Figures for each year were derived from different sample size. Official data for the age segment, 15 to 39 years, for the year 2008, is not available as at the submission date of this report.

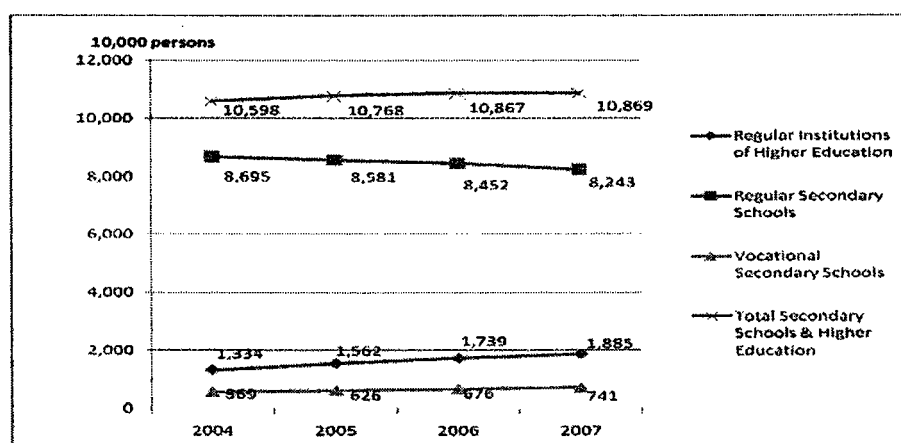
We, Converging Knowledge, note that data provided prior to 2003 does not have a breakdown of demographics by ages, which is relevant to this research.

The proportion of people under the age group of 15 to 39 years in the PRC fell to 38.39% in 2007, from 41.73% in 2003. This is primarily due to the one child policy, which impacts the lower age segment in the above-mentioned age group. Despite the declining trend, people within the ages from 15 to 39 form a significant group in the country, amounting to 511 million people.

#### Student Population – Secondary and Higher Education

The size of the PRC's student population in the secondary and higher education category grew approximately by 2.6% from 2004 to 2007. Although the percentage growth appears to be small, note that the total tertiary student population reached almost as high as 109 million in 2007. The numbers indicate that the tertiary student segment is sizeable in the PRC.

Figure 9: Student Population - Secondary and Higher Education



**5. INDUSTRY OVERVIEW (Cont'd)**

Figure 9 above also shows that higher education students (University and postgraduate) saw the highest percentage growth of 41.3% from 2004 to 2007, as compared to those in vocational secondary schools (30.2%) and regulatory secondary schools, which saw a decline of 5.2%.

The number of higher education students in the PRC is expected to rise even further. It is reported that there will be 6.1 million graduates in 2009, which is almost six times of the number in 2000. The number of university graduates in the country is further expected to rise to approximately 7 million in 2010, and 7.6 million in 2011.

(Source: IMR Report)

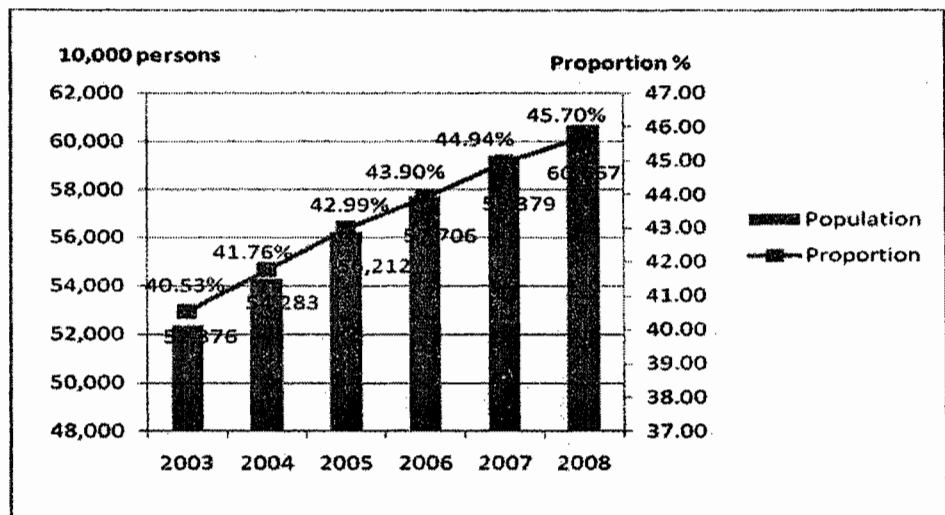
**5.1.2.5 Population by urban residence and region**

*Population by urban residence*

Urbanisation continues to be a rising trend in the PRC. The lure of better job opportunities and higher standards of living draw rural residents in droves to the urban cities annually. Provinces and cities in the country are also experiencing development as governments attempt to raise the economic status of the cities by enticing investors through their investment policies.

Figure 10 below shows the rising trend of urbanisation in the PRC. From 2004 to 2008, the number of urban residents rose 15.8% to reach approximately 607 million in 2008. The proportion of urban population in the country has been above 40% in the period mentioned, reaching 45.7% in 2008.

**Figure 10: Population by Residence in the PRC from 2003 to 2008**



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5. INDUSTRY OVERVIEW (Cont'd)

Population by Sector of Origin	2004		2007		2008	
	Urban Population	Proportion (%)	Urban Population	Proportion (%)	Urban Population	Proportion (%)
Gansu	826.71	31.59	1,790.29	68.41	810.21	31.09
Qinghai	221.19	40.07	330.81	59.93	215.14	39.26
Ningxia	268.52	44.02	341.48	55.98	259.72	43.00
Xinjiang	820.19	39.15	1,274.81	60.85	777.77	37.94
			1,795.79	68.91	1,795.79	68.91
			332.86	60.74	212.90	39.25
			344.28	57.00	252.00	42.28
			1,272.23	62.06	746.03	37.15
					778.03	30.02
					212.90	39.25
					252.00	42.28
					746.03	37.15
					1,813.69	30.02
					329.60	39.25
					343.00	42.28
					1,262.12	37.15
						69.98
						60.75
						57.72
						62.85

Note: 2004 and 2008 figures were not available at the time of this report

The urban-rural population mix for regions where second and third-tier cities in PRC are based is less distinct. Tianjin, which is considered a second-tier city, boasts a high concentration of urban population, constituting 75.11%. The Jiangsu region, where third-tier cities like Changzhou and Wuxi are located, has a fairly balanced mix of urban-rural population, with an urban population of 50.11% in 2007. Note that Nanjing, a second-tier city, is also located within the Jiangsu region.

On the other hand, Zhejiang region, home to third-tier city Ningbo, has a higher proportion of urban population at 56.02% in 2007. However, the Sichuan region has a low proportion of urban population of 33%, despite second-tier cities like Chongqing and Chengdu being located there.

(Source: IMR Report)

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## 5. INDUSTRY OVERVIEW (Cont'd)

### 5.1.2.6 Farmers-turned-workers and Rural Labourers

It is reported that there are approximately 147 million migrant workers who had moved to cities for job opportunities by June 2009. In Beijing, the number of farmers-turned-workers reached as much as three million.

The lure of farmers and rural labourers to the cities is expected to continue along with the PRC's economic development drive, as well as the shortage of labour. The number of farmers-turned-workers and rural labourers is expected to reach 300 million by 2010.

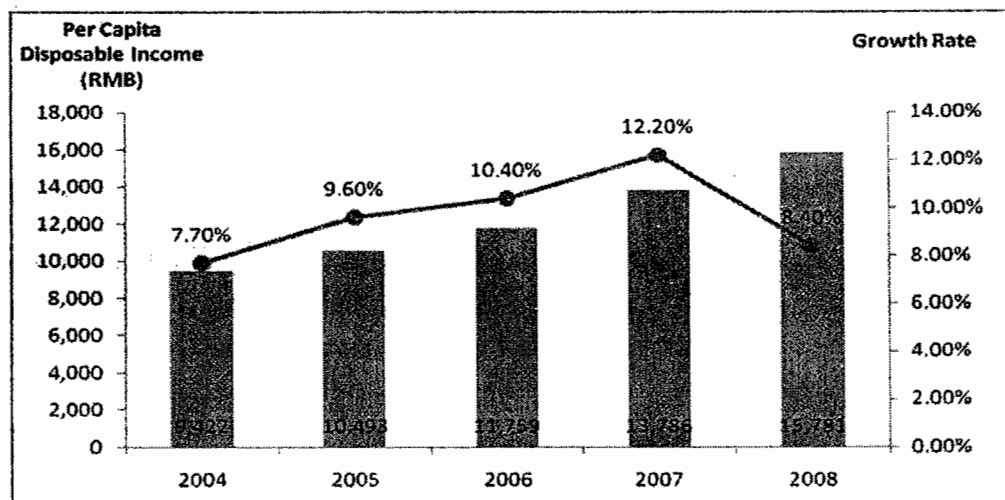
In the PRC's drive for economic development, peasants' lands and fields are taken back by the Chinese government for expanding infrastructure and building landmarks, thus forcing peasants to seek low-skilled jobs within rural and urban areas. Farmers and rural labourers, especially the younger generation, are more educated and less tolerant of hard labour. This group has also become choosier about their work environment, welfare and job prospects that employers can offer. Hit by a labour shortage, many private businesses in the PRC have been optimising work conditions to attract labourers. Free meals with fruit, dormitory with air-conditioning and TV, as well as reward holidays are some of the perks used to entice migrant workers.

(Source: IMR Report)

### 5.1.3 Annual Per Capita Income

Figure 12 below shows the per capita annual disposable income of urban households in the PRC from 2004 to 2008. The figure below shows an increasing trend in the per capita disposable income of the urban population. Although the growth rate of per capita annual disposable income slowed to 8.4% in 2008, we note, as a whole, that the absolute value has tripled to RMB15,781 from 1997 to 2008.

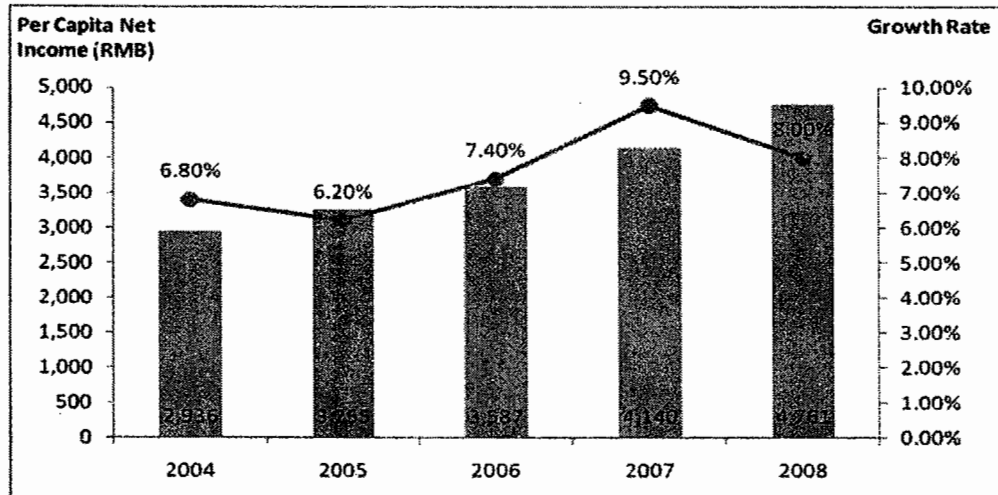
**Figure 12: Annual Per Capita Disposable Income of Urban Households in the PRC from 2004 to 2008**



## 5. INDUSTRY OVERVIEW (Cont'd)

Likewise, per capita disposable income of rural households saw a rising trend in the period from 2004 to 2008, albeit at a slower growth rate in 2005 and 2008. Overall, however, per capita disposable income of rural households rose at a smaller proportion than urban households, at approximately 62% within the five years.

**Figure 13: Annual Per Capita Net Income of Rural Households in the PRC from 2004 to 2008**



(Source: IMR Report)

## 5.2 INDUSTRY OVERVIEW

### 5.2.1 Description of the industry and the Company's position within the industry

Sportswear manufacturers and marketers are, thus, operating in a very dynamic industry, and are faced with various opportunities to differentiate themselves from the rest of the players.

In the PRC, most of the sportswear manufacturers and marketers place great focus in building, and growing, their brand premiums. The way how a particular brand is perceived depends greatly on the marketing strategy undertaken by the company. Developing and executing marketing strategies for sportswear involves looking at, and ultimately, making a concerted decision on, various facets. These include the following:

- Targeted consumer group
- Pricing
- Distribution
- Promotional tactics

The marketing strategy in the PRC requires an understanding of 'regionalisation', given the vast landscape of the PRC. Regionalisation of brand means that a particular brand might be well known in a particular region, but might be unheard of in another. For instance, Anta is a well known brand for the sport, basketball, in the second and third-tier cities in the PRC. On the other hand, Dixing, which is known for its casual fashion sportswear, does not focus on specific city tiers, and is, thus, recognised in the cities where it is distributed.

## 5. INDUSTRY OVERVIEW (Cont'd)

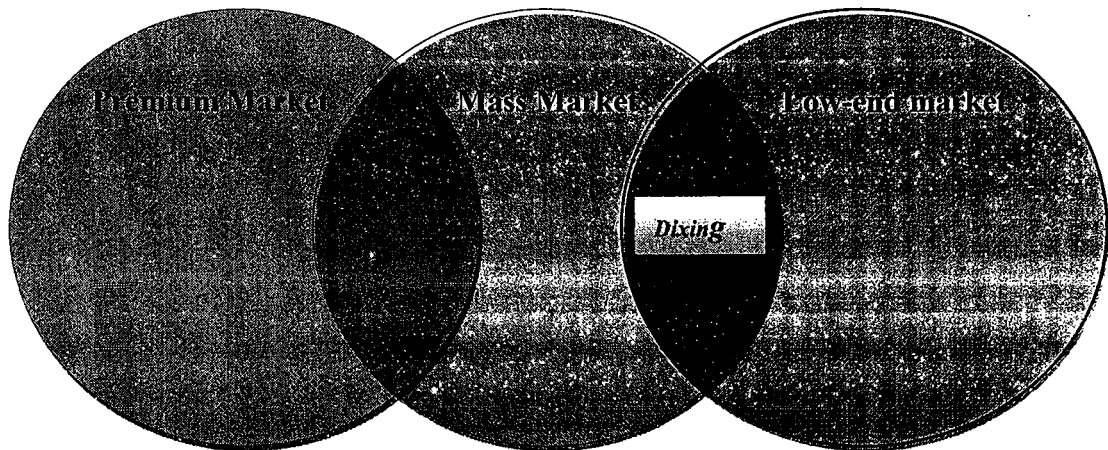
Traditionally, sportswear players focus on positioning its brands in one of the three market segments. For example, Nike and Adidas position themselves as a premium brand, with marketing efforts focused on first-tier cities. However, the potential of the less-developed and rural markets have begun to catch the eyes of many. Li Ning, a domestic premium sportswear brand, has indicated that it will choose second and third-tier cities for its future expansion of points of sale. Mass-marketer, Anta, continues its strategy to explore markets beyond the first-tier cities.

Unlike most other brands, Dixing, does not focus its marketing energies on specific tier-cities as Dixing focuses on positioning its brands in its niche market, namely, mid to mid-low segments whereby the sportswear products of Dixing is targeted to specific consumer groups, namely, the secondary and university students, and the working class which include factory workers and farmers. Dixing chooses to focus on a specific consumer group rather than specific tier-city as these are the niche market that represents the mid to lower income group of each respective tier-city of the PRC. Therefore, the Dixing brand of sportswear can be found in Beijing (first-tier city), Chengdu (second-tier city) and Guangxi (third-tier city), amongst others.

In contrast to Dixing, Xinjiyuan, a domestic sportswear player that Dixing views as among its closest competitors, has distribution channels that are "City-tiered-base". We understand from Xinjiyuan that they concentrate their distribution efforts on first and second-tier cities. However, like Dixing, Xinjiyuan also targets students.

Please refer to Figure 14 below for Dixing's position within the PRC's sportswear industry.

**Figure 14: Position of Dixing within the Industry Structure**



Source: Interviews, Converging Knowledge Pte Ltd

(Source: IMR Report)

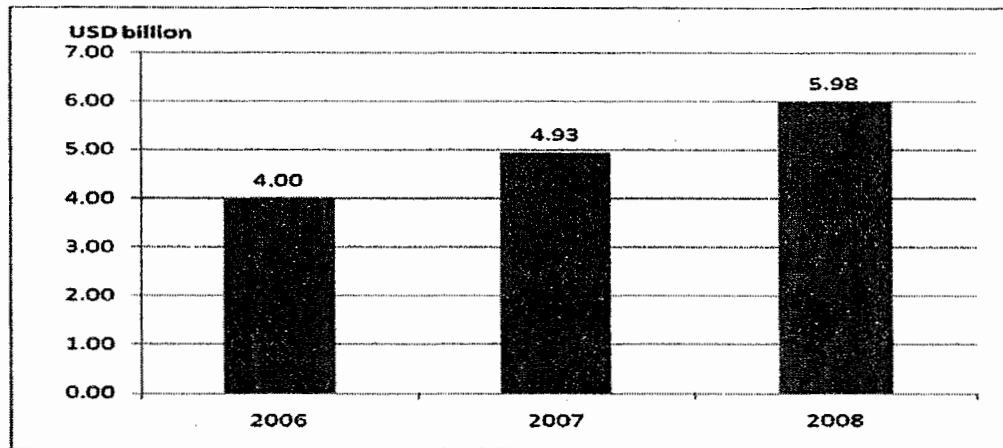
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## 5. INDUSTRY OVERVIEW (Cont'd)

### 5.2.2 Past Performances

The size of the PRC's sportswear industry has been growing at a CAGR of 22.27% for the period from 2006 to 2008. In 2006, market size registered at USD4 billion. This is expected to reach nearly USD6 billion in 2008. Please see Figure 15 below.

Figure 15: Past Performance of the PRC's Sportswear Industry



Source: Converging Knowledge Pte Ltd

(Source: IMR Report)

### 5.2.3 Future Growth

#### *Healthy Lifestyle*

The Chinese government emphasises healthy lifestyle among the Chinese population via active education and promotion of such benefits. Coupled with the rising costs of medical care in the PRC, and the threat of viral epidemics such as Severe Acute Respiratory Syndrome (SARS) and Influenza A(H1N1), the Chinese population in general has become more health conscious. As such, more and more Chinese have turned to exercising, which increases the demand for sportswear in the PRC.

#### *Sporting Events*

With major sporting events held, and to be held, in the PRC, the Chinese population has shown increased participation in sports. In 2008, the PRC hosted the Beijing Olympics and most recently, the 2009 FIS Tour De Ski China. The F1 Chinese Grand Prix was held in Shanghai from 17 – 19 April 2009, followed by the Badminton China Masters Super Series 2009 in Changzhou from 15 – 20 September 2009, the ATP World Tour Masters 1000 in Shanghai from 11 – 17 October 2009 and the East Asian Games in Hong Kong from 5 – 13 December 2009. We can expect the participation rate to increase with the further promotion of the sports culture by the Chinese government. This increased participation will, in turn, increase the demand for sportswear products as the PRC hosts more of such international sports events. The PRC will be hosting the 16<sup>th</sup> Asian Games in Guangzhou in 2010 as well as the World University Games in 2011.

