MAXWELL INTERNATIONAL HOLDINGS BERHAD
(Company No.: 877480-X)
(Incorporated in Malaysia under the Companies Act, 1965)

24-3, Jalan Tun Sambanthan 3, 50470 Kuala Lumpur

www.promoteshoes.net

MAXWELL INTERNATIONAL HOLDINGS BERHAD (Company No.: 877480-X) ■ **PROSPECTUS**

MAXWELL INTERNATIONAL HOLDINGS BERHAD

(Company No.: 877480-X)
(Incorporated in Malaysia under the Companies Act, 1965)

PUBLIC ISSUE OF 63,750,000 NEW ORDINARY SHARES OF RM0.40 EACH AT AN ISSUE PRICE OF RM0.54 PER SHARE PAYABLE IN FULL ON APPLICATION COMPRISING:

- 20,000,000 ORDINARY SHARES OF RM0.40 EACH AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC; AND
- 43,750,000 ORDINARY SHARES OF RM0.40 EACH 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 MAXWELL INTERNATIONAL HOLDINGS BERHAD ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD

Adviser, Underwriter and Placement Agent

OSK
OSK Investment Bank Berhad (14152-V)
(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 ADVISER.

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

THIS PROSPECTUS IS DATED 21 DECEMBER 2010

PROSPECTUS

RESPONSIBILITY STATEMENTS

OUR DIRECTORS AND PROMOTER HAVE SEEN AND APPROVED THIS PROSPECTUS AND THEY COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION CONTAINED IN THIS PROSPECTUS. HAVING MADE ALL REASONABLE ENOUIRIES, 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.

OSK INVESTMENT BANK BERHAD ("OSK"), BEING THE ADVISER, UNDERWRITER AND 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.

STATEMENTS OF DISCLAIMER

THE SECURITIES COMMISSION OF MALAYSIA ("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 SHALL 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 AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANTS, OR OTHER PROFESSIONAL ADVISER IMMEDIATELY AND BEFORE APPLYING FOR OUR SHARES.**

APPROVAL HAS BEEN OBTAINED FROM BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") FOR THE LISTING OF AND OUOTATION 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.

BURSA SECURITIES IS NOT LIABLE FOR ANY NON-DISCLOSURE HEREIN BY US AND TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS. BURSA SECURITIES MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF THIS PROSPECTUS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THIS PROSPECTUS.

A COPY OF THIS PROSPECTUS TOGETHER WITH THE ACCOMPANYING APPLICATION FORMS, HAVE ALSO BEEN LODGED WITH THE REGISTRAR OF COMPANIES WHO TAKES NO RESPONSIBILITY FOR ITS CONTENTS.

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").

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.

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

THE ACCEPTANCES OF APPLICATION FOR OUR SHARES IS CONDITIONAL UPON THE PERMISSION BEING GRANTED BY BURSA SECURITIES TO DEAL IN AND FOR QUOTATION AND LISTING OF OUR ENTIRE ISSUED AND PAID-UP SHARE CAPITAL ON THE MAIN MARKET OF BURSA SECURITIES. ACCORDINGLY, MONIES PAID IN RESPECT OF ANY APPLICATION ACCEPTED FROM THE IPO WILL BE RETURNED IN FULL WITHOUT INTEREST WITHIN FOURTEEN (14) DAYS IF THE AFORESAID PERMISSION FOR QUOTATION IS NOT GRANTED WITHIN SIX (6) WEEKS FROM THE DATE OF ISSUE OF THIS PROSPECTUS, OR SUCH LONGER PERIOD AS MAY BE SPECIFIED BY THE SC, PROVIDED THAT WE ARE NOTIFIED BY OR ON BEHALF OF BURSA SECURITIES WITHIN THE AFORESAID TIMEFRAME. IF SUCH MONIES ARE NOT REPAID WITHIN THE SAID PERIOD, THE PROVISION OF SUB-SECTION 243(2) OF THE CMSA SHALL APPLY ACCORDINGLY.

THIS PROSPECTUS CAN BE VIEWED OR DOWNLOADED FROM BURSA SECURITIES WEBSITE AT www.bursamalaysia.com. THE CONTENTS OF THE ELECTRONIC PROSPECTUS ARE AS PER THE CONTENTS OF THE COPY OF THIS PROSPECTUS REGISTERED WITH THE SC. 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, CIMB INVESTMENT BANK BERHAD AT www.eipocimb.com, MALAYAN BANKING BERHAD AT www.maybank2u.com.my, AFFIN BANK BERHAD AT www.affinOnline.com AND RHB BANK BERHAD AT www.rhbbank.com.my.

YOU ARE ADVISED THAT 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. THE ELECTRONIC PROSPECTUS SUBMITTED TO THE SC AND BURSA SECURITIES IS THE SAME AS THE REGISTERED PAPER/PRINTED COPY.

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 SUBSEOUENTLY COMMUNICATED OR DISSEMINATED IN ANY MANNER TO YOU OR OTHER PARTIES; AND

(II) WHILE ALL REASONABLE MEASURES HAVE BEEN TAKEN TO ENSURE THE ACCURACY AND RELIABILITY OF THE INFORMATION PROVIDED IN AN ELECTRONIC PROSPECTUS, THE ACCURACY AND RELIABILITY OF AN ELECTRDNIC 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.

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

NO ACTION HAS BEEN OR WILL BE TAKEN TO ENSURE THAT THIS PROSPECTUS COMPLIES WITH THE LAWS OF ANY COUNTRIES OR JURISDICTIONS OTHER THAN THE LAWS OF MALAYSIA. IT SHALL BE YOUR SOLE RESPONSIBILITY TO CONSULT YOUR LEGAL AND/OR OTHER PROFESSIONAL ADVISER ON THE LAWS TO WHICH THE IPO OR YOU ARE OR MIGHT BE SUBJECTED TO. NEITHER US NOR THE ADVISER NOR ANY OTHER ADVISERS IN RELATION TO THE IPO SHALL ACCEPT ANY RESPONSIBILITY OR LIABILITY IN THE EVENT THAT ANY APPLICATION MADE BY YOU SHALL BECOME ILLEGAL, UNENFORCEABLE, AVOIDABLE OR VOID IN ANY COUNTRY OR JURISDICTION.

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.

IT SHALL BE YOUR SOLE RESPONSIBILITY IF YOU ARE OR MAY BE SUBJECT TO THE LAWS OF COUNTRIES OR JURISDICTIONS OTHER THAN MALAYSIA TO CONSULT YOUR LEGAL AND/OR OTHER PROFESSIONAL ADVISERS AS TO WHETHER THE IPO WOULD RESULT IN THE CONTRAVENTION OF ANY LAWS OF SUCH COUNTRIES OR JURISDICTIONS.

FURTHER, IT SHALL BE 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 BE SUBJECTED ONLY TO THE LAWS OF MALAYSIA IN CONNECTION THEREWITH.

WE WILL NOT, PRIOR TO ACTING ON ANY ACCEPTANCE IN RESPECT OF THE IPO MAKE OR ARE BOUND TO MAKE ANY ENOUIRY 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 ENOUIRY 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.

INDICATIVE TIMETABLE

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

Events	Tentative Dates
Issuance of Prospectus/Opening of the application for the initial public offering ("IPO")	21 December 2010
Closing of the application for the IPO	28 December 2010
Balloting of applications for the Issue Shares	30 December 2010
Allotment of Issue Shares to successful applicants	4 January 2011
Listing Date	6 January 2011

THIS TIMETABLE IS TENTATIVE AND IS SUBJECT TO CHANGE WHICH MAY BE NECESSARY TO FACILITATE IMPLEMENTATION PROCEDURES. THE APPLICATION PERIOD FOR THE IPO WILL CLOSE AT THE DATE STATED ABOVE OR SUCH LATER DATE AS OUR DIRECTORS AND OSK INVESTMENT BANK BERHAD IN THEIR ABSOLUTE DISCRETION MAY MUTUALLY DECIDE.

IN THE EVENT THE CLOSING DATE OF THE APPLICATION IS EXTENDED, WE WILL ADVERTISE THE NOTICE OF THE EXTENSION IN A WIDELY CIRCULATED ENGLISH, BAHASA MALAYSIA AND CHINESE NEWSPAPER PRIOR TO THE ORIGINAL CLOSING DATE OF THE APPLICATION. FOLLOWING THIS, WE WILL EXTEND THE DATES FOR THE BALLOTING OF THE APPLICATIONS FOR THE ISSUE SHARES, ALLOTMENT OF THE ISSUE SHARES AND LISTING ACCORDINGLY.

FURTHER INFORMATION ON THE INDICATIVE TIMETABLE IS SET OUT IN **SECTION 3.2** OF THIS PROSPECTUS.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include natural persons, firms, companies, bodies corporate and corporations, and a reference to a section is a reference to the relevant section of this Prospectus, unless otherwise specified.

All references to "our Company" and "Maxwell" in this Prospectus are to Maxwell International Holdings Berhad (麦斯威国际控股有限公司), references to "our Group" and "Maxwell Group" are to our Company and our subsidiary and reference to "we", "us", "our" and "ourselves" are to our Company, and where the context requires, our Company and our subsidiary. 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.

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 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 appears 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 a business and independent market and industry review relating to an overview of the economy and industry which the Company operates. We believe that the information on the industry as contained in this Prospectus and the other statistical date 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 the data.

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

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.

Any reference in this Prospectus to any laws, regulations, rules and enactments is a reference to that laws, regulations, rules and enactments as for the time being amended or re-enacted.

FORWARD-LOOKING STATEMENTS

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** and **Section 7** 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.

DEFINITIONS

"1H"	:	Six (6) months financial period ended/ending 30 June
"Act"	:	Companies Act, 1965 of Malaysia
"Acquisition"	:	Acquisition by Maxwell of the entire issued and paid-up share capital of Zhenxing Shoes of HKD60,000,000 from Sports Asia, for a purchase consideration of RM134,499,998 which was fully satisfied through the issuance of 336,249,995 Maxwell Shares issued at par
"ADA(s)"	:	Authorised Depository Agent(s)
"ADA Code"	:	ADA (Broker) Code
"Applicant"	:	The applicant for the Public Issue Shares by way of Application Forms, Electronic Share Application and/or Internet Share Application
"Application Form(s)"	:	The printed application form(s) for the application of the Public Issue Shares
"ATM"	:	Automated Teller Machine
"ASP"	:	Average selling price per pair of our sports shoe
"Board"	:	Board of Directors of Maxwell
"Bursa Depository"	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
"Bursa Securities"	:	Bursa Malaysia Securities Berhad (635998-W)
"CAGR"	:	Compounded annual growth rate
"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
"Chun Hing"	:	Chun Hing Industrial (Hong Kong) Ltd. (振兴实业（香港）有限公司) (Hong Kong Company No: 627203)
"CMSA"	:	Capital Markets and Services Act, 2007 or any statutory modification, amendment or re-enactment thereof for the time being in force
"D&D"	:	Design and development of sports shoes
"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

"Director(s)"	:	Director(s) of our Company and shall have the meaning given in Section 4 of the Act
"EBITDA"	:	Earnings before interest, taxation, depreciation and amortisation
"Electronic Prospectus"	:	A copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
"Electronic Share Application"	:	An application for the Public Issue through Participating Financial Institution's ATM
"EPS"	:	Earnings per share
"Equity Guidelines"	:	Equity Guidelines issued by the SC
"Executive Director(s)"	:	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
"FRS"	:	Financial Reporting Standards
"FYE"	:	Financial year ended 31 December
"Financial Period under Review"	:	The period comprising FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010
"GDP"	:	Gross domestic product
"GIC"	:	Guardian Independent Certification Limited, one of the leading certification bodies in the world incorporated in the UK in 1994, with headquarters located in the UK and Singapore. It provides independent third party assurance of an applicant's management system and ability to produce and deliver goods and services to defined specifications
"GP"	:	Gross profit
"HKD"	:	Hong Kong Dollar
"Internet Participating Financial Institution(s)"	:	The participating financial institutions for Internet Share Application as listed in Section 16 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 Public Issue Share(s)
"IPR"	:	Intellectual property rights
"ISO"	:	International Organisation for Standardisation, a world-wide federation of national standards bodies
"Issue Price"	:	The issue price pursuant to the Public Issue of RM0.54 per Maxwell Share
"Issue Share(s)" or "Public Issue Shares(s)"	:	63,750,000 new Shares representing 15.9% of our enlarged issued and paid-up share capital to be issued pursuant to the Public Issue, subject to the terms and conditions of this Prospectus to be issued pursuant to the Public Issue

"Issuing House" or "MIH"	:	Malaysian Issuing House Sdn Bhd (258345-X)
"Jiayi Trading"	:	Jiayi (Fujian) Import & Export Trade Co., Ltd. （加怡（福建）进出口贸易有限公司) (PRC Company No: 350500400010767)
"Listing"	:	The admission to and the listing of and quotation for our entire enlarged issued and paid-up share capital of RM160,000,000 comprising 400,000,000 Shares on the Main Market of Bursa Securities
"Listing Scheme"	:	The Public Issue and Listing, collectively
"Listing Requirement"	:	Listing Requirements of Bursa Securities for the Main Market, and all amendments thereto
"LPD"	:	15 November 2010, being the latest practicable date prior to the registration of our Prospectus
"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
"Maxwell" or "Company"	:	Maxwell International Holdings Berhad (麦斯威国际控股有限公司) (Company No.: 877480-X)
"Maxwell Group" or "Group"	:	Maxwell and its subsidiary
"Maxwell Share(s)" or "Share(s)"	:	Ordinary shares of RM0.40 each in Maxwell
"Memorandum" or "Memorandum of Association"	:	The memorandum of association of our Company as amended, supplemented or modified from time to time
"N/A"	:	Not applicable
"NA"	:	Net assets
"NTA"	:	Net tangible assets
"OSK"	:	OSK Investment Bank Berhad (Company No. 14152-V)
"OSKTV"	:	OSK Technology Ventures Sdn Bhd (Company No. 319604-V)
"Participating Financial Institution(s)"	:	The participating financial institutions for Electronic Share Application as listed in Section 16 of this Prospectus
"PAT"	:	Profit after taxation
"PBT"	:	Profit before taxation
"PE Multiple"	:	Price earnings multiple
"Placement Agent"	:	OSK, being the agent to place out the 43,750,000 new shares to be issued pursuant to the Public Issue
"Promoter"	:	Li Kwai Chun

DEFINITIONS *(Cont'd)*

"Pre-IPO Investors"	:	Teo Kian Huat, Ng Der Sian, Tembusu Growth Fund Ltd (Singapore Company No. 200615962H), Equity Ventures International Holdings Limited (British Virgin Islands Company No. T05UF1677E), OSKTV and OSK Nominees (Tempatan) Sdn Bhd (Company No. 6023-A)
"Public Issue"	:	The public issue of 63,750,000 Maxwell Shares at the Issue Price, comprising:- (a) 43,750,000 Maxwell Shares, representing 10.9% of the enlarged issued and paid-up share capital of Maxwell made available for private placement to selected investors; and (b) 20,000,000 Maxwell Shares, representing 5.0% of the enlarged issued and paid-up share capital of Maxwell made available for application by the Malaysian Public
"RM" and "sen"	:	Ringgit Malaysia and sen respectively
"RMB"	:	Renminbi
"ROC"	:	Registrar of Companies, Malaysia
"Rules"	:	The Rules of Bursa Depository
"SAFE"	:	State Administration for Foreign Exchange (China)
"SATRA"	:	SATRA Technology Centre Ltd, an international organisation established in 1919. It is one of the leading research and technology centres for consumer and industrial products and employs more than 180 scientific, technical and support staff in the UK and China
"Securities Account"	:	An account established by Bursa Depository for a Depositor for all recording of deposits and for dealings in such securities by the Depositor.
"SC"	:	Securities Commission, Malaysia
"Sports Asia"	:	Sports Asia Limited (Singapore Company No. 200722587D) (previously known as Sports Asia Pte. Ltd.)
"sq m"	:	Square metres
"VAT"	:	Value added tax
"Vital Factor"	:	Vital Factor Consulting Sdn Bhd (Company No. 266797-T)
"UK"	:	United Kingdom
"Underwriter"	:	OSK
"Underwriting Agreement"	:	The underwriting agreement between the Company and OSK dated 14 October 2010
"USA"	:	United States of America
"USD"	:	US Dollar

DEFINITIONS *(Cont'd)*

"Zhenxing Shoes"	:	Jinjiang Zhenxing Shoes & Plastics Co., Ltd. （晋江振兴鞋塑有限公司）(PRC Company No: 350500400009750)

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DEFINITIONS *(Cont'd)*

Technical Definitions

"design(s)"	:	Shoe design comprises some combination or variations of the following factors particularly pertaining to upper shoe and sole unit: shape, style, dimension, accessories, aesthetics, seam construction, flex construction, functionality, materials used (breathability, weight, durability, flexibility, impact absorption, abrasion resistance, water resistance, traction), and engineering specifications (support, stability, structure, fitting, biomechanical and kinetic adaptation)
"eyelet"	:	Holes in the quarters of the upper which allow the lace of the shoe to pass through
"heel counter"	:	A rigid or semi-rigid component in the upper designed to support and stabilise the heel. Heel counters include external heel counters which are positioned at the base of the midsole and the internal heel counter
"insole"	:	A layer of material shaped to the bottom of the last and sandwiched between the insole board and the sole of the foot inside the shoe
"insole board"	:	The insole board is used for the attachment of the upper and the midsole is placed just below the insole and above the midsole
"ISO"	:	International Organisation for Standardisation, a worldwide federation of national standards bodies from some 130 countries, whose mission is to develop industrial standards that facilitate international trade
"ISO 9000"	:	The ISO 9000 family is one of the management standards and guidelines of ISO. ISO 9000 has become an international reference for quality requirements in business-to-business dealings
"ISO 9001:2000"	:	ISO 9001:2000 specifies the requirements for the management system of any organisation that needs to demonstrate its ability to consistently provide products that meet customer and applicable regulatory requirements and aims to enhance customer satisfaction
"last"	:	A block of plastic shaped like a foot and used for shaping shoes
"combining"	:	The process of shaping the shoe on the shoe tree to its designed shape
"midsole"	:	The midsole is located between the outsole and the upper shoe. It is the most important part of any pair of running shoes. It controls excessive foot motion and provides cushioning and shock absorption. The primary materials used in midsoles are ethylene-vinyl acetate and polyurethane
"OEM"	:	Original equipment manufacturer, the original manufacturer of a product which may be resold by another company under the latter's trade/brand name
"ODM"	:	Original design manufacturer, a company which designs and develops products which are eventually branded for sale by another company

DEFINITIONS *(Cont'd)*

"outsole"	:	The outsole is the treaded layer of the sole that comes in direct contact with the ground. It resists wear, provides traction and absorbs shock
"PU"	:	Polyurethane is a resilient, flexible, and durable manufactured material, and is widely used in high resiliency flexible foam seating, rigid foam insulation panels, microcellular foam seals, durable elastomeric wheels and tires, electrical potting compounds, high performance adhesives and sealants, spandex fibres, seals, gaskets, carpet underlay, and hard plastic parts
"PVC"	:	Polyvinyl Chloride is a flexible or rigid material that is chemically nonreactive. PVC has a broad range of applications, from high volume construction related products to simple electric wire insulation and coatings
"sole unit"	:	The sole unit of a shoe which comprises the midsole and outsole
"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
"upper shoe"	:	All parts or sections of the shoes above the sole that are stitched or otherwise joined together to become a unit, and then attached to the insole and outsole. The upper shoe is made of different components including tip, eyelet, 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	Nationality	Occupation
Li Kwai Chun (Executive Director and Chairman)	#3C, Block 22 Haiyi Grand Villa Kowloon Hong Kong	Hong Kong	Company Director
Xie Zhen'an (Executive Director and CEO)	No. 35, Lianhua Road Jinjiang City Fujian Province PRC	Chinese	Company Director
Li Qizhe (Non-Independent Non-Executive Director)	#7-23, Block 4 No. 60, Xiyi Road Xincheng District, Xi'an City Shanxi Province PRC	Chinese	Company Director
Yee Chee Wai (Non-Independent Non-Executive Director)	29 Jalan USJ 3A/5 47610 Subang Jaya Selangor Darul Ehsan Malaysia	Malaysian	Company Director
Tam Fook Cheong (Independent Non-Executive Director)	30-2-3A, Bukit Desa Condominium Jalan 3/109B Taman Desa 58100 Kuala Lumpur Malaysia	Malaysian	Chartered Accountant
Tan Hon Yik (Independent Non-Executive Director)	No. 1, Jalan USJ 17/7A 47630 Subang Jaya Selangor Darul Ehsan Malaysia	Malaysian	Advocate and Solicitor

AUDIT COMMITTEE

Name	Designation	Directorship
Tam Fook Cheong	Chairman	Independent Non-Executive Director
Li Qizhe	Member	Non-Independent Non-Executive Director
Tan Hon Yik	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Tam Fook Cheong	Chairman	Independent Non-Executive Director
Tan Hon Yik	Member	Independent Non-Executive Director
Li Kwai Chun	Member	Executive Director and Chairman

1. CORPORATE DIRECTORY *(Cont'd)*

NOMINATION COMMITTEE

Name	Designation	Directorship
Tam Fook Cheong	Chairman	Independent Non-Executive Director
Tan Hon Yik	Member	Independent Non-Executive Director
Yee Chee Wai	Member	Non-Independent Non-Executive Director