## 5. INDUSTRY OVERVIEW (Cont'd)

### *Increasing level of disposable income*

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

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

### *Sportswear Industry and Growth Forecast*

We derive the estimated average growth rates by obtaining the mean of the estimates provided by equity analysts interviewed.

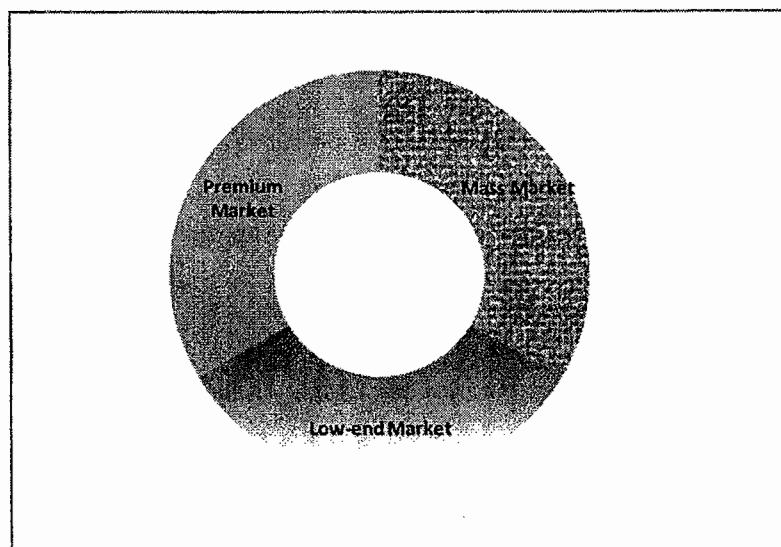
- Research sources estimate the range of 11.7% to 15.8% as the average annual growth rate for the PRC’s sportswear market.

*(Source: IMR Report)*

### 5.3 DIFFERING SEGMENTS AND POSITIONING

Market positioning refers to the process whereby marketers or marketing companies try to create an image of their products by determining their target market, pricing, brand and distribution model. There are three broad categories of market positioning – premium market, mass market and low-end. Please see the Figure 16 below.

**Figure 16: The Three Marketing Positioning**



*Note:*

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

*Source: Converging Knowledge Pte Ltd*

## 5. INDUSTRY OVERVIEW (Cont'd)

Li Ning is regarded as a premium domestic sports footwear brand. It targets consumers with higher spending propensities, and focuses its distribution efforts on first-tier and second-tier cities.

Sports footwear brands like Erke and Addnice cater to the masses. The distribution of mass market brands is usually concentrated in second-tier cities. Mass market brands accentuate their differentiation through product images and colours to appeal to their target consumers.

The last category – Low end – refers to sportswear manufacturers who place little or no focus on brand-building and/ or produce for other established brands. Low-end brands do not command a brand premium, and are thus, priced significantly lower than premium and mass market brands. Low-end brands typically target third-tier and fourth-tier cities where consumer spending power is lower.

There are some brands in the marketplace that do not fall strictly in any one of the three market segments. Dixing, for example, straddles between the mass market and low-end market. Its key target consumers are students and the working class, who do not have very high purchasing powers. However, unlike low-end brands, Dixing has a brand premium.

*(Source: IMR Report)*

## 5.4 COMPETITION

### 5.4.1 Industry Players and Competition

#### 5.4.1.1 Nature of Competition

Competition in the Chinese sportswear industry may come from the following:

##### *Pricing*

Sportswear players ascertain their target consumer segments before determining their pricing strategies. For example, Li Ning positions itself among the ranks of foreign brand names such as Nike and adidas. As such, its products are priced in a similar range as the mentioned foreign brand names. Addnice, Anta, Xtep and 361°, on the other hand, cater to the mass market. As such, the prices of Anta's sportswear are lower than that of Li Ning. Dixing targets mainly secondary and university students, and the working class, which includes farmers and factory workers. These consumer segments usually have medium-to-low spending propensities, and thus, Dixing's sportswear is priced lower than foreign brand names, as well as most mass market brands.

##### *Distribution Channel*

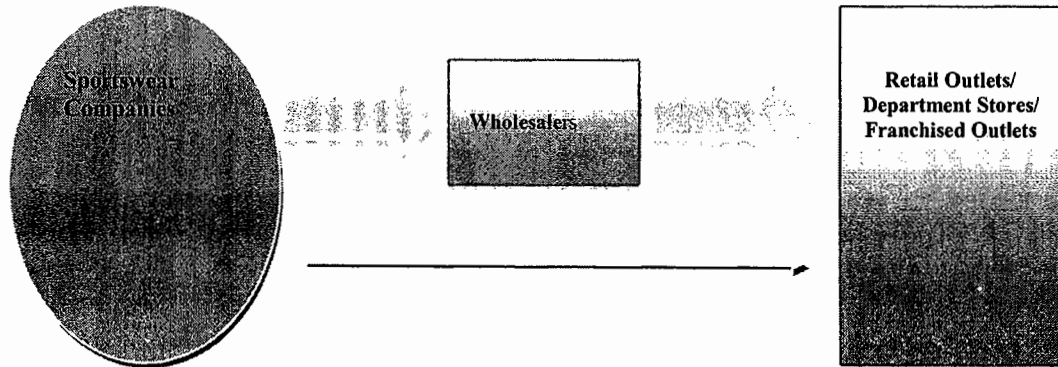
Under distribution channel, sportswear players decide how and where they want to distribute their sportswear, and who they want to appoint to distribute their products. A typical distribution model of sportswear is depicted as follows:

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## 5. INDUSTRY OVERVIEW (Cont'd)

Figure 17: Distribution Model



Source: Compiled from various sources

In many instances, sportswear players in the PRC appoint wholesalers, and are engaged in some form of direct retail. For example, Nike appoints wholesalers, and is also actively involved in setting up Nike retail outlets. Mid-low domestic players like Dixing and Xinjiyuan deal only with wholesalers to distribute their sportswear in the country.

### *Advertising/Endorsement*

Another way that sportswear players engage to differentiate themselves from the rest of the competition is through advertising and endorsement campaigns. One similarity seen is that many sportswear players tend to appoint a famous personality, be it an accomplished sportsman or popular TV figure, as their spokesperson. Another differentiation strategy adopted would be the endorsement and sponsorship of specific sports. For example, Anta endorses basketball, whereas China Hongxing endorses tennis. Mid-low players, Dixing and Xinjiyuan, have appointed former Olympic diving champion, Tian Liang, and popular Taiwanese TV artiste, Ming Dao, respectively, as their brand spokesperson.

(Source: IMR Report)

### 5.4.1.2 Factors of Competition

#### *Technology and Product Quality*

The technological capability of sportswear players is one of the key competitive factors. Sportswear companies with technological expertise would be able to achieve the following:

- Produce a wide range of sportswear, such as basic casual wear down to high performance ones;
- Increase chances of being the market leader as its products are at the technological forefront;
- Manufacture better quality sportswear.

## 5. INDUSTRY OVERVIEW (*Cont'd*)

For example, Xingquan International Sports Holdings Limited, the brand owner of Addnice, has strong technological know-how in soles. Although currently supplying soles to other sportswear brands, Xingquan International Sports Holdings Limited, being the manufacturer, controls the sale of soles to third parties. Such restriction competitively positions its Addnice range of sports shoes with the technological edge.

Chinese consumers have become increasingly more knowledgeable and conscious of the quality of their purchase. Coupled with ever-rising affluence, they favour better quality sportswear, and are better positioned to invest in them.

### *Advertising/Endorsement*

Traditionally, sportswear players appoint famous celebrities to create brand prominence in the marketplace. However, the endorsement market has become fiercely competitive as sportswear companies vie to attract their desired celebrity to endorse their brands. Domestic Chinese brand, Anta, has competed with the major players in sportswear, and successfully won the rights to sponsor the PRC's sports representative team's kit for the next four years, including the 2012 Olympics in London.

### *Material Costs*

Sportswear players that are directly involved in research & development, and/ or the manufacturing process, generally possess better control in the material costs, as well as the quality of the finished output. Dixing is said to enjoy volume discounts for raw materials as it has a comparatively larger shoe-making capacity.

*(Source: IMR Report)*

#### **5.4.1.3 Current Number of Local Sportswear Manufacturers**

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

Interviews with industry sources revealed over 1,000 local sportswear brands in the PRC. Most of these sportswear brands originate from Jinjiang and Putian.

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

Please refer to Figure 18 below for the various domestic sportswear brands available in the market. Please note that the list is not exhaustive as the Chinese market is filled with different brands. It would, therefore, not be possible to keep track of all the different brands in the market.

5. INDUSTRY OVERVIEW (Cont'd)

Figure 18: The PRC's domestic brands for sports shoes

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

Source: Compiled from various industry sources

The PRC's sportswear market has over 1,000 different local and foreign brands. The majority of the domestic brands cater to the mass market segment.

In terms of market positioning and retail pricing, Nike and adidas serve the top-tier segment of the market. They usually cater to affluent and status conscious consumers. Nike and adidas are usually found in the top-tier cities in the PRC, understandably due to the higher level of disposable income.

The domestic market leader is Li Ning, which leads the mid-tier segment. Li Ning is favoured mostly by the middle class group, who still want good sportswear with some status symbol at a more affordable price. Li Ning distributes to the top-tier cities as well as the second-tier cities. Anta competes in this segment.

Brands like Addnice, Anta, 361°, Xtep, Erke and Yeli are generally perceived to cater towards the mass market as their products are priced to suit the budgets of the majority of the Chinese consumers. These domestic brands tend to avoid the top-tier cities due to the high operating costs and would, instead, concentrate on second and third-tier cities.

**5. INDUSTRY OVERVIEW (Cont'd)**

Other brands like Dixing straddle between the mass-market and low-end segments of the PRC's sportswear market. Unlike the rest of the brands, Dixing does not focus on cities with specific tiers. The Dixing brand of sportswear can be found in cities such as Beijing (first-tier city), Chengdu (second-tier city) and Guangxi (third-tier city).

Apart from their distribution reach, domestic sportswear players in the PRC compete with one another through price positioning. Please refer to Figure 19 below.

**Figure 19: Price positioning of domestic sports brands in the PRC**

Domestic Brands	Retail Price Range (RMB)	
	Minimum	Maximum
<b>Addnice</b>	180	500
<b>Anchao</b>	120	200
<b>Anta</b>	240	400
<b>Dixing</b>	100	200
<b>Eratat</b>	250	350
<b>Erke</b>	300	500
<b>Li Ning</b>	200	1,000
<b>Peak</b>	200	400
<b>Xtep</b>	200	400
<b>Yeli</b>	170	260
<b>OEMs/ Unbranded</b>	50	180

Price range above includes running shoes and basketball shoes. Please note that prices are true as at December 2008

Source: Various interview sources

In terms of price positioning, domestic market leader, Li Ning, is priced higher than the rest of the domestic brands. This is because Li Ning has always modelled after Nike in terms of market positioning and marketing strategies. In addition, Li Ning shoes are priced higher to cover the high operating costs in first-tier cities. In recent years, Li Ning has shifted its focus to driving sales in second and third-tier cities. Li Ning's wide price range could be attributed to the fact that second and third-tier cities wield lower purchasing power than first-tier cities.

Players target the mid-price range, from RMB200 to RMB500. The more established mid-tier players, Addnice, Anta and Eratat, focus on second and third-tier cities.

Interviews with domestic sportswear companies in this mid-range pricing revealed that the prices of sportswear have been adjusted upwards recently in lieu of improved brand image. Dixing's pricing is amongst the lowest of the brands. It has positioned itself in the price range similar to that of OEMS or unbranded shoes and yet, distinguished itself from this segment with its brand.

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

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

## 5. INDUSTRY OVERVIEW (Cont'd)

Some of the domestic players (together with their profile), which Dixing regards as being among its closest competitors, and other selected listed sports footwear companies (together with their revenues) in the PRC are as follows:

### Fujian Xinjiyuan Sports Co. Ltd (“Xinjiyuan”)

Xinjiyuan was established in 1995. It has an integrated operation and is involved in research and development, design, production and sales of sportswear. According to the company, it is not involved in direct retail. It appoints regional wholesalers, which focus their distribution efforts mostly in first and second-tier cities. Xinjiyuan produces mainly casual leisure sportswear, and targets mainly fashion-conscious students. The company indicated that its sales revenue for 2007 reached above RMB100 million. Xinjiyuan’s celebrity spokesperson is Taiwanese TV artiste, Mingdao.

### Bake Sports Co. Ltd (“Bake”)

Bake has integrated operations, being involved in research and development, production and sales of sportswear. Distribution and sales of Bake sportswear is carried out through 35 agent sale websites, and more than 1,000 shop-in-shops (counters). Bake’s sportswear is targeted at the young and fashion-conscious. They appointed Taiwanese music artiste, Cyndi Wang, as their spokesperson. We are unable to establish Bake’s 2007 revenue as they were reachable as at the date of this report.

### Ailibao Co. Ltd (“Ailibao”)

Ailibao was established in 1986. Their distribution network is said to cover 30 provincial cities, as well as more than 2,000 points of sale. Unlike Bake, Ailibao’s sportswear caters to a wider group of consumer segments. In addition to students, Ailibao also serves the working class population. Its average selling price is observed to be lower than Dixing, from RMB90 to RMB150. We are unable to establish Ailibao’s 2007 revenue as they are reachable as at the date of this report.

**Figure 20: Revenue of selected listed sports footwear companies in China as at 2008**

Company	Stock exchange listed on	2008 (RMB '000)	Product Types		
			Footwear	Apparel & Accessories	Export
Yue Yuen*	Hong Kong	33,566,018	X	X	X
Li Ning	Hong Kong	6,690,073	X	X	X
Anta Sports Products	Hong Kong	4,626,782	X	X	X
Qingdao DoubleStar	Shenzhen	4,339,856	X	-	-
China Hong Xing	Singapore	2,889,200	X	X	X
Xstep International	Hong Kong	2,867,200	X	X	-
China Sports International	Singapore	1,859,700	X	X	-
Xingquan International	Kuala Lumpur	638,810	X	X	-
XiDeLang Holdings	Kuala Lumpur	573,939	X	X	X
K-Star Sports	-	501,069	X	-	X
China Eratat	Singapore	452,990	X	X	-
Multi Sports Holdings	Kuala Lumpur	385,310	X	-	-

\*Converted based on exchange rate of USD1:RMB6.8225 as at 31 December 2008.

Note: Companies are deemed to be engaged in Export activities when they have physical presence overseas and when products are exported overseas by an overseas distributor.

Source: Compiled from Companies’ Annual Reports, Companies’ Websites, Interviews, Converging Knowledge Pte Ltd

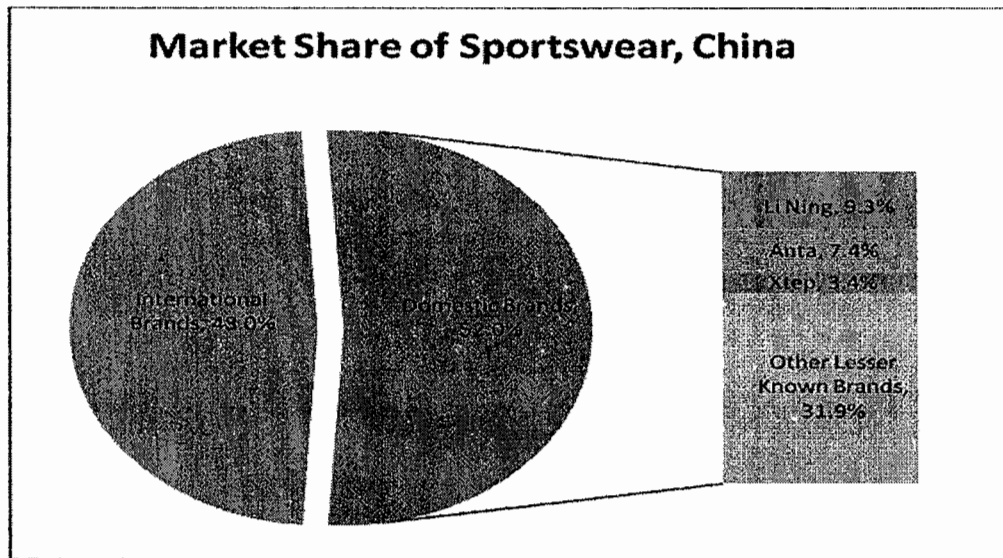
(Source: IMR Report)

**5. INDUSTRY OVERVIEW (Cont'd)**

**5.4.2 Market Coverage and Share**

In 2007, domestic sportswear companies in the PRC overtook international brands, which included brands such as Nike and adidas, in terms of overall sportswear market share. Note that market share of the Chinese sportswear industry in 2008 is not yet publicly available as at the date of this report. Please refer to Figure 20 below.

**Figure 20: Market Share of the PRC's Sportswear Industry in 2007**



As per the chart above, domestic companies in the PRC held a total market share of 52% in 2007. This is an increase of 10% from the 42% held by the domestic companies in 2005. Two major domestic brands by sales, Li Ning and Anta, held a total market share of 16.7%. Mass market brands, or otherwise known as other lesser known brands, accounted for 31.9% of the sportswear market share in the PRC.

**Market size of sportswear in the PRC**

We estimate the value of sportswear market in the PRC in 2007 at approximately USD4.93 billion.

The market size of the sportswear market in the PRC in 2007 is derived based on the following assumptions.

**Assumption 1:** We calculate market size estimates based on the following historical conversion rates, if applicable.

**Figure 21: Exchange Rates from 2005 to 2008**

Year	RMB : USD
2005	0.123913
2006	0.128138
2007	0.137088
2008	0.146574

**Assumption 2:** We obtain and use average market size estimates for 2007 in this report from research and interviews with industry players.

**Assumption 3:** We derive growth rate of the industry based on interviews that we conducted with various equity analysts and industry sources, which includes industry associations, technical institutions, governmental bodies and academic institutions.

(Source: IMR Report)

## 5. INDUSTRY OVERVIEW *(Cont'd)*

### 5.4.3 Barriers to Entry

Generally, barriers to entry to the sportswear industry in the PRC are not high. The production of sportswear, specifically sports shoes, is labour-intensive. Rather than requiring high capital, sport-shoe-making workshops require basic shoe-making know-how and labour.

Sportswear manufacturers in the PRC do not necessarily need to own in-house production facilities. For example, Li Ning, a leading local sportswear brand management company, outsources manufacturing to Original Equipment Manufacturers ("OEM").

Interviews with industry players revealed that whilst it is not difficult to enter the PRC's sportswear industry to produce and sell basic sportswear, the same cannot be said about manufacturing high-performance sportswear. For example, technological know-how is required to produce soles that enhance speed and reduce resistance.

Another true barrier to entry to the Chinese sportswear industry lies in the marketplace. With over 1,000 brands in the Chinese marketplace, the Chinese consumers are spoilt for choice. Sportswear industry players face greater challenges in positioning their brands of sportswear to target customers.

Well-established brands, or brands with a track record in terms of quality and market presence, command higher brand recognition, and possibly have built up a loyal following than newer brands, as well as those with no brand names.

Well-established brand names are also usually associated with higher quality. With brand awareness, perceived quality and brand association, consumers' brand loyalty is strengthened via leverage of customer satisfaction.

Existing shoe players in the market are at an advantage of retaining and even increasing their share of the market as consumers' choices are greatly dependent on brand loyalty, product variety and quality, price and fashion trends.

New players making their maiden entry into the Chinese sportswear market will, thus, be posed with challenges in establishing their market in the industry.

*(Source: IMR Report)*

## 5.5 DEMAND CONDITIONS AND ITS DEPENDENCIES

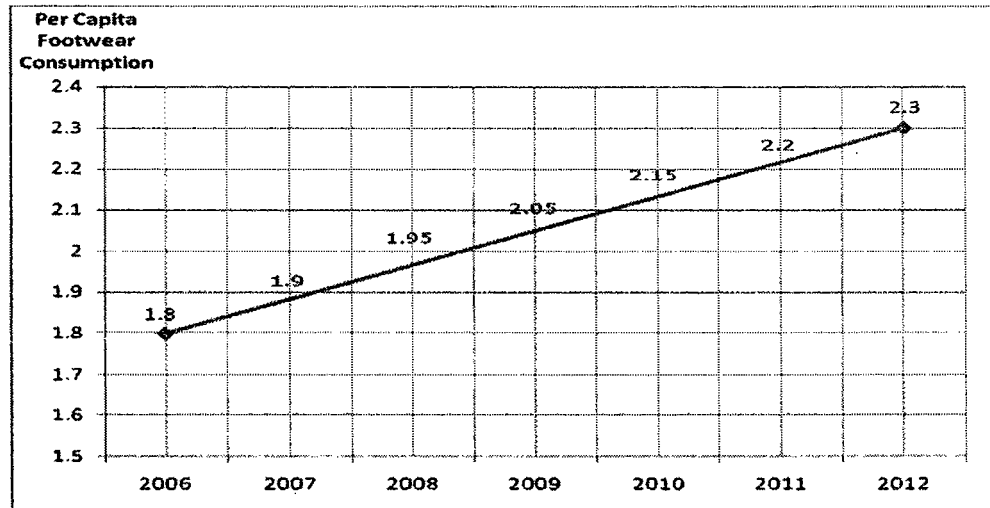
### 5.5.1 Demand Conditions

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

One of IMR's sources reported that in 2006, per capita footwear consumption in the PRC was 1.8 pairs per annum. It was also projected that per capita footwear consumption in the PRC will reach 2.3 pairs per annum by 2012. This represents a growth of 27.8% over the six year period. Please refer to Figure 21 below.

## 5. INDUSTRY OVERVIEW (Cont'd)

Figure 22: Growth of per capita footwear consumption for the PRC from 2006 to 2012



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

(Source: IMR Report)

### 5.5.2 Demand Dependencies

#### *Focus on Healthy Lifestyle*

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

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

Coupled with Chinese athletes gaining recognition and popularity in the international arena for their athletic achievements, the PRC's sportswear market is further invigorated. One such prominent Chinese athlete is Yao Ming, who plays professional basketball for the Houston Rockets in the US. In the PRC, the achievement of the PRC's national sports teams reinforces The PRC's national identity and national pride.

#### *Sporting Events*

The recent Beijing Olympics 2008 has helped to strengthen the PRC's economy. It was reported that 4% of the PRC's GDP was derived from the Beijing Olympics 2008. With the success of the Beijing Olympics 2008, we can expect further promotion of the sports culture, increase in the participation rate in sports, and the demand for sportswear products with the hosting of future international sports events by the PRC. Events that will be hosted by the PRC include the 16th Asian Games in Guangzhou in 2010 and the World University Games in 2011.



## 5. INDUSTRY OVERVIEW (Cont'd)

### *Educated/ Affluent Customers*

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

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

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

*(Source: IMR Report)*

## 5.6 SUPPLY DEPENDENCIES

### 5.6.1 Labour

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

Employers also find it harder to attract workers from 'rural PRC'. Government at provincial, municipal and even city levels of provinces compete to attract investments and workers to the area of their jurisdiction. They aim to improve the economic conditions of the area under their jurisdiction, other than creating jobs for their own residents. The increase in local job opportunities results in fewer Chinese leaving their hometown to look for work.

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

*(Source: IMR Report)*

### 5.6.2 Raw Materials

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

## 5. INDUSTRY OVERVIEW *(Cont'd)*

In 2008, the increasing costs incurred by shoe manufacturers have resulted in the shutting down and relocation of approximately 15% of shoe manufacturers. These shoe manufacturers are mainly small shoe making enterprises. However, sportswear manufacturers producing established brands are generally able to offset increases in raw material prices by raising the unit selling price of their sportswear products. Unlike those who manufacture sportswear of less known branding, or no branding, established sportswear manufacturers have the capacity to pass on increased operating costs to consumers through their brand premium.

*(Source: IMR Report)*

### 5.7 SUBSTITUTE PRODUCTS, INDUSTRY RELIANCE AND VULNERABILITY TO IMPORTS

#### 5.7.1 Substitute Products

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

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

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

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

*(Source: IMR Report)*

#### 5.7.2 Industry Reliance and Vulnerability to Imports

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

*(Source: IMR Report)*

### 5.8 LEGISLATION, POLICIES AND INCENTIVES

The PRC's shoe industry is reported to have developed industrial clusters. According to IMR's source, there are four industrial clusters within the PRC's shoe industry. Firstly, the high-end shoes cluster is found within production bases in Guangdong, such as Guangzhou and Dongguan. Secondly, the affordable shoes cluster is located within production bases in Zhejiang, such as Wenzhou, Taizhou. Thirdly, the ladies' footwear cluster is represented in production bases in the western region, such as Chengdu and Chongqing. Lastly, the manufacture of sports shoes is largely clustered in production bases such as Fujian, Quanzhou, Jinjiang.

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

## 5. INDUSTRY OVERVIEW (Cont'd)

### *Incentives*

#### *Financial Incentives*

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

**Figure 23: Financial Incentives**

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

#### *Grants*

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

#### *Rent*

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

#### *Others*

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

#### *The first foot shape database in the PRC*

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

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

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

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

*(Source: IMR Report)*

## 5. INDUSTRY OVERVIEW *(Cont'd)*

### 5.9 INDUSTRY PROSPECTS AND OUTLOOK

#### 5.9.1 Sportswear Industry Outlook in the PRC

##### 5.9.1.1 Growth Drivers

###### *Healthy Lifestyle*

The Chinese government emphasises healthy lifestyle among the Chinese population, via active education and promotion of such benefits. Coupled with the rising costs of medical care in the PRC, and the threat of viral epidemics such as Severe Acute Respiratory Syndrome (SARS) and Influenza A(H1N1), the Chinese population in general has become more health conscious. As such, more and more Chinese have turned to exercising, which increases the demand for sportswear in the PRC.

###### *Sporting Events*

With major sporting events held, and to be held, in the PRC, the Chinese population has shown increased participation in sports. In 2008, the PRC hosted the Beijing Olympics and most recently, the 2009 FIS Tour De Ski China. The F1 Chinese Grand Prix was held in Shanghai from 17 – 19 April 2009. We can expect the participation rate to increase with the further promotion of the sports culture by the Chinese government. This increased participation will, in turn, increase the demand for sportswear products as the PRC hosts more of such international sports events. The PRC will be hosting the 16<sup>th</sup> Asian Games in Guangzhou in 2010 as well as the World University Games in 2011.

###### *Increasing level of disposable income*

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

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

*(Source: IMR Report)*

##### 5.9.1.2 Sportswear Industry and Growth Forecast

We adopt the same assumptions under the section “Market size of sportswear in the PRC”. The assumptions are summarised as follows:

**Assumption 1:** Market leaders or market structure remains unchanged up to 2012.

**Assumption 2:** We calculate market size estimates based on the following historical conversion rates, if applicable.

## 5. INDUSTRY OVERVIEW (Cont'd)

Figure 24: Exchange Rates from 2005 to 2008

Year	RMB : USD
2005	0.123913
2006	0.128138
2007	0.137088
2008	0.146574

**Assumption 3:** Market size estimates in this report were USD4.93 billion for 2007. We obtain and use average market size estimates from interviews with industry sources.

**Assumption 4:** We derive the growth rate of the industry, ranging from 11.7% to 15.8%, from direct interviews that we conducted with various equity analysts and industry sources, which includes industry associations, technical institutions, governmental bodies and academic institutions, and from various established media articles.

### *Growth forecast*

Research sources estimate the range of 11.7% to 15.8% as the average annual growth rate for the PRC's sportswear market.

(Source: IMR Report)

### 5.9.1.3 Critical Success Factors

#### *Distribution of Retail Network in the PRC*

Due to the geographical size of the PRC, distribution of sports shoes and apparel is undertaken through various means:

- Distributors;
- Franchises;
- Directly managed retail outlets;
- Retail counters;
- General sports shops; and
- Shop-in-shops.

In order to reach out to its target clientele, retail sports outlets of different market players are seen mushrooming throughout various parts of the PRC. The following are some examples of the increasing network of retail outlets in the PRC by some of the market players.

Li Ning has both directly managed and franchised retail outlets in its distribution network, with a bias towards the latter. As at the end of 2007, Li Ning has 5,233 outlets, out of which 90% are franchise partnerships. Li Ning plans to expand its sales network to 10,000 outlets by 2013, despite the conclusion of the Beijing Olympics 2008. As at 30 June 2008, Li Ning has 5,853 retail outlets.

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## 5. INDUSTRY OVERVIEW (*Cont'd*)

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Anta, on the other hand, employs distributors. For FYE 2007, Anta managed 39 distributors and 4,716 authorised retail stores. Distributors owned 30% of the total outlets. Anta increased its distributors to 46 and has 5,193 authorised retail outlets as at 30 June 2008. The number of stores owned by the distributors has also increased to 1,642 (32% of the total outlets).

China Sports appointed approximately 20 distributors with more than 1,500 sales outlets that span over 20 provinces in the PRC.

### *Geographical Spread*

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

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

The fast expansion of the mid to high end market is expected due to the increasing levels of purchasing power and higher channel penetrations. This, in turn, boosts sales in the second and third tier cities. Li Ning reported aggressive expansion in the second and third-tier cities, in which 57% of the new stores established are done in these cities.

Unlike many domestic brands which focus on the local market, Dixing has intention to step up its sales beyond the shores of the PRC. The company currently exports to Europe and Asia.

### *Branding and technological innovation*

As consumers become more knowledgeable, they pay added attention to the quality and the technology behind the sportswear that they intend to purchase. To reach out successfully to the intended consumer base, sportswear companies must be innovative in their product technology. Marketing efforts are not spared as a well-established brand name is often equated with high quality.

Erke has also built up its branding for tennis shoes in the PRC after sponsoring the 2005 and 2007 WTA International Women's Tennis Series Guangzhou Open. Erke has also earned the naming rights to the 2006-2008 international women's tennis series.

Anta's research and development expenditure has increased from 2.8% in 2007 to 3.1% in 2008 (as a percentage of cost of sales) in a bid to maintain competitiveness and to reinforce product differentiation. To produce better sportswear via research and development, Anta also tapped on the Academy of Arts & Design of Tsinghua University, Beijing Sport University and China Leather and Footwear Industry Research Institute.

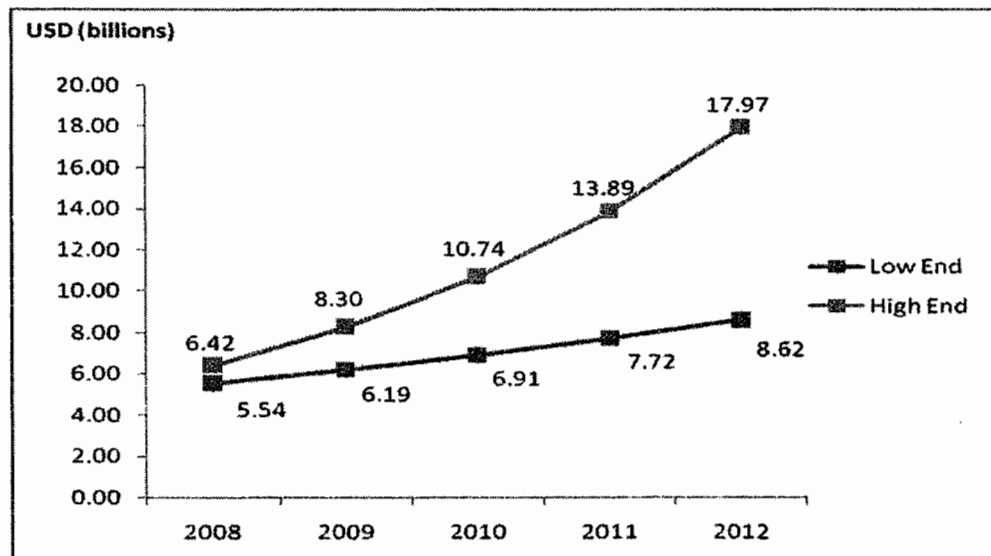
*(Source: IMR Report)*

## 5. INDUSTRY OVERVIEW (Cont'd)

### 5.9.2 Prospects of the Industry

The market size forecasts of the PRC's sportswear industry from 2008 to 2012 are as follows:

**Figure 25: Market Size Forecasts for 2008 to 2012 of the PRC's Sportswear Industry**



*Interviews, Converging Knowledge Pte Ltd*

The annual average growth rate of the PRC's sportswear industry is ranging from 11.7% to 15.8% for the period from 2008 to 2012. The market size of the sportswear market is expected to rise to between USD8.62 billion and USD17.97 billion by 2012.

*(Source: IMR Report)*

### 5.9.3 Prospects of the Company

Our Directors believe that the overall outlook for our industry is positive based on the following factors:

#### 5.9.3.1 Increasing consumer consumption and sophistication in the PRC, particularly in the mass-market consumer segment

The strong economic development and increasing urbanisation in the PRC has led to generally higher consumer disposable incomes and increasing affluence in recent years. In particular, there is a burgeoning middle class population and increasing mass-market consumer spending potential in the PRC. Our Directors believe that this will be a continuing trend and will lead to greater consumer consumption of sportswear products in the PRC, particularly in the mass-market consumer segment.

In addition, consumer preferences in the PRC are becoming increasingly sophisticated and inclined to product branding due to increasing affluence as well as influences by western culture through various media such as television internet, etc. In our business context, our Directors anticipate branded sportswear fashion to grow in popularity with PRC consumers.

We believe that in tandem with growing affluence, PRC consumers (particularly in the mass-market consumer segment) will increasingly demand for higher quality and well-branded sportswear products that are perceived as premium or quality products.

## 5. INDUSTRY OVERVIEW *(Cont'd)*

We believe that this bodes well for our Group as we have developed strong brand equity and market positioning for our Proprietary Brands and products. Please also refer to the following prospect “Strong growth potential of our Proprietary Brands and products” for more information.

### 5.9.3.2 Rising emphasis on sports and leisure-centred lifestyles in the PRC

The PRC successfully hosted the Beijing Olympics in 2008. In addition to the Beijing Olympics 2008, there are an increasing number of international sporting events that are being held in the PRC. For example, Shanghai has been part of the Formula One Grand Prix circuit since 2004 and the China Tennis Open has been held since 2004. In line with the increased media coverage and widespread publicity of these premier sporting events to a world-wide audience, our Directors believe that these events have and will continue to generate interest and passion for sports and leisure, as well as cultivate greater awareness of the need for fitness among people in the PRC. In addition, the achievements of prominent sports stars such as basketball star Yao Ming and star sprinter Liu Xiang have helped spur interest in sports in general. The PRC government has also been encouraging greater participation in sports. Accordingly, there has been a rising emphasis on sports and leisure-centred lifestyles in the PRC in recent years, which is likely to continue going forward.

Consumers are also increasingly aware of the functionality of sporting products, particularly sports footwear and apparel, and now prefer to wear different sports footwear and apparel for different types of sporting activities. In addition, sportswear is increasingly worn as everyday leisure wear by consumers of all ages, as sportswear fits into their leisure lifestyles. Sportswear has also become fashion wear for trendy and fashionable urban youth and adults with the rising popularity of sports and an increasing interest towards sports and leisure-centred and fashioned lifestyles. With such rising emphasis on sports and leisure-centred lifestyles, growth in the demand for sportswear products in the PRC can be expected to continue. Please refer to the Section 5.2 of this Prospectus for information on the sportswear industry in the PRC. This augurs well for future sales of our Proprietary Brands’ products in the PRC.

### 5.9.3.3 Strong growth potential of our Proprietary Brands and products

As abovementioned, we have developed strong brand equity and market positioning for our Proprietary Brands and products. As a strong testament of the popularity and market recognition of our Proprietary Brands, we have received several awards and accreditations for our Dixing brand such as the Quanzhou Well-known Trademark (泉州市知名商标) in 2008 and the Fujian Famous Trademark (福建省著名商标) in 2009. In addition, we have developed an extensive distribution network across the PRC, Russia and other Eastern European countries such as Poland and Romania.

Given the prospects of increasing consumer consumption of sportswear products in the PRC (particularly in the mass-market consumer segment) and rising emphasis on sports and leisure-centred lifestyles, we believe that there are opportunities and large potential for us to expand our market presence in the PRC. By leveraging on our Proprietary Brands equity and extensive distribution network, we believe that there is strong growth potential of our Proprietary Brands and products in the PRC, particularly in second and third-tier cities.



## **5. INDUSTRY OVERVIEW (Cont'd)**

### **5.9.3.4 Order Book**

As at the Latest Practicable Date, our order book based on unfulfilled confirmed orders from our customers amounted to approximately RMB172.0 million. Most of these orders are scheduled for delivery within 60 days. These orders may be subject to cancellation, deferral or rescheduling by our customers. Accordingly, our order books as at any particular date may not be indicative of our revenue for any succeeding period.

The significant size of our order book as at the Latest Practicable Date can be mainly attributed to (i) increasing consumer demand; and (ii) also the expansion of our distribution network in the PRC, which based on our Directors' knowledge and belief, comprise 769 retail locations across 18 provinces and 3 municipalities in the PRC as at the Latest Practicable Date.

## **5.10 BUSINESS STRATEGIES AND FUTURE PLANS**

Our vision is to become a leading producer of sports footwear in the PRC and overseas markets with strong brand recognition. We will continually evaluate strategies to fulfil the evolving needs of our customers and to remain competitive. Our business strategies and future plans are as follows:

### **5.10.1 Expand our market presence and distribution network**

As at the Latest Practicable Date, our Proprietary Brands' products were retailed in 18 provinces and 3 municipalities in the PRC at 769 retail points. We intend to expand our market presence and distribution network in the PRC by penetrating further into our existing markets as well as enter into new geographical markets, particularly in the second and third-tier cities in the PRC. Our plan is to increase our retail points to 860, including 73 Specialty Stores, by end of 2010. In this regard, we will appoint more Authorised Regional Dealers in the PRC, including in Jiangsu, Anhui and Shanxi provinces, increase the number of our sales and marketing employees to undertake increased sales and marketing activities and intensify our branding and marketing activities which will include the continuing appointment of brand ambassadors.

For our overseas market, we intend to collaborate with our customers to increase sales to Russia, Belarus and other Eastern Europe countries.

We intend to utilise RM5 million of our net proceeds from the IPO for expansion of our market presence and distribution network. In addition, we are exploring the possibility of setting up distribution networks in Malaysia and its neighbouring countries in the coming two years after the Listing of K-Star on Bursa Securities. The intended plan of setting up distribution networks in this region will be established first through collaborations with local authorised distributors and will only be embarked in progression after the successful launch of our sports fashion apparel series and the completion of our production facilities expansion of two new production lines.