COMPANY SECRETARIES	:	Mary Margret A/P V. Pelly (F) (LS 04402) 134, Jalan Bukit 43000 Kajang Selangor Darul Ehsan Malaysia Sin May Peng (F) (MAICSA 7018354) 70, Jalan SS24/2 Taman Megah 47301 Petaling Jaya Selangor Darul Ehsan Malaysia
REGISTERED OFFICE	:	24-3, Jalan Tun Sambanthan 3 50470 Kuala Lumpur Tel : +6 (03) 2273 5260 Fax : +6 (03) 2273 5320
PRINCIPAL PLACE OF BUSINESS	:	Zhenxing Shoes Zhushuxia Industrial Zone Meiling Street, Jinjiang City Fujian Province, PRC Tel: +86 (595) 8565 8977 Fax: +86 (595) 8566 5377 Website: www.promoteshoes.net
AUDITORS AND REPORTING ACCOUNTANTS	:	Baker Tilly Monteiro Heng (AF: 0117) Monteiro & Heng Chambers 22 Jalan Tun Sambanthan 3 50470 Kuala Lumpur Tel: +6 (03) 2274 8988 Fax: +6 (03) 2260 1708
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 Tel: +6 (03) 2283 2800 Fax: +6 (03) 2283 2500
LEGAL ADVISER TO OUR COMPANY ON PRC LAWS	:	Haihua Yongtai Law Firm 701-704, Eton Place No. 69, Dong Fang Road Shanghai, 200120 PRC Tel: +86 (21) 5877 3177 Fax: +86 (21) 5877 3268

1. CORPORATE DIRECTORY *(Cont'd)*

PRINCIPAL BANKERS	:	Bank of China (Malaysia) Berhad (511251-V) Ground, Mezzanine & 1st Floor, Plaza OSK 25 Jalan Ampang 50450 Kuala Lumpur Malaysia Tel: +6 (03) 2162 6633 Fax: +6 (03) 2712 9693 China Citic Bank Quanzhou Branch The People's Bank Building Fengze Road, Quanzhou PRC Tel: +86 (595) 2214 8611 China Citic Bank Qingyuan Branch Nanfeng Xincheng Yujin Tower Quanzhou PRC Tel: +86 (595) 2801 3380 Fujian Jinjiang Rural Cooperative Bank Meiling Branch Wantong Building, Meiling Road Jinjiang PRC Tel: +86 (595) 8569 2080 Industrial and Commercial Bank of China Jinjiang Branch Qingyang, Chongde Road Jinjiang PRC Tel: +86 (595) 8568 5950
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 Tel: +6 (03) 7841 8000 Fax: +6 (03) 7841 8150
SHARE REGISTRAR	:	Symphony Share Registrars Sdn Bhd (378993-D) Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Tel: +6 (03) 7841 8000 Fax: +6 (03) 7841 8151
ADVISER, UNDERWRITER AND PLACEMENT AGENT	:	OSK Investment Bank Berhad (14152-V) 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Tel: +6 (03) 2333 8333 / 2175 3388 Fax: +6 (03) 2175 3217

1. CORPORATE DIRECTORY *(Cont'd)*

INDEPENDENT MARKET RESEARCH CONSULTANTS	:	Vital Factor Consulting Sdn Bhd (266797-T) 75C & 77C, Jalan SS22/19 Damansara Jaya 47400 Petaling Jaya Selangor Darul Ehsan Tel: +6 (03) 7728 0248 Fax: +6 (03) 7728 7248
LISTING SOUGHT	:	Main Market of Bursa Securities

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2. INFORMATION SUMMARY

THIS SECTION IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT OUR GROUP. IT OOES NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULO REAO ANO UNDERSTAND THE ENTIRE PROSPECTUS CAREFULLY BEFORE YOU DECIDE WHETHER TO INVEST IN OUR SHARES.

2.1 HISTORY ANO BUSINESS

Our Company was incorporated in Malaysia on 3 November 2009 under the Act as a public company limited by shares under the name of "Maxwell International Holdings Berhad".

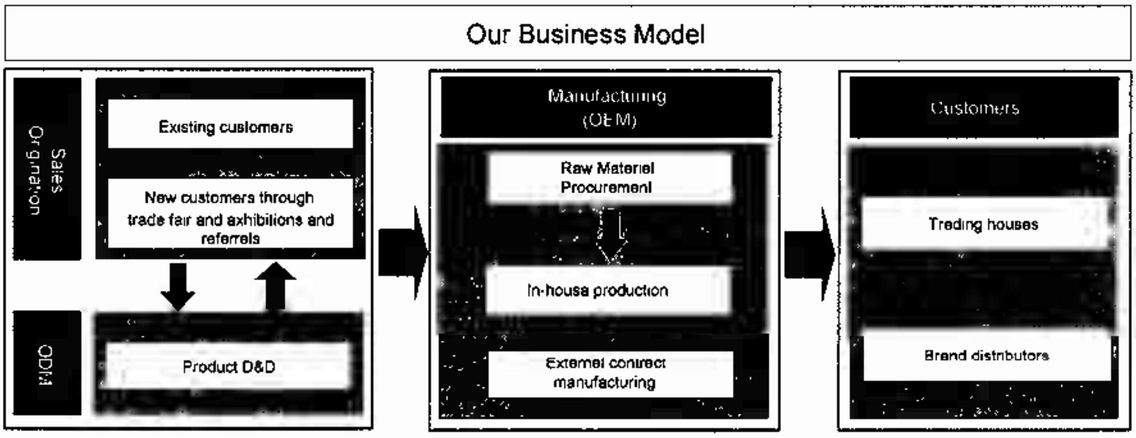
As at the date of this Prospectus, our Group structure is set out below:

MAXWELL

↓ 100%

ZHENXING SHOES

We are an investment holding company whilst our wholly-owned subsidiary, Zhenxing Shoes specialises in the design and manufacturing of sports shoes for domestic and overseas customers, which comprise mainly trading houses and brand distributors. We manufacture sports shoes on an OEM basis (i.e. we manufacture based on the specifications and designs provided by our customers) and on an ODM basis (i.e. we design and develop sports shoes for our customers' selection and manufacture the selected designs for our customers). The business model of our Group is summarised as below:-



We have strong D&D capabilities and are able to develop an average of 1,000 shoe designs per annum for our customers' selection. Zhenxing Shoes is an OEM and ODM for various third party brands. As at the LPD, we have four (4) production lines with an average annual production capacity of approximately 8 million pairs of sports shoes, located at Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC (中国福建省晋江市竹树下工业区).

Please refer to **Sections 6** and **Section 9.1** for further information on our Group's business and details of our assets respectively.

2.2 COMPETITIVE STRENGTHS AND FUTURE PLANS

2.2.1 Our Competitive Strengths

The competitive strengths of our Group are as follows:

(i) We have strong product D&D capabilities;

(ii) We are able to deliver good quality products;

(iii) We have developed strong relationships with our customers;

(iv) We are located close to our raw material sources; and

(v) We have an experienced management and technical team.

Please refer to **Section 6.4** 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) Expansion of production capacity and upgrading of existing production facilities;

(ii) Strengthen our D&D capabilities and expansion of product range;

(iii) Increase sales and marketing activities for our sports shoes; and

(iv) Expansion of our business through acquisitions, joint ventures or strategic alliances.

Please refer to **Section 5.12** of this Prospectus for more details on our future plans.

2. INFORMATION SUMMARY *(Cont'd)*

2.3 FINANCIAL HIGHLIGHTS

2.3.1 Proforma Consolidated Income Statements

The following table sets forth a summary of our proforma consolidated income statements for the Financial Period under Review based on the assumption that we have been in existence throughout the financial years. The proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter as set forth in **Section 7.2** of this Prospectus:-

	Audited											
	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	**159,971**	**73,539**	**317,538**	**143,464**	**452,492**	**218,056**	**583,718**	**301,023**	**282,313**	**148,271**	**307,434**	**148,460**
Cost of sales	(116.532)	(53.570)	(228.619)	(103,290)	(323,356)	(155.825)	(409.406)	(211.130)	(197.584)	(103,771)	(215.993)	(104.303)
GP	**43,439**	**19,969**	**88,919**	**40,174**	**129,136**	**62,231**	**174,312**	**89,893**	**84,729**	**44,500**	**91,441**	**44,157**
Other operating income	491	226	475	215	1.322	637	523	270	264	139	159	77
Selling and distribution expenses	(796)	(366)	(934)	(422)	(2,946)	(1.420)	(1.811)	(934)	(964)	(506)	(1.104)	(533)
Administrative expenses	(3.652)	(1.679)	(4.572)	(2.066)	(10.100)	(4.867)	(11,779)	(6.075)	(4.585)	(2.408)	(6,538)	(3,157)
Other operating expenses	(1.443)	(663)	(5,972)	(2,698)	(420)	(202)	(922)	(476)	(792)	(416)	(345)	(167)
Profit from operations	**38,039**	**17,487**	**77,916**	**35,203**	**116,992**	**56,379**	**160,323**	**82,678**	**78,652**	**41,309**	**83,613**	**40,377**
Finance cost	(1.001)	(460)	(1.302)	(588)	(901)	(435)	(788)	(406)	(349)	(184)	(432)	(209)
PBT	**37,038**	**17,027**	**76,614**	**34,614**	**116,091**	**55,944**	**159,535**	**82,272**	**78,303**	**41,125**	**83,181**	**40,168**
Income tax	(11.132)	(5.118)	(21.044)	(9,508)	(29.622)	(14.275)	(40,801)	(21.041)	(19,734)	(10.364)	(21.218)	(10.246)
PAT	**25,906**	**11,909**	**55,570**	**25,106**	**86,469**	**41,669**	**118,734**	**61,231**	**58,569**	**30,762**	**61,963**	**29,922**
EBITDA	39.419	18.121	79,705	36.011	119.198	57.441	163.008	84.063	80.040	42.037	84.911	41.003
GP margin (%)	27.2	27.2	28.0	28.0	28.5	28.5	29.9	29.9	30.0	30.0	29.7	29.7
PBT margin (%)	23.2	23.2	24.1	24.1	25.7	25.7	27.3	27.3	27.7	27.7	27.1	27.1
PAT margin (%)	16.2	16.2	17.5	17.5	19.1	19.1	20.3	20.3	20.7	20.7	20.2	20.2
Effective tax rate (%)	28.7	28.7	27.5	27.5	25.5	25.5	25.6	25.6	25.2	25.2	25.5	25.5
No. of Shares in issue prior to the IPO ('000)	336.250	336.250	336.250	336.250	336.250	336.250	336,250	336.250	336.250	336.250	336.250	336.250
Gross EPS (RMB/RM)	0.11	0.05	0.23	0.10	0.35	0.17	0.47	0.24	^0.47	^0.24	^0.49	^0.24
Net EPS (RMB/RM)	0.08	0.04	0.17	0.07	0.26	0.12	0.35	0.18	^0.35	^0.18	^0.37	^0.18

Note:
^ Annualised to 12 months for comparison purposes

2. INFORMATION SUMMARY *(Cont'd)*

2.3.2 Proforma Consolidated Balance Sheets

Our proforma consolidated balance sheets as set out below have been prepared for illustration purposes to show the effects on the audited consolidated balance sheet of our Group as at 30 June 2010 had the IPO been effected on that date.

The proforma consolidated balance sheets 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 7.2** of this Prospectus.

	Audited consolidated Balance Sheet of Maxwell as at 30 June 2010		**Proforma I After the Public Issue**		**Proforma II After I and utilisation of proceeds**	
	RMB'000	**RM'000**	**RMB'000**	**RM'000**	**RMB'000**	**RM'000**
NON CURRENT ASSETS						
Property, plant and equipment	61,254	29,230	61,254	29,230	93,945	44,830
Prepaid lease payments	4,674	2,230	4,674	2,230	4,674	2,230
	65,928	31,460	65,928	31,460	98,619	47,060
CURRENT ASSETS						
Inventories	15,328	7,315	15,328	7,315	15,328	7,315
Trade receivables	269,070	128,400	269,070	128,400	269,070	128,400
Other receivables, deposits and prepayments	740	353	740	353	740	353
Cash and bank balances	151,362	72,230	223,502	106,655	171,637	81,905
	436,500	208,298	508,640	242,723	456,775	217,973
TOTAL ASSETS	**502,428**	**239,758**	**574,568**	**274,183**	**555,394**	**265,033**
EQUITY AND LIABILITIES						
Equity attributable to equity holder of the Company						
Share capital	281,852	134,500	335,289	160,000	335,289	160,000
Share premium	-	-	18,703	8,925	11,683	5,575
Merger reserves	(218,296)	(104,171)	(218,296)	(104,171)	(218,296)	(104,171)
Statutory reserve	37,967	18,118	37,967	18,118	37,967	18,118
Foreign currency translation reserve	(22,472)	(10,725)	(22,472)	(10,725)	(22,472)	(10,725)
Retained earnings	283,707	135,385	283,707	135,385	271,553	129,585
TOTAL EQUITY	362,758	173,107	**434,898**	**207,532**	**415,724**	198,382
CURRENT LIABILITIES						
Trade payables	103,976	49,617	103,976	49,617	103,976	49,617
Other payables and accruals	11,867	5,663	11,867	5,663	11,867	5,663
Short term loans	10,000	4,772	10,000	4,772	10,000	4,772
Tax payable	13,827	6,599	13,827	6,599	13,827	6,599
	139,670	66,651	139,670	66,651	139,670	66,651
TOTAL LIABILITIES	**139,670**	**66,651**	**139,670**	**68,851**	**139,670**	**66,651**
TOTAL EQUITY AND LIABILITIES	**502,428**	**239,758**	**574,568**	**274,183**	**555,394**	**285,033**
No. of Shares in issue ('000)	336,250	336,250	400,000	400,000	400,000	400,000
Net assets (RM'000/RMB'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net assets per ordinary share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50

2.4 PRINCIPAL STATISTICS RELATING TO THE IPO

The following statistics relating to the IPO are derived from the full text of this Prospectus and should be read in conjunction with the text:-

	Number of Shares	Share Capital RM
Authorised share capital	**1,250,000,000**	**500,000,000**
Issued and paid-up share capital as at the date of this Prospectus	336,250,000	134,500,000
To be issued and credited pursuant to the Public Issue	63,750,000	25,500,000
Enlarged issued and fully paid-up share capital upon Listing	**400,000,000**	**160,000,000**
IPO Price		RM0.54 [(1)]
- **Proforma consolidated NA per Share** *(based on the enlarged issued and paid-up share capital after the IPO and deducting the estimated listing expenses of RM6.75 million)*		RM0.50
- **Market capitalisation** *(based on the IPO Price and enlarged issued and paid-up share capital after Listing)*		RM216,000,000

Note:-

*(1) The IPO Price of RM0.54 per IPO Share is based on amongst other factors disclosed in **Section 3.6** of this Prospectus, a net PE Multiple of approximately 3.0 times computed based on the proforma consolidated PAT of our Group for the FYE 2009, and the number of Shares in issue prior to the Public Issue of 336,250,000 Shares.*

The IPO Price of RM0.54 per Share is payable in full upon application, subject to the terms and conditions of this Prospectus.

Please refer to **Section 3** of this Prospectus for further information on our IPO.

2.5 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 our future financial performance. 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 industry

(i) We operate in the competitive sports shoe industry;

(ii) We may be unable to effectively manage our expansion;

(iii) We may not be able to respond promptly to market trends and produce commercially viable sports shoes;

(iv) Absence of long-term contracts with customers;

(v) We are fairly reliant on our external contract manufacturers;

(vi) We depend on the continuous supply of quality raw materials;

(vii) We may face rising production costs in the PRC;

(viii) We may inadvertently infringe third-party intellectual property rights;

(ix) Our reputation may be affected by the quality of our products;

(x) We are exposed to the credit risks of our customers;

(xi) We are exposed to fluctuations in the economic conditions of our export markets and discretionary consumer spending, as well as restrictions on the import of our products;

(xii) Certain preferential tax treatment to which we are entitled may be subject to change;

(xiii) We may be subject to foreign exchange risk;

(xiv) We are dependent on executive directors, key management and skilled workforce;

(xv) We are exposed to operational risks such as accidents, power shortage, fire outbreaks, floods and insufficient insurance coverage;

(xvi) Our operations may suffer a material adverse impact if there is a non-renewal of our permits, licences and certificates; and

(xvii) We have not obtained land use rights certificate and property ownership certificates for some of our production facilities.

(b) Risks relating to the PRC

(i) Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in;

(ii) Changes in the PRC governmental rules and regulations will have a significant impact on our business;

(iii) New labour laws in the PRC may adversely affect our operations;

(iv) PRC foreign exchange control may affect our ability to receive dividends and other payments from our PRC subsidiary;

(v) We are a holding company that relies heavily on dividend payment from our subsidiary for funding;

(vi) Our operating results and financial conditions are highly susceptible to changes in PRC's political, economic and social conditions as our revenue is currently wholly derived from our operations in PRC; and

(vii) Fluctuations in exchange rate may materially affect our financial position.

(c) Risks relating to investment in our Shares

(i) The IPO may not result in an active or liquid market for our Shares;

(ii) Our share price may be volatile in the future which could result in losses for investors purchasing our Shares pursuant to the IPO;

(iii) We may require additional funding for our growth plans, and such funding may result in a dilution of your investment;

(iv) As our operations and significant assets are located outside Malaysia, it could be difficult to enforce a Malaysian judgment against our Directors, our officers and us;

(v) Control by our controlling shareholder, Li Kwai Chun who will beneficially own approximately 54.6% of our enlarged share capital after the IPO, may limit your ability to influence the outcome of decisions requiring the approval of shareholders; and

(vi) Failure / delay in our Listing.

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

2.6 UTILISATION OF PROCEEDS

We expect the total gross proceeds from the Public Issue to amount to approximately RM34.43 million based on the Issue Price of RM0.54. The proceeds shall come to us and we shall bear all expenses relating to the listing of and quotation for our entire issued and paid-up share capital on the Main Market of Bursa Securities.

The proceeds will be utilised by our Group in the following manner:

	Estimated timeframe for utilisation	**Amount RM'000**
Expansion of our production capacity and upgrading of existing production facilities	24 months	12,000
Increase our product D&D efforts and expansion of product range	12 months	6,000
Working capital purposes	12 months	9,675
Estimated listing expenses	Upon Listing	6,750
Total		34,425

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

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

The effects of the utilisation of proceeds on our proforma consolidated balance sheets as at 30 June 2010 is reflected in **Section 7.2** of this Prospectus.

3. PARTICULARS OF OUR IPO

3.1 INTRODUCTION

This Prospectus is dated 21 December 2010.

We have registered a copy of this Prospectus together with the Application Forms with the SC. We have also lodged a copy of this Prospectus, together with the Application Forms with the ROC and 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 26 August 2010 shall not be taken to indicate that the SC recommends the IPO. You should rely on your own evaluation to assess the merits and risks of the IPO.

We have obtained the approval from Bursa Securities for the admission to the Official List of the Main Market of Bursa Securities and for permission to deal in and the listing of and quotation for our entire enlarged issued and paid-up ordinary shares, including the IPO Shares which is subject of this Prospectus, on the Main Market of Bursa Securities. Our Shares will be admitted to the Official List of the Main Market and the official quotation will commence upon receipt of confirmation from 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.

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

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 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.

Pursuant to the Listing Requirement, 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 of Bursa Securities. In such an event, monies paid in respect of all applications will be returned in full without interest.

If you are submitting your application by way of an Application Form or Electronic Share Application or Internet Share Application, you **MUST** have a CDS account. If you presently do not have a CDS account, you should open a CDS account at an ADA prior to making an application for our IPO Shares. Please refer to **Section 16** of this Prospectus for further details on the procedures for application for the IPO Shares.

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.

Nonetheless, should we become aware of any material change or development affecting a matter disclosed in this Prospectus from the date of registration of this Prospectus with the SC up to the date of the Listing, we shall further issue a supplemental or replacement prospectus, as the case may be, in accordance with the provisions of Section 238 of the CMSA.

This Prospectus does not constitute and may not be used for the purpose of an invitation to 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:

Events	Tentative Dates
Issuance of Prospectus/Opening of the application for the IPO	21 December 2010
Closing of the application for the IPO	28 December 2010
Balloting of applications for the Issue Shares	30 December 2010
Allotment of Issue Shares to successful applicants	4 January 2011
Listing Date	6 January 2010

The timetable is tentative and subject to changes which may be necessary to facilitate the implementation plan. This issue will close at the date stated above or such later date as our Directors and OSK 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, Bahasa Malaysia and Chinese 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 provide an opportunity for Malaysian Investors to participate in our continuing growth by way of equity participation;

(iii) to raise proceeds for the purposes stated in **Section 3.7** of this Prospectus; and

(iv) 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 63,750,000 Shares, representing approximately 15.9% of our enlarged issued and paid-up share capital, at an issue price of RM0.54 per Share are 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

20,000,000 Public Issue Shares, representing 5.0% 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

43,750,000 Public Issue Shares, representing approximately 10.9% of our enlarged issued and paid-up share capital will be made available for application by way of private placement to selected investors.

All the Public Issue Shares will increase our issued and paid up share capital from 336,250,000 Shares to 400,000,000 Shares.

All the Public Issue Shares under **Section 3.4.1 (i)** above will be fully underwritten by the Underwriter.