### **5.10.2 Expand our production facilities and capacity**

As at the Latest Practicable Date, our annual production capacity is approximately 4 million pairs of shoes. We expect an increase in the demand for our products and in order to meet the expected increase in demand, we intend to expand our production facilities by installing two additional production lines by 2011. With these two additional production lines, our sports fashion footwear production capacity will be increased to approximately 6 million pairs per annum. We have earmarked RM9 million of our net proceeds from the IPO for the expansion of our production facilities.

**5. INDUSTRY OVERVIEW (Cont'd)**

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**5.10.3 Expand our business segment to sports fashion apparel**

To complement our existing products range and expansion plan, we intend to expand our business to sports apparel segment in the second half of 2010. In addition, we also intend to move up our value chain in year 2011 after the launch of our apparel products. We believe that such expansion is necessary as part of our brand building process and it will help to increase our competitiveness against our competitors. Our plan is to outsource the production of sports apparel to external contract manufacturers in the initial stage of entry into this business segment. We intend to eventually set up our own production facilities for the sports apparel segment.

**5.10.4 Expand our business segment to shoe soles**

We presently do not produce any shoe soles and rely solely on our suppliers to supply shoe soles to us. We plan to expand our business to include the manufacturing of shoe soles, to reduce our reliance on shoe sole suppliers and increase our production efficiency.

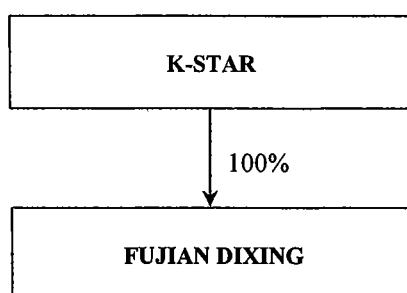
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## 6. BUSINESS OF OUR GROUP

### 6.1 HISTORY AND BUSINESS OVERVIEW

Our Company was incorporated in Singapore under the Singapore Companies Act on 3 November 2008 as a private limited company under the name of K-Star Sports Pte Ltd. On 14 September 2009, we were converted into a public limited company and assumed our present name on the same day. We were registered in Malaysia as a foreign company on 16 September 2009 as K-Star Sports Pte Ltd and subsequently changed our name to K-Star Sports Limited on 17 September 2009 after registration with ROC.

We are an investment holding company whilst our subsidiary Fujian Dixing is principally engaged in the design, manufacture and distribution of sports footwear under our own Proprietary Brands. Fujian Dixing is also an OEM and ODM for international sports brands including Umbro, Diadora, Kappa, Le Coq Sportif, Die Wilden Kerle, Canguro, Cosby and Bridgestone, as well as PRC footwear brand, Double Star (青岛双星). Our group structure is set out below:



Our history can be traced back to 1988 when our Executive Chairman & CEO, Ding Jianping established the Village Community Enterprise Fujian, Jinjiang City, Jiangtuo, namely Nan Fang Leather Plastic Enterprise as a collective entity and was also its legal representative. The company was engaged primarily in the manufacture of handmade sports footwear products and had relatively small operation with approximately 30 personnel. In 1992, Ding Jianping procured his father-in-law, Wong Luen Wing (王联荣), to invest in the shoe manufacturing business and as a result of which, Fujian Dixing was established with an initial registered capital of HK\$4.3 million with Wing Shun as the investment vehicle. Fujian Dixing's primary business was to produce shoe soles and handmade canvas footwear products under Proprietary Brands. We had an initial workforce of 70 to 80 employees and operated out of our first leased factory with a built-up area of approximately less than 2,000 sq m in Jinjiang City, Fujian Province. Our daily production capacity then was approximately 300 pairs of shoes which were produced manually. Subsequently, our workforce increased to about 200 employees and our daily production capacity increased to 2,000 pairs of shoes in 1996. Our products were initially retailed at about 8 retail outlets in the PRC.

In 1996, we invested approximately RMB1 million to build a new factory cum warehouse in Jinjiang City, Fujian Province, namely Factory A (as defined herein in Section 9.1) with a built-up area of approximately 3,600 sq m and installed our first production line for sports shoes, with a daily production capacity of approximately 3,500 pairs of shoes. In 1997, we ceased production of shoe soles to focus on the production of sports shoes. Our initial product range comprised about 30 models of running, tennis and basketball shoes. In 1996, we started ODM products for Double-Star. In 1997, we commenced to manufacture OEM sports footwear for Canguro and AE. In 2000, we started manufacturing OEM sports footwear for Umbro. By 2000, retail outlets for our products had increased to approximately 20.

Factory B (as defined herein in Section 9.1) was built in 1999 initially as a single storey warehouse cum dormitory with an approximate built up area of 2,000 sq m to store the finished product and accommodate staff.

## 6. BUSINESS OF OUR GROUP (Cont'd)

In 2001, we expanded our market range as our products were exported to Russia, Ukraine, Belarus, the Czech Republic, Poland and Hungary by our PRC customers. By then our production capacity had already reached its limit with a daily production of 3,800 pairs. Subsequently in 2002, we commenced OEM for Diadora.

In 2003, we built a 4-storey factory where we installed our second production line and 4-storey staff dormitory each with a built-up area of approximately 8,000 sq m and 2,200 sq m respectively at Factory A. With that our production capacity increased to approximately 6,800 pairs per day. Our workforce increased to more than 400 staff. During the same year, as testament to the internal controls and management system of our production process and products, we were accredited with the ISO 9001:2000. By 2003, we have increased our retail points in the PRC to approximately 60 to 70 outlets.

In 2004, we added another 4-storey (approximately 3,000 sq m) to the staff dormitory at Factory A. In the same year, we started ODM works for our customer who was an authorised agent of Canguro, Guangzhou City Pan Yu Jian Bu (Sha Wan, Hong Kong) Shoe Factory (广东省番禺健步(沙湾,香港)鞋厂). In 2004, we started ODM products for Kappa footwear. In 2007, we commenced ODM footwear for Le Coq Sportif.

At the end of 2005, we converted the warehouse at Factory B into a factory and installed our third production line. During the same period we had also built a new 6-storey staff dormitory with a built-up area of approximately 4,500 sq m at Factory A. We had also increased our workforce to approximately 600 employees. The additional production line increased our daily production to 9,600 pairs of shoes giving us an annual production capacity of 2.5 million pairs. By then our products were retailed at approximately 118 outlets and 5 specialty stores. Our products were also distributed in approximately 113 shop-in-shops. In 2006, we started our first specialty store in Qingdao and subsequently expanded to Hunan, Guangxi, Liaoning provinces.

In 2006, we increased our registered capital to HKD16 million in order to expand our facilities and production capacity. At the end of 2006, we installed our fourth production line at Factory C (as defined herein in Section 9.1) as a result of which our production capacity in 2007 increased to 12,800 pairs of shoes per day or 4 million pairs of shoes per annum. Our workforce was then increased to approximately 750 employees. By the end of 2006, we had increased our retail outlets to 220 and 8 specialty shops. We had also increased our retail outlets significantly to more than 350 in 2007 through a wide distribution network of authorised regional dealers.

In 2007, we added 4,000 sq m to our factory space, for use in production of parts and inventory at Factory A. Apart from this, we had also commenced construction of a new building, comprising office space and staff dormitory, with an area of 6,000 sq m at Factory A. At present we have a workforce of about 1,063 full time staff.

Through our sales and marketing efforts over the years, we have established an integrated regional distribution system by appointing Authorised Regional Dealers in various provinces and cities, who on-sell our products to Dixing specialty stores and shops-in-shops. Please see Section 6.5 of this Prospectus for more information.

As a result of our emphasis on our branding and marketing efforts, we believe that the brand image and market awareness of our products have been substantially enhanced in our target markets to date. As testament to the brand image and market awareness of our products, we were awarded Quanzhou Well-known Trademark (泉州市知名商标) in 2008. In addition, we engaged the well-known PRC athlete and two times Olympic diving champions PRC athlete Tian Liang (田亮) with effect from 1 July 2008, to be our brand ambassador to enhance the brand image and market awareness of our products among our target consumers. In 2009, we were accorded with the Fujian Famous Trademark (福建省著名商标) in recognition of our Proprietary Brands image. Please refer to the Section 6.15 of this Prospectus for more information on the awards and accreditations we have received over the years.

## 6. BUSINESS OF OUR GROUP (Cont'd)

As at the Latest Practicable Date, we have four production lines and are able to manufacture more than 700-800 models of sports shoes annually and we have an aggregate annual production capacity of approximately 4 million pairs of shoes and the utilisation rates for the production capacity is approximately 95.9%. We have approximately 769 retail outlets, 53 specialty shops and 716 shop in shops across 18 provinces and 3 municipalities in the PRC and apart from our Proprietary Brands we are OEM and ODM for local PRC sports footwear brand "Double Star" (青岛双星) as well as international brands such as Umbro, Kappa, Canguro, Diadora, Le Coq Sportif, Die Wilden Kerle, Cosby and Bridgestone. Please refer to Section 6.8 of this Prospectus for information on our production capacity and the output utilisation rates during the Financial Years under Review.

### 6.2 KEY MILESTONES AND ACHIEVEMENTS

Our key milestones and achievements are as follows:

Year	Milestone / Achievement
1992	Established Fujian Dixing
1996	Built Factory A, installed first production line and started ODM for Double Star (青岛双星)
1997	Commenced OEM for Canguro and AE
1999	Built Factory B
2001	Expanded to overseas market
2003	Installed 2 <sup>nd</sup> production line
2003	Obtained ISO9001:2000 status
2004	Installed third production line and started first specialty store
2006	ODM/OEM for Kappa and installed fourth production line
2007	OEM/ODM for Le Coq Sportif
2008	Awarded Quanzhou Well-known Trademark (泉州市知名商标)
2008	Signed 2004 Olympic Diving Champion, Tian Liang (田亮) as "Dixing" spokesperson.
2009	Awarded Fujian Famous Trademark (福建省著名商标)

### 6.3 COMPETITIVE STRENGTHS AND ADVANTAGES

Notwithstanding the competitive environment, our Directors have identified several key factors that have enabled and will continue to enable us to compete effectively to ensure a sustainable growth. We believe our competitive strengths are as follows:

**(i) We have a reputable brand and an established track record in the PRC**

We believe that branding plays an important role in the success of our business. Since 1992, we have focused on building our Proprietary Brands of products. Our products have become well-recognised in the markets that we serve due to our extensive marketing efforts at brand-building and continuous efforts in products research and development.

Awards and accreditations received by us, including Quanzhou Well-known Trademark (泉州市知名商标) Year 2008 and the Fujian Province Famous Trademark (福建省著名商标) Year 2009 are testimonial of our Proprietary Brands' popularity and market recognition.

## 6. BUSINESS OF OUR GROUP (Cont'd)

With rising standards of living globally, we believe that brand image and recognition will continue to play a significant role in consumers' buying decisions. The increasing awareness of our Proprietary Brands' image and recognition over the years has enabled us to expand our distribution network and the number of Dixing Specialty Stores and shops-in-shops.

**(ii) We have a wide distribution network**

We have established a wide distribution network across the PRC to sell our products. As at the Latest Practicable Date, our products were retailed across 18 provinces and 3 municipalities in the PRC at 769 retail locations, of which 53 were Dixing Specialty Stores and 716 shops-in-shops. Our shoes are distributed overseas to Russia, Ukraine, Belarus, the Czech Republic, Poland, Romania and Finland. Please refer to the Sections 6.4 and 6.5 of this Prospectus for more details on our distribution network.

We believe that our major target markets are currently, *inter alia*, Guangxi, Beijing, Hunan, Shandong and Hubei provinces of the PRC and Poland, Ukraine and Romania. Our network of PRC Authorised Regional Dealers and their respective regional retail networks has entrenched the market presence of our Proprietary Brands and positioned us well to capitalise on the increasing consumer spending power in the PRC, as well as serving as an excellent platform for us to achieve scalability and growth in our businesses going forward.

**(iii) We have strong product design and development capabilities and abilities to adopt new technology**

We recognise the importance of product design and development in ensuring our competitiveness in the sports footwear fashion market. We understand that our products are subject to fashion trends which change rapidly and which we must keep track of in order to stay competitive. As at the Latest Practicable Date, we have a dedicated team of 35 experienced personnel in our product design and development department to ensure that we keep up with the latest trends and designs suitable for our target consumers. Our product design and development personnel each has at least 5 years experience in sports footwear industry and they monitor closely market trends in the PRC and keep abreast of the latest international fashion trends from various sources such as industry journals, magazines and internet websites. In addition, our close business relationships with our OEM/ODM customers also provide us with a platform to stay up to date with the latest international fashion trends.

Currently, our product research and development department is able to come up with approximately 700 to 800 different designs specifications of products annually of which approximately 300 of the designs specification are approved developed into new products for mass production and launched to the market. Our ability to produce footwear with functions and features including shock absorption (缓冲), breathable material (透气) and odour resistance (防臭) are testaments to our capabilities in product design and development.

We believe that our continued emphasis on product research and development will ensure our continuing success.

**(iv) We place strong emphasis on quality products**

We place strongly emphasis on product quality by implementing a stringent quality assurance control system in our production process and have engaged the services and assistance of the Jinjiang City Product Quality Control and Inspection Centre to ensure consistency of our products. We were first accredited with ISO 9001:2000 in 2003 by the International certification Network and China Quality Mark Certification Group. Please refer to the Section 6.10 of this Prospectus for further details.

## 6. BUSINESS OF OUR GROUP (Cont'd)

We also provide staff training to our employees to ensure they are equipped with the knowledge and skills to meet customers' demands as well as our high standards of quality. Please refer to the Section 11.7 of this Prospectus for further details.

(v) **We are strategically located in the largest shoes producing province in the PRC**

We are based in Jinjiang City, Fujian Province which our Directors believe is the largest shoes producing province in the PRC. Our strategic location gives us easy access to customers, labour and suppliers of raw materials that we require for our business which in turn allows us to lower our production cost. Our Directors believe that most of the manufacturers and suppliers of raw materials for sports footwear in the PRC are located in Jinjiang City, Fujian Province and our close proximity to such raw material manufacturers and suppliers enable us to manage the supply of raw materials efficiently and to respond promptly to changes in market trend. In addition, Fujian Province has access to many domestic roads and railways and Xiamen Port which provide easy access to PRC domestic and international transportation routes.

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

Our Promoter, Executive Chairman and CEO, Ding Jianping (丁建萍), has over 29 years of experience in the sports footwear industry and he has played an integral role in the growth and development of our Group. His experience, drive and passion for our business has been instrumental to our Group's success to date.

Ding Jianping (丁建萍) is supported by our senior management team, which is goal oriented and has broad experience in sales and marketing, manufacturing, quality control and financial management. In addition, they have extensive experience and professional knowledge in the PRC footwear industry. We believe that the depth and extensive experience of our senior management team has contributed to the successful development of our business and the continuing commitment and contributions from our management team will spearhead our Group to the next phase of growth.

### 6.4 PRINCIPAL BUSINESS ACTIVITIES

We are a sports footwear company based in Jinjiang City, Fujian Province, PRC. We are principally engaged in the design, manufacture and distribution of sports footwear under our own Proprietary Brands with strong emphasis on product quality and development. Our products range comprises athletic footwear designed for specific sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure footwear. In addition, we are also an OEM and ODM for international sports brands including Umbro, Diadora, Kappa, Le Coq Sportif, Canguro, Die Wilden Kerle, Cosby and Bridgestone as well as PRC footwear brand, Double Star (青岛双星).

As at the Latest Practicable Date, we have only one business segment, namely the sports footwear business, and we serve the PRC domestic market and overseas market. Going forward, we intend to expand our business by increasing our product range to sports fashion apparel segment.

(a) **PRC Domestic Market**

Products under our Proprietary Brands are distributed to PRC domestic market via the Authorised Regional Dealers within the PRC, who in turn or through third party retailers, sell our products through Dixing Specialty Stores and/or shops-in-shops. We also manufacture OEM/ODM products for PRC footwear brand, Double Star (青岛双星).

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

(b) Overseas Market

Products under our Proprietary Brands are sold to overseas market including Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary by our customers in the PRC. We also manufacture OEM/ODM products for international sports brands including Umbro, Canguro, Die Wilden Kerle, Diadora, Kappa, Cosby, Bridgestone and Le Coq Sportif.

A breakdown of our revenue by geographical markets for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are shown in Section 7.2.2 of this Prospectus.

We believe that the success of our business is largely due to the successful branding of our Proprietary Brands. Since 1992, we have focused on building our Proprietary Brands of products. Our Proprietary Brands products have become well-recognised brands in the markets that we serve due to our extensive marketing efforts at brand-building and continuous efforts in product development. Our Proprietary Brands' popularity and market recognition are testified by the awards and accreditations received by us, including the Quanzhou Well-known Trademark (泉州市知名商标) in 2008 and the Fujian Famous Trademark (福建省著名商标) in 2009.

In addition, as part of the marketing strategies to enhance our brands' popularity, we have also engaged Tian Liang (田亮), a well known PRC athlete and two times Olympic diving champion, as our Proprietary Brands' ambassador since July 2008. Besides product marketing and development, we also emphasise strongly on product quality. The ISO 9001:2000 certificate which we received in 2003 together with the products quality certifications awarded by Double Star (青岛双星) and A.T.G. Sourceng Limited are strong testaments to our Group's emphasis on quality products.

Please refer to the Section 6.15 of this Prospectus for further details on the awards and accreditations we have received over the years.

Our products are distributed through our wide distribution network inside and outside the PRC.

As at the Latest Practicable Date, our Proprietary Brands products were retailed in 18 provinces and 3 municipalities in the PRC at 769 retail locations, of which 53 were Dixing Specialty Stores and 716 were shops-in-shops. Our products are also distributed in 13 wholesale points in Moscow, Russia.

Our headquarters and manufacturing facilities are all based in Jinjiang City, Fujian Province. As at the Latest Practicable Date, our annual aggregate production capacity was approximately 4 million pairs of shoes, and our annual aggregate production output (including products manufactured by our contract manufacturers) was approximately 7.9 million pairs of shoes.

Going forward, we intend to expand our business segments to sports fashion apparel and with that intent, we have started designing our own Proprietary Brands' sports fashion apparel since 2008, aimed to be launched in the second half of 2010.

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## 6. BUSINESS OF OUR GROUP (Cont'd)

### 6.5 BRAND MANAGEMENT, MARKETING AND DISTRIBUTION

#### 6.5.1 Brand Management

Since the establishment of our Proprietary Brands, our Group has focused on establishing and enhancing our brand to achieve market recognition for our products as quality products.

We have placed and will continue to place emphasis on building our brand image. We believe that brand image plays a significant role in our target consumers' buying decisions and we plan to promote greater awareness of our Proprietary Brands and products through various means such as increased marketing activities. We also intend to continue to emphasize on providing high quality products to our consumers as we believe it is a key factor in establishing our Proprietary Brands as well as the reputation of our Group.

Our Directors believe consumption growth in the second and third-tier cities is expected to outpace that of the rest of the PRC. Our target consumer group in these cities is mainly the middle-class customers who favour sportswear not only for its sporting functions but increasingly also as fashionable casual wear. Thus, we have positioned our Proprietary Brands as trendy and fashionable in order to capture this target market.

Furthermore, we believe that our association with Tian Liang (田亮), a well-known PRC athlete and two times Olympic diving champion, who has been our Proprietary Brands ambassador since July 2008, provides us with significant brand exposure and increases the appeal of our products among our target consumers.

In addition, we also have a product audit committee, comprising of approximately 10 personnel from our Sales and Marketing Department, to carry out monthly audit and site inspection at our Diving Specialty shops and other retail outlets, including shops-in-shops, and to conduct market research, for the purpose of co-ordinating with our authorised regional dealers on all logistics and inventory related issues and ensuring that they adhere to our sales and marketing policies and at the same time promoting greater awareness of our Proprietary Brands.

As part of our brand management, we require our PRC Authorised Regional Dealers to provide us with their monthly inventory and sales reports. These reports enable us to carry out random on-site inspections of our PRC Authorised Regional Dealers to track their inventories. The purpose of tracking the inventory level is mainly to allow us to gather sufficient information and data regarding the market acceptance of our products so that we can reflect the consumers' preferences in the design of our products for the next season. The tracking of inventory level also provides us with useful information such as the market acceptance of our products in a particular region so that we can modify our marketing strategy if needed.

As a testament of the popularity and market recognition of our Proprietary Brands, our business success and enterprise quality, we have received several awards and accreditations, details of which can be found in the Section 6.15 of this Prospectus.

#### 6.5.2 Marketing Activities

Our sales and marketing department is led by Li Zijun (李资君). He is responsible for (i) planning, implementing and monitoring of our sales and marketing activities; (ii) liaising and collecting feedback from our customers; (iii) identifying potential distributors and areas in which to expand our distribution network; and (iv) developing advertising and promotion strategies and interacting with advertising agencies and production houses.

## 6. BUSINESS OF OUR GROUP (Cont'd)

Presently, our representative Tang Chang Tuan (唐长团), who has more than 15 years experience in the shoe manufacturing industry, oversees the Group's wholesale marketing activities in Moscow, Russia where there are 13 wholesale points as at the Latest Practicable Date. He reports directly to Li Zijun (李资君) and is responsible for (i) liaising and collecting feedback from the local distributors/wholesalers/retailers in Russia and (ii) identifying potential wholesalers/sub-distributors and areas in which to expand our distribution network.

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

### *Advertising on various media*

We advertise in various medium to promote and market our Proprietary Brands and products including print media (such as magazines and newspapers), billboards (placed at train stations, bus stops, busses, shopping centres and wholesale markets), TV stations and through our website, focusing on our target customers, in particular, youth and young adults who are more sophisticated and discerning about sports footwear. In addition, we have engaged two-times Olympic diving champion and well-known and popular PRC athlete Tian Liang (田亮) as our brand ambassador since July 2008.

### *Sales fairs*

We organise at least two major sales fairs each year, usually in the months of May and October to showcase our latest products and to secure orders by our distributors for the upcoming seasons. We utilise these sales fairs as our key platform to showcase and market our latest product lines to our existing distributors as well as potential distributors and to obtain market feedback on our designs and market acceptance of our Proprietary Brands' products.

### *Customer Relationship Management and Market Development*

Since January 2008, we have stationed our company representative who is conversant in Russian language to Moscow, Russia to manage and develop relationships with our current and potential distributors and sub-distributors, promote our products and collate and analyse market and trend information. Our product audit committee also plays a very important role in maintaining our relationships with the Authorised Regional Dealers in the PRC market.

### *Product Exposition*

We also promote our products via our export agent PRC Exporter (Huayi Import and Export Co., Ltd) who participate in various product fairs and expositions held inside and outside the PRC. These fairs include CPD Düsseldorf (德国杜塞尔多夫国际服装鞋业博览会) and the China Import and Export Trade Forum (中国进出口商品交易会), commonly known as Canton Fair (广交会), which is held twice a year jointly by the China Foreign Trade Centre, the Ministry of Commerce of the PRC (中华人民共和国商务部) and the People's Government of Guangdong Province (广东省人民政府). Through such products exposition, we are able to showcase our products to the potential OEM/ODM customers and therefore, enhance our brand awareness and procure new customers.

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## 6. BUSINESS OF OUR GROUP (Cont'd)

### 6.5.3 Sales and Distribution Channels

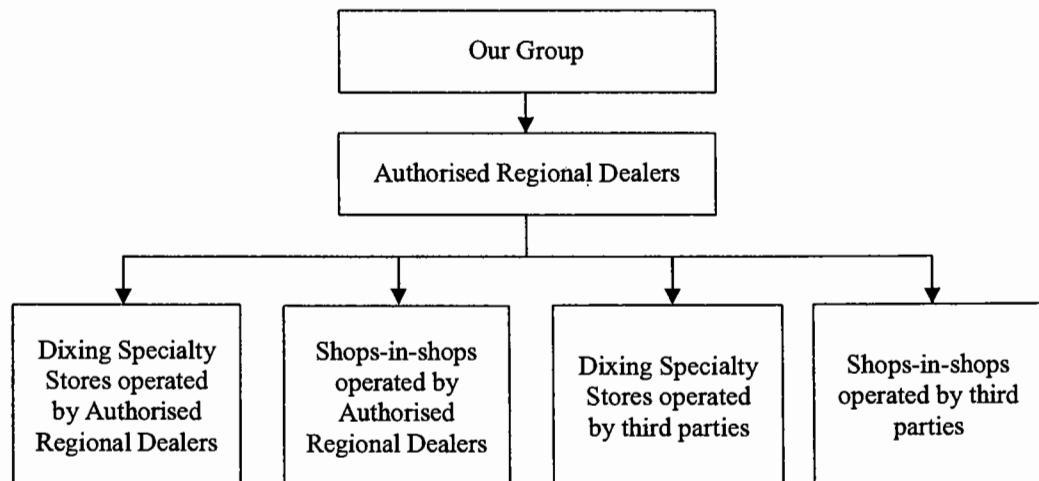
We do not sell our products directly to the end consumers. Our distribution channels are set out as follows:

#### PRC Domestic Market

Our products are distributed to PRC domestic market via our Authorised Regional Dealers within the PRC, who in turn or through third party retailers, sell our products through a wide network of Dixing specialty stores and/or shops-in-shops to consumers in the PRC. Our Authorised Regional Dealers are responsible for managing the network of retail outlets in their respective provinces. These dealers either directly operate the outlets themselves or appoint third party retail outlet operators to manage the outlets. We do not own or operate any of these retail outlets and do not enter into any contractual relationship with third party retail outlet operators appointed by our Authorised Regional Dealers.

As at the Latest Practicable Date, our Proprietary Brands products were retailed across 18 provinces and 3 municipalities in the PRC at 769 retail locations, of which 53 were Dixing Specialty Stores and 716 were shops-in-shops.

We set out below an illustration of our distribution channels for our PRC domestic market:

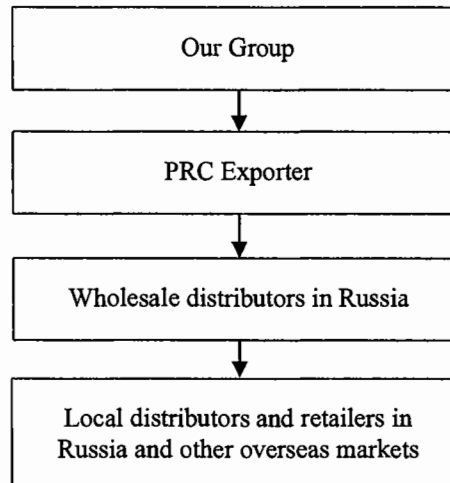


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6. BUSINESS OF OUR GROUP (Cont'd)

**Overseas Market**

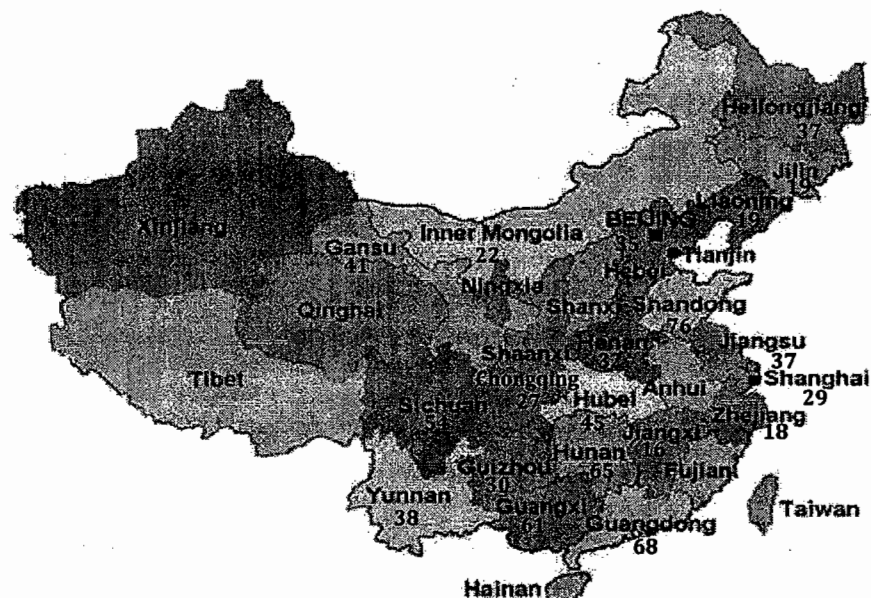
Our PRC Exporter exports and distributes both our Proprietary Brands' and third party brands' products. Our Proprietary Brands' products are exported to wholesale distributors in Russia who then distribute to local distributors and retailers in Russia and other overseas markets, such as Ukraine, Belarus, the Czech Republic, Poland, Finland, Romania and Hungary. Xiamen Waitu Import Export Co. Ltd. and Xiamen Huayu Import-Export Co. Ltd are among our top ten customers under the PRC Exporter category. We set out below an illustration of our distribution channels for our overseas market:



Please refer to Section 7.2 of this Prospectus for details on the principal markets for our products and the number of customers and sales per distribution channel during the Financial Years under Review.

**Authorised Regional Dealers in the PRC**

The locations and total number of specialty stores and shops-in-shops operated by PRC Authorised Regional Dealers and third parties under such locations as at the Latest Practical Date are summarised in the map below:



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

We set out below in tabular form details of our sales to our Authorised Regional Dealers in the PRC and the breakdown of the geographical location and the number of retail outlets under the local retail network of our Regional Authorised Dealers in the PRC as at the Latest Practicable Date:

Province / Municipality	No. of PRC Authorised Regional Dealers	Specialty Stores operated by PRC Authorised Regional Dealers	Specialty Stores operated by third parties	Shops-in-shops operated by PRC Authorised Regional Dealers	Shops-in-shops operated by third parties	Total stores
Hunan	3	2	3	5	55	65
Guangxi	1	3	3	6	49	61
Yunnan	1	1	1	3	33	38
Liaoning	1	2	-	1	16	19
Jilin	1	-	3	1	15	19
Heilongjiang	1	1	1	4	31	37
Shandong (Qingdao)	1	1	2	2	38	43
Shandong (Linyi and Zaozhuang)	1	-	1	1	14	16
Shandong (Zibo)	1	-	1	1	15	17
Hubei	1	1	2	3	39	45
Sichuan	1	1	2	2	49	54
Chongqing	1	1	-	2	24	27
Gansu	1	1	1	3	36	41
Guangdong	2	2	3	5	58	68
Beijing	1	-	2	3	30	35
Inner Mongolia	1	2	1	-	19	22
Hebei	1	-	-	-	-	-
Shanghai	1	-	1	2	26	29
Guizhou	1	1	1	2	26	30
Jiangsu	2	1	1	2	33	37
Henan	1	1	1	2	28	32
Zhejiang	1	1	-	2	15	18
Jiangxi	1	-	1	-	15	16
<b>Total</b>		<b>22</b>	<b>31</b>	<b>52</b>	<b>664</b>	<b>769</b>

We select our Authorised Regional Dealers based on a range of factors which we consider important for the operation of the Fujian Dixing sales network. To become our Authorised Regional Dealers in the PRC, a candidate generally must satisfy us that it has at least 5 years experience in the management and/or operation of retail outlets, sufficient financial resources and the ability to develop and operate a network of retail outlets in its designated sales region. We do not enter into any long-term agreement with any of our Authorised Regional Dealers in the PRC and all our agreements with our Authorised Regional Dealers are renewable on a yearly basis. Our Authorised Regional Dealers in PRC are expected to conduct sales and marketing strategies in conjunction with our sales and marketing department to increase awareness of our brands and products in their respective territories and to achieve the sales target as may be imposed by us from time to time.

In order to build a more consistent brand image nationwide, we invite our Authorised Regional Dealers in PRC to attend training sessions which are held quarterly so as to familiarise them with our Fujian Dixing sales policies and procedures, including our fixed price policy. Our sales and marketing department will conduct periodic on-site inspections to ensure that our Authorised Regional Dealers in PRC and their retailers comply with such policies and procedures.

## 6. BUSINESS OF OUR GROUP (Cont'd)

We would also provide branding and marketing support to our Authorised Regional Dealers via the funding of all major advertisements in the various media medium to promote and market our Proprietary Brands and products in the respective provinces to enhance our brand positioning as well as to provide the sponsor fees such as on-site advisory and inspection on the design and layout of the new specialty stores and shops-in-shops which include the display of our promotional posters featuring K-Star brand ambassador and products. In addition, we would provide financial support to our Authorised Regional Dealers by granting a higher credit limit in proportion to the setting up of new specialty stores and shops-in-shop.

### 6.6 PRODUCT DESIGN AND DEVELOPMENT

We believe our strong product design and development capability gives us a competitive edge over our competitors. We understand that our products are subject to fashion trends which change rapidly and we place great emphasis on our product design and development to ensure that our products can keep up with the fast changing consumer preference and market trends. We use both the advance design software and precision cutting machinery in enhancing our product design and development capabilities.

Our design and development department is led by our Executive Director, Ding Zidi (丁梓迪), and assisted by a dedicated team of more than 35 experienced personnel, including 6 products designers. Our product design and development department is responsible for products designing and sampling to drafting and colouring. Each of our product design and development personnel has at least 5 years experience in sports footwear industry and they monitor closely market trends in the PRC and keep abreast of the latest international fashion trends from various sources such as industry journals, magazines, internet websites and fashion shows and exhibitions held inside or outside the PRC. In addition, our close business relationships with our OEM/ODM customers also provide us with a platform to stay up to date with the latest international fashion trends.

Our products are designed in-house or in accordance with the specifications and requirements required by our customers, in a wide variety of functions, styles and colours. Through our emphasis on product designs and development, we have over the years developed a wide range of footwear with functions and features, such as breathable material (全透气), multi-function shock absorption (缓冲) and odour resistance (防臭).

As part of our product design and development efforts, we also organise at least two product seminars each year, usually in the months of March and July, during which we invite our customers who are aware of market trends, demands and product development to give their feedback and recommendation. This gives us sufficient time to develop new products for the sales fairs in May and October each year.

Presently, we estimate that our product design and development department is able to come up with approximately 700 to 800 designs and specifications annually for our footwear products, including variations on colour, stitching and other design features, of which approximately 300 of the designs and specifications are approved for mass production annually based on customers' orders.

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6. BUSINESS OF OUR GROUP (Cont'd)

Some of the sports footwear that we designed, developed and manufactured is depicted below:

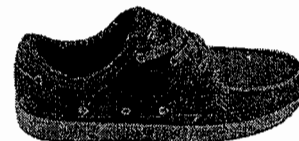
(i) Proprietary Brands



Running Shoes



Skateboarding Shoes



Leisure Sports Shoes



Running Shoes



Leisure Sports Shoes



Leisure Sports Shoes

(ii) Third Party Brands



Le Coq Sportif  
- Leisure Sports Shoes



Kappa  
- Leisure Sports Shoes



Double Star  
- Mountain Climbing



Canguro  
- Leisure Sports Shoes



Umbro  
- Running Shoes



Double Star  
- Mountain Climbing

**Design and development steps undertaken for our Proprietary Brands products**

The key product design and development steps undertaken by our design and development team for our Proprietary Brands' products are as follows:

**Stage 1 – Product conceptualisation**

Based on frequent communication with our distributors relating to market trends, consumer preferences and technological changes in the production of sports shoes, we would generate certain product concepts. These are reviewed by our product development team on a regular basis. After detailed discussions, the product development team will nominate certain product concepts for further development.

## 6. BUSINESS OF OUR GROUP (Cont'd)

### Stage 2 – Product prototype and market testing

Prototypes of the concept products are produced and tested physically for fit and comfort. We will then introduce these products at our bi-yearly product seminars with our customers to assess the products' marketability and suitability for mass production.

### Stage 3 – Market introduction

Based on our PRC distributors' feedback at our product seminars, we will modify the prototypes and introduce these prototypes to our PRC distributors at our sales fairs. We will then identify products which are more popular amongst our customers or modify the products to suit customers' preferences. We will launch production of the new products based on customers' orders received at the sales fairs.

### Design and development steps undertaken for our OEM/ODM products

The key product development steps undertaken by our product development team for our OEM/ODM products are as follows:

#### Stage 1 – Product conceptualisation

Based on frequent communication with our ODM/OEM customers relating to market trends, consumer preferences and technological changes in the production of sports shoes, we would generate certain product concepts. These are reviewed by our product development team and our customers on a regular basis. After detailed discussions with our customers, certain product concepts will be nominated for further development.

#### Stage 2 – Product prototype

OEM/ODM prototypes of the concept products are produced and tested physically for fit and comfort. Our OEM/ODM customers will then assess the products' marketability and suitability for mass production.

#### Stage 3 – Market introduction

Based on OEM/ODM customer feedback, we will modify the prototypes and launch production of the new products based on customers' orders.

Our product design and development expenditure for the last three financial years were less than 1% of our cost of sales as our product development expenditure mostly relate to costs of consumables for product prototypes and remuneration costs of our product development staff.

The average time required from product conceptualisation to product prototype and market testing would typically range from 15 to 30 days.

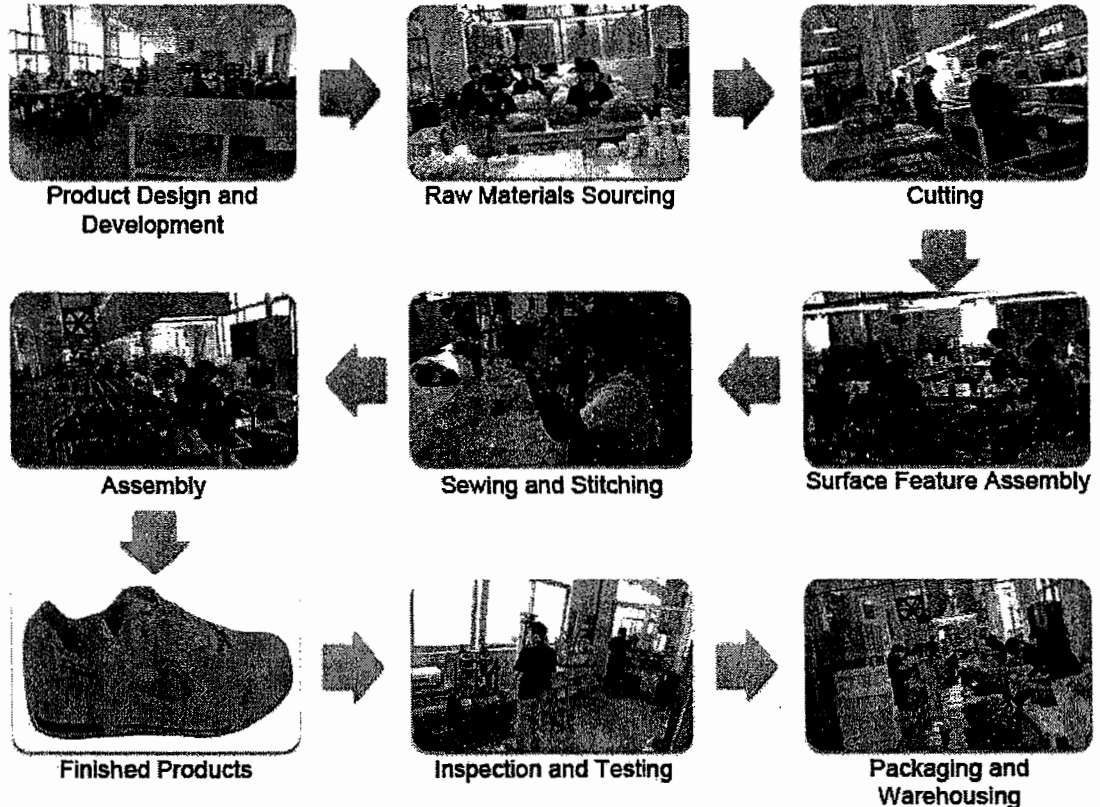
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## 6. BUSINESS OF OUR GROUP (Cont'd)

### 6.7 PRODUCTION PROCESS

We set out below the production process for our footwear products:



(a) ***Product Design and Development***

Please refer to the Section 6.6 of this Prospectus for details.