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 are not subscribed will be subscribed by the Underwriter 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 AND RIGHTS ATTACHING TO THE ISSUE SHARES

	Number of Shares	Share Capital RM
Authorised share capital	**1,250,000,000**	**500,000,000**
Issued and paid-up share capital as at the date of this Prospectus	336,250,000	134,500,000
To be issued and credited pursuant to the Public Issue	63,750,000	25,500,000
Enlarged issued and fully paid-up share capital upon Listing	**400,000,000**	**160,000,000**
IPO Price		RM0.54 [(1)]
- **Proforma consolidated NA per Share** *(based on the enlarged issued and paid-up share capital after the IPO and deducting the estimated listing expenses of RM6.75 million)*		RM0.50
- **Market capitalisation** *(based on the IPO Price and enlarged issued and paid-up share capital after Listing)*		RM216,000,000

Note:-

(1) The IPO Price of RM0.54 per IPO Share is based on amongst other factors disclosed in ***Section 3.6*** *of this Prospectus, a net PE Multiple of approximately 3.0 times computed based on the proforma consolidated PAT of our Group for the FYE 2009, and the number of Shares in issue prior to the Public Issue of 336,250,000 Shares.*

Our market capitalisation upon Listing based on the IPO Price and our enlarged issued share capital of 400,000,000 Shares amounts to RM216,000,000. The IPO Price is payable in full upon the Application subject to the terms ad 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 of RM0.40 each. Upon allotment and issuance, the IPO Shares shall rank *pari pasu* 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 of Association.

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

3.6 BASIS OF ARRIVING AT THE IPO PRICE

The IPO price of RM0.54 per Share was determined and agreed upon by our Directors and OSK as the Adviser, Underwriter and 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 Group's net EPS of approximately RM0.18 sen for FYE 2009 based on the number of Shares in issue prior to our Public Issue of 336,250,000 Shares and our net PE Multiple of approximately 3.0 times;

(iii) our proforma consolidated NA per Share after the IPO of approximately RM0.50 computed based on the consolidated NA of approximately RM198.4 million as at 30 June 2010 and the enlarged issued and paid-up share capital of 400,000,000 Shares;

(iv) future plans and prospects of our Group as outlined in **Section 5.12** of this Prospectus; and

(v) the overview and prospects of the industry of which our Group operates in as set out in **Section 5** of this Prospectus.

Our Directors and OSK are of the opinion that the IPO Price is fair and reasonable after careful consideration of the abovementioned factors.

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

However, you should note that the market prices of our Shares upon and subsequent to the listing on the Main Market of Bursa Securities 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

We expect the total gross proceeds from the Public Issue to amount to approximately RM34.43 million based on the issue price of RM0.54. The proceeds shall come to us and we shall bear all expenses relating to the listing of and quotation for our entire issued and paid-up share capital on the Main Market of Bursa Securities.

We expect the proceeds to be utilised in the following manner:-

	Estimated timeframe for utilisation	Amount RM'000
Expansion of our production capacity and upgrading of existing production facilities [1]	24 months	12,000
Increase our product D&D efforts and expansion of product range [2]	12 months	6,000
Working capital purposes [3]	12 months	9,675
Estimated listing expenses [4]	Upon Listing	6,750
Gross proceeds		**34,425**

Notes:

(1) *Part of the proceeds will be utilised for the expansion of production capacity which includes the purchase of four (4) production lines, sewing machines, roller machines, cutting machines and grinding machines. The acquisition of the new production lines are expected to further increase our production capacity from 8 million pairs of sports shoes per annum to 16 million pairs of sports shoes per annum operating on a two-shift basis in order to meet the anticipated increase in market demand for our sports shoes in the PRC and overseas markets. Further, the proceeds will also be used for upgrading of our existing production facilities through the purchase of new machineries and equipment which include lasting machines, moulding and embossing machines, sewing and embroidery machines, mixing mills and trimming machines. The breakdown of the utilisation is as follows:-*

	RM'000
Expansion of production capacity	
- 4 production lines	*5,100*
- Ancillary machineries	*3,600*
Sub-total	***8,700***
Upgrading of existing production facilities	
- New machineries and equipment	*3,300*
TOTAL	***12,000***

*Please also refer to **Section 5.12** of this Prospectus for more details.*

(2) *Our Company intends to further strengthen our D&D capabilities. We intend to invest in new equipment and machineries such as upgrading of the current information system with advanced functionality and computer-aided design (CAD) platforms, new testing machines, infrared heating system and to recruit experienced sports shoe designers. The breakdown of the utilisation is as follows:-*

	RM'000
*Purchase of D&D machineries and equipment**	*3,600*
D&D expenses [@]	*1,100*
Recruitment of D&D staff [#]	*1,300*
TOTAL	***6,000***

* *The details of the D&D machineries and equipment are as follows:-*

	Estimated cost RM'000
Machineries and equipment mainly for tha production of the sports shoe prototypes (including computer-controlled infrared heeting system, computer-controlled toe-lasting machine and sole attaching mechine end other ancillary machines)	*1,700*
Testing equipment (including Folding Testar, Abrasion tester, compression testing machine, heel impact testing machine, bending test machine, freezing bending test machine, waterproof bending test machine, mechenics of humen motion tester and others)	*1,000*
CAD and ancillary software (including computer cutting board machine, computer greding system and computer costing system)	*900*
TOTAL	*3,600*

In order to keep up with the repid chenges in the sports shoe industry, we need to continually improve the quality, variety and functionality of our sports shoes. As such, part of our proceeds is intended to be allocated for the purchase of new machineries and equipment to facilitate our product D&D efforts. The purchase of new machineries and equipments is expected to contribute positively towards our revenue and profitability.

@ *Out of RM1.1 million allocated for the D&D expenses, we intend to utilise RM0.5 million for the sourcing of new materials for sport shoes in order to expand our product renge. The remeining balance is intended to be utilised for the purchase of consumables for product prototypes and remuneretion costs of our D&D staff which is fairly consistant with our existing D&D expenses of approximately RM0.7 million and RM0.5 million incurred in FYE 2008 and FYE 2009 respectively. Please refer to **Section 6.10.4** of this Prospectus for the historical D&D expenses incurred during the Financial Period under Review.*

\# *Out of RM1.3 million allocated for the recruitment of D&D staff, we intend to utilise approximately RM1.1 million to recruit more experienced sports shoe designers in order to enhance our D&D capabilities and expand our product renge for customer selection (the estimated annual salary for each experienced sports shoe designer is about RM0.55 million). Our Group believes the enhancement in our D&D capabilities will help our Group to secure more customer orders and contribute positively to our revenue end profitability.*

In the event that the actual expenses are higher than budgeted, the deficit will be funded out of the portion elloceted for working capital. Conversely, if the actual expensas are lower than budgeted, the excess will be utilized for working cepital purposes, upon expiry of the estimated timefreme for utilisation and such utilisation will be announced vie Burse Securities.

(3) *Part of the proceeds will be used for our Group's working capital which includes the purchase of rew material for the manufacturing of sports shoes and payment of labour cost/staff salaries. Our Group expects our daily working cepitel requirements / expenditure to increase in line with the growth of our business.*

(4) *The estimeted listing expenses are as follows:*

	RM'000
Professional fees	*2,800*
Fees to authorities	*190*
Estimeted underwriting, placement and brokerege fees	*2,600*
Printing, advertising end issuing house fees	*560*
Contingencies	*600*
Total	***6,750***

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.

Pending the eventual utilisation of the proceeds from the Public Issue for the above purposes, the proceeds would be placed in deposits with financial institutions or short-term money market instruments.

3.8 DILUTION

Dilution is computed as the difference between the Issue Price paid by the applicants for our Issue Shares and the proforma consolidated NA per Share of our Group immediately after the IPO.

Pursuant to the Public Issue in respect of 63,750,000 new Shares respectively at the Issue Price of RM0.54, our proforma NA per Share after the IPO and after taking into consideration the listing expenses based on the enlarged issued and paid-up share capital of 400,000,000 Shares would have been RM0.50. This represents an immediate dilution in the NA per Share of our Group of RM0.04, representing approximately 7.4% of the Issue Price to new public investors. The following table illustrates such dilution on a per Share basis:-

	RM
Issue Price	0.54
NA per Share as at 30 June 2010	0.51
Decrease in NA per Share attributable to the existing shareholders	0.01
NA per Share after the IPO	0.50
Dilution in NA per Share to new public investors^	**0.04**
Dilution in NA per Share to new public investors as a percentage of the leeue Price	7.4%

Note:-

^ *After teking into consideretion the effect of the utilisetion of the proceeds received end the listing expenses pursuent to the Listing.*

The following table summarises the total number of Shares received by the substantial shareholders or person(s) connected during the past three (3) years prior to the date of this Prospectus, including the total consideration paid by them pursuant to the IPO:-

	Number of Shares	**Total consideration RM**	**Average price per Share RM**
Promoter and eubetantial shareholder			
Li Kwai Chun[(1)]	233,333,193	93,333,277	0.40
Other substantial shareholder and person connected			
OSKTV	28,867,761	9,526,500	0.33
OSK Labuan Sdn Bhd[(2)]	14,768,200	4,873,500	0.33
New investors pursuant to the Public Issue	63,750,000	34,425,000	0.54

Notes:-

(1) *Computed besed on the purchase consideration of the Acquisition pursuent to the restructuring egreement deted 18 November 2009. Subsequently on 8 December 2009, Li Kwei Chun disposed of 15,055,147 Sheres to EV Cepitel Private Limited, Teo Kien Huet end Ng Der Sian, collectively.*

(2) *The shereholdings of OSK Labuen Sdn Bhd held vie OSK Nominees (Tempeten) Sdn Bhd.*

Apart from the Maxwell Shares received by the substantial shareholders pursuant to the restructuring agreement dated 18 November 2009 and an equity transfer agreement dated 20 November 2009 above, there is no acquisition of any existing equity securities in Maxwell Group by the key management, substantial shareholders or persons connected with them during the past three years, or which they have the right to acquire.

3.9 BROKERAGE, PLACEMENT FEES AND UNDERWRITING COMMISSION

3.9.1 Brokerage

Brokerage fees is payable by us in respect of the Public Issue Shares at the rate of 1% of the Issue Price in respect of successful applications which bear the stamps of OSK, member companies of Bursa Securities, members of the Association of Banks in Malaysia, members of Malaysian Investment Banking Association and/or MIH.

3.9.2 Placement Fees

The placement fees is payable by our Company to the Placement Agent at a placement commission of up to 3.5% of the Issue Price for each Public Issue Shares placed.

3.9.3 Underwriting Commission

We had entered into a conditional underwriting agreement with OSK on 14 October 2010 ("Underwriting Agreement") to underwrite 20,000,000 Public Issue Shares available for application by the Malaysian Public ("Underwritten Shares").

The underwriting commission is payable by our Company at a rate of 3.5% of the IPO price of RM0.54 for the 20,000,000 Public Issue Share underwritten.

3.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

We had on 14 October 2010 entered into an Underwriting Agreement with OSK, whereby OSK had agreed to underwrite the Issue Shares at the Issue Price based on some of the salient terms set out below.

The following terms are reproduced from the Underwriting Agreement. Unless otherwise stated, the capitalised terms and numbering references used in this section shall have the respective meanings and numbering references as ascribed thereto in the Underwriting Agreement:-

(i) *Pursuant to Clause 4.1 of the Underwriting Agreement, the obligations of the Underwriter 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 Companies Commission of Malaysia respectively of the Prospectus together with copies of all documents required under Section 42 of the Act prior to the issuance of the Prospectus to the public;*

(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 Act to the public within three (3) months from the date hereof or such extension as consented by the Underwriter;*

(c) *the Underwriter receiving a certificate in the form or substantially in the form contained in Second Schedule (Certificate by Company) of this 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 respectively that: (i) 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 date of this Agreement; or (ii) 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 Underwriter 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 Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 13;*

(h) *the delivery to the 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); and*

(i) *the Underwriter being satisfied that the* FTSE Bursa Malaysia *Kuala Lumpur Composite Index has not fallen below 1,100 points and has not stayed below 1,100 points for three (3) consecutive Market Days prior to or up to the Closing Date.*

(ii) *In the event any of the conditions set forth in Clause 4.1 are not satisfied by the Closing Date, the Underwriter 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 Underwriter shall be released and discharged from their obligations save for the Company's obligations pursuant to Clause 3.3 and 13 and neither party 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 Underwriter reserves the right to waive or modify any of the conditions aforesaid and such waiver or modification shall not prejudice the Underwriter's rights under this Agreement.*

(iii) *Pursuant to Clause 14.1 of the Underwriting Agreement, notwithstanding anything herein contained, the Underwriter may by notice in writing to the Company given at any time on or before the allotment and issuance of the Public 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 Underwriter, which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriter, 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 Underwriter, 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 Underwriter, 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 in the opinion of the Underwriter any material and/or adverse change to the business or financial condition of the Group; 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*

- *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 Underwriter (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 Underwriter), 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 Group 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 Underwriter that the success of the Public Issue is seriously and/or materially jeopardised by the FTSE Bursa Malaysia Kuala Lumpur Composite Index falling below 1,100 points and remaining below 1,100 points for three (3) consecutive Market Days at any time between the date of this Agreement and up to and including the Closing Date; or*

- *in the event of national disorder, outbreak of war or the declaration of a state of national emergency;*

(e) *there is failure on the part of the Company to perform any of their respective obligations herein contained; or*

(f) *any matter which arose immediately before the date of the Prospectus would have constituted a material and adverse omission in the context of the Public Issue; or*

(g) *any event, act or omission which gives or is likely to give rise to any liability which will have a material and adverse effect on the Company pursuant to the indemnities contained under this Agreement.*

(iv) *Pursuant to Clause 14.2 of the Underwriting Agreement, upon such notice(s) being given under Clause 14.1, the Underwriter 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 Underwriting Commission pursuant to Clause 11.2 hereof, costs and expenses already incurred prior to or in connection with such termination, including for the payment of any taxes, duties or levies or such outstanding fees pursuant to Clause 11.3 hereof, and for any antecedent breach, and its undertaking to indemnify the Underwriter pursuant to the provisions of Clause 3.3.*

4. RISK FACTORS

BEFORE INVESTING IN OUR SHARES, YOU SHOULD PAY PARTICULAR ATTENTION TO THE FACT THAT WE, AND TO A LARGE EXTENT OUR ACTIVITIES ARE SUBJECT TO THE LEGAL, REGULATORY AND BUSINESS ENVIRONMENT IN PRC. OUR BUSINESS IS SUBJECT TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE 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 INDUSTRY

4.1.1 We operate in the competitive sports shoe industry

We believe that sports shoe industry is competitive in the PRC and globally. The barriers to entry for new competitors are relatively moderate. Numerous domestic and international brands compete with one another based on, amongst other things, product variety, design, quality, price and services. However, we are an OEM/ODM sports shoe manufacturer and hence, rather than competing directly with brand owners, we compete with other sports shoe manufacturers. In the event that our competitors are able to provide comparable products at more competitive prices or offer a wider range of designs and products or provide better services that will meet our customers' needs, we may not be able to compete successfully with them.

If we are unable to compete effectively with our competitors, or fail to adapt to the changing and competitive market environment, our business, operating results and financial condition may be adversely affected.

4.1.2 We may be unable to effectively manage our expansion

We currently have four (4) production lines with an average annual capacity of approximately 8 million pairs of sports shoes per annum. As set out in **Section 7.4** of this Prospectus, our sales volume has increased from 4 million pairs of sports shoes in FYE 2006 to approximately 11 million pairs of sports shoes in FYE 2009. In addition, we also outsource some of our sports shoe orders to external contract manufacturers to meet our customers' orders. As the sales volume of our sports shoes increase further, we intend to expand our production capacity by acquiring additional production lines. Please refer to **Section 5.12** of this Prospectus for details of our future plans.

The above plans may strain our financial resources and overstretch our human and capital resources. In the event that our future plans are not commercially viable or successful, or the demand for our products diminishes, our business operations and financial results may be adversely affected.

4.1.3 We may not be able to respond promptly to market trends and produce commercially viable sports shoes

We believe our success depends largely on our ability to keep abreast with market trends as well as our ability to anticipate and react to the fast changing sports shoe segment in a timely manner. Hence, it is important that we continue to react promptly to new sports shoe designs and use materials that would appeal to our customers' target markets.

There can be no assurance that our Group will be able to continuously develop products which would successfully meet the fast changing market trends of sports shoe industry. If we are unable to consistently produce and/or design commercially viable sports shoes for our customers, our business operations and financial results may be adversely affected.

4.1.4 Absence of long-term contracts with customers

We do not have any long-term contracts with our customers as our customers typically place their orders via purchase orders, which to the best of our Board's knowledge is common practice in our industry.

Our ability to retain our customers is important to the continued success of our Group. There is however no assurance that our customers will continue to purchase our products at current levels in the future. In the event that they cease or reduce significantly their purchase of our products and we are unable to secure sufficient orders from the loss and/or reduced orders, there will be an adverse impact on our financial performance.

Despite the lack of long-term contracts, we have established strong relationships with our customers by offering them quality products, reliable service and timely product delivery at competitive prices. For the FYE 2009, approximately 53.2% of the revenue was derived from repeat customers. It is unlikely that such customers will switch their orders to other sports shoe manufacturers unless there is a failure by us in meeting customers' expectations.

Our Group believes that our ability to offer quality products as well as strong D&D capabilities are increasingly recognised by our customers which is evidenced by the increase in our Group's sales volume from approximately 4 million pairs of sports shoes sold in FYE 2006 to approximately 11 million pairs of sports shoes sold in FYE 2009. In addition, our management believes that our strong focus on D&D to improve and extend our product range will enable our Group to maintain and attract existing and new customers thus mitigating the risk of absence of long-term contracts.

4.1.5 We are fairly reliant on our external contract manufacturers

We started to outsource some of our sports shoe orders to external contract manufacturers since FYE 2006. External contract manufacturing accounted for approximately 23.7%, 23.7%, 43.1%, 45.0% and 41.9% of our total revenue for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. As such, we are fairly reliant on our external contract manufacturers. However, our reliance on external contract manufacturers are mitigated to a large extent as there are approximately 3,000 shoe manufacturers in the Jinjiang area, many of whom are contract manufacturers for OEM, thus giving us a large pool of external contract manufacturers to choose from. We select our external contract manufacturers based on their product quality, reliability, price range of designs, speed of delivery and reputation.

In fact, outsourcing allows us to (i) conserve some manpower and financial resources to focus on other areas of our business, which is design, marketing and quality control of our products; (ii) provide flexibilities to cater for a slowdown in demand, where we can first trim the outsourcing production; and (iii) to allow us to cope during periods of high demand.

Notwithstanding the above, in the event that we are unable to source for suitable alternative external contract manufacturers in a timely manner or when there is a failure by any of our external contract manufacturers to perform, our business operations and financial performance may be adversely affected.

4.1.6 We depend on the continuous supply of quality raw materials

Our ability to produce quality products is dependent on our ability to obtain adequate supply of quality raw materials at competitive prices. We purchase all our raw materials on an order-by-order basis and have no long-term contracts with any of our suppliers. In the event that we are unable to secure adequate supplies of raw materials at competitive prices and on a timely basis for our production needs, our operations may be adversely affected.

In mitigation, as our production facilities are located in Jinjiang City, Fujian Province, a place which is renowned as one of the PRC's largest sports shoe manufacturing base, we have easy access to a large pool of suppliers in close proximity to our production facilities. Our suppliers are primarily located in Quanzhou City and Jinjiang City, Fujian Province, where there is a high concentration of suppliers of raw materials for the sports shoe industry.

We also maintain records of our raw material inventory levels to ensure sufficient procurement of raw material and to ensure that there is no material disruption in raw material supply. We have not previously experienced any difficulties in sourcing for our raw materials.

4.1.7 We may face rising production costs in the PRC

Production costs such as cost of raw material and labour cost accounted for approximately 82.8% of our total cost of sales for FYE 2009. The raw materials for our sports shoes mainly comprise leather, fabrics, PU, PVC and sole units. Prices for our raw materials such as PU leather, synthetic leather, genuine leather, nylon and sole unit generally move in tandem with oil prices, labour cost and are also affected by the economic conditions in the PRC. Our raw material cost as a proportion of total cost of sales increased from 62.6% in FYE 2006 to 71.1% in FYE 2009 mainly due to the increase in oil prices.

In addition, the sports shoe industry is labour intensive and our labour cost in the PRC have been on an upward trend in the last few years in line with the strength and growth of the PRC economy.

However, our Group is able to obtain the raw materials from our suppliers at competitive prices due to the availability of a large pool of suppliers based in Fujian province, PRC. We have so far been able to pass any increase in our production costs to our customers.

There is no assurance that the production costs will not continue to increase in the future. If we fail to offset such increase in production costs against a corresponding increase in the selling prices of our products, our business operations and profit margins may be adversely affected.

4.1.8 We may inadvertently infringe third-party intellectual property rights

As at the LPD, we have not infringed on any third-party intellectual property rights in the past. Nevertheless, there can be no assurance that we would not inadvertently infringe the intellectual property rights of others or others would not assert infringement claims against us or claim that we have infringed their intellectual property rights as we continue to develop new sports shoe designs.

Any such claims of the intellectual property rights infringement, with or without merits, could be time consuming, resulting in costly litigation and diversion of technical and management personnel, causing product shipment delays or requiring us to develop non-infringing products or enter into licensing agreements. Such licensing agreement, if required, may not be available on terms acceptable to us or at all. In the event of a successful claim of intellectual property rights infringement against us and/or our failure or inability to develop non-infringing products or to license the infringed intellectual property rights in a timely or cost-effective basis and on terms acceptable to us, our business operations and financial performance may be adversely affected.

In mitigating the risk of infringement of intellectual property rights, for orders placed by our customers, particularly for more renowned brands, we maintain and will continue to request for authorisation letters from the brand distributors, trading houses or brand owners, where possible. For other less popular brands, we will usually rely on the representations from the trading houses that they are duly authorized, and conduct some verification from the understanding of the relevant brand owners' corporate profile or websites. As for designs developed in-house, we will conduct searches or rely on information obtained through our sales and marketing team to avoid any potential infringement.

Please refer to **Section 6.14** for details on the third party authorisation letters obtained by us.

4.1.9 Our reputation may be affected by the quality of our products

We are dependent on our reputation and the quality of our products for the continued growth of our business. Failure to consistently deliver quality products may result in such products being returned which may materially and adversely affect our ability to retain our existing customers, secure new customers or develop new market segments, thereby hampering our future business growth.