(b) ***Raw Materials Sourcing, Inspection and Testing***

We purchase raw materials (mainly, synthetic and genuine leather, nylon and shoe soles) from our suppliers and personnel from our quality assurance department will carry out inspection and testing on samples of raw materials supplied to us on a random basis to ensure that the quality of the raw materials meet our specifications and quality standards. Raw materials that do not meet our specifications and requirements are returned to our suppliers. Please refer to the Section 6.10 of this Prospectus for details on our quality assurance.

(c) ***Cutting***

Shoes normally comprise two major components: the upper shoe and the sole unit. The upper shoe is made of different components including the tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim. We produce and assemble our own upper shoe from the various raw materials we purchase from our suppliers. The upper shoe is made of various raw materials such as synthetic leather, genuine leather, nylon and mesh. These raw materials are cut into different shapes according to the design specifications to form various parts of the upper shoe. We do not produce our own soles but purchase them from our suppliers.

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

**(d) Surface Feature Assembly**

The design features such as our Dixing, K-Star and/or DXP logos are sewn onto or imprinted onto the different parts of the upper shoe.

**(e) Sewing and Stitching**

The various components of the upper shoe such as the tip, eyelet, tongue, tongue lining, heel lining, collar and heel, side trim are stitched together to form a completed upper shoe and the shape of the footwear.

**(f) Assembly**

The assembly process is the most critical stage of our production process as this is where the semi-finished products are combined to form the finished products. The last and the upper shoe are placed together and then placed onto a lasting machine to ensure a good fit of the upper to the shape of the last. The insole board is then glued onto the sole unit and the lasted upper is then attached to the insole board together with the sole unit. The completed but unfinished footwear is then pressed around the last using the pressing machines to ensure that the sole unit is attached to the upper properly, after which, the last is removed.

**(g) Finished Products**

Finishing operations such as the insertion of insoles and laces are carried out. Each pair of footwear is also cleaned.

**(h) Inspection and Testing**

The finished products will undergo final inspection for quality and defects. All defective products which are not rectifiable will then be disassembled.

**(i) Packaging and Warehousing**

The finished products are then packed into boxes according to various colours and sizes. The boxes are then packed into cartons and stored in our warehouses for our Authorised Regional Dealers to collect. We do not make deliveries to our Authorised Regional Dealers.

**6.8 PRODUCTION FACILITIES AND CAPACITY**

As at the Latest Practicable Date, we produce only sports footwear products. Our production facilities, consisting four (4) production lines, two (2) in Factory A and one (1) each in Factory B and Factory C, are all based in Jinjiang City, Fujian Province. The estimated annual production capacity and the output utilisation rates for the production (and sales volumes) of our sports footwear products for the Financial Years under Review are as follows:

Sports footwear products (Pairs of shoes)	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Capacity ('000) <sup>(1)</sup>	2,790	3,968	3,968	3,968
Output ('000) <sup>(2)</sup>	2,581	3,604	3,741	3,805
Utilisation Rate (%) <sup>(3)</sup>	92.5	90.8	94.3	95.9
Sales volume ('000)	3,266	4,680	6,929	7,891
Sales volume over capacity (%)	117.1	117.9	174.6	198.9

## 6. BUSINESS OF OUR GROUP (Cont'd)

Notes:

- (1) *The production capacity of our production facilities is measured in terms of the number of pairs of footwear manufactured based on (i) the time interval between the placement of each on the production line; (ii) the number of production lines employed by us during the Financial Years under Review being operational for approximately 10 hours per day, 310 days a year and (iii) the level of productivity of our production line which was determined by the machinery design, set-up speed and experience level of our production staff which has increased based on number of pairs of footwear per production line per hour by 6.7% from 300 in FYE 2006 to 320 for FYE 2007 to FYE 2009. The production capacity of our production facilities for each of the financial year is calculated based on 4 production lines employed by us during the financial year being operational for 10 hours per day, 310 days a year (320 pair of footwear per line).*
- (2) *Even though we have added our third and fourth production line in FYE 2006 and FYE 2007, the utilisation rates of our production capacity has exceeded 90% from FYE 2006 onwards. To cope with demand, we have leveraged on higher level of outsourcing production which resulted in a higher sales volume over capacity in these corresponding years and period. The total numbers of pairs of footwear sold by us were approximately 3.3 million, 4.7 million, 6.9 million and 7.9 million in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Our production output for footwear were approximately 2.6 million pairs, 3.6 million pairs, 3.7 million pairs and 3.8 million pairs in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Our corresponding production outsourced to third party contract manufacturers in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 were approximately 0.7 million pairs, 1.0 million pairs, 3.5 million pairs and 4.0 million pairs respectively.*
- (3) *The utilisation rate of our production facilities in each financial year is calculated by dividing the total number of footwear produced for the whole of that financial year or period by the production capacity.*

As part of our future plans, we intend to invest in 2 additional production lines for the manufacture of our footwear products. Notwithstanding the expansion on the 2 additional lines, the Company is expected to continue the engagement with its third party contract manufacturers even though the expansion in the Company's own production lines would certainly reduce its dependency on third party contract manufacturers, it would still not be sufficient for the Company to cope with the expected increase in sales and production.

Upon such completion, we estimate that our total annual production capacity of footwear products will increase to approximately 6 million pairs. Please refer to the Section 5.10 of this Prospectus for details.

### 6.9 TYPES, SOURCES AND AVAILABILITY OF RAW MATERIALS

The primary raw materials used in the production of our products are leather, nylon, fabrics, rubber and EVA shoe soles. Being based in Jinjiang City which is reputed as the largest shoe producing province in the PRC, we have easy access the supply of raw materials. We do not rely solely on any single supplier for any one of our raw materials and only a relatively small portion of our raw materials are sourced from international markets.

Although our raw materials are generic and readily available the market prices of these raw materials are subject to fluctuation. Our management team works closely with our supplier to ensure that there are sufficient raw materials to support our production. Up to the Latest Practicable Date, our production has not been materially affected by the price volatility of our raw materials.

### 6.10 QUALITY CONTROL AND MANAGEMENT

We place great emphasis on quality assurance in all aspects of our operations, from procurement to production, to ensure that we satisfy our customers' quality requirements. As a testimony to our commitment to quality products, we were accredited with ISO 9001:2000 in 2006 by the International Certification Network and China Quality Mark Certification Group.

As at the Latest Practicable Date, our quality assurance department led by Zhong Ming (钟明), comprise 25 employees, all of whom have at least 7 years' experience in quality assurance and have gone through the relevant training in the area of quality assurance in accordance with the ISO 9001:2000 procedures and the relevant national and industrial standards.

## 6. BUSINESS OF OUR GROUP (Cont'd)

### 6.10.1 Quality assurance in the manufacture of our sports shoes

We have established the following quality assurance procedures at various stages of our production process to ensure the quality and standard of our products:

#### (a) Raw material quality control

All raw materials used in our production process are subject to our strict internal quality control and testing. We select the suppliers of our raw materials based on certain requirements such as their reputation, manufacturing experience, quality control and price.

Incoming raw materials are subjected to random visual inspection and certain tests, such as the temperature and endurance test, the material strength test and the colour retention test (please refer to the Section 6.7 of this Prospectus for details), to ensure that the quality and standard of the raw materials meet our requirements.

Raw materials that do not meet our specifications and requirements are returned to our suppliers for replacement or rectification. We subject all raw materials to a further round of inspection before utilising them in our production process.

#### (b) Production process quality control

We perform manual inspection at each stage of production process. These inspections are performed at the quality control stations located at the three sections along the production process. Inspection is carried out by members of our quality control team, all of whom are experienced production employees and who understand the production process well. Work-in-progress items which are found to be defective or which do not meet our specifications and requirements will be immediately rectified at the appropriate points of the production process.

#### (c) Finished products quality control

Our quality control team will perform a final inspection on all finished products prior to packing. Finished products which are defective or do not meet our specifications will be rejected. In addition to our quality control team, our OEM/ODM customers may place their own quality control staff to perform random sample inspections as well.

In addition, samples from a production run are also randomly selected and put to the following tests wherein testing readings are recorded to ensure quality compliance and for product development purpose:

- (i) Material strength test – footwear is tested on a machine which stretches the footwear until its breaking point to determine the maximum amount of stretching that the footwear can withstand before its breaking point;
- (ii) Colour retention test – footwear is subjected to ultra violet radiation to test on its resistance to discolouration;
- (iii) Shoe bending test - footwear is subject to repeated bending and flexing up to 80,000 times (under normal temperature) and 40,000 times (under low temperature) to simulate walking and running movements;
- (iv) Temperature endurance test - in conjunction with the shoe bending test, product is placed in a machine and exposed to extreme temperatures to test its resistance and endurance to bending and flexing under adverse conditions;

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

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- (v) Impact-resistance test – product is computer-tested for its resistance to friction and impact. An acceptable industry standard is a reading of 8 or lower; and
- (vi) Physical test for fit and comfort.

**6.10.2 Quality control for products manufactured by our contract manufacturers**

To ensure the quality of the products manufactured by our contract manufacturers, we also position members of our quality control team at our contract manufacturers' production facilities to carry out quality assurance checks on a daily basis. Before actual commencement of the production, we will first require our contract manufacturers to produce a small quantity for our assessment of compliance with our specifications. Our quality control team will monitor every stage of the production to ensure strict compliance by our contract manufacturers. To ensure consistent product quality, we supply raw materials to our contract manufacturers. We also discourage waste of raw materials and require our contract manufacturers to compensate us for any raw material wasted and for defective products in excess on the allowed limit. We may cease engaging any of our contract manufacturers who consistently manufacture products that do not meet our quality standards. Similarly, we also require our contract manufacturers to perform manual inspection at three sections along their production process, supervised by members of our quality control team.

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## 6. BUSINESS OF OUR GROUP (Cont'd)

### 6.11 MAJOR CUSTOMERS

Our major customers who accounted for 10% or more of our Group's total revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are as follows:

Name of customer <sup>(1)</sup>	Location	Length of relationship (Years)	Principal activity	As a percentage of Group's revenue (%)			
				FYE 2006	FYE 2007	FYE 2008	FYE 2009
Xiamen Waitu Import-Export Co., Ltd (厦门外图进出口有限公司) <sup>(2)</sup>	Xiamen, Fujian Province	4	Export and export related activities	29.2	15.4	13.1	6.7
Qingdao Double Star Celebrity Industrial Co., Ltd (青岛双星名人实业股份有限公司) <sup>(3)</sup>	Qingdao, Shandong Province	13	Manufacturer and distributor of sports shoes products	11.2	14.6	6.3	9.1
				40.4	30.0	19.4	15.8

Notes:

- (1) Saved for Xiamen Waitu Import and Export Co., Ltd and Qingdao Double Star Celebrity Industrial Co., Ltd who are our Export Distributors and PRC OEM/ODM customer respectively, the majority of our customers are our PRC Authorised Regional Dealers.
- (2) The decreasing trend of Xiamen Waitu Import-Export Co., Ltd in term of percentage contribution to our Group's total revenue was primarily attributed to diversification of our sales to other Export Distributors to reduce the risk of dependency on any single Export Distributor.
- (3) Fluctuations in contribution by Qingdao Double Star Celebrity Industrial Co. Ltd were mainly due to commercial reasons such as the unfavourable rate of margins being offered to us and the limitation of our production capacity to undertake higher orders from Qingdao Double Star Celebrity Industrial Co. Ltd for FYE 2008.

Save as disclosed above, none of our customers accounted for 10% or more of our total revenue for the Financial Years under Review. To the best of our Directors' knowledge, we are not aware of any information or arrangements which would lead to a cessation or termination of our current relationship with any of our major customers listed above.

Our business or profitability is not materially dependent on any industrial, commercial or financial contract with any of our customers.

None of our Directors or substantial shareholders or their respective associates has any interest, direct or indirectly, in any of the above major customers.

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

**6.12 MAJOR SUPPLIERS**

Our major suppliers who accounted for 10% or more of our total purchases for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 are as follows:

Name of Supplier	Length of relationship (Years)	Principal activity	Supply	As a percentage of Group's purchases (%)			
				FYE 2006	FYE 2007	FYE 2008	FYE 2009
Jinjiang Xing An Leather Industry Co., Ltd (晋江兴安皮业有限公司)	4	Supplier of leather	Leather	16.8	-	0.5	3.8
Fujian Jinjiang Chendai Jiangtou Maotai Xiangshuo Factory (福建省晋江市陈埭江头茂泰橡塑厂)	4	Supplier of shoe soles	Shoe sole	14.0	15.3	11.5	1.3
Shenghui (Fujian) Shoes Material Co., Ltd (盛辉(福建)鞋材有限公司)	4	Supplier of shoe soles	Shoe sole	13.3	16.2	11.4	2.4
Quanzhou Chaoshengda Sports Co., Ltd. (泉州超盛达体育用品有限公司)	4	Supplier of shoe soles	Shoe sole	12.6	-	0.3	4.5
				56.7	31.5	23.7	12.0

Save as disclosed above, none of our suppliers accounted for 10.0% or more of our total purchases for the Financial Years under Review. To the best of our Directors' knowledge, we are not aware of any information or arrangements which would lead to a cessation or termination of our current relationship with any of our major suppliers listed above.

Our business or profitability is not materially dependent on any industrial, commercial or financial contract with any of our suppliers.

None of our Directors or substantial shareholders or their associates has any interest, direct or indirectly, in the above major suppliers.

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6. BUSINESS OF OUR GROUP (Cont'd)

6.13 INTELLECTUAL PROPERTY

Registered Trademarks

We set out below details of our registered trademarks:

Trademark	Class & Specification	Registration / Application No.	Place of Registration	Validity Period
	25	1529181	PRC	28 February 2001 to 27 February 2011
帝興	25	1741983	PRC	7 April 2002 to 6 April 2012
DIXING	25	3275552	PRC	28 February 2004 to 27 February 2014
	25	667923	PRC	28 November 1993 to 27 November 2013
	25	749571	White Russia, Russia, Ukraine	2 January 2001 to 2 January 2011
	25	868275	Finland, Lithuania	20 September 2005 to 20 September 2015
	25	3275553	PRC	21 January 2008 to 20 January 2018
	25	830347	Finland	24 May 2004 to 24 May 2014
德成 DE CHENG	25	1128478	PRC	21 November 1997 to 20 November 2017

Note:



(1) Class 25 comprises clothing, footwear and headgear.



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

**Trademark Applications**

As at the Latest Practicable Date, we have filed the following trademark applications in the PRC which are pending approval by the relevant PRC authorities:


Trademark	Class	Application No.	Date of Application
<b>K-Star</b>	25	5731314	20 November 2006
	25	5731313	20 November 2006
	25	4081875	25 May 2004

Note:

(1) Class 25 comprises clothing, footwear and headgear.

**Third Party Licenses**

For the purpose of our OEM and ODM operations, we have been licensed to use the following trademarks:

- (1) Fujian Dixing has been authorised to manufacture shoes bearing  trademark by Descente Ltd, through Xiamen Unibest Import and Export Co., Ltd and Shinyo Trading Co., Ltd for a period of two (2) years commencing from 18 September 2008.
- (2) Fujian Dixing is authorised by Guangzhou Panyu Jianbu (Shawan & Hong Kong) Shoes Factory, the PRC agent of P. Canguro S.p.A., to produce and sell sports footwear carrying the "CANGURO" trademark within the PRC from 1 January 2004 to 31 December 2011.
- (3) By a letter dated 23 June 2009, Kappa International Footwear Limited authorised Fujian Dixing to sample and supply goods under trademarks of "KAPPA" to produce the sport shoes effective 25 June 2009 to 26 June 2010.
- (4) By a letter dated 4 June 2009, Egim Shoes B.V. confirmed that A.T.G. Sourcing Ltd. is authorised to produce and source footwear carrying "Die Wilden Kerle" trademark through Fujian Dixing.
- (5) ATG Sourcing Limited vide its letter dated 6 December 2009, confirmed that it had been granted the right to use the trademark "Diadora" by Diadora UK Ltd and it in turn authorised Fujian Dixing to produce Diadora branded products from 6 December 2009 to 6 December 2010.

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

- (6) By a letter dated 6 December 2009, ATG Sourcing Limited confirmed that it is the legal licensee to the trademark "UMBRO" and it authorised Fujian Dixing to produce "UMBRO" branded products from 6 December 2009 to 6 December 2010.
- (7) ASAHI Corporation by its letter dated 1 June 2009, entrusted Fujian Dixing through Xiamen Unibest Import and Export Co., Ltd. and Shinyo Trading Co., Ltd. to manufacture shoes bearing "BRIDGESTONE" trademark for a period of 3 years commencing from 1 June 2009.
- (8) Fujian Dixing is authorised by Xiamen Baifu Trading Co., Ltd to design and manufacture "COSBY" brand products from 24 April 2008 to 28 February 2012.
- (9) Fujian Dixing is authorised by Qingdao Doublestar Group Co., Ltd. (青岛双星集团股份有限公司) to design and manufacture the "Double Star" branded products from 15 August 2009 until 15 August 2012 via an agreement dated 10 August 2009.

Save as disclosed above, our business or profitability is not materially dependent on nor do we have any other registered trademark, patent or licence or any other intellectual property rights.

**6.14 MAJOR LICENSES, PERMITS, REGISTRATIONS AND CERTIFICATIONS**

As at the Latest Practicable Date, our business operations in the PRC are not subject to any special legislation or regulatory controls which have a material effect on our business and operations, other than those generally applicable to companies and business operating in the PRC set out under Appendix C of this Prospectus.