Although we place emphasis on the quality of our products and have put in place stringent quality assurance measures throughout the production processes, there may be complaints from customers from time to time in relation to any defect in our products. Such negative publicity, regardless of their validity, may result in a diminution in the goodwill associated with our products. In such events, our reputation may be adversely affected and consequently our business operations and financial performance may be adversely affected.

As at the LPD, we have not experienced any rejection from our customers due to product quality matters. However, there is no assurance that such situation will not occur in the future.

4.1.10 Ws are exposed to the credit risk of our customers

Our financial position and performance are dependent, to a certain extent, on the creditworthiness of our customers. We usually extend credit terms of 90 days to 120 days to existing customers. We are exposed to credit risk due to the inherent uncertainties in our customers' business environment, caused by, *inter alia*, political, social, legal, economic and foreign exchange factors, as well as those arising from unanticipated events.

Although there has not been any material collection problem for trade receivables or bad debts in the Financial Period under Review and up to the LPD, there is no assurance that we will not encounter collection difficulties in the future. A delay or default in payment and/or significant increase in the amount of bad debts written off and/or provision for impairment of trade receivables incurred may adversely affect our financial position and performance.

4.1.11 We are exposed to fluctuations in the economic conditions of our export markets and discretionary consumer spending, as well as restrictions on the import of our products

We derive our revenue from sales through trading houses and brand distributors who mainly serve overseas markets such as USA, Europe, Japan, South Korea, South America, Middle East and South East Asia. Please refer to **Section 7.4.1** of this Prospectus for more details on our revenue by geographical regions.

Accordingly, the success of our business depends on the conditions and the continued growth of the overseas consumer markets. The growth in such markets in turn depend 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, and as such may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including our Group.

Furthermore, any import restrictions, such as import tariffs and anti-dumping measures, that may be imposed by the countries to which our products are sold may result in an increase in our export costs, or limitations to our export volumes. As at the LPD, we are not aware of any significant barriers in relation to the import of our products into the overseas countries to which our products are sold. However, there can be no assurance that the relevant government authorities will not impose adverse restrictions in the future. In such event, our business operations and financial performance may be adversely affected.

4.1.12 Certain preferential tax treatment to which we are entitled may be subject to change

Zhenxing Shoes is qualified taxpayer under the PRC tax laws and regulations. Currently, Zhenxing Shoes is subject to an income tax rate of 25% and a VAT rate of 17%.

Pursuant to a Notice of Tax Rebate for Goods promulgated by the State Council in 1985 and its amendments from time to time, companies shall enjoy tax rebate for goods exported at specific rates by category. Zhenxing Shoes is entitled to approximately 15% tax rebate. Moreover, according to "Certain Opinions for Encouragement to Expand Export（晋政文(2004)131 号）issued by People's Government of Jinjiang City, a company engaging in normal trade business shall enjoy reward based on its actual annual export amount. Accordingly, Zhenxing Shoes who exports sports shoes is entitled to enjoy such reward yearly for its self-support exportation from the Finance Bureau of Jinjiang City.

However, there is no assurance that the current income tax rate and this application of the tax rebate rate as well as the reward policy for exportation will remain in effect or will not be subject to change. In the event that we are required to pay higher income tax rate, or we are unsuccessful in our application for the tax rebate and tax reward, our financial performance may be adversely affected.

4.1.13 We may be subject to foreign exchange risk

In FYE 2009, approximately 3% of our revenue was denominated in USD whilst a substantial part of our expenses and operating costs was denominated in RMB. To the extent that our revenue, purchases and operating costs are not naturally matched in the same currency and to the extent that there are timing differences between invoicing and collection or payment, as the case may be, we will be exposed to any adverse fluctuation of the RMB and USD. Please refer to **Section 7.4.2 (vi)** of this Prospectus for further details on the foreign exchange exposure.

Presently, we do not have any specific policy to hedge our foreign exchange exposure as our revenue denominated in USD is minimal. We may, should we deem it necessary and appropriate, enter into agreements with our banks to lock in agreed exchange rates. However, there is no assurance that such efforts will successfully hedge against foreign currency fluctuations.

4.1.14 We are dependent on executive directors, key management and skilled workforce

We believe that the success of our business depends to a significant extent on the continued services of our Executive Director and Chairman, Li Kwai Chun, who is responsible for formulating and implementing growth, corporate development and overall business strategies, and our CEO, Mr Xie Zhen'an and other senior management, who are spearheading the growth and development of Zhenxing Shoes. Another key factor to the success of our business is the continued services of our skilled workers. Our skilled workers are mainly responsible for quality control and D&D. Thus, they play an integral role in ensuring the quality of our products and our products' D&D process.

As such, any loss of the services of our Executive Directors and key management and/or substantial loss of any of our skilled workforce would have an adverse impact on our business operations.

Recognising the importance of our management team and difficulties in procuring timely and adequate replacements, we will continuously consider appropriate measures to attract and retain qualified key personnel. Our Group believes that by offering a competitive salary package, providing training and a conducive working environment, we should be able to mitigate the risk of any of our key personnel leaving our Group. In addition, we believe that by increasing our profile through our Listing, we will be able to attract more qualified personnel to play an active role in the growth of our Group.

4.1.15 We are exposed to operational risks such as accidents, power shortage, fire outbreaks, floods and insurance coverage

We are susceptible to various operational risks such as accidents, power shortage, production downtime, outbreaks of fire or floods and/or other natural disasters, which may cause disruption and/or loss of or damage to our goods, warehouse, manufacturing facility and office. We are also aware of the adverse consequences arising from inadequate insurance coverage for the accidents and outbreaks that could disrupt our business operations.

We seek to limit the above risks through the following plans and risk management practices:-

(i) our facilities are equipped with the regulatory basic fire-fighting equipment such as fire extinguishers and/or hose reels. Our employees are also trained on the use of this equipment as well as the proper fire-fighting techniques and procedures. In addition, we purchase fire insurance coverage on our properties, warehouses and equipment;

(ii) we ensure that we have equipment and spare parts to cope with unexpected emergencies at any one time, such as our spare parts storage policy. Our management also holds regular meetings and discussions to identify and mitigate any foreseeable problems in our business operations; and

(iii) we ensure that our facilities, manufacturing plant and warehouse meet all safety requirements stipulated in various licenses issued by relevant authorities. We also conduct various in-house training and briefing on safety requirements to minimise the risks of industrial accidents in our facilities.

Our Directors are of the opinion that we have adequate insurance coverage for our business operations and we review our insurance policies on a regular basis to ensure sufficient insurance coverage for our assets.

Although we have not experienced any significant disruption of operations in the past, we can give no assurance that our business operations and financial performance will not be adversely affected in the future due to the operational risks highlighted above and/or inadequate insurance coverage.

4.1.16 Our operations may suffer a material adverse impact if there is a non-renewal of our permits, licences and certificates

We have obtained all requisite permits, licences and certificates for our current business operations. However, some of these permits, licences and certificates are subject to periodic review and renewal by the relevant PRC government authorities. In addition, the standards of compliance required in relation thereto may from time to time be subject to changes. Non-renewal of our permits, licences and certificates and/or changes imposed on the terms and conditions of licensing may have a material adverse effect on our operations and profitability.

Although our Group has not experienced any difficulty in maintaining the relevant licenses and permits in the past, and we do not foresee any potential issues arising from the renewal of our existing licences and permits, no assurance can be given that our licenses and permits will be renewed, or renewed within the anticipated timeframe.

4.1.17 We have not obtained land use rights certificate and property ownership certificates for some of our production facilities

We had applied for the land use rights certificate for a piece of land measuring 15,318 sq m located in Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC ("Land") and property ownership certificates for one (1) block of warehouse, two (2) blocks of factory building and three (3) blocks of staff dormitory building (collectively refers to as the "Buildings"). As at the LPD, we have not yet obtained the land use rights certificate and the property ownership certificates for the abovementioned Land and Buildings. Please refer to **Section 9.1** of this Prospectus for further details on the properties of our Group. In the event that we fail to obtain the relevant land use rights and property ownership certificates, our rights to use or occupy the 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.

In addressing this risk, we have obtained confirmations from relevant authorities, namely, the Real Estate and Land Management Bureau of Jinjiang City (晋江市国土资源局) and the Planning and Construction and Housing Management Bureau of Jinjiang City (晋江市规划建设与房产管理局) that there will be no legal obstacle for Zhenxing Shoes to complete the procedure for obtaining the land use rights certificate and property ownership certificates. In addition, by a letter dated 15 December 2009 the Villagers Committee of Zhushuxia Village, Jinjiang City ("Villagers Committee") confirmed that Zhenxing Shoes has paid the compensation of RMB4,600,000 for the use of the Land, and consequently, the Villagers Committee agrees to allow Zhenxing Shoes to apply for the relevant land use rights certificate. Our PRC legal adviser, Messrs Haihua Yongtai Law Firm had further via its legal opinion dated 5 October 2010 opined that based on the aforementioned confirmations, they are not aware of any legal restriction which would prevent Zhenxing Shoes from obtaining the relevant land use rights certificate and property ownership certificates and there are no restriction for Zhenxing Shoes to occupy and use the abovementioned land and buildings for the their current business operations.

As such, our Directors are of the view that the chances of this risk materialising are minimal. In addition, the Company will use its best endeavour to follow up closely with the relevant authorities on the issuance of the land use rights certificate and property ownership certificates.

4.2 RISKS RELATING TO THE PRC

4.2.1 Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. 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 investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with 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 subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not have an adverse impact on our business or prospects.

Further, precedents on the interpretation, implementation and enforcement of PRC laws and regulations are limited, and unlike other common law countries such as Malaysia, decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other jurisdictions and it may be difficult to obtain swift or equitable enforcement of the laws in the PRC, or obtain enforcement of judgment by a court of another jurisdiction.

4.2.2 Changes in the PRC governmental rules and regulations will have a significant impact on our business

Currently, our business and operations in the PRC entail the procurement of licences and permits from the relevant authorities. Thus, our business and operations in the PRC are subject to the PRC government rules and regulations. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licences from the PRC authorities for the conduct of our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business cost will increase. Furthermore, there can be no assurance that such approvals or licences will be granted to us promptly or at all. If we experience delay in or are unable to obtain such required approvals or licences, our operations and business in the PRC, and hence our overall financial performance will be adversely affected. Please refer to **Section 6.15** of this Prospectus for further details on the major licenses, permits, regulations and certifications of our Group.

4.2.3 New labour laws in the PRC may adversely affect our operations

The shoe manufacturing industry is labour intensive. As at 30 June 2010, we had 1,683 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely, the Employment Contracts Law ("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. 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 us or in a timely and cost effective manner, thus our financial performance or operations could be adversely affected. There are also no assurances that the PRC government will not make any further amendments to the labour laws in the future.

4.2.4 PRC foreign exchange control may affect our ability to receive dividends and other payments from our PRC subsidiary

Our PRC-incorporated subsidiary, Zhenxing Shoes is subject to the PRC rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange ("SAFE") regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises ("FIEs") are required to apply to the SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certifications (which need to be examined annually), FIEs are allowed to open foreign currency accounts including the "basic account" and "capital account". Currently, conversion within the scope of the "basic account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

There is no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As all our revenue is derived from our PRC subsidiary and these revenues are mainly denominated in RMB, any future restriction on currency exchanges may limit the ability of our PRC subsidiary to repatriate such revenues to our Company in the form of dividend income or otherwise.

Further, as our Company is an investment holding company with no business operations, in the absence of such dividend income from our PRC subsidiary, our Company will not be able to distribute dividends to shareholders even if our Group, on a consolidated basis, is profitable.

4.2.5 We are a holding company that relies heavily on dividend payment from our subsidiary for funding

Our Company is a holding company incorporated in Malaysia. We operate our business primarily through our subsidiary in China. Therefore, the availability of funds to enable us to pay dividends to our shareholders and to service our indebtedness depends upon dividends received from our subsidiary. If our subsidiary incurs indebtedness or losses, such indebtedness or losses may impair Zhenxing Shoes' ability to pay dividends or other distributions to us and in turn restrict our ability to pay dividends to shareholders.

PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions. PRC laws also require a wholly foreign owned enterprise (commonly referred to as WOFE) such as Zhenxing Shoes to set aside 10% of its net profit as statutory reserves. This transfer of reserves will continue until the reserve balance reaches 50% of Zhenxing Shoes' registered capital, at which point no additional contribution is required to be made. These statutory reserves are not available for distribution as cash dividends. The reserve funds may be used by a WOFE to offset its accumulated losses and with the consent of the examination and approval authority, can also be used to expand its production operations and to increase its registered capital.

In addition, restrictive covenants in bank credit facilities or other agreements that our subsidiary may enter into in the future may also restrict the ability of our subsidiary to make contributions to us and hence, our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

4.2.6 Our operating results and financial conditions are highly susceptible to chsnges in PRC's political, economic and social conditions as our revenue is currently wholly derived from our operations in PRC

Since 1978, the PRC government has undertaken various reforms of its economic systems. Such reforms have resulted in economic growth for 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 adjustment 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 results and financial condition may be adversely affected by changes in the 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.

4.2.7 Fluctuations in exchange rate may materially affect our financial position

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

The PBOC (acting as the Central Bank of PRC) reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand, with reference to a basket of currencies, and removing the pegging of the RMB to the USD. On 23 September 2005, the PRC Government widened the daily trading band for RMB against non-USD 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 USD 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 USD or other currencies. In such event, adverse fluctuations of the RMB and currencies other than RMB may adversely affect our operating results, financial position, and the value of any dividends payable on our Shares in foreign currency terms.

In addition, any appreciation of RMB may result in the funds in RM raised by our Company pursuant to our IPO, when converted into RMB, being less than that required for our future plans and strategies, as set out in **Section 5.12** of this Prospectus.

4.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

4.3.1 The IPO may not result in an active or liquid market for our Shares

We cannot assure you that an active public market will develop or be sustained after the IPO. Active, liquid trading markets generally result in more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Therefore, there can by 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. 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.

4.3.2 Our share price may be volatile in the future which could result in losses for investors purchasing our Shares pursuant to the IPO

The Issue Price has been determined through negotiations between us and OSK as the Underwriter and Placement Agent, and may not be indicative of prices that will prevail in the trading market. You may not be able to resell your Shares at or above the Issue Price. Volatility in the trading price of our Shares may be caused by amongst others, the following factors, some of which are beyond our control:

(i) variation in our operating results;

(ii) changes in securities analysts' estimates of our financial performance;

(iii) announcements by us of significant acquisitions, strategic alliances or joint ventures;

(iv) additions or departures of key personnel;

(v) fluctuation in stock market prices and volume;

(vi) involvement in litigation;

(vii) changes in general economic and stock market conditions; and

(viii) negative publicity which includes those relating to our Board and substantial shareholders.

4.3.3 We may require additional funding for our growth plans, and such funding may result in a dilution of your investment

We attempted to estimate our funding requirements in order to implement our business plans. In the event that the costs of implementing such plans significantly exceed these estimates or if we come across other opportunities which cannot be predicted, and our funds generated from our operations prove insufficient for such purposes, we may need to raise additional funds to meet these funding requirements.

These additional funds may be raised by issuing equity or debt securities or by borrowing from banks or other resources. We cannot ensure that we will be able to obtain any additional financing on terms that are favourable to us, or at all. If we fail to obtain additional financing on terms that are favourable to us, we will not be able to implement such plans fully. Such financing even if obtained, may be accompanied by conditions that limit our ability to pay dividends or require us to seek lenders' consent for payment of dividends, or restrict our freedom to operate our business by requiring lenders' consent for certain corporate actions.

Further, in the event we raise additional funds by way of a limited placement or by a rights offering through the issuance of new shares, any shareholders who are unable or unwilling to participate in such an additional round of fund raising may suffer dilution in their investment.

4.3.4 As our operations and significant assets are located outside Malaysia, it could be difficult to enforce a Malaysian judgment against our Directors, our officers and us

Our operations and assets are located in the PRC. We are therefore subject to the relevant laws in the PRC. The Act may provide shareholders with certain rights and protection which may not have corresponding or similar provisions under the laws of the PRC. As such, investors in our Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Act. In addition, all our Executive Directors, as at the LPD, are non-residents of Malaysia and the assets of these persons are mainly located outside Malaysia. As such, there may be difficulty for shareholders to effect service of process in Malaysia, or to enforce a judgment obtained in Malaysia against any of these persons or our Group.

4.3.5 Control by our controlling shareholder, Li Kwai Chun who will beneficially own approximately 54.6% of our enlarged share capital after the IPO, may limit your ability to influence the outcome of decisions requiring the approval of shareholders

After the completion of the IPO, our controlling shareholder, Li Kwai Chun will beneficially own approximately 54.6% of our enlarged share capital. Such concentration of ownership will place her in a position to significantly affect our corporate actions such as mergers or takeover attempts (notwithstanding that the same may be synergistic or beneficial to our Group) in a manner that could conflict the interest of our public shareholders. As a result, Li Kwai Chun will be able to significantly influence all matters requiring approval by our shareholders, unless she is required by law and/or the relevant authorities to abstain from voting.

In an 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, if any, are entered into on an arm's length basis to minimise any conflict of interest, are commercially viable and are subject to terms not more favourable to our related parties than those generally available to third parties, and not detrimental to our minority shareholders.

4.3.6 Failure / delay in our Listing

The success of our Listing is also exposed to the risk that it may fail or be delayed due to any of the following reasons, amongst others:-

(i) The placees under the private placement tranche of the Public Issue fail to acquire the IPO Shares allocated to them;

(ii) Our Underwriter exercising their rights pursuant to the Underwriting Agreement discharging themselves from their obligations thereunder;

(iii) We are unable to meet the public shareholding spread requirements i.e. at least 25% of the total number of our Shares for which Listing is sought must be held by minimum number of 1,000 public shareholders holding not less than 100 Shares each, at the time of Listing; and/or

(iv) Any force majeure event(s), which are beyond our control before our Listing.

The above risks are mitigated by the following:-

(i) The identified investors have provided irrevocable undertakings to subscribe for their respective portion of the IPO Shares to be placed to them; and

(ii) Our Directors and OSK, as the Adviser, will endeavour to ensure that our Group is able to meet public spread requirements by allocating the IPO Shares applied for by the Malaysian Public to the required number of public shareholders during the balloting process. The IPO Shares allocated to the Malaysian Public are fully underwritten.

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5.1 OVERVIEW OF THE CHINESE ECONOMY

In 2005, China's real GDP achieved a growth of 11.3%. The rapid economic growth was enhanced by better efficiency and stable prices. In 2006, China's real GDP registered a growth of 12.7%. This was contributed by the fact that many of the sectors continued to experience growth, including investments in fixed assets, domestic spending, increased in foreign trading, expansion in the private sector and growth in household income.

In 2007, China's real GDP continued to expand by 14.2%. The Chinese economy maintained a good momentum characterised by rapid growth, improved economic structure, good efficiency and improved living standards despite the increasing uncertainties in the international economic and financial performance and rising inflationary pressure in China. Despite the global slowdown in 2008, China's real GDP grew by 9.6%, surpassing many more advanced economies like the United States, the United Kingdom and Japan which recorded real GDP of 0.0%, -0.1% and -1.2% respectively.

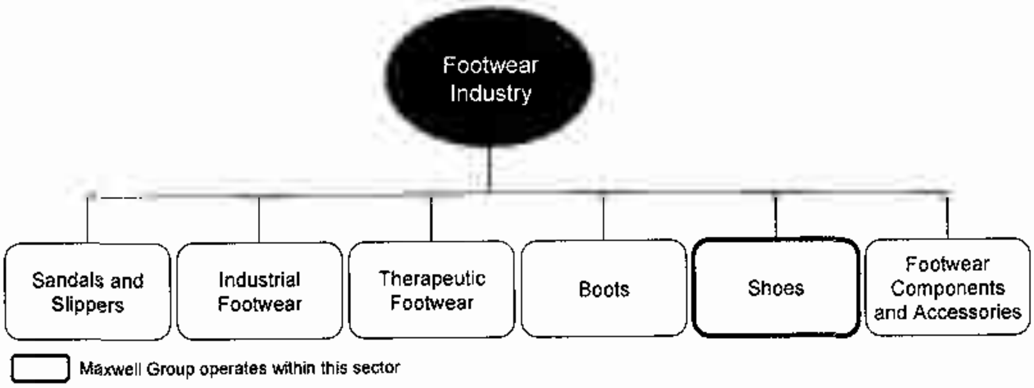
In 2009, in spite of the severe impact brought about by the global financial crisis, China continued to register real GDP growth of 9.1% while the real GDP growth for more advanced economies like the United States, United Kingdom and Japan in 2009 were –2.6%, -4.9% and –5.2% respectively. The Chinese Government's implementation of proactive fiscal policy and moderation of monetary policy helped to counter any negative impact on the economy and moved it towards a favourable direction. In the first three quarters of 2010, China's real GDP registered an estimated growth rate of 10.6% compared to the corresponding period in 2009.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.2 INDUSTRY OVERVIEW

5.2.1 Structure of the Footwear Industry

In general, the footwear industry comprises six segments as depicted in the figure below:

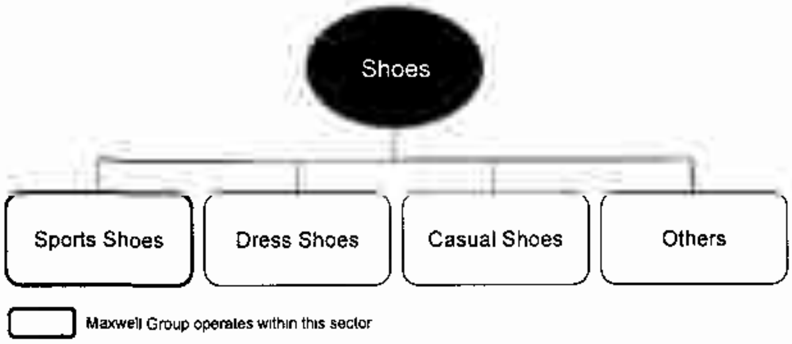


Shoes are a type of footwear commonly covering the foot and not extending beyond the ankle.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.2.2 Types of Shoes

Shoes can be further categories as follows:



Our Group operates within the sports shoe sector of the Footwear Industry.

5.2.3 Types of Sports Shoes

Sports shoes are primarily protective footwear commonly made of soft and flexible material for the upper body and relatively harder materials for the soles. It is designed for sporting and physical activities and differs from dress shoe in construction, design and style.

Sports shoes are commonly used in sporting activities including:

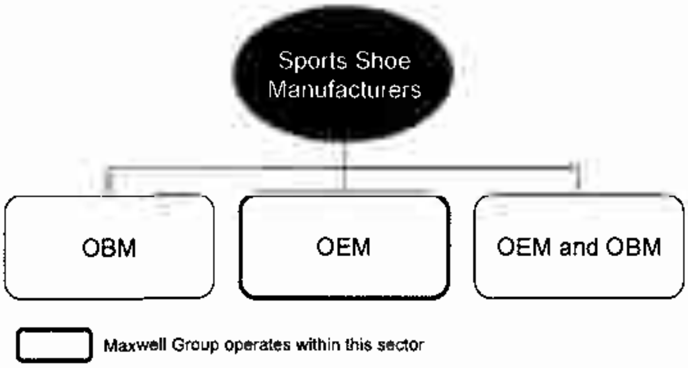
- casual/leisure sports shoes for casual walking and outdoor activities such as hiking, trekking, climbing and caving;
- running shoes for running and training;
- court sports shoes for racquet and court sports such as tennis, badminton, squash, basketball, volleyball and others; and
- Other specialty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

Our Group designs and manufactures various types of sports shoes including running shoes, court sports shoes (such as basketball shoes, volleyball shoes and badminton shoes), as well as casual/leisure sports shoes (such as casual walking sports shoes, and hiking shoes).

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.2.4 Types of Sports Shoe Manufacturers

Sports shoe manufacturers can be further categorised as follows:



For sports shoes, there are many players competing in this segment. They comprise own brand manufacturers ("OBM"), contract manufacturers for third party brand owners (also known as OEM), or a combination of both.

Some contract manufacturers have in-house design capabilities to differentiate from other manufacturers that use designs provided by their principals. Our Group operates within the OEM sector and has in-house design capabilities.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.3 FUTURE GROWTH

5.3.1 Industry Outlook

(i) General Overview

There are strong indications that economic conditions in China in 2010 will improve. This is supported by the following observations;

- While real GDP grew by 9.1% in 2009, which is low compared to 2007 at 14.2%, real GDP for 2010 is forecasted to be between 10% and 11%.
- Entrepreneur confidence has also improved by 43.7% between fourth quarter of 2008 and the third quarter of 2010.

Improved economic conditions combined with stronger entrepreneur confidence will help sustain operators within the footwear manufacturing industry including sports shoes.

(ii) Economic Conditions in China relative to Global Conditions

China's real GDP continues to be relatively more robust at 9.1% compared to the real GDP of some of the more advanced economies, for example:
- USA = -2.6% in 2009;
- UK = -4.9% in 2009; and
- Japan = -5.2% in 2009.

In 2010, China is forecasted to achieve a continuing growth of between 10% and 11% in real GDP. The economies of some of the more advanced countries are expected to rebound in 2010, and are forecasted to record positive real GDP growth, for example:
- USA = 2.6% in 2010;
- UK = 1.7% in 2010; and
- Japan = 2.8% in 2010.

As footwear, including sports shoes are regarded as necessity products, it is likely that consumer spending on these products will still continue.

A forecasted rebound in global economic conditions will continue to provide business opportunities and growth for footwear manufacturing industry including sports shoes that serve China and global markets.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

(iii) Outlook of OBM and Contract Manufacturers

The outlook of sports shoe manufacturers, including OBM and contract manufacturers in China is correlated to the general economic conditions in China as well as global economic conditions. This is relevant for sports shoe manufacturers that serve the local market in China and/or the export markets.

The forecasted real GDP growth of between 10% and 11%in China in 2010 is likely to have a positive impact on consumer spending and expenditure. Similarly there are signs of recovery in the global economies and this is reflected in the positive growth of real GDP in 2010 for consuming countries like the United States. This is likely to have a positive impact on all types of manufacturers in the sports shoe industry including OBM and contract manufacturers alike.

Generally, OBM has direct control over brand image, brand development, product quality, product design and pricing, time-to-market and as such, are not dependent on contract manufacturers. Investment in marketing and promotions are key in developing brand awareness, image and loyalty, which contributes to higher brand equity. A high brand equity would enable such manufacturers to command higher pricing for its products. Therefore OBM that invest significantly in marketing and promotions would be in a stronger position to increase brand awareness.

Contract manufacturers of sports shoes primarily service brand owners. They play a critical supporting role in the entire supply chain. Contract manufacturers undertake the physical manufacturing activities of sports shoes for brand owners, which in turn allow brand owners to focus on their core competencies in product and brand development, and marketing and promotions. Contract manufacturers that have their own in-house design capabilities are able to provide value-added services to brand owners.

The continuing growth in China and the recovering global economies in 2010 would have a positive chain effect on both OBM and contract manufacturers alike.

5.3.2 Areas of Growth and Opportunities

(i) Product Diversification

Product diversification presents opportunities for manufacturers to enlarge their customer base and more importantly, enable them to minimise risk of over dependency on a narrow range of products.

Manufacturers who supply a diverse product range and applications are in a stronger position to sustain the business during the economic slowdown.

(ii) Export Markets

There are opportunities for manufacturers of sports shoes to expand into export markets.

- In 2009, the export value of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials grew by 4.2% to reach USD4.2 billion (equivalent to RMB28.4 billion).

- In 2009, China's export markets for sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics included, among others, the United States, Japan, Belgium, France, Hong Kong, Holland, Germany, the United Kingdom and Korea.

Exports into overseas countries will open up a larger market for sports shoe manufacturers in China.

(iii) China Market

There continues to be opportunities in the China market for sports shoes as indicated by the comparison of per capita expenditure of shoes in China to the United States:

- In 2009, per capita annual expenditure of footwear in the United States amounted to USD173.61 (equivalent to RMB1,185.04), which was approximately four times higher than China's per capita annual expenditure of footwear by urban households at RMB300.10.

As a country's per capita GDP increases, expenditure on shoes are likely to increase as shoes become fashion accessories to more affluent people in contrast to shoes being a functional item to protect the feet.

(iv) Use of New and Innovative Materials for Sports Shoes

Developments in materials for sports shoes have been very significant over the years, providing consumers with a wide range of materials to meet the functional, ergonomics and fashion requirements of sports shoes.

The development of materials have moved from the use of textile, leather and rubber to incorporate composite materials made from a combination of two or more materials, which exhibit different mechanical properties. The new and innovative materials are used to satisfy criteria such as strength and pliability, resistance to changes in shape and size, elasticity of materials and its ability to bend and flex under force and to regain its shape, density and weight of the material, and the cushioning system of sports shoes.

As such, there are significant opportunities in the development of new or innovative materials for sports shoes to continuously create excitement and demand for sports shoes.

(v) New Designs of Sports Shoes to Meet Changing Consumer Preferences

As sports shoes are regarded as fashion items, meeting changing consumer preferences are key to ensure sustainability and growth. As such, manufacturers that have in-house design capabilities are in a stronger position to react more promptly to changes in consumer preferences to address opportunities and growth.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.4 INDUSTRY PLAYERS AND COMPETITION

5.4.1 Nature of Competition in the Industry

Manufacturers in the sports shoe industry in China face normal competitive conditions, which is similar to a free enterprise environment where there are no undue government regulations or licensing requirements. There are many manufacturers, who may enter and leave the industry with relative ease, and no one manufacturer is large enough to dictate product pricing. In such an environment, the industry is also subjected to normal supply and demand conditions moderated by the price mechanism. Manufacturers compete on products and services differentiations, and other factors of competition.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.4.2 Factors of Competition

As with most free enterprise environment, the factors that are used to compete and to differentiate one manufacturer from another include the following:

- quality of products and services;
- design and value-adding capabilities;
- research and development; and
- track record.

(i) Quality of Products and Services

Quality products and services are important to buyers and users, especially where there is a wide range of choices. Quality will also need to commensurate with price points, for example, good quality sports shoes may feature good cushioning system to give better shock absorption and to provide comfort for the feet, support and stability, which also limits excessive pronation to prevent injuries. Other product quality factors include flexural resistance, anti-yellowing for white coloured sports shoes, seam construction, adhesion strength, materials used, breathability, durability, weight and others. Manufacturers with stringent quality assurance programmes and certifications together with in-house quality tests and inspections will be in a better position to compete effectively and win new customers.

Our Group has always placed continuous emphasis on product quality where extensive quality checks are done on in-coming materials, through each level of the manufacturing process and the final products. Our Group's emphasis on quality management is attested by the fact that we have been awarded the Outstanding Enterprise in Regulated Quality Management by the Quanzhou Sub-centre of China Merchandise Trading Centre and Excellent Quality Unit Award by the Technology Supervisory Bureau of Jinjiang. Our subsidiary, Zhenxing Shoes is ISO 9001:2000 certified with quality management systems in place. The quality awards of our Group are endorsements of the quality assurance system that is in place for the manufacturing of sports shoes. This also provides customers with the assurance of our Group's product quality.

(ii) Design and Value-adding Capabilities

Design of sports shoes requires a certain level of technical skills, expertise, and specialised systems, for example, the design phase would require experience, skills and expertise in conceptualising contemporary and attractive designs based on existing or emerging trends. These are then translated into shoe designs using computer aided design (CAD) system. This would allow the manufacturer to create two and three dimension computer generated solid state prototypes to facilitate the functional tests and dimensioning, scaling, and colour and material combinations and modifications, as well as analysing the movement, position and impact on certain parts of the sports shoes. Designing is essential as it affects the shoe style, ergonomics, function, durability and customer acceptance.

In addition, manufacturers that provide further value-adding including screen printing, embroidery and embossing services are in a better position to meet the requirements of customers. As such, a manufacturer of sports shoes with in-house design and value-adding capabilities would have an advantage in securing sales orders and providing customer convenience.

From that perspective, our Group has in-house design capabilities and facilities including CAD systems as well as design personnel. As at the LPD, we have 5 personnel primarily involved in the design of sports shoes. Furthermore, our Group is also equipped with in-house screen printing, embossing and embroidery facilities for the manufacturing of sports shoes.

(iii) Research and Development

There are three main drivers of sports shoes that make research and development an important competitive factor, namely:

- Sports shoes are fashion items;
- Sports shoes provide support to the leg and protection for the feet; and
- Competition continuously place pressure on costs.

These three drivers, among others, have necessitated research and development of sports shoes. Research and development is essential in creating new designs and using new materials that meet customer needs for fashion, function, ergonomics and cost considerations. As such, sports shoe manufacturers with in-house research and development facilities and capabilities would be in a better position to continually develop better and more desirable products that meet the changing needs of customers.

In this respect, our Group has in-house D&D facilities and capabilities to meet customers' requirements.

(iv) Track Record

Our Group has a track record of approximately 10 years in the manufacturing of sports shoes (since the commencement of the Group's manufacturing operations in China in 1999) and over the years, the Group has established itself as a manufacturer of sports shoes.

Manufacturers with established and proven track record are in a stronger position to compete effectively and more importantly, secure sales orders.

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

5.4.3 Competitive Intensity

Competition among manufacturers of sports shoes within the footwear industry in China is based on the following observations:

- Competition primarily comes from other manufacturers of sports shoes in China, particularly in Jinjiang in the Fujian Province. This is because Jinjiang is regarded as the centre of footwear manufacturing in China, and our Group's manufacturing operations are located in Jinjiang. In Jinjiang, there are an estimated 3,000 shoe manufacturing companies producing an estimated 700 million pairs of shoes per year.
- Capital requirements for setting-up a small sized manufacturing facility cost about RMB20 million, including machinery and equipment, and working capital.
- Technical skills and knowledge also pose as barriers to entry, therefore reducing the competitive intensity.
- A relatively large and growing retailing market in China and export market for footwear including sports shoes would be able to accommodate a relatively large number of manufacturers of sports shoes in the industry. This may somewhat mitigate the competitive intensity.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.4.4 Players in the Industry

- As Jinjiang City within Fujian Province has approximately 3,000 shoe manufacturers, there is a wide spectrum of manufacturers ranging from cottage industry focusing on handmade shoes producing on a small scale basis up to larger manufacturers having many automated production lines producing a few million pairs of shoes annually. In addition, the large concentration of shoe manufacturers in Jinjiang City has also created many supporting industries including manufacturers of shoe parts, components and accessories, and suppliers of raw materials.
- The footwear industry in China is highly fragmented with many different forms of competition. Among others, these include different types of footwear such as sandals and slippers, industrial footwear, therapeutic footwear, boots, and shoes (including sports shoes, dress shoes, climbing shoes, and others).
- For sports shoes, there are many players competing in this segment. They comprise OBM, contract manufacturers for third party brand owners and a combination of both.

- Of the OBM, some of the players include Li Ning Company Limited, ANTA Sports Products Limited, Xtep International Holdings Limited, China Sports International Limited, China Eratat Sports Fashion Limited, China Hongxing Sports Limited, Xidelang Holdings Ltd (Listed on Bursa Malaysia), and Xingquan International Sports Holdings Limited (Listed on Bursa Malaysia).

- In addition, China also has many operators undertaking manufacturing of sports shoes for third party brand owners, for example, some of the contract manufacturers for Nike in China include Yue Yuen Industrial (Holdings) Limited, Poh Chen Corporation, Chanrong Sports, Fujian Lifeng Footwear Co Ltd, Fujian San Feng Footwear Co Ltd, Xie Feng Footwear Co Ltd and Pegasus Footwear Co Ltd.

- Apart from our group, other contract manufacturers of sports shoes for third party brand names include Darong Shoe Co Ltd, Feng Tay Enterprise Co Ltd (Listed on Taiwan Stock Exchange), Fujian Changli Sports Products Co Ltd, Fujian Jinjiang Jialaimeng Shoes Plastics Co Ltd, Jinjiang Chendai Ailibao Shoes & Garments Co Ltd, Jinjiang GuangMing Shoes Co Ltd, Jinjiang Hengdali Footwear Co Ltd, Jinjiang Haomei Shoes Co Ltd, Jinjiang Liweng Shoes Co Ltd, Jinjiang Mingta Shoes & Plastics Co Ltd, Jinjiang Chendai Wudai Namfeng Leather Plastics Factory, Kingmaker Footwear Holdings Limited, KTP Holdings Limited, Shuaike Shoe Co Ltd and Symphony Holdings Limited.

(Note: The above is not an exhaustive list and companies are listed in alphabetical order.)

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.5 DEMAND CONDITIONS

5.5.1 China

(i) Local Consumption

Between 2005 and 2009, the total retail sales of consumer goods in China grew at an average annual rate of 18.5%. In 2009, the total retail sales of consumer goods increased by 15.5% to reach RMB13.3 trillion.

Between 2004 and 2008, the retail value of clothing, shoes, hats and textiles grew at an average annual rate of 22.7%. In 2008, the retail value of such products increased by 24.8% to reach RMB377.6 billion.

Between 2004 and 2008, the retail value of shoes and hats (a sub-sector of clothing, shoes, hats and textiles) grew at an average annual rate of 22.5%. In 2008, the retail value of shoes and hats increased by 24.8% to reach RMB69.4 billion.

Between 2005 and 2009, per capita annual purchases of shoes by urban households in China grew at an average annual rate of 3.4%. In 2009, per capita annual purchases of shoes by urban households in China increased by 6.9% to reach 2.95 pairs.

Between 2005 and 2009, per capita annual consumption expenditure on shoes by urban households in China increased at an average annual rate of 14.2%. In 2009, per capita annual consumption expenditure on shoes by urban households in China grew by 11.0% to reach RMB300.10.

(ii) Exports

Between 2005 and 2009, the export value of footwear, gaiters and the like, and parts of such articles increased at an average annual rate of 10.1%. In 2009, the export value of such footwear declined by 5.7% to USD28.0 billion (equivalent to RMB191.2 billion).

Between 2005 and 2009, the export value of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 15.0%. In 2009, the export value of these types of shoes increased by 4.7% to reach USD4.1 billion (equivalent to RMB28.2 billion).

Between 2005 and 2009, the export quantity of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 6.3%. In 2009, the export quantity of these types of shoes increased by 3.1% to 1.4 billion pairs.

Between 2005 and 2009, the export value of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials increased at an average annual rate of 15.0%. In 2009, the export value of such footwear grew by 4.2% to reach USD4.2 billion (equivalent to RMB28.4 billion).

Between 2004 and 2008, the export quantity of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials grew at an average annual rate of 10.9%. In 2008, the export quantity of this category decreased by 3.5% to 1.4 billion pairs.

Between 2005 and 2009, the export value of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) decreased at an average annual rate of 2.6%. In 2009, the export value of such footwear declined by 29.9% to USD768.5 million (equivalent to RMB5.2 billion). In 2009, China's export markets for these types of footwear include, among others, the United States, Japan, Belgium, France, Hong Kong, Holland, Germany, the United Kingdom, Korea, Brazil, Canada, Australia and Panama.

Between 2004 and 2008, the export quantity of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) increased at an average annual rate of 3.2%. However, in 2008, the export quantity of such footwear decreased by 2.6% to 133.0 million pairs.

Between 2005 and 2009, the export value of leather shoes increased at an average annual rate of 0.9%. In 2009, the export value of leather shoes decreased by 14.8% to USD8.4 billion (equivalent to RMB57.0 billion).

Between 2005 and 2009, the export quantity of leather shoes decreased at an average annual rate of 10.3%. In 2009, the export quantity of leather shoes declined by 21.6% to 882.4 million pairs.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.5.2 Global Demand

Between 2004 and 2008, the global consumption of footwear grew at an average rate of 2% per annum. The global consumption of footwear was estimated at 14 billion pairs in 2008.

In 2008, Asia represented the largest continent for consumption of footwear, which accounted for 45% of the global consumption of footwear, and consumption grew at an average annual rate of 3% between 2004 and 2008.

North and South America's consumption of footwear represented 25% of global consumption, while Europe represented 20% of global consumption of footwear in 2008.

Between 2004 and 2008, the North and South America's consumption of footwear grew at an average annual rate of 1%, while Europe's consumption of footwear grew at an average of 2% per annum.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.5.3 Demand Dependencies

(i) Other Selected Overseas Countries

Our Group's manufactured sports shoes are also exported indirectly to other regions including Europe, the United States and Asia. As such, demand dependencies will be based on the following factors impacting on the consumptions of sports shoes in the respective regions, including:

United States

- In 2007 and 2008, the United States' real GDP recorded a growth of 1.9% and 0.0% respectively, but recorded a drop of 2.6% in 2009.
- Consumer prices in the United States registered a growth of 3.8% in 2008 but decreased marginally by 0.3% in 2009.
- Per capita GDP in the United States experienced a marginal growth of 1.2% to USD47,155 in 2008 but recorded a drop of 2.6% in 2009.

Europe

- In 2007 and 2008, Central and Eastern Europe's real GDP registered growth of 5.5% and 3.1% respectively. In 2009, Central and Eastern Europe's real GDP recorded negative growth of 3.6%.
- The consumer price of Central and Eastern Europe recorded a growth of 8.1% in 2008 and grew by 4.7% in 2009.
- In 2008, per capita GDP of Central and Eastern Europe achieved a growth of 4.7% to reach USD14,346 and dropped by 3.4% in 2009.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

(ii) China Market

As our Group's market also cover China, demand dependencies will be based on factors impacting on the consumption of sports shoes in China including the following:

- Population growth in China;
- Growth in household disposable income; and
- Increase in consumption expenditure.

Between 2005 and 2009, the population of China increased at an average annual rate of 0.5%. In 2009, the population of China grew by 0.5% to reach 1.3 billion persons.

Between 2005 and 2009, annual per capita disposable income of urban households in China increased at an average annual rate of 13.1%. In 2009, annual per capita disposable income of urban households in China grew by 8.8% to reach RMB17,174.7.

Between 2005 and 2009, annual per capita consumption expenditure of urban households in China increased at an average annual rate of 11.5%. In 2009, annual per capita consumption expenditure of urban households in China grew by 9.1% to reach RMB12,264.6.

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

5.6 SUPPLY CONDITIONS

5.6.1 Supply

(i) Local Production

Between 2005 and 2009, the gross output value of the manufacture of textile wearing apparel, footwear and caps in China increased at an average annual rate of 20.4%. In 2009, the gross output value of such products grew by 10.7% to reach RMB1.0 trillion.

In 2007, China's production of footwear was about 10.2 billion pairs, accounting for approximately 60% of the global production of footwear in 2007.

The production statistics on rubber shoes include, among others, sports shoes but exclude professional sports shoes, which require special certification from the Government of China. Between 2004 and 2008, the production quantity of rubber shoes (including sports shoes) in China decreased at an average annual rate of 7.7%. However, in 2008, the production quantity of rubber shoes increased by 9.1% to reach 2.1 billion pairs.

Between 2004 and 2008, the production quantity of leather shoes in China increased at an average annual rate of 4.8%. In 2008, the production quantity of leather shoes grew by 2.7% to reach 3.3 billion pairs.