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Singapore Company Registration No.: 200820976H  
 Malaysia Branch Registration No.: 995214-D

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

The following is a description of the material licences and permits issued to companies in our Group in order for us to carry out operations, other than those pertaining to general business registration requirements:

License / Permit / Approval & No.	Issuing Authority	Date of issuance / Validity	Purpose of the License / Permit / Approval	Material conditions imposed	Status of compliance
Foreign Investment Certificate 商外资闽泉外资字 (1992) 1410 号	Fujian Provincial People's Government	2.9.2009 / N/A	Approval for establishment of foreign enterprise with foreign investment in PRC	(1) Subject to annual review; (2) To apply for re-issuance of license in the event of variation of registered information	Complied
Business License No. 350500400012391	Quanzhou AIC	9.9.2009 / From 7.11.1992 to 7.11.2022	Business License for manufacturing of footwear products (excluding plastic slippers)	(1) Subject to annual review; (2) To apply for re-issuance of license in the event of variation of registered information	Complied
Tax Registration Certificate No. 闽国税登字 350582611538870	Fujian Jinjiang National Tax Bureau & Jinjiang Local Tax Bureau	16.10.2006 / N/A	Tax Registration Certificate	(1) Subject to annual review; (2) To apply for re-issuance of license in the event of variation of registered information	Complied
Enterprise Technical Code Certificate No. 组代管 350500-067298	Quanzhou Quality & Technology Supervision Bureau	11.6.2009 / From 11.6.2009 to 11.6.2013	Enterprise technical code certificate	(1) Subject to annual review; (2) To apply for re-issuance of license in the event of variation of registered information	Complied
Pollutant Discharge Permit 晋环(2009)证字第 Y063 号	Jinjiang Environment Protection Bureau	13.8.2009 / From 13.8.2009 to 12.8.2012	Pollutant Discharge License	(1) Subject to annual review and the pollutant discharge standard stipulated in the pollutant discharge permit; (2) To apply for re-issuance of license in the event of variation of registered information	Complied
Foreign Exchange Registration Certificate No. 00027461	Jinjiang SAFE	N/A / N/A	Foreign Exchange Registration	(1) Subject to annual renewal; (2) To apply for re-issuance of license in the event of variation of registered information	Complied

## 6. BUSINESS OF OUR GROUP (Cont'd)

The Group has obtained and maintained all the necessary permits, approvals, consents, authorisations and licenses in relation to its establishment and the conduct of its businesses and operations and has complied with applicable PRC laws and regulations in all material aspects. No other permits, approvals, consents, authorisations and licenses, other than those that the Group has already obtained, are required under the PRC laws and regulations and other legal, regulatory requirements and guidelines to conduct its operations and business activities.

We are not aware of any complaints or protests in relation to environmental pollution against our Group, and we have not been subject to any administrative sanctions or other regulatory penalties relating to environmental concerns.

The Group intends to renew the licences and permits on or before their expiry. The Directors do not foresee any difficulties or issues in the renewal of these licences and permits.

Save as disclosed above, as at the date of this Prospectus, our business or profitability is not materially dependent on any other licences and permits.

### 6.15 AWARDS AND ACCREDITATIONS

As testimony to our commitment to product excellence and developing and maintaining our good relations with our suppliers, customers and other business partners, we have received the following awards and accreditations:

Year	Awards and Accreditations	Significance	Awarded by
1997 - 1998	AAA Credit Rating Enterprise (AAA 级信用企业)	Recognition of credit rating	China Construction Bank, Quanzhou Branch (中国建设银行, 泉州市分行)
1999	A Credit Rating Enterprise (A 类企业)	Recognition of tax paying integrity	Jinjiang City Tax Bureau (晋江市地方税务局)
2000	Advance Enterprise Award (先进企业)	Recognition of tax paying integrity	Chendai Town Committee, Chendai People's Government (中共陈埭镇委员会, 陈埭镇人民政府)
2001	Award for Foreign Owned Enterprises with High Foreign Exchange Earnings and High Pre-Tax Profit (“双优”企业奖)	Recognition of tax paying integrity and market credibility	China Association of Enterprises with Foreign Investment (中国外商投资企业协会)
2002	The 4 <sup>th</sup> Jinjiang Footwear (Intl) Exposition – Silver Award (第四届晋江国际鞋业博览会-银奖)	Recognition of product quality and sales volume of participants	Organising Commission of Jinjiang Footwear (Intl) Exposition (晋江国际鞋业博览会组织委员会)
2003	ISO 9001:2000	Recognition of conformity with industrial standards for design and production of sports and leisure shoes	The International Certification Network and China Quality Mark Certification Group

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

Year	Awards and Accreditations	Significance	Awarded by
2006 - 2007	Best Quality Supplier (品质最佳供应商)	Recognition of products quality	A.T. G. Sourcing Limited
2008	Quanzhou Well-known Trademark (泉州市知名商标)	Recognition of the brand awareness of our products in Quanzhou	Quanzhou Famous Trademark Determination Committee (泉州市知名商标认定委员会)
2008 - 2009	Best Quality Supplier (最佳合作供应商)	Recognition of product quality	Qingdao Double Star Group (青岛双星集团驻闽办事处)
2009	Fujian Famous Brand (福建省著名商标)	Recognition of the brand awareness of our products in Quanzhou	Department of Commercial Administration, Fujian Province (福建省工商行政管理局)
2009	2009 Fujian Province Quality and Market Credibility Double Assurance Enterprise (2009年度福建省质量信誉双保障企业)	Recognition of product quality and market credibility	Fujian Province Commercial Daily, Weekly Quality Magazine Department. (福建工商时报质量周刊部)

**6.16 DEPENDENCY ON CONTRACTS OR ARRANGEMENTS**

As at the Last Practicable Date, there is no single contact or arrangement that our Group depends highly on that could materially affect our business or profitability.

**6.17 INTERRUPTION IN BUSINESS**

There has been no interruption to our Group's business which had a significant effect on our operations during the past 12 months preceding the Last Practicable Date.

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## 7. HISTORICAL FINANCIAL INFORMATION

### 7.1 HISTORICAL PROFORMA CONSOLIDATED FINANCIAL INFORMATION

Our proforma consolidated financial information was extracted from the audited consolidated financial statements of our Group for the FYE 2006 to FYE 2009. The proforma consolidated financial information of our Group is provided for illustrative purposes only, after incorporating such adjustments considered necessary and assuming that the present structure of our Group has been in existence throughout the Financial Years under Review.

There has been no audit qualification on the audited consolidated financial statements for the Financial Years under Review. The audited consolidated financial statements for the Financial Years under Review were prepared in accordance with IFRS and audited by Messrs. Foo Kon Tan Grant Thornton, Singapore and have been reviewed by our Reporting Accountants, Messrs. SJ Grant Thornton, Kuala Lumpur. The audited consolidated financial statements consolidate the financial statements of all subsidiary of K-Star during the Financial Years under Review. The bases and accounting policies used for the purpose of preparing our proforma consolidated financial information are consistent with those adopted in the preparation of the audited consolidated financial statements of our Group for the Financial Years under Review.

You should read the proforma consolidated financial information in conjunction with the management's discussion and analysis of results of operations and financial condition and the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Sections 7.2 and 7.3 of this Prospectus respectively.

#### Exchange rate

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

As at the Latest Practicable Date, the exchange rate between the RMB and the RM was RM0.4732: RMB1.00. The table below sets out the high and low exchange rates for RMB/RM for each month during the 6 months prior to the Latest Practicable Date. The table below indicates the equivalent amount of RM for RMB1.00.

	RMB/RM	
	High	Low
October 2009	0.5096	0.4922
November 2009	0.5026	0.4927
December 2009	0.5035	0.4939
January 2010	0.5021	0.4888
February 2010	0.5045	0.4955
March 2010	0.4962	0.4779

The following table set out, for each of the financial years indicated, the average and closing exchange rates between RMB and RM as extracted from Paragraph 4 of the Accountants' Report in Section 8 of this Prospectus. The average exchange rate between RMB and RM is calculated using the average of the exchange rates on the last day of each month during each financial year. Where applicable, the exchange rates in this table are used for our financial statements disclosed elsewhere in this Prospectus.

**7. HISTORICAL FINANCIAL INFORMATION (Cont'd)**

	RMB/RM	
	Average	Closing
FYE 2006	0.4594	0.4521
FYE 2007	0.4518	0.4563
FYE 2008	0.4826	0.5081
FYE 2009	0.5157	0.5019

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

All figures stated in RMB are converted to RM, where applicable. The applied rates of exchange for FYE 2006 to FYE 2009 are as outlined above.

**7.1.1 Proforma Consolidated Income Statements**

Our proforma consolidated income statements have been prepared based on the audited consolidated financial statements of our Group for the Financial Years under Review for illustrative purposes only and are to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

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**7. HISTORICAL FINANCIAL INFORMATION (Cont'd)**

	Audited							
	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	156,729	72,001	300,519	135,774	501,069	241,816	571,063	294,497
Cost of sales	(122,902)	(56,461)	(227,540)	(102,802)	(374,486)	(180,727)	(431,852)	(222,706)
Gross profit	33,827	15,540	72,979	32,972	126,583	61,089	139,211	71,791
Other income	41	19	230	104	57	28	112	57
Selling and distribution expenses	(4,908)	(2,255)	(9,122)	(4,121)	(15,331)	(7,399)	(9,502)	(4,900)
Administrative expenses	(4,269)	(1,961)	(5,216)	(2,357)	(7,978)	(3,850)	(10,426)	(5,377)
Operating profit	24,691	11,343	58,871	26,598	103,331	49,868	119,395	61,571
Finance cost	(454)	(209)	(969)	(438)	(843)	(407)	(565)	(291)
PBT	24,237	11,134	57,902	26,160	102,488	49,461	118,830	61,280
Income tax	(5,724)	(2,629)	(15,370)	(6,944)	(25,249)	(12,185)	(30,522)	(15,740)
PAT	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Attributable to:								
Equity holder	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Minority interest	-	-	-	-	-	-	-	-
	18,513	8,505	42,532	19,216	77,239	37,276	88,308	45,540
Depreciation	1,930	887	2,249	1,016	2,497	1,205	2,918	1,505
Amortisation	194	89	197	89	197	95	197	102
Interest expense	454	209	969	438	843	407	565	291
EBITDA	26,815	12,319	61,317	27,703	106,025	51,168	122,510	63,178
Gross Profit Margin (%)	21.58	21.58	24.28	24.28	25.26	25.26	24.38	24.38
PBT margin (%)	15.46	15.46	19.27	19.27	20.45	20.45	20.81	20.81
PAT margin (%)	11.81	11.81	14.15	14.15	15.41	15.41	15.46	15.46
No. of Shares assumed in issue ('000) <sup>(1)</sup>	73,479	73,479	73,479	73,479	73,479	73,479	73,479	73,479
Gross EPS (RMB/RM) <sup>(2)</sup>	0.33	0.15	0.79	0.36	1.39	0.67	1.62	0.83
Net EPS (RMB/RM) <sup>(3)</sup>	0.25	0.12	0.58	0.26	1.05	0.51	1.20	0.62

**Notes:**

- (1) Being the number of K-Star Shares assumed in issue immediately prior to the Public Issue.
- (2) Computed based on the consolidated PBT divided by the number of K-Star Shares assumed in issue.
- (3) Computed based on the consolidated PAT divided by the number of K-Star Shares assumed in issue.



## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

### 7.1.2 Proforma Consolidated Cash Flow Statements

Our proforma consolidated cash flow statements have been prepared based on the audited consolidated financial statements of our Group for the Financial Years under Review for illustrative purposes only. The proforma consolidated cash flow statement for FYE 2009 has been prepared based on the assumption that the Listing Scheme has been completed.

The proforma consolidated cash flow statements are to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

	FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
PBT	102,488	49,461	110,407	57,052
Adjustments for:				
Depreciation of property, plant and equipment	2,497	1,205	2,918	1,505
Amortisation of land use rights	197	95	197	102
Property, plant and equipment written off	33	17	-	-
Gain on disposal of property, plant and equipment	-	-	(36)	(18)
Interest expenses	843	407	565	291
Interest income	(57)	(28)	(73)	(38)
Listing expenses written off	-	-	8,423	4,228
Operating profit before working capital changes	106,001	51,157	122,401	63,122
Changes in working capital:-				
(Increase)/decrease in inventories	(11,622)	(5,905)	8,401	4,218
Increase in receivables	(54,309)	(27,594)	(87,628)	(43,881)
Increase/(decrease) in payables	12,748	6,477	(7,815)	(3,922)
Cash generated from operations	52,818	24,135	35,359	19,537
Interest received	57	28	73	38
Interest paid	(843)	(407)	(565)	(291)
Income tax paid	(24,941)	(12,037)	(27,182)	(13,990)
Net cash from operating activities	27,091	11,719	7,685	5,294
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment				
- by working capital	(11,125)	(5,369)	(12,038)	(6,208)
- by listing proceeds	-	-	(8,289)	(4,160)
Proceed from disposal of property, plant and equipment	-	-	80	41
Downpayment for purchase of land	-	-	(7,200)	(3,713)
Acquisition of land use rights	-	-	(9,643)	(4,840)
Net cash used in investing activities	(11,125)	(5,369)	(37,090)	(18,880)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Listing proceed through Public Issue	-	-	65,631	32,940
Proceed from convertible loan	3,045	1,470	26,054	13,436
Payment of dividends	(7,763)	(3,746)	-	-
Payment of listing expenses	-	-	(4,851)	(2,435)
Proceed of bank borrowings	8,000	3,861	19,300	10,003
Repayment of bank borrowings	(10,600)	(5,116)	(12,000)	(6,188)
(Increase)/Upliftment of fixed deposits pledged	(830)	(401)	2,320	1,196
Net cash (used in)/from financing activities	(8,148)	(3,932)	96,454	48,952
Effect of foreign exchange translation	-	1,555	-	(1,715)
<b>CASH AND CASH EQUIVALENTS</b>				
Net increase	7,818	3,973	67,049	33,651
Brought forward:				
- As previously reported	2,623	1,197	10,441	5,306
- Effect of exchange rate changes	-	136	-	(65)
As restated	2,623	1,333	10,441	5,241
Carried forward	10,441	5,306	77,490	38,892

## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

### 7.1.3 Proforma Consolidated Balance Sheets

Our proforma consolidated balance sheet have been prepared based on the audited consolidated balance sheet of our Group as at 31 December 2009 under review to show the effects of our Listing Scheme on the assumption that certain events had been effected on that date.

The proforma consolidated balance sheet is to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in Section 7.3 of this Prospectus.

	Audited Group FYE 2009		Proforma I After Conversion of Loan		Proforma II After I and Public Issue		Proforma III After II and Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Share capital	189,268	96,905	218,367	111,489	283,998	144,429	280,466	142,657
Merger deficit	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)	(174,156)	(89,932)
Statutory reserve	7,556	3,460	7,556	3,460	7,556	3,460	7,556	3,460
Equity component – convertible loan	1,467	736	-	-	-	-	-	-
Exchange fluctuation reserve	-	2,672	-	2,693	-	2,693	-	2,693
Retained earnings	213,787	105,572	213,787	105,572	213,787	105,572	205,364	101,344
Total shareholders' equity	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
Represented by:								
<b>NON-CURRENT ASSETS</b>								
Property, plant and equipment	62,570	31,404	62,570	31,404	62,570	31,404	70,859	35,564
Land use rights	9,048	4,541	9,048	4,541	9,048	4,541	18,691	9,381
Total non-current assets	71,618	35,945	71,618	35,945	71,618	35,945	89,550	44,945
<b>CURRENT ASSETS</b>								
Inventories	11,006	5,524	11,006	5,524	11,006	5,524	11,006	5,524
Trade receivables	164,858	82,742	164,858	82,742	164,858	82,742	164,858	82,742
Other receivables	32,278	16,200	32,278	16,200	32,278	16,200	25,174	12,635
Fixed deposits with a licensed bank	900	452	900	452	900	452	900	452
Cash and bank balances	34,642	17,387	34,642	17,387	100,273	50,327	77,490	38,892
Total current assets	243,684	122,305	243,684	122,305	309,315	155,245	279,428	140,245
<b>CURRENT LIABILITIES</b>								
Trade payables	18,076	9,072	18,076	9,072	18,076	9,072	18,076	9,072
Other payables	8,345	4,188	8,345	4,188	8,345	4,188	8,345	4,188
Borrowings	42,932	21,548	15,300	7,679	15,300	7,679	15,300	7,679
Income tax payable	8,027	4,029	8,027	4,029	8,027	4,029	8,027	4,029
Total current liabilities	77,380	38,837	49,748	24,968	49,748	24,968	49,748	24,968
<b>NET CURRENT ASSETS</b>	166,304	83,468	193,936	97,337	259,567	130,277	229,680	115,277
	237,922	119,413	265,554	133,282	331,185	166,222	319,230	160,222
<b>NUMBER OF SHARES ('000)</b>								
	60,159	60,159	73,479	73,479	88,800	88,800	88,800	88,800
	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>	<b>RMB</b>	<b>RM</b>
<b>NET ASSETS PER SHARE</b>	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80
<b>NET TANGIBLE ASSETS PER SHARE</b>	3.95	1.98	3.61	1.81	3.73	1.87	3.59	1.80

## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

### 7.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of our Group's financial condition and results of operations for the four (4) FYE 2006, FYE 2007, FYE 2008 and FYE 2009 should be read in conjunction with the accompanying notes, assumptions and bases thereto, included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and Accountants' Report as set out in Section 7.3 and Section 8 respectively, of this Prospectus.

This discussion contains data derived from our audited consolidated financial statements as well as forward-looking statements that involve risks and uncertainties. Our Group's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed below and Section 4 of this Prospectus.

#### 7.2.1 Overview

Our Company was incorporated in Singapore under the Singapore Companies Act on 3 November 2008 as a private limited company under the name of K-Star Sports Pte Ltd. On 14 September 2009, we were converted into a public limited company and assumed our present name on even date. We were registered in Malaysia as a foreign company on 16 September 2009 as K-Star Sports Pte Ltd and subsequently changed our name to K-Star Sports Limited on 17 September 2009 after registration with ROC.

We are an investment holding company whilst our subsidiary Fujian Dixin is principally engaged in the design, manufacture and distribution of sports footwear under our Proprietary Brands. Fujian Dixin is also an OEM and ODM for international sports brands including Umbro, Diadora, Kappa, Le Coq Sportif, Die Wilden Kerle, Canguro, Cosby and Bridgestone, as well as PRC footwear brand, Double Star (青岛双星). For further History and Business Overview please refer to Section 6.1 of this Prospectus.

#### 7.2.2 Revenue

For the Financial Years under Review, our Group's revenue is classified into one product segment, which is sports footwear. Our Group's principal revenue and profitability are wholly derived from business activities in the PRC and there is no further breakdown by geographical segment.

We set out below our Group's revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009:

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	156,729	72,001	300,519	135,774	501,069	241,816	571,063	294,497
Total pairs of sports footwear sold ('000)	3,270	3,270	4,680	4,680	6,929	6,929	7,891	7,891
Average selling price (RMB/RM)	47.9	22.0	64.2	29.0	72.3	34.9	72.4	37.3

All our revenue is derived from the sales of sports footwear, which has increased substantially during the Financial Years under Review. Total revenue increased by RMB143.8 million or 91.8% from RMB156.7 million in FYE 2006 to RMB300.5 million in FYE 2007. Total revenue increased by RMB200.6 million or 66.8% from RMB300.5 million in FYE 2007 to RMB501.1 million in FYE 2008, and subsequently by RMB70.0 million or 14.0% from RMB501.1 million in FYE 2008 to RMB571.1 million in FYE 2009.