(ii) Imports

Between 2005 and 2009, the import value of footwear, gaiters and the like, and parts of such articles increased at an average annual rate of 12.9%. In 2009, the import value of such products declined by 13.3% to approximately USD880.0 million (equivalent to RMB6.0 billion).

Between 2005 and 2009, the import value of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials (including sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like) increased at an average annual rate of 50.4%. In 2009, the import value of such footwear declined by 9.7% to USD114.8 million (equivalent to RMB783.7 million).

Between 2005 and 2009, the import value of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) increased at an average annual rate of 24.2%. In 2009, the import value of such footwear declined by 37.0% to USD10.2 million (equivalent to RMB69.6 million). In 2009, some of China's major sources of this type of footwear include Italy, Vietnam, Malaysia, Japan and Indonesia.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.6.2 Supply Dependencies – Raw Materials

The major raw materials used in the manufacture of sports shoes are as follows:

- shoe soles including insoles, midsoles and outsoles; and
- upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

There are many types of sports shoe soles depending on the application, technical requirements and cost considerations. Some examples include the following:

- insoles are commonly made from a mixture of cellulose material and rubber, woven materials mainly textile, microcellular polyurethane, non-woven materials, latex sponge and Ethylene-Vinyl Acetate copolymer (EVA) foam;
- Midsoles for sports shoes are commonly made of polymer based materials such as Phylon, Polyurethane (PU), Phylite and Ethylene-Vinyl Acetate copolymer (EVA); and
- As the outsoles come into contact with the ground, materials used are expected to be lightweight, durable, provides traction and highly abrasion resistant. Common materials that are used to make outsoles for sports shoes include various types of latex rubber and thermoplastic rubber.

(a) Production

Between 2005 and 2009, the gross industrial output value of the manufacture of plastics grew at an average annual rate of 21.3%. In 2009, the gross industrial output value of the manufacture of plastics increased by 10.8% to reach RMB1.1 trillion.

Between 2005 and 2009, the gross industrial output value of the manufacture of rubber grew at an average annual rate of 21.4%. In 2009, the gross industrial output value of the manufacture of rubber increased by 12.8% to reach RMB476.8 billion.

Between 2004 and 2008, the production of plastic products decreased at an average annual rate of 0.3%. However, in 2008, the production of plastic products increased by 12.4% to 37.1 million tonnes.

(b) Imports

Between 2005 and 2009, the import value of rubber and plastics outsoles and heels decreased at an average annual rate of 8.5%. In 2009, the import value of such products declined by 16.9% to USD59.7 million (equivalent to RMB407.5 million). In 2009, some of China's major sources of rubber and plastic outer soles and heels include Taiwan, Korea, Vietnam, Japan, Italy, the United States and other overseas countries.

In 2009, the import value of rawhides and skins (other than fur skins) and leather decreased by 20.9% to USD4.5 billion (equivalent to RMB30.5 billion). Between 2005 and 2009, the import value of this category declined at an average annual rate of 1.9%.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.7 ESTIMATED MARKET COVERAGE AND MARKET SHARE

5.7.1 Market Segmentation

There are approximately 3,000 footwear manufacturers in Jinjiang. Of these, approximately 80% are considered small scale manufacturers of footwear including manufacturers of footwear components and accessories. These small scale manufacturers of footwear generally refer to those that produce up to 500,000 pairs of footwear annually.

Virtually all of the small scale footwear manufacturers undertake OEM. The balance of approximately 20% are considered medium to large scale manufacturers, and of these approximately 10% undertake a combination of both OEM and OBM.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

It is not possible to segment the number of manufacturers that operate on a similar business model as Zhenxing Shoes due to limited data and information.

5.7.2 Market Size

(a) Production

In 2009, the market size of the footwear industry in China was estimated at **10 billion pairs** based on production.

In 2009, the market size of the rubber/plastic shoes (including sports shoes) industry in China was estimated at **2.3 billion pairs** based on production. Rubber/plastic shoes is a sub-sector of the total footwear industry in China.

(b) Wholesale Value

In 2009, the market size of the footwear industry in China was estimated at **RMB61 billion** based on wholesale value.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.7.3 Market Share

(a) Production

In 2009, our Group had a market share of approximately **0.1%** of the footwear industry in China based on the Group's production output of 6.2 million pairs of sports shoes.

In 2009, our Group had a market share of approximately **0.3%** of the rubber/plastic shoes (including sports shoes) industry in China based on the Group's production output of 6.2 million pairs of sports shoes.

(b) Wholesale Value

In 2009, our Group had a market share of approximately **1%** of the footwear industry in China based on wholesale prices.

(Note: The term "footwear" covers all types of footwear including sandals, slippers, industrial footwear, therapeutic footwear, boots and shoes. Our Group focuses only on sports shoes.)

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

5.8 GOVERNMENT LAW AND REGULATIONS

5.8.1 Business Licence

Application for a business licence with the Administration for Industry and Commerce is required for establishing an enterprise in China.

Our subsidiary, Zhenxing Shoes has obtained the following business licence from the respective authorities in China:

By subsidiary	Issuing Authority	Descriptions	Validity Period
Zhenxing Shoes	Quanzhou Administration for Industry and Commerce	Manufacturing of Shoes	23 June 1999 until 23 June 2029

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.8.2 Environmental Regulations

As part of the manufacturing process for sports shoes, our Group creates wastes in the form of off-cuts mainly during the construction of the bottom part of the shoe. The wastes are collected and then sent to the waste collection centre.

However, these are bulk wastes, which do not have a significant impact on the environment as long as they are properly disposed.

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

5.9 SUBSTITUTE PRODUCTS

Generally, there are no direct substitutes for sports shoes. The alternative is not to use these products at all or use other forms of footwear such as sandals and dress shoes, industrial footwear to serve as sports shoes, however these are not practical substitutes.

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

5.10 VULNERABILITY AND RELIANCE ON IMPORTS

Generally, manufacturers of sports shoes in China source a significant proportion of their raw materials and components locally in China. Some of the major raw materials used in the manufacture of sports shoes include:

- shoe soles including insoles, midsoles and outsoles; and
- upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

Shoe soles and upper materials represent the major raw materials of our Group's total purchases. The Group sources all of its shoe soles and upper materials from suppliers in China.

Raw materials in the forms of shoe soles and semi-finished materials that made of leather, textile, plastics and synthetic materials can be sourced in China. This is supported by the following observations in China:

- In 2009, there were an estimated 19,894 enterprises operating in the manufacture of plastics. The gross industrial output value of the manufacture of plastics increased by 10.8% to reach RMB1.1 trillion in 2009.
- In 2009, there were an estimated 4,720 enterprises operating in the manufacture of rubber. The gross industrial output value of the manufacture of rubber increased by 12.8% to reach RMB476.8 billion in 2009.
- In 2008, the production of plastic products increased by 12.4% to 37.1 million tonnes. Manufacturers can source plastic products from various locations within China including Guangdong, Zhejiang, Shandong, Jiangsu, Liaoning, Hebei, Anhui, Fujian, Henan, Sichuan and others.
- In 2009, there were an estimated 32,412 enterprises in the manufacture of textiles. The gross industrial output value of manufacture of textiles increased by 7.4% to reach RMB2.3 trillion in 2009.
- In 2009, the gross industrial output value of manufacture of leather, fur, feather and related products increased by 9.4% to reach RMB642.6 billion.

Nevertheless, China also imports raw materials to meet its overall manufacturing needs:

- In 2009, the import value of rubber and plastics outsoles and heels declined by 16.9% to USD59.7 million (equivalent to RMB407.5 million). In the same year, China imported its rubber and plastic outer soles and heels from Taiwan, Korea, Vietnam, Japan, Italy, the United States and other overseas countries.
- In 2009, the import value of rawhides and skins (other than fur skins) and leather decreased by 20.9% to USD4.5 billion (equivalent to RMB30.5 billion).
- In 2009, the import value of textile and textile articles decreased by 12.8% to USD21.8 billion (equivalent to RMB148.7 billion).
- In 2009, the import value of plastics and articles amounted to USD48.5 billion (equivalent to RMB331.2 billion).

(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)

Company No.: 877480-X

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

5.11 ADDITIONAL INFORMATION ON SELECTED COMPANIES IN THE FOOTWEAR INDUSTRY

China Footwear Companies Listed On Bursa Securities

For reference and information only, we have set out below, the additional information of some of the China based footwear companies listed on Bursa Securities ("**Local Companies**"). Please note however, that the Local Companies may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. These information serve only as a reference, and may not be exhaustive. Ratio computations are based on the formulae or assumptions highlighted in the notes accompanying the table below.

	Maxwell	K-Star Sports Limited ("K-Star")(1)	XiDeLang Holdings Ltd ("XiDeLang") (1)	Xingquan International Sports Holdings Limited ("Xingquan")(1)
__Brief Information__				
Principal activities	Design and manufacturing of sport shoes on an OEM and ODM basis	Design, manufacture and distribution of sports footwear under its own brand as well as OEM and ODM for international sports brands	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment.	Manufacturing of shoe soles and sport shoes, and sales of shoe soles, sports shoes, apparels and accessories
Proprietary brands	None	Dixing/K-Star	XiDeLang	Addnice
OEM/ODM brands	Many brands including renowned brands like Yonex, Diadora and Kappa	Umbro, Diadora, Kappa, Le Coq Sportif, Die Wilden Keria, Canguro, Cosby and Bridgestone	N/A	FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto
% OEM/ODM in terms of revenue for the FYE 31 December 2009	100%	23.1%	-	(12) 5.40%
__IPO Information__ (1)				
Date of listing	-	4-Jun-10	11-Nov-09	10-Jul-09
3 years aggregate PAT (RM'million)	128.0	102.0	86.19	135.5
IPO price (RM)	0.54	2.15	0.58	2.1
Number of shares (million)	400.0	88.8	400.0	307.3
Market capitalization upon listing (RM'million)	216.0	190.9	232.0	645.3
PE Multiple (2)	3.5	4.2	4.8	7.1
NTA per share (RM)	0.5	1.8	0.4	0.7
__Latest financial__ (3)				
FYE	31 December 2009	31 December 2009	31 December 2009	30 June 2009
Revenue (RM'million)	301.0	294.5	384.9	435.2
GP (RM'million)	89.9	71.8	119.2	159.0
PBT (RM'million)	82.3	61.3	94.8	110.8
PAT after minority interest (RM'million)	61.2	45.5	68.2	92.2
Shareholders' Equity (RM' million)	151.1	237.9	173.0	120.7
GP margin (%) (4)	29.9	24.4	31.0	36.5
PBT margin (%) (5)	27.3	20.8	24.6	25.5
PAT margin (%) (6)	20.3	15.5	17.7	21.2
Current ratio (times) (7)	3.7	3.1	1.8	1.8
Gearing ratio (times) (8)	0.05	0.09	0.24	0.26
Trade receivables turnover period (days) (9)	98	80	(9) 54	65
Trade payables turnover period (days) (10)	38	16	(10) 56	88
Inventory turnover period (days) (11)	4	13	(11) 26	23

Notes:-

1) *Extracted from the prospectuses of K-Star, XiDeLang and Xingquan, respectively*
2) *The PE Multiple was based on the enlarged issue paid-up capital and net EPS upon listing.*
3) *Extracted from K-Star's prospectus dated 11 May 2010 and latest annual reports of XiDeLang and Xingquan, where applicable*
4) *GP margin = (GP / Revenue) x 100%*
5) *PBT margin = (PBT / Revenue) x 100%*
6) *PAT margin = (PAT / Revenue) x 100%*
7) *Current ratio = Current Assets / Current Liabilities*
8) *Gearing ratio = Total interest-bearing borrowings / Shareholders' Equity*
9) *Trade receivables turnover period = (Average year-end trade receivables balances/ revenue) x 365 days. However, XiDeLang's trade receivables turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available.*
10) *Trade payables turnover period = (Average year-end trade payable balances/ cost of sales) x 365 days. However, XiDeLang's trade payables turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available.*
11) *Inventory turnover = (Average year-end inventory balances/ cost of sales) x 365 days. However, XiDeLang's inventory turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available*
12) *For six (6) months period ended 31 December 2009 as disclosed in the Xingquan's prospectus.*

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

Based on the list of Local Companies, management observes the following:

a) Maxwell's revenue, GP, PBT and PAT are within the range of the Local Companies.

b) The GP margin of the Local Companies ranged from approximately 24.4% to 36.5%. Maxwell recorded a GP margin of 29.9%. The reason for the varying GP margin is due to various company specific factors, however, it should be noted that in general, the selling prices and the cost of sales for these Local Companies differ from Maxwell in that all of these Local Companies have their own brand and possess different production capabilities. Unlike Maxwell, some of these companies also sell sports apparel and shoe soles, and are involved in brand management.

c) Maxwell recorded a good PBT margin and PAT margin. The differences in PBT and PAT margins are mainly due to amongst other factors, differences in the scale of operations and business model. Maxwell does not incur any significant cost for advertising and promotional activities as it does not have its own brand, and is not involved in the management of retail outlets.

d) Maxwell has a healthy current ratio and gearing ratio. Please refer to **Section 7.5** of this Prospectus for further details on our liquidity and working capital position.

e) Maxwell's trade receivables turnover period and trade payables turnover period are within Maxwell's normal credit period/term. Please refer to **Section 7.5.10** of this Prospectus for further details on our receivables and payables turnover analysis.

f) Maxwell has low inventory turnover period. Please refer to **Section 7.5.10** of this Prospectus for further details on our inventory turnover period analysis.

Overseas Public Listed Footwear Companies

For reference and information only, we have set out below, the additional information of some of the overseas public listed companies principally engaged in manufacturing of sports shoes for third party brand names ("**Overseas Companies**"). Please note however, that the Overseas Companies (which may not be exhaustive) may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. These information serve only as a reference, and may not be exhaustive. Ratio computations are based on the formulae or assumptions as highlighted in the notes accompanying the table below.

	Listed Exchange	FYE	Revenue (RM mil)	GP (RM mil)	PBT (RM mil)	PAT (RM mil)	(2)GP margin (%)	(3)PBT margin (%)	(4)PAT margin (%)
Maxwell	-	31.12.09	301	90	82	61	29.9	27.3	20.3
	-	31.12.08	218	62	56	42	28.5	25.6	19.3
Feng Tay Enterprise Co Ltd	TWSE	31.12.09	2,754	639	252	215	23.2	9.1	7.8
		31.12.08	2,812	510	129	114	18.1	4.6	4.1
Pou Chen Corporation	TWSE	31.12.09	21,337	5,240	1,592	1,539	24.6	7.5	7.2
		31.12.08	21,548	4,953	1,252	1,154	23.0	5.8	5.4
KTP Holdings Limited	HKSE	31.3.09	202	17	10	1	8.4	4.9	0.5
		31.3.10	57	3	7	7	5.3	12.3	12.3
Pegasus International Holdings Ltd	HKSE	31.12.09	334	54	4	3	16.2	1.2	0.9
		31.12.08	465	75	6	5	16.1	1.3	1.1
Symphony Holdings Limited	HKSE	31.12.09	723	141	12	8	19.5	1.7	1.1
		31.12.08	830	114	-94	-93	13.7	-11.3	-11.2
Yue Yuan Industrial (Holdings) Ltd	HKSE	30.9.09	15,746	4,025	1,475	1,450	25.6	9.4	9.2
		30.9.08	15,441	3,736	1,618	1,538	24.2	10.5	10.0

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

TWSE = Taiwan Stock Exchange; HKSE = Hong Kong Stock Exchange

Notes:-

1) *Source: Companies' annual report*
2) *GP margin = GP/ Revenue*
3) *PBT margin= PBT/ Revenue*
4) *PAT margin= PAT / Revenue*
5) *Currency conversion used were as follows:*
   - *USD1=RM3.1385 as at the LPD*
   - *TWD100=RM10.3359 as at the LPD*
   - *HKD100=RM40.4837 as at the LPD*

Based on the list of Overseas Companies, management observes the following:

a) Maxwell's revenue, GP, PBT and PAT are within the range of the Overseas Companies.

b) For the latest financial year end, the Overseas Companies recorded a GP margin ranging from approximately 8.4% to 25.6%. Maxwell recorded a GP Margin of 29.9% for the FYE 2009.

   The reason for the varying GP Margin is due to various company specific factors. However, in general, the selling prices and production cost for these Overseas Companies differ from Maxwell in that most of these Overseas Companies have amongst others, a larger scale of operations, have a longer listed track record, sell different brands, have different production capabilities and have manufacturing facilities in various countries and locations.

c) Maxwell recorded good PBT and PAT margins. The varying PBT and PAT margins was mainly due to amongst other factors, differences in operating cost structure, expenses and taxation rates as a result of scale of operations and operating across different geographical locations.

Qualifications:-

a. *Most of the information set out in* ***Section 5.11, Section 6.8*** *and* ***Section 7.5.10*** *in relation to other companies other than Maxwell are extracted from the prospectuses, annual reports and/or other publicly available information. No independent verification have been conducted to confirm the accuracy of the contents of these information, save and except for the accuracy of such extraction.*

b. *Some of the information are extracted from different financial periods and may not provide accurate reference between these companies.*

c. *The various information set out in relation to other companies involving in the shoe manufacturing industry are inserted for reference purposes only and should not be construed expressly or impliedly to be an attempt to rank and rate the business and financial performance of the respective companies. The readers should seek their own independant professional advice in the interpretation of these data and information. We do not take any responsibility for the decision or action of readers relying on the data and information of other companies in this section and the readers should check the original source of information with the respective companies.*

d. *Any information set out herein relating to other companies are not to be construed expressly or impliedly as an investment advice in the purchase or sale of the shares in the respective companies. The readers should make their own independent verification, assessment and decision in relation to the investment decision.*

e. *Some of the ratios set out above involve computation using certain formulae, and there may be more than one formulae which can be used for computation of the same, and the different application of the formulae can give rise to different results. As such, the readers should consider and seek their own professional consultation in arriving at their own interpretation and conclusion on these ratios.*

f. *Some of the ratios set out above are also made based on various assumptions. Any variation of these assumptions may give rise to different interpretation and understanding of the performance of the respective companies. These assumptions may also be incomplete and may not reflect the actual financial, business, economic performance of the respective companies.*

g. *Most of the Overseas Companies operate in more than one business sector; under different business condition, scale of operations, business model, jurisdiction and governing laws, cost and salary structure, management expertise, geographical location, and other factors which we are not fully aware of and may be inaccurate, inconclusive to refer to these information.*

5.12 OUR GROUP'S PROSPECTS AND FUTURE PLANS

Our strategy and future plans for the growth and expansion of our business is described below: -

(i) Expansion of production capacity and upgrading of existing production facilities

Currently, we have four (4) production lines, which in aggregate have a production capacity of approximately 8 million pairs of sports shoes per annum. We also outsource some of our sports shoe orders to external contract manufacturers to meet increasing orders.

We intend to acquire four (4) new production lines together with other new machineries which include sewing machines, roller machines, cutting machines and grinding machines. With the four additional production lines, we estimate that our production capacity will increase from approximately 8 million pairs of sports shoe per annum to approximately 16 million pairs of sports shoe per annum operating on a two-shift basis. We intend to install the four (4) new production lines together with new machineries at a new factory to be constructed within two (2) years. The new factory is targeted to be located at Nei Keng County (内坑镇), Jinjiang city, which is in line with Jinjiang city's government development master plan to centralise and relocate all existing manufacturing facilities near the city centre to a new township area. However, as at the LPD, the details of the development master plan have yet to be finalized. We intend to build the new factory with an estimated production floor area of approximately 50,000 sq m. The estimated cost for the construction of the new factory is approximately RMB75 million. The construction of the new factory as well as the purchase of the land will be funded from internally generated funds and/or bank borrowings. In the event that we are unable to complete the construction within two (2) years after the Listing, we will identify other suitable locations for the installation of the four (4) new production lines and other new machineries for the expansion of our production capacity.

In addition to the expansion of our production capacity, we also intend to upgrade our existing production facilities through the purchase of new machineries and equipment which include lasting machines, moulding and embossing machines, sewing and embroidery machines, mixing mills and trimming machines. In particular, the replacement of machineries used for our two older existing production lines.

We intend to utilise approximately RM12.0 million of the net proceeds from the IPO for the expansion of our production capacity and upgrading of existing production facilities.

(ii) Strengthen our D&D capabilities and expansion of product range

In order to maintain our competitiveness, we intend to increase our product design from the current average of 1,000 designs per annum to approximately 1,500 designs per annum. To complement the increase in our production capacity, we will also increase the D&D staff headcount from the current 30 staff to approximately 40 staff by 2012 (which includes the recruitment of 2 experienced sports shoe designers). We will continue to strengthen our D&D capabilities through training of our D&D staff, and investing in additional advanced equipment and machinery to facilitate D&D works including upgrade of the current information system with advance functionality and computer-aided design (CAD) platforms. We intend to focus our D&D initiatives on extending our product range to create quality products and use of new and innovative materials for sports shoes to meet the increasing demands and changing needs of our customers.

We intend to utilise approximately RM6.0 million of the net proceeds from the IPO to increase our product D&D efforts.

(iii) Increase sales and marketing activities for our sports shoes

For our sports shoe business, we believe that there are still significant opportunities to further penetrate both the local market and the export market as well as expand our sales and distribution network.

To this end, we intend to recruit more experienced marketing and sales personnel to better serve our existing customers or increase our presence in markets which we currently do not have a strong presence. We also intend to upgrade our website to a higher level of efficiency in order to facilitate better communication with our customers. Lastly, we will participate in more transnational trade fairs such as Haerbin border trade fair (哈尔滨边贸会) and other international trade fairs in Russia and Europe to increase our exposure and establish new contacts in various regions.

(iv) Expansion of our business through acquisitions, joint ventures and/or strategic alliances

We intend to expand our business through acquisitions, joint ventures or form strategic alliances with companies which we believe are complementary to our business. Such acquisitions, joint ventures or strategic alliances would bring about an expanded network of customers and/or an increase in our production capacity.

Currently, we do not have concrete plans with any party for acquisitions, joint ventures or strategic alliances. Should such opportunities arise, we will, where necessary, seek approval from our shareholders and/or the relevant authorities as required by the relevant rules and regulations.

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6. INFORMATION ON OUR GROUP

6.1 BUSINESS BACKGROUND

6.1.1 Group Structure

Our group structure is set out below:

Maxwell

↓ 100%

Zhenxing Shoes

6.1.2 History and Background

Our Company was incorporated in Malaysia under the Act on 3 November 2009 as a public company limited by shares under the name of Maxwell International Holdings Berhad (麦斯威国际控股有限公司).

By an equity transfer agreement dated 20 November 2009 and a restructuring agreement dated 18 November 2009, we acquired our subsidiary Zhenxing Shoes from Sports Asia, for a purchase consideration of RM134,499,998 which was fully satisfied through the issuance of 336,249,995 Maxwell Shares issued at par. The consideration was arrived based on the NTA of Zhenxing Shoes as at 30 June 2009 of approximately RM134.5 million.

We specialise in the design and manufacturing of sports shoes for domestic and overseas customers, which comprise mainly trading houses and brand distributors. We manufacture sports shoes on an OEM basis (i.e. we manufacture based on the specifications and designs provided by our customers) and on an ODM basis (i.e. we design and develop sports shoes for our customers' selection and manufacture the selected designs for our customers).

Our business can be traced back to June 1999 when Chun Hing Industrial (Hong Kong) Ltd (振兴实业（香港）有限公司), which is owned by our Chairman, Li Kwai Chun (李桂真) and her husband Li Chun Tak (李进德) set up Zhenxing Shoes in Zhushuxia Industrial Zone, Jinjiang City, Fujian province, PRC (中国福建省晋江市竹树下工业区). However, LI Chun Tak was never involved in Zhenxing Shoes' business since the incorporation. Zhenxing Shoes was established with an initial registered capital of HKD5.8 million and an aggregate investment amount of HKD7.0 million with Li Kwai Chun being the legal representative. The business of Zhenxing Shoes was to engage in the manufacturing and sale of sports shoes to domestic and overseas customers mainly through trading houses and brand distributors in the PRC and abroad. During the initial stage of our business, our Chairman, Li Kwai Chun was the key person securing sports shoe orders due to her well-established relationship with various footwear trading houses and brands distributors. We started with a single production line and an annual production capacity of approximately 1 million pairs of sports shoes.

Since the inception of our business, our founders have recognised the importance of producing quality sports shoes with aesthetically pleasing and unique designs which would appeal to consumers. As such, in the same year that Zhenxing Shoes was incorporated, we engaged South Korean and Taiwanese consultants to help set up our own D&D Department, and to provide training and consultancy services on product innovation and technical improvement to ensure that our product design and quality are able to keep pace with the dynamism of the global sports shoe market.

In 2000, to meet increasing orders, we expanded our annual production capacity from approximately 1 million pairs of shoes to 2 million pairs of shoes by adding a second production line.

From 2001, we began participating in various trade fairs and exhibitions in the PRC and abroad including the "Global Shoes" trade show organised by Dusseldorf GmbH Germany held in Dusseldorf and the WSA Show organised by the World Shoe Association held in Las Vegas, USA, as well as other international trade fairs held in the PRC such as Jinjiang Footwear International Exposition (晋江国际鞋业博览会), China Guangzhou Export and Import Trade Fair (中国广州进出口商品交易会) and East China Fair (华东交易会). As a result, we were able to establish our market presence and expand our customer base.

In 2005, Zhenxing Shoes' aggregate investment amount was increased from HKD7.0 million to HKD 26.2 million and the registered capital from HKD5.8 million HKD25.0 million.

In 2006, we also established business relationships with some new PRC procurement agents through whom we secured orders from various brands in the USA.

As the sales volume of our sports shoes increased, and in anticipation of higher future sales volume, Zhenxing Shoes added a third production line in late 2006. It was also in 2006, that we began to outsource some of our sports shoe orders to external contract manufacturers to cope with increasing orders from our customers.

In 2007, Zhenxing Shoes' aggregate investment amount was further increased from HKD26.2 million to HKD34.1 million and the registered capital from HKD25.0 million to HKD32.9 million.

In 2008, Zhenxing Shoes' aggregate investment amount was increased from HKD34.1 million to HKD61.2 million and the registered capital from HKD32.9 million to HKD60.0 million. On 18 February 2008, Chun Hing transferred its 100% equity interest in Zhenxing Shoes to Sports Asia.

In March 2008, we became a member of SATRA, which is an independent research and technology organisation for footwear and other consumer product industries. Our membership with SATRA gave us access to a global resource exchange platform and enabled us to:

(a) maintain a high level of technical awareness in the areas of production equipment, materials and technological development;

(b) access useful market information to keep abreast with the latest fashion trends and identify new markets for our products;

(c) source for and select new materials and components; and

(d) raise our profile internationally and gives us recognition in terms of production capability. SATRA offers expert guidance on international standards and test methods, as well as develops its own performance guidelines and footwear test methods which are internationally recognised and valued throughout the footwear industry. This helps us to continue improving on the performance and qualify of our products to meet certain standards internationally and maintain high quality levels. It is also via the SATRA membership and access to SATRA's information database that we are able to keep abreast with the latest technological advancements and hence generate sales through continuous D&D activities.

There are no specific prerequisites or written requirements to become a member of SATRA. Members are required to pay a one-off membership joining fee of £1,650 and an annual membership subscription of £1,650 in order to access the database and services provided by SATRA.

In April 2008, as a testament to the stringent internal controls and quality management system adopted in our production process, we were accredited with the ISO9001:2000 certification by GIC.

Subsequently in July 2008, we installed a fourth production line to bring our annual production capacity to approximately 8 million pairs of sports shoes. By then, we had increased our workforce from 1,063 employees in 2006 to 1,440 employees in 2008 with a total production area of approximately 15,944 sq m.

During the second half of 2008, we ventured into manufacture of sports shoes under our own brand name – *SODENG (速登)*. However, given the uncertain market conditions and strong competition from established local brand names, and potential expenditure to be incurred to launch and maintain a new brand, we decided to put the branding initiative on hold to focus on our OEM and ODM business, which is experiencing good growth.

As part of the Listing, Maxwell had on 18 November 2009 entered into a restructuring agreement with Sports Asia for the acquisition of the entire interests in Zhenxing Shoes. The Acquisition was completed on 8 December 2009.

Please refer to the **Section 6.3** and **Section 6.16** of this Prospectus for details on our key milestones and achievements, and the awards, accolades and accreditations which we have received since 1999.

6.2 OUR GROUP

6.2.1 Our share capital and changes in share capital

As at the date of this Prospectus, we have an authorised share capital of RM500,000,000 comprising 1,250,000,000 Shares whilst our issued and paid-up share capital is RM134,500,000 comprising 336,250,000 Shares.

The changes in our issued and paid up share capital since our incorporation is as follows:

Date of issue	No. of shares issued	Par value (RM)	Consideration (RM)	Cumulative issued and paid-up share capital (RM)
03.11.2009	5	0.40	Cash	2
08.12.2009	336,249,995	0.40	Shares issued pursuant to the Acquisition of Zhenxing Shoes	134,500,000

As at the LPD, our Company does not have any outstanding warrants, options, convertible securities or uncalled capital.

6.2.2 Subsidiary

Zhenxing Shoes

(i) History and business

Zhenxing Shoes was established in Jinjiang City, Fujian Province, PRC on 23 June 1999 under the PRC Law as a limited liability company under the name of 晋江振兴鞋塑有限公司 (Jinjiang Zhenxing Shoes Plastics Co., Ltd.)

Zhenxing Shoes is an OEM and ODM manufacturing company specialising in the design and manufacturing of sports shoes to domestic and overseas customers.

(ii) Share capital

The present registered capital of Zhenxing Shoes is HKD60,000,000 and the total investment amount is HKD61,200,000.

The contributions to the registered capital of Zhenxing Shoes since its incorporation are as follows:

Date of change	Increase in Registered Capital (Cash)[1] HKD	Resultant Increase in Registered Capital (Cash) HKD	Aggregate Investment Amount[2] HKD
12.04.2001	5,800,000	5,800,000	7,000,000
18.03.2005	19,200,000	25,000,000	26,200,000
05.06.2007	7,900,000	32,900,000	34,100,000
11.04.2008	27,100,000	60,000,000	61,200,000

Notes:-

(1) Registered capital refers to the total capital contribution of the shareholders of a company that is registered with the relevant government agency.

(2) Aggregate investment amount refers to the combination of registered capital and debt financing (debt financing can include loans from the parent company or from lending institutions) that is required for the planned project as stipulated in the articles of association of the company.

As at the LPD, Zhenxing Shoes does not have any outstanding warrants, options, convertible securities or uncalled capital.

(iii) Substantial shareholder

Zhenxing Shoes is a wholly-owned subsidiary of Maxwell.

(iv) Subsidiary and Associate Company

As at the LPD, Zhenxing Shoes does not have any subsidiary or associate company.

6.3 KEY MILESTONES AND ACHIEVEMENTS

Our key milestones and achievements are as follows: -

Year	Milestones / Achievements
1999	• Established Zhenxing Shoes with one production line
2000	• Increased to two production lines with annual production of 2 million pairs of sports shoes (based on one-shift)
2006	• Increased to three production lines with annual production capacity of 6 million pairs of sports shoes (based on two-shift)
2008	• Became a member of SATRA • Obtained ISO9001:2000 status • Installed the fourth production line with annual production capacity of 8 million pairs of sports shoes (based on two-shift)

6.4 COMPETITIVE STRENGTHS AND ADVANTAGES

Our Directors have identified several key factors that enable us to compete effectively to ensure a sustainable growth. We believe our competitive strengths are as follows:

(i) We have strong product D&D capabilities

Our management places strong emphasis on product D&D in ensuring our competitiveness in the sports shoe market. To this end, we have a dedicated team of experienced personnel in our D&D Department to improve and extend our product range in terms of function, variety and design so as to ensure that we keep up with the latest trends and design suitable for customers' selection. Hence, our in-house design capability is a way of providing value-added services to our customers.

Our personnel in the D&D Department are entrusted to conduct in-house research on the latest fashion trends including obtaining information from various market sources such as internet websites, fashion magazines and industry journals regularly. Our D&D personnel also obtain feedback from our Sales and Marketing Department and key customers which can be incorporated into our product design. On average we are able to develop 1,000 new product designs per annum. We also consistently design, develop and introduce various functions and features such as water resistance and shock absorption in our sports shoes. The definition of design is set out in the "technical definitions" page of this Prospectus.

Our D&D Department is headed by Zhang Kun (张坤), who has more than 20 years of D&D experience in the sports shoe industry, including more than 10 years as the manager of the D&D Department of a major PRC sports shoe company. He joined Zhenxing Shoes in August 2009. As at the LPD, Zhang Kun is supported by a team of 30 staff, half of whom have more than 10 years of experience in the D&D field.

(ii) We are able to deliver good quality products

We place great emphasis on the quality of our products, which we believe have contributed significantly to our success. Our Quality Assurance Department conducts quality checks on all the products manufactured and oversees the implementation of the quality controls at every stage of our production process, which is in line with our quality management system. Furthermore, personnel from our Quality Assurance Department conduct on-site factory inspection on our appointed external contract manufacturers as well as inspection of the production processes and finished products that these factories produce. Please refer to **Section 6.9** of this Prospectus for further details of our quality assurance processes.

We joined SATRA in March 2008, as our commitment towards continually improving and maintaining our quality levels. Through the use of SATRA services, such as SATRA Performance Guidelines, we are able to gain practical and advanced guidelines for quality control in the sports shoe industry.

As a testament to our reputation for good quality products, we were awarded Outstanding Enterprise in Regulated Quality Management (规范化管理质量达标先进企业) by Quanzhou Sub-centre of China Merchandise Trading Centre (中国商品交易中心泉州分中心) in 2003 and Excellent Quality Unit （质量胜得过单位） by Technology Supervisory Bureau of Jinjiang (晋江技术监督局) in January 2008. In April 2008, Zhenxing Shoes also obtained ISO9001:2000 certification for our production process, products and services.

(iii) We have developed strong relationships with our customers

We have been involved in the sports shoe manufacturing business since 1999. We have established a good track record and strong relationships with our customers by offering them quality products, reliable service and timely product delivery at competitive prices. For the FYE 2009, approximately 53.2% of our revenue was derived from repeat customers.

We believe that our ability to offer quality products as well as strong D&D capabilities are increasingly recognised by our customers which is evidenced by our ability to increase our sales volume for Zhenxing Shoes from approximately 4 million pairs of sports shoes in FYE 2006 to approximately 11 million in FYE 2009 (inclusive of outsourced production). Between FYE 2006 and FYE 2009, our revenue recorded a CAGR of approximately 54.0%.

(iv) We are located close to our raw material sources

We are located in Jinjiang City, Fujian Province, PRC, a place which is renowned as one of the world's largest sports shoe manufacturing hubs. This has enabled us to establish good contacts with and have access to a large pool of raw material suppliers. This allows us to have better coordination and more direct control in respect of timely delivery, logistics costs, placing orders, quality control and material sourcing.

(v) We have an experienced management and technical team

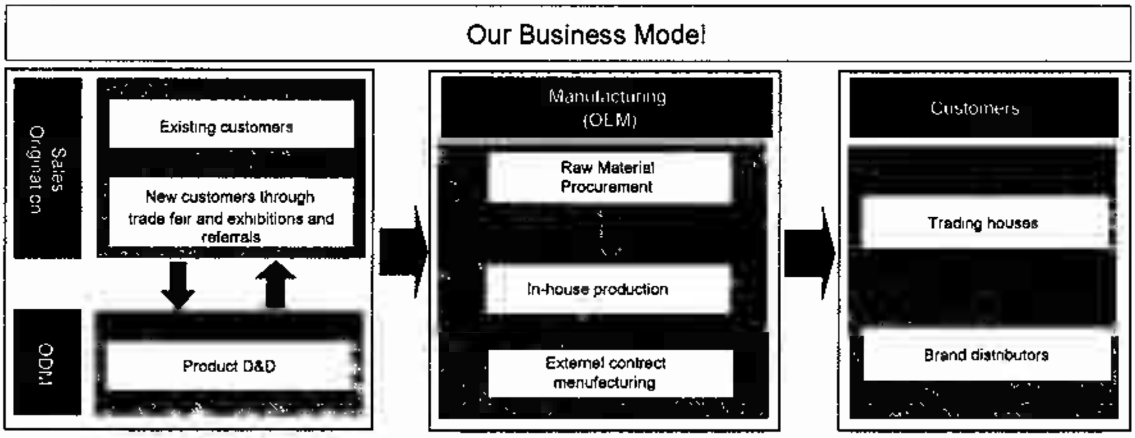
Our Executive Director and Chairman, Li Kwai Chun, who is also the founder of our Group, has had more than 20 years' experience in the trading business and established extensive contacts in the industry. She oversees the overall operations of our Group. She is assisted by Mr. Xie Zhen'an, our Executive Director and CEO, who is responsible for the operations of Zhenxing Shoes, and a dedicated team, most of whom have more than 10 years of experience in their respective fields.

Please refer to **Section 10** of this Prospectus for more information on the profiles of our Directors and key management.

6.5 BUSINESS OVERVIEW

We specialise in the design and manufacturing of sports shoes for domestic and overseas customers, which comprise mainly trading houses and brand distributors. We manufacture sports shoes on an OEM basis (i.e. we manufacture based on the specifications and designs provided by our customers) and on an ODM basis (i.e. we design and develop sports shoes for our customers' selection and manufacture the selected designs for our customers). We have strong D&D capabilities and are able to develop an average of 1,000 shoe designs per annum for our customers' selection. Zhenxing Shoes is an OEM and ODM for various third party brands.

Our Group's business model is summarised below:



Sales Origination and Product D&D (ODM)

The origination of our sales is derived from our existing customer base as well as new customers that are sourced from trade fairs and exhibitions as well as referrals. In addition, our executive directors, namely, Li Kwai Chun and Xie Zhen'an play an important role in maintaining and securing existing and new customers through their well-established relationships with various sports shoes trading houses and brand distributors in PRC.

We focus on product D&D in ensuring our competitiveness in the sports shoe market, as we believe it will enable our Group to maintain and attract existing and new customers. Our sports shoes are designed in a wide variety of styles depending on the seam construction, pattern, raw materials used and other design features.

OEM

As an OEM, we manufacture according to the shoe specifications and designs provided by our customers. Our Purchasing Department is responsible for sourcing and purchasing the necessary raw materials for the manufacture of our sports shoes. All the suppliers of raw materials are mainly located within Fujian Province, PRC at close proximity to our manufacturing facility. Our Purchasing Department will consider factors such as quality, pricing, timely delivery and after-sales service of various suppliers with the aim of obtaining quality raw materials to meet our production requirements and at competitive prices.

Currently, we have the capacity to produce up to 8 million pairs of sports shoes per year at our manufacturing facilities located in Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC, through our subsidiary, Zhenxing Shoes. We also outsource some of our sports shoe orders to external contract manufacturers. Outsourcing allows us to optimize our manpower and financial resources and to focus on other areas of our business, which is design, marketing and quality control of our products as well as to be able to cope during periods of high demand.

Customers

Our sports shoes are mainly sold through trading houses and brand distributors located in the PRC and overseas.

6.6 SALES AND MARKETING

As at the LPD, our Sales and Marketing Department are staffed by 5 sales and marketing personnel. They are responsible for formulating sales and marketing strategies and conducting marketing activities to promote our products.

Our sales and marketing strategies include:

6.6.1 Participation in trade fairs and exhibitions

We participate regularly in trade fairs and exhibitions in the PRC and abroad which include the "Global Shoes" trade show organised by Dusseldorf GmbH held in Dusseldorf and the WSA Show organized by the World Shoe Association held in Las Vegas, USA as well as international trade fairs held in the PRC such as Jinjiang Footwear International Exposition (晋江国际鞋业博览会), China Guangzhou Export and Import Fair (中国广州进出口商品交易会) and East China Fair (华东交易会).

We believe that participation in such trade fairs and exhibitions help us to expand our customer base and generate increased awareness of our Company. It also helps us keep abreast with current market trends and use the information gathered to respond to the evolving needs of consumers in a timely manner.

6.6.2 Sales and marketing activities

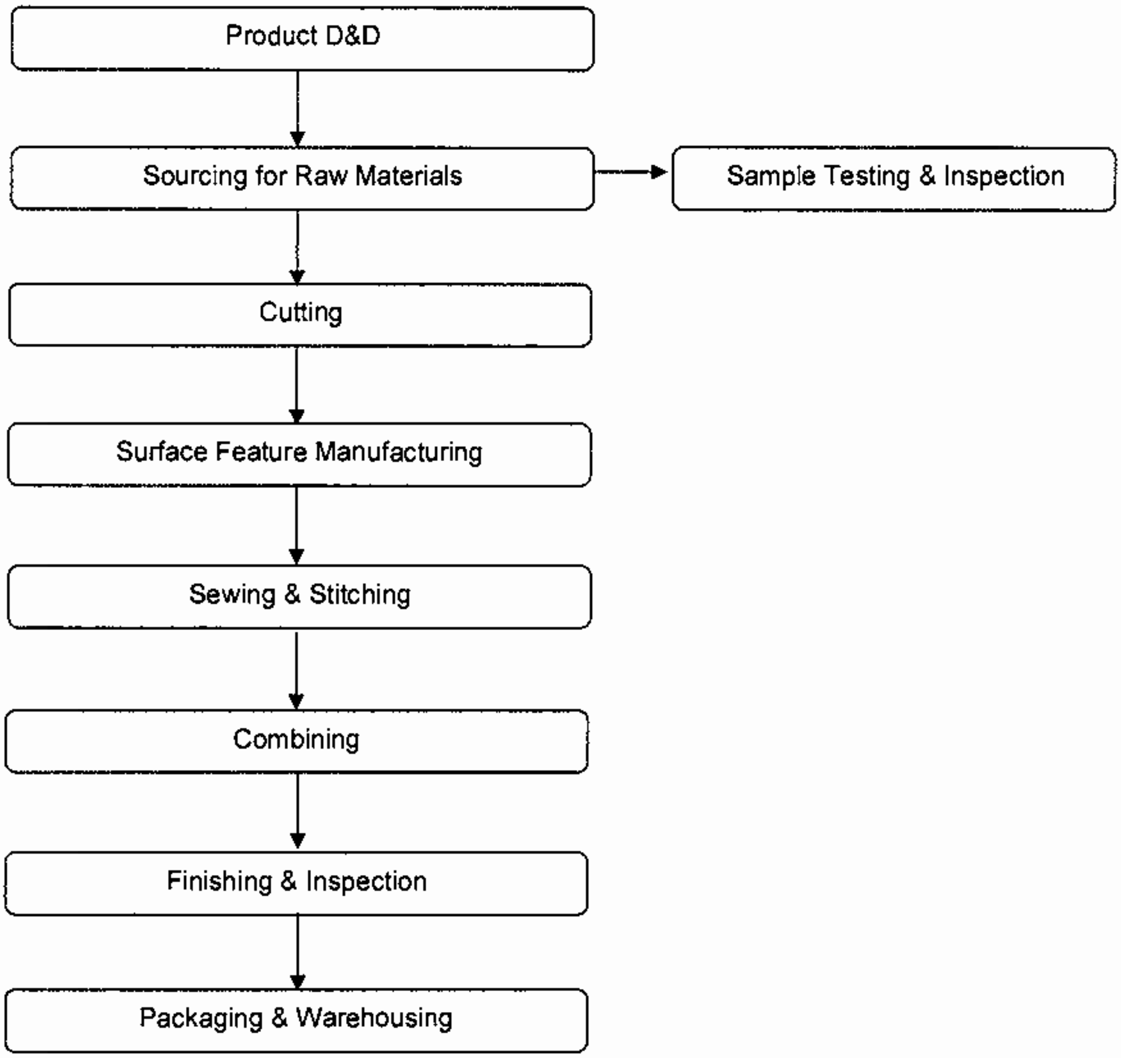
Sales and marketing activities involve regular meetings with and visit to our existing customers to increase our understanding of their requirements so as to develop more products and secure more orders, as well as contacting prospective customers to promote our products. We also regularly obtain feedback from customers on our products to better understand market trends and consumer preferences.