**7. HISTORICAL FINANCIAL INFORMATION (Cont'd)**

The growth in revenue from sports footwear is mainly attributed to a significant increase in the sales volume of our footwear products increased from approximately 3.3 million pairs in FYE 2006 to approximately 7.9 million pairs in FYE 2009 and an increase in average selling prices ("ASP") by RMB24.5 or 51.1% from approximately RMB47.9 per pair in FYE 2006 to RMB72.4 in FYE 2009. The gradual increase in the ASP was mainly attributed to an overall higher price positioning for our Proprietary Brands, with greater emphasis on product branding and quality. Our directors believe the following are the key factors contributing to the significant growth in our business:

- (i) increase in consumer demand for sports footwear mainly among the growing urban population in the second and third-tier cities and fast-affluent developing overseas market including Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary;
- (ii) developing of a strong brand equity and market positioning for our Proprietary Brand and products through increasing sales and marketing activities with an emphasis on our product image, design and quality;
- (iii) establishment of an extensive distribution network across the PRC and overseas markets including Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary to sell products under our own Proprietary Brand;
- (iv) increase in OEM/ODM repeat orders from customers for international sports brands including Umbro, Diadora, Kappa, Die Wilden Kerle, Le Coq Sportif and Canguro, Cosby and Bridgestone as well as PRC footwear brand, Double Star (青岛双星) in recognition of our high product quality and design capability; and
- (v) expansion in our total production capacity from approximately 2.8 million pairs of footwear in FYE 2006 to approximately 4.0 million pairs of footwear in FYE 2009 through the installation of new production lines and increase in outsourcing volume of certain orders to selected third party contract manufacturers to cope with the demand.

The above increasing trends of our revenue can be further substantiated by the following analysis:

***Revenue analysis by distribution network***

Total revenue breakdown by our three main distribution channels of our products for the Financial Years under Review are as follows:

**In RMB**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Our Proprietary Brand</b>								
- Authorised Regional Dealers	82,262	52.5	200,686	66.8	321,371	64.1	361,306	63.3
<b>Third Party Brand</b>								
- PRC Exporter	24,348	15.5	35,052	11.7	90,762	18.1	78,003	13.6
<b>Total</b>	106,610	68.0	235,738	78.5	412,133	82.2	439,309	76.9
<b>Third Party Brand</b>								
- OEM/ODM sales	50,119	32.0	64,781	21.5	88,936	17.8	131,754	23.1
<b>Grand total</b>	156,729	100.0	300,519	100.0	501,069	100.0	571,063	100.0
	82,262	52.5	200,686	66.8	321,371	64.1	361,306	63.3

7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

In RM

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<b>Our Proprietary Brand</b>								
- Authorised Regional Dealers	37,791	52.5	90,670	66.8	155,093	64.1	186,326	63.3
- PRC Exporter	11,185	15.5	15,836	11.7	43,802	18.1	40,226	13.6
<b>Total</b>	<b>48,976</b>	<b>68.0</b>	<b>106,506</b>	<b>78.5</b>	<b>198,895</b>	<b>82.2</b>	<b>226,552</b>	<b>76.9</b>
<b>Third Party Brand</b>								
- OEM/ODM sales	23,025	32.0	29,268	21.5	42,921	17.8	67,945	23.1
<b>Grand total</b>	<b>72,001</b>	<b>100.0</b>	<b>135,774</b>	<b>100.0</b>	<b>241,816</b>	<b>100.0</b>	<b>294,497</b>	<b>100.0</b>

Please refer to Section 6.5.3 for details on our sales and distribution channels.

The total number of units sold under our Proprietary Brand and third party brand are as follows:

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	No.'000	%	No.'000	%	No.'000	%	No.'000	%
Proprietary Brand	2,193	67.1	3,632	77.6	5,560	80.2	5,823	73.8
Third Party Brand	1,077	32.9	1,048	22.4	1,369	19.8	2,068	26.2
<b>Total</b>	<b>3,270</b>	<b>100.0</b>	<b>4,680</b>	<b>100.0</b>	<b>6,929</b>	<b>100.0</b>	<b>7,891</b>	<b>100.0</b>

Our Proprietary Brands' products were retailed at the following locations in the Financial Years under Review:

	Number of regional distributors and retail locations of Proprietary Brands' products			
	FYE 2006	FYE 2007	FYE 2008	FYE 2009
Wholesale Distributors in Russia*	9	11	13	13
PRC Authorised Regional Dealers	17	18	18	25
Retail location operated by the PRC Authorised Regional Dealers				
- "Dixing" specialty stores	8	23	48	53
- Other retail stores	212	328	555	707
<b>Total retail locations</b>	<b>220</b>	<b>351</b>	<b>603</b>	<b>760</b>

Note:

\* Our Proprietary Brand products are exported and distributed by the wholesale distributors in Russia to local distributors and retailers in Russia and other countries including Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary.

## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

### Revenue breakdown by geographical region

We set out below the breakdown of our revenue by geographical region in terms of Proprietary Brands and third party brands sold for FYE 2006, FYE 2007, FYE 2008 and FYE 2009:

#### In RMB

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB 000	%	RMB 000	%	RMB 000	%	RMB 000	%
<b>PRC markets <sup>(1)</sup></b>								
- Proprietary Brand	82,262	52.5	200,686	66.8	321,371	64.1	361,306	63.3
- Third Party Brand	17,576	11.2	43,815	14.6	33,782	6.8	56,942	10.0
Sub-total	99,838	63.7	244,501	81.4	355,153	70.9	418,248	73.3
<b>Overseas Markets <sup>(2)</sup></b>								
- Proprietary Brand	24,348	15.5	35,052	11.7	90,762	18.1	78,003	13.6
-Third Party Brand	32,543	20.8	20,966	6.9	55,154	11.0	74,812	13.1
Sub-total	56,891	36.3	56,018	18.6	145,916	29.1	152,815	26.7
Total	156,729	100.0	300,519	100.0	501,069	100.0	571,063	100.0

#### In RM

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM 000	%	RM 000	%	RM 000	%	RM 000	%
<b>PRC markets <sup>(1)</sup></b>								
- Proprietary Brand	37,791	52.5	90,670	66.8	155,093	64.1	186,326	63.3
- Third Party Brand	8,074	11.2	19,795	14.6	16,304	6.8	29,365	10.0
Sub-total	45,865	63.7	110,465	81.4	171,397	70.9	215,691	73.3
<b>Overseas Markets <sup>(2)</sup></b>								
- Proprietary Brand	11,186	15.5	15,836	11.7	43,802	18.1	40,226	13.6
-Third Party Brand	14,950	20.8	9,473	6.9	26,617	11.0	38,580	13.1
Sub-total	26,136	36.3	25,309	18.6	70,419	29.1	78,806	26.7
Total	72,001	100.0	135,774	100.0	241,816	100.0	294,497	100.0

#### Notes:

(1) Revenue derived from PRC markets comprises sales to our Authorised Regional Dealers and customer under OEM/ODM agreements. The PRC markets included 18 provinces and 3 municipalities in the PRC such as Beijing, Chongqing, Guangdong, Guangxi, Henan, Hubei, Jiangsu, Sichuan, Shanghai, Shandong and Zhejiang. Please refer to Section 6.5.3 of this Prospectus for more information of our distribution network.

(2) Our exports to overseas markets are made through our PRC Exporter for our Proprietary Brands and third party brand export products. Based on information provided by our PRC Exporter, our products were exported to overseas markets such as Russia, Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary during the Financial Years under Review. All our sales to overseas markets, which are made through export agreements with our PRC Exporter are denominated in RMB.

**7. HISTORICAL FINANCIAL INFORMATION (Cont'd)**

During the Financial Years under Review, our revenue from the PRC markets increased by approximately 319.0% from RMB99.8 million in FYE 2006 to RMB418.2 million in FYE 2009. The increase in sales to PRC markets was mainly due to higher consumer demand for our Proprietary Brands of footwear, especially among the growing urban population in the second and third-tier cities of the PRC, as well as repeated customer orders under OEM/ODM agreement. This was the result of our commitment to quality, continuous efforts in products design and development, and an expansion in our distribution network, whereby our retail outlets increased by 540 or 245.5% from 220 in FYE 2006 to 760 in FYE 2009. The market recognition of our Proprietary Brand is evidenced by numerous awards and accreditations received by us, including Quanzhou Well-known Trademark (泉州市知名商标) Year 2008 and Fujian Famous Brand (福建省著名商标) Year 2009.

Revenue from the overseas markets increased by approximately 168.5% from RMB56.9 million in FYE 2006 to RMB152.8 million in FYE 2009 mainly through our Wholesale Distributors in Russia, Moscow, which grew from 9 in FYE 2006 to 13 in FYE 2009. Our OEM/ODM sales derived from overseas markets further contributed to this increase through repeated customers orders from existing customers and new OEM/ODM customers secured under "Le Coq Sportif", "Cosby" and "Bridgestone" brands in the Financial Years under Review.

Revenue is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. We generally do not allow any sales returns by our customers unless due to product quality matters. For the Financial Years under Review, we did not experience any material sales returns by our customers arising from product quality matters.

*Breakdown of revenue by production method*

**In RMB**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
In-house production	131,744	84.1	253,958	84.5	278,327	55.5	327,585	57.4
Outsourced production	24,985	15.9	46,561	15.5	222,742	44.5	243,478	42.6
<b>Total</b>	<b>156,729</b>	<b>100.0</b>	<b>300,519</b>	<b>100.0</b>	<b>501,069</b>	<b>100.0</b>	<b>571,063</b>	<b>100.0</b>

**In RM**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
In-house production	60,523	84.1	114,738	84.5	134,321	55.5	168,935	57.4
Outsourced production	11,478	15.9	21,036	15.5	107,495	44.5	125,562	42.6
<b>Total</b>	<b>72,001</b>	<b>100.0</b>	<b>135,774</b>	<b>100.0</b>	<b>241,816</b>	<b>100.0</b>	<b>294,497</b>	<b>100.0</b>

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7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

*Breakdown of revenue by outsourced production*

**In RMB**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<u>Outsourced Production</u>								
- Proprietary Brand	11,590	46.4	36,913	79.3	173,373	77.8	167,560	68.8
- Third Party Brand	13,395	53.6	9,648	20.7	49,369	22.2	75,918	31.2
Total	24,985	100.0	46,561	100.0	222,742	100.0	243,478	100.0

**In RM**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<u>Outsourced Production</u>								
- Proprietary Brand	5,324	46.4	16,677	79.3	83,670	77.8	86,411	68.8
- Third Party Brand	6,154	53.6	4,359	20.7	23,825	22.2	39,151	31.2
Total	11,478	100.0	21,036	100.0	107,495	100.0	125,562	100.0

Revenue contribution from outsourced production represented 15.9%, 15.5%, 44.5% and 42.6% of our Group's revenue in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Since 2006, we started outsourcing certain orders to selected third party contract manufacturers to meet the increased demand as the utilisation rate of our production capability consistently exceeded 90% for the Financial Years under Review. By outsourcing some of the Company's production functions to its third party contract manufacturers, the Company would have the flexibility of maximising the use of its own production facilities to produce shoes with higher profit margin.

The outsourcing orders are generally for shoe models which are less complicated in design for both our Proprietary Brands and third party brands. The Company also supplies raw materials to these third party contract manufacturers to ensure that the quality of the shoe produced is maintained. While the payment by the Company to the third party contract manufacturers were made promptly based on thirty (30) days credit terms granted by the third party contract manufacturers.

Revenue from outsourced production increased by approximately 86.4% from RMB25.0 million in FYE 2006 to RMB46.6 million in FYE 2007, 377.9% from RMB46.6 million in FYE 2007 to RMB222.7 million in FYE 2008 and 9.3% from RMB222.7 million in FYE 2008 to RMB243.5 million in FYE 2009.

*Factors affecting our revenue*

Our revenue is affected by, *inter alia*, the following key factors:

- (i) the overall economic conditions in the PRC and key overseas markets, such as Russia and other countries including Ukraine, Belarus, The Czech Republic, Poland, Finland, Romania and Hungary which may affect consumer spending and consumer disposal income;



## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

- (ii) our ability to stay competitive against our competitors, in view of the competitive nature of our industry;
- (iii) our ability to develop strong equity and market positioning for our Proprietary Brand and products through focus on product development, branding, quality and marketing strategies;
- (iv) our ability to stay abreast with fashion and market trends and produce commercially viable products;
- (v) our ability to expand our PRC and overseas distribution network; and
- (vi) our ability to increase our manufacturing capacity.

Please refer to the Section 4 and Section 5.9 of this Prospectus for details of the above factors and other factors which may affect our business operations, revenue and overall financial performance.

### 7.2.3 Cost of sales

Cost of sales, which comprised raw material costs, direct labour costs, subcontracting costs and manufacturing overheads accounted for 78.4%, 75.7%, 74.7% and 75.6% of our revenue for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. We set out below the breakdown of our cost of sales for the Financial Years under Review:

#### In RMB

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials <sup>(1)</sup>	97,242	79.2	190,622	83.8	308,011	82.2	359,837	83.3
Direct labour	16,140	13.1	24,948	11.0	26,188	7.0	27,445	6.4
Subcontracting costs	7,304	5.9	9,187	4.0	37,313	10.0	41,728	9.7
Manufacturing overheads	2,216	1.8	2,783	1.2	2,974	0.8	2,842	0.6
<b>Total</b>	<b>122,902</b>	<b>100.0</b>	<b>227,540</b>	<b>100.0</b>	<b>374,486</b>	<b>100.0</b>	<b>431,852</b>	<b>100.0</b>

#### In RM

	FYE 2006		FYE 2007		FYE 2008		FYE 2009	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials <sup>(1)</sup>	44,673	79.2	86,123	83.8	148,646	82.2	185,568	83.3
Direct labour	7,415	13.1	11,271	11.0	12,639	7.0	14,154	6.4
Subcontracting costs	3,355	5.9	4,151	4.0	18,007	10.0	21,519	9.7
Manufacturing overheads	1,018	1.8	1,257	1.2	1,435	0.8	1,465	0.6
<b>Total</b>	<b>56,461</b>	<b>100.0</b>	<b>102,802</b>	<b>100.0</b>	<b>180,727</b>	<b>100.0</b>	<b>222,706</b>	<b>100.0</b>

Note:

- (1) Includes cost of raw materials supplied to our third party contract manufacturers.

## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

Raw materials costs comprise mainly fabrics, leather, Polyurethane ("PU"), Polyvinyl Chloride ("PVC"), shoe soles and accessories, which collectively accounted for 79.2%, 83.8%, 82.2% and 83.3% of our cost of sales for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. The cost of raw materials is affected by the general raw material prices, which is determined by the economic conditions in the PRC and the price of oil and other commodities in general. However, we have been able to obtain raw materials locally at competitive prices owing to a good concentration of raw material suppliers in Fujian Province and our ability to purchase in bulk. The raw materials costs as a proportion of cost of sales increased from 79.2% in FYE 2006 to 83.8% in FYE 2007 and subsequently decreased from 83.8% in FYE 2007 to 82.2% in FYE 2008 but increased from 82.2% in FYE 2008 to 83.3% in FYE 2009 mainly due to the fluctuation in raw materials prices which is largely driven by the overall changes in oil prices. The increase in proportion of raw material cost was also attributed to a less than proportionate increase in manufacturing overheads as compared to the increase in raw materials cost due to economies of scale from higher production volume.

Direct labour costs comprise mainly salaries, wages and staff-related costs of workers who are directly involved in the in-house production process. These costs are affected by the number of employees, production volume, complexity of the product design, the industry level of wages and relevant wage legislation. Direct labour costs accounted for 13.1%, 11.0%, 7.0% and 6.4% of our cost of sales for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. The decrease in percentage of our direct labour over cost of sales from 13.1% in FYE 2006 to 6.4% in FYE 2009 was generally attributed to higher volume of orders being outsourced to third party contract manufacturers as a result of us having achieved close to the maximum utilisation of our production capacity in FYE 2006, FYE 2007, FYE 2008 and FYE 2009. Please refer to Section 6.8 for further details on our production facilities and capacity.

Subcontracting costs comprise processing fee for outsourced labour and manufacturing overheads charged by selected third party contract manufacturers in accordance to our design and quality requirements, with the necessary production materials being provided by us. The proportion of revenue contributed by our outsourced production over total revenue were 15.9%, 15.5%, 44.5% and 42.6% in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. The significant increase from 15.5% in FYE 2007 to 42.6% in FYE 2009 was due to higher volume of outsourced production to third party contract manufacturers given that we have utilised our existing production facilities close to maximum capacity. Accordingly, our subcontracting costs accounted for 5.9%, 4.0%, 10.0% and 9.7% of our cost of sales in FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively.

Manufacturing overheads comprise mainly utilities, rental, repair and maintenance expenses, and depreciation of property, plant and equipment. These expenses are mainly affected by the level of in-house production activities, electricity and water tariff. Manufacturing overheads accounted for 1.8%, 1.2%, 0.8% and 0.6% of our cost of sales for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. The decrease in percentage terms is the result of economies of scale in production and higher volume of orders outsourced to third party during the Financial Years under Review.

The increase in costs of sales was generally in line with the revenue trends during the Financial Years under Review. Please refer to Section 7.2.4 for analysis of our gross profit margins.

Our cost of sales and gross profit margins are affected by, *inter alia*, the following key factors:

- (i) supply and prices of key raw materials such as fabrics, leather, PU, PVC, shoe soles and other accessories which are, *inter-alia*, subject to fluctuations in market supply and demand conditions, and governmental regulations;
- (ii) supply of services and prices charged by our third party contract manufacturers;

## 7. HISTORICAL FINANCIAL INFORMATION (Cont'd)

- (iii) fluctuations in labour costs; and
- (iv) fluctuations in manufacturing overheads such as depreciation of property, plant and equipment, utilities and other overhead costs.

### 7.2.4 Gross profit margin

We set out the breakdown of our gross profit and gross profit margin of our sports footwear business segment for FYE 2006, FYE 2007, FYE 2008 and FYE 2009:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
In RMB '000	33,827	72,979	126,583	139,211
In RM '000	15,540	32,972	61,089	71,791
Gross profit margin (%)	21.6	24.3	25.3	24.4

Our gross profit margin was 21.6%, 24.3%, 25.3% and 24.4% for FYE 2006 to FYE 2009 respectively. The improvement in the gross profit margin from FYE 2006 to FYE 2008 was mainly due to a more than proportionate increase in the ASP over the corresponding increase in overall production costs. This was due to an overall improvement in our product pricing, economies of scale from higher manufacturing volume and benefits resulted from bulk purchasing of raw materials. The decline in the gross profit margin from 25.3% in FYE 2008 to 24.4% in FYE 2009 was mainly due to higher demand for more affordable mass market footwear products with lower ASP in the overseas market as a result of the global financial turmoil and economic slowdown.

### Growth in production capacity

The breakdown of production capacity and output of our footwear products are as follows:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009
	'000	'000	'000	'000
<b>Sports and leisure footwear</b>				
Capacity (pairs)	2,790	3,968	3,968	3,968
Output (pairs)	2,581	3,604	3,741	3,805
Utilisation rate (%)	92.5	90.8	94.3	95.9

Our production facilities for our footwear products are located in Jinjiang City in Fujian Province in the PRC. We have added our third and fourth production lines in FYE 2006 and FYE 2007 to increase the production output. In FYE 2008 and FYE 2009, we have increased significantly the volume of production outsourced to third party contract manufacturers to cope with the expansion in sales. Please refer to Section 6.8 of this Prospectus for details of our production facilities, capacity and utilisation rate.

### 7.2.5 Other income

Other income represented an insignificant percentage of our revenue for FYE 2006 to FYE 2009. Other income comprises mainly interest income from bank deposit and gain on disposal of property, plant and equipment.