In addition to the above, due to our active pursuit of high product quality, innovative product designs as well as our good sales service, we have been able to attract new customers through referrals from our existing customers.

6.7 PRODUCTION PROCESS

6.7.1(i) Zhenxing Shoes' Production Process

Our entire shoe production process is illustrated in the flowchart below:



(a) Product D&D

For the products which we produce for our customers, the design and specifications are either provided by our customers or developed by our D&D Department. Based on such designs and specifications, we will manufacture prototypes for our customers' confirmation and negotiate on the prices of such products. Upon finalisation of the prices and confirmation of orders by our customers, we will source for various raw materials and commence commercial production accordingly.

(b) Sourcing for raw materials

Our raw materials include leather, fabrics, PU, PVC and sole units, which comprise the midsole and outsole. All the suppliers of raw materials are located within Fujian Province, PRC, at close proximity to our manufacturing facility.

Our Purchasing Department undertakes the sourcing and purchasing of the required raw materials for the manufacture of our products. In the process of sourcing for raw materials, our purchasing personnel will consider factors such as quality, pricing, timely delivery and after-sales service of various suppliers with the aim of obtaining good quality raw materials to meet our production requirements at competitive prices.

After receiving raw materials from our suppliers, personnel from our Quality Assurance Department will carry out inspection and testing on samples from our incoming raw materials 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 for replacement.

(c) A brief description of our production process is set out below:

Cutting: Sports shoes typically consist of two major components: the upper shoe and the sole unit. The upper shoe is made up of different components including the tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim. We assemble our own upper shoe from various raw materials such as synthetic leather, genuine leather, PU, mesh and nylon. These raw materials are cut into different shapes according to the design specifications to form various parts of the upper shoe at our cutting workshops. We do not assemble our own sole units but purchase them from our suppliers. The sole unit comprises the midsole and outsole.

Surface Feature Manufacturing and Assembly: The intricate design features such as the logos and other decorative patterns are made in advance before being sewn onto or imprinted onto the different parts of the upper shoe at our surface feature assembly workshops.

Sewing & Stitching: The various components of the upper shoe such as the tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim are stitched together to form a completed upper shoe in the shape of the sports shoe. Stitching takes place at our stitching workshops where there are numerous stitching teams, each responsible for stitching a different design.

Combining: The combining process is where the upper shoe and the sole unit are combined to form the finished sports shoe. At the combining stage, the last and the upper shoe are placed together and then placed onto a combining machine to ensure a good fit of the upper shoe to the shape of the last. The insole board is glued onto the sole unit and the lasted upper shoe is then attached to the insole board together with the sole unit. The completed but unfinished sports shoes is then pressed around the last using sole pressing machines to ensure that the sole unit is attached to the upper shoe properly, after which, the last is removed.

Finishing & Inspection: After the combining process, final finishing touches to the sports shoes such as the insertion of insoles and laces are carried out. Each pair of sports shoe is also cleaned or polished. At this stage, our Quality Assurance Department will conduct final quality checks on the finished products.

Packaging and Warehousing: The finished products which pass our quality control inspection are then packed and separated into boxes according to colours and sizes. The boxes are then packed into cartons and stored in our warehouses for delivery to our customers.

6.7.1 (ii) Outsourced production process

As some of our sports shoes are outsourced to our external contract manufacturers, we place emphasis on the quality of products produced by such contract manufacturers. We have stringent selection criteria for our external contract manufacturers and constantly evaluate each external contract manufacturer based on overall track record, experience, timely delivery, reputation and ability to produce quality products.

We typically engage the services of an external contract manufacturer on a short-term contract basis after obtaining sales orders from customers, which sets out the terms regarding, amongst others, the processing fee, purchase quantity, delivery terms and design specifications of our products. More importantly, the external contract manufacturers shall produce products that adhere strictly to a specified production process and quality standard required by us.

To ensure the production quality of our external contract manufacturers, we have 8 quality control staff members to conduct daily on-site inspections when such external contract manufacturers operate and produce products for us. We also provide the relevant raw materials and parts including packaging material to our external contract manufacturers.

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6.8 PRODUCTION FACILITIES AND CAPACITY

We carry out our manufacturing activities at the premises of Zhenxing Shoes, which is located at Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC (中国福建省晋江市竹树下工业区). The total production area is approximately 15,944 sq m. We currently have four (4) production lines with an average annual capacity of approximately 8 million pairs of sports shoes per annum.

The following table illustrates our production capacity and our approximate utilisation rate for our production lines for the Financial Period under Review respectively:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
Production Capacity ('000 pairs) [1]	4,000	6,000	#7,000	8,000	4,000
No. of fully operational production lines	^2	^3	#4	4	4
Output ('000 pairs)	2,997	5,971	5,723	6,180	2,883
Utilisation Rate (%) [2]	*74.93	99.52	81.76	77.25	72.08

Notes:-

^ *We added a third production line in late 2006, which became fully operational in FYE 2007.*

* *The production capacity up to February 2006 is based on the production capacity of two operational production lines on a one-shift basis. For the remaining ten (10) months of the year, we operated on a two-shift basis.*

\# *We added a fourth production line in July 2008. The production capacity for the FYE 2008 is calculated based on three production lines employed by us and the production capacity for the fourth production line from the month of July onwards (i.e. half a year).*

Assumptions:

(1) *The production capacity of our production facilities is measured in terms of the number of pairs of sports shoes manufactured based on: (i) the time interval between the placement of each sports shoe in the combining machines on the production line; (ii) the number of production lines employed by us during the financial year being operational for 16 hours per day, 340 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 of our production staff which is assumed to be constant throughout the Financial Period under Review. The production capacity for each production line is approximately 2 million pairs of sports shoes per annum.*

(2) *The utilisation rate of our production facilities in each financial year is calculated by dividing the total number of sports shoes produced for the whole of that financial year by the production capacity. The utilisation rate will vary depending on, inter-alia, the design specification of each sports shoe of which the more complex shoe designs will require longer time to produce as compared to the simpler designs and the size of each sports shoe order.*

For reference and information only, we have set out below, the production statistics of the Local Companies. Please note however, that the Local Companies may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, the experience and expertise of production staff, type of equipment used, type of shoes produced and equipment set-up speed.

	Maxwell	**K-Star**[1]	**Xingquan**[2]	**XiDeLang**[3]
Principal activities	Design and manufacturing of sport shoes on an OEM and ODM basis.	Design, manufacture and distribution of sports footwear under its own brand as well as OEM and ODM for international sports brands.	Manufacturing of shoe soles and sport shoes, and sales of shoe soles, sports shoes, apparels and accessories.	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment.
Production capacity for sport shoe (as at)	31.12.2009	31.12.2009	30.06.2009	30.06.2009
Assumptions	Operational for 16 hours per day/340 days a year (2 shifts)	Operational for 10 hours per day/310 days a year (1 shift)	Operational for 16 hours per day/330 days a year (2 shifts)	Not available
Number of production lines	4	4	6	Not available
Production capacity ('000 pairs)	8,000	3,968	5,940	2,400[4]
Production output ('000 pairs)	6,180	3,805	5,478	2,200[4]
Utilisation rate (%)	77.3	95.9	92.2	91.6
Production output per production line per hour (pairs)[5]	284	307	173	Not available

Notes:-

(1) Extracted from K-Star's prospectus dated 11 May 2010.
(2) Extracted from Xingquan's annual report 2009 and prospectus dated 23 June 2009.
(3) Extracted from XiDeLang's prospectus dated 23 October 2009.
(4) The production capacity and production output for six (6) months.
(5) The computation is based on production output divided by the number of production lines and the assumed number of days and hours in operation per annum.

Based on the above, management wishes to highlight the following:-

(i) Based on the assumptions used for the production capacity, we are able to achieve a production capacity of 8 million pairs of sports shoes per annum. Accordingly, for the FYE 2009 we achieved a production output of approximately 6.18 million pairs of sports shoes.

(ii) Our production output per hour for each production line is 284 pairs of sports shoes which is within the range of the production output of the Local Companies which range from 173 pairs to 307 pairs per line; and

(iii) Our utilisation rate of 77.3% is lower than the utilisation rates of the Local Companies which ranged from 91.6% to 95.9%. Our lower utilisation rate was due mainly to the different assumptions used for our production capacity compared to the Local Companies as well as the difference in the composition of the business, scale of operations, the experience and expertise of production staff, type of equipment used, type of shoes produced and equipment set-up speed.

6.9 QUALITY ASSURANCE

We recognise that our ability to produce and procure consistently good quality products is critical to the success of our business. As such, we have implemented stringent quality control procedures in respect of Zhenxing Shoes' production activities. Furthermore, by joining SATRA, we are able to maintain our quality levels by using SATRA services such as SATRA Performance Guidelines which furnish us with practical and advanced guidelines for quality control in the sports shoe industry.

As at the LPD, we have 33 quality assurance personnel in our Quality Assurance Department. Our Quality Assurance Department conducts quality checks on all the products manufactured by Zhenxing Shoes and oversees the implementation of the quality controls at every stage of our production process in line with our quality management system. Personnel from our Quality Assurance Department will also conduct on-site factory inspection on our external contract manufacturers as well as inspection of the production processes and finished products at these factories. As at the LPD, we have not encountered any rejection from our customers.

In April 2008, as a testament to the stringent internal controls and high quality management system adopted during our production process, Zhenxing Shoes was accredited with the ISO9001:2000 certification for our production process, products and services by GIC.

Details of our quality control procedures are highlighted below.

6.9.1 Our In-house Quality Control

(a) Supplier selection

Raw materials are purchased only from suppliers after evaluation by our Quality Assurance Department based on stringent selection criteria such as pricing, the quality of their raw materials and services, their past track record, credibility, timely delivery and market reputation.

(b) In-coming quality assurance

In-coming raw materials are subject to random sample inspections and tests, such as tests on durability of the sole units and tensile strength of the fabrics, to ensure the quality, grade and quantity of such raw materials conform to our customers' and our order specifications as well as our internal quality standards. Raw materials which fail to comply with these specifications are returned to suppliers for replacement.

(c) In-process quality assurance

We implement in-process quality assurance measures throughout the entire production process. Before production, our Quality Assurance Department and Production Department will conduct quality checks and assessment of production feasibility on all the molds to be used in the production and carry out trial-production for evaluation. This will allow us to rectity any defects at an early stage of production.

During production, quality assurance measures are taken at each stage of the production process to ensure that defective semi-completed products do not proceed to the next stage of the production process. The production section leader at each stage of production is responsible for quality control at each stage of the production process whereas our Quality Assurance Department conducts random checks on the semi-completed and completed products in order to ensure compliance with quality control standards.

Our customers may from time to time send their quality control personnel to our production facilities to monitor our production process.

(d) Final quality assurance

Prior to being packed into boxes, completed products undergo final quality inspection to ensure compliance with our quality control standards and customers' design and specifications. Any item which fails the final quality assurance check and test will not be sent to our customers.

(e) Outgoing quality assurance

Prior to delivery of our products to our customers, our quality control personnel and in some cases, our customers may carry out random quality checks to ensure that the products to be delivered to them meet their quality requirements.

6.9.2 Quality Control on External Contract Manufacturers

As we outsource some of our sports shoe orders to our external contract manufacturers, we also carry out quality control on the products produced by such manufacturers.

In this regard, our quality control personnel and in cases of large orders, our Executive Directors, will attend personally to these external contract manufacturers to ensure that these manufacturers will be able to meet our orders, and that their products are of consistently good quality. Personnel from our Quality Assurance Department will monitor our external contract manufacturers' entire production process by requiring each external contract manufacturer to submit regular reports on production progress and quality assurance at each stage of its production process. In addition, our quality control personnel also conduct random checks on the products. We can monitor their production progress constantly to ensure that our delivery deadlines, which range from 30 to 35 days for urgent orders and 45 to 60 days for normal orders are met. We conduct quality control inspection on the finished products.

Further, the quality of the raw materials used to manufacture sports shoes are also monitored because we supply all of the raw materials to our external contract manufacturers, where these external contract manufacturers primarily provide labour service to us to manufacture the sports shoes.

As at the LPD, there has been no significant rejection on products manufactured by our external contract manufacturers.

6.10 PRODUCT D&D

6.10.1 Our D&D objectives

Our Directors believe that D&D is crucial in providing us with a competitive edge. As such, we are committed to and place great emphasis on our D&D which keeps us ahead of our competitors. Our D&D objectives are to develop and introduce new designs to cater to changing consumer preferences and market trends, and to expand our product range.

6.10.2 Our D&D team and facilities

Our D&D Department is headed by Zhang Kun (张坤), who has more than 20 years of D&D experience in the sports shoe industry, including more than 10 years as the manager of the D&D Department of a major PRC sports shoe company. Our D&D staff headcounts were 14, 14, 35, 27 and 30 for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. As at the LPD, our D&D Department is staffed with 30 personnel, half of whom have more than 10 years of experience in the D&D field.

The length of service of our D&D staff with Zhenxing Shoes is as follows:-

	Number of staff				**Total**
Years with Zhenxing Shoes	**<1**	**1-3**	**3-5**	**>5**	
Head	1	-	-	-	1
Designers	1	3	1	-	5
Production staff	15	5	3	1	24
Total	**17**	**8**	**4**	**1**	**30**

As at the LPD, our Group utilises some of the following machinery and equipment for our D&D facilities:-

Facilities	**Purposes**
Shoe design software (CAD system)	To create two and three dimension computer generated solid state prototypes to facilitate the functional tests and dimensioning, scaling, and colour and material combinations and modifications, as well as analyzing the movement, position and impact on certain parts of the sports shoe.
Digitizer	A graphics input device that allows the designer to hand-draw the graphics on the tablet and transmit the graphics to the computer.

6.10.3 Our D&D initiatives and activities

Development of new products

Our designs are either created in-house by our D&D Department or in accordance with the specifications and designs provided by our customers.

Our D&D Department gathers market information by attending trade fairs and exhibitions to keep ourselves abreast with the latest trends to continually improve and extend our product range. We also receive samples from our customers and work closely with them to improve on their designs. In some instances, we also engage external design firms to assist in the design of our products, particularly for the purposes of attending certain sports shoe trade fairs in the USA or Europe so as to have designs suited to the target markets.

New designs are developed through computer design software and experimentation with various sports shoe material and the use of soles. Commercial production of a particular product for our customers will commence upon confirmation of the product design and price.

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

Apart from designs, we also look into the functionality of our products in order to serve the different sporting functions and features, such as water resistance and shock absorption.

D&D process

The D&D process undertaken by our D&D staff are as follows:-

Stage 1 – Product design

Our D&D personnel typically commence with the preparation of a design plan, which sets out various items for consideration such as the product type, target market, budgeted production quantity, profit margin, raw materials and resources deployment. Sports shoes usually consist of two major components, namely, upper shoe and sole unit. Our D&D staff generally originates the design of sports shoes from the sole unit. Sometimes, the origination of sports shoe designs may also be based on sample designs provided by customers.

Such design plans will then be submitted for evaluation and approval by the relevant personnel comprising the heads of the Sales and Marketing Department, D&D Department, Production Department, our Executive Directors and in certain cases, our customers.

Upon approval, our D&D personnel will use various computer design software to make technical adjustments and modifications to the draft design plan and work out different colour schemes for the new product before the new design is sent for trial production run, which also involve the production of prototypes.

Stage 2 – Product prototype

The prototypes of such designs are produced for various tests such as durability and functionality tests, colour tests and raw materials matching.

Stage 3 – Market introduction

Our Sales and Marketing Department will then present the tested prototypes to our customers for their evaluation. Based on the feedback from our customers, we will modify the prototypes to meet customers' needs. Upon confirmation of the design, our customers will place their orders, and we will commence production.

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

Soccer Shoe

Basketball Shoe

Casual Sports Shoe

Casual Sports Shoe

Running Shoe

Running Shoe

6.10.4 Our D&D expenses

Our D&D expenses for the Financial Period under Review have not been material as our product D&D expenditure relates mainly to cost of consumables for product prototypes and remuneration costs of our D&D staff.

Summarised below is the D&D expenses and the number of sports shoe designs created during the Financial Period under Review:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
D&D expenses (RMB/RM)	354,031/ 162,748	398,686/ 180,166	1,401,696/ 675,477	1,003,562/ 517,536	511,626/ 247,064
Percentage of revenue (%)	0.2	0.1	0.3	0.2	0.2
Number of D&D staff	14	14	35	27	30
Number of designers	3	3	5	5	5
Number of designs created by product categories					
- Court sports shoes	873	896	839	1,005	471
- Casual/leisure sports shoes	45	38	152	143	76
- Running Shoes	-	-	11	23	7
	918	**934**	**1,002**	**1,171**	**554**
Number of designs commercially produced by product categories					
- Court sports shoes	532	662	735	825	394
- Casual/leisure sports shoes	16	20	142	105	61
- Running Shoes	-	-	9	12	4
	548	**682**	886	**942**	**459**
Commercialisation rate	60%	73%	89%	80%	83%

6.11 MAJOR CUSTOMERS

As we do not sell our products directly to end-consumers, our customers are mostly trading houses and brand distributors based in the PRC and to a lesser extent overseas. These distributors and trading houses in turn sell our sports shoes to both the local and overseas markets such as Europe, South America, Japan, Korea, Singapore, the Middle East, Saudi Arabia and South Africa. Our customers who accounted for 10% or more of our Group's sales for the Financial Period under Review are as follows:

Name of Major Customer	Approximate length of business relationship	As a percentage of our Group's revenue (%)				
		FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
晋江市青阳爱快贸易有限公司 (Jinjiang City Qingyang Aikuai Trading Co., Ltd) (PRC)	4 years	14.2	16.2	13.7	6.1	2.3
晋江宗盛工贸有限公司 (Jinjiang Zong Sheng Industry & Trading Co., Ltd) (PRC)	4 years	8.2	10.2	9.8	7.9	5.6
隆鑫国际贸易有限公司 (Lu Xin International Trading Co., Ltd) (PRC)	4 years	8.3	10.4	9.4	8.0	2.2
欧亚明通贸易有限公司 (Ouya Mingtong Trading Co., Ltd) (PRC)	4 years	14.8	18.0	16.1	10.1	13.0
泉州泛多贸易有限公司 (Quanzhou Fandou Trading Co., Ltd) (PRC)	4 years	13.4	14.6	15.4	9.1	6.0
协昌振宜鞋服有限公司 (Xie Chang Zhen Xuan Shoes Co., Ltd.) (PRC)	4 years	7.1	9.8	10.0	5.3	3.2
福建华翌贸易实业有限公司 (Fujian Hua Yi Trading Co., Ltd) (PRC)	1 year	-	-	-	8.1	11.5
Total		**66.0**	**79.2**	**74.4**	**54.6**	**43.8**
Number of other customers		**10**	**43**	**42**	**27**	**22**
Total number of customers		**16**	**49**	**48**	**34**	**29**

We enjoy a close business relationship with our customers and place significant emphasis on developing and maintaining customer satisfaction, goodwill and rapport.

We do not consider ourselves as highly dependent on any major customer. None of our Directors or substantial shareholders has any interest, direct or indirect, in any of the above companies.

6.12 MAJOR SUPPLIERS

Our suppliers mainly consist of suppliers of raw materials, such as leather, fabrics, PU, PVC and sole units, used in the production of our sports shoes.

Our suppliers are primarily located in Quanzhou City and Jinjiang City, Fujian Province and within close proximity to our manufacturing facility.

We select our raw material suppliers based on their product quality, reliability, price, range of designs (if applicable), availability, speed of delivery and reputation. We have not experienced any difficulties in sourcing for raw material suppliers nor do we envisage facing any such difficulties in the future due to our established relationships with them and also the availability of alternative suppliers.

The following are our suppliers of raw materials who account for 10% or more of our purchases for the Financial Period under Review:

Name of Supplier	Approximate length of business relationship	Materials Supplied	Percentage of total purchases (%)				
			FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
福建省晋江市青阳振兴皮革厂 Fujian Jinjiang Qingyang Zhenxing Leather Factory (PRC)	10 years	Leather	6.2	3.1	12.5	6.5	5.1
闽发（福建）鞋材有限公司 Minfa (Fujian) Shoe Material Co., Ltd. (PRC)	10 years	Sole	4.7	4.5	22.0	8.9	15.4
泉州信德皮革有限公司 Quanzhou Xinde Leather Co., Ltd. (PRC)	10 years	Leather	4.7	4.8	13.4	5.2	1.2
晋江风华鞋材有限公司 Jinjiang Fenghua Shoes Material Co., Ltd. (PRC)	4 years	Sole	0.3	0.3	3.2	5.4	16.4
晋江市宇顺鞋塑有限公司 Jinjiang Yu Shun Shoes & Plstic Co., Ltd. (PRC)	5 years	Sole	5.6	6.9	9.9	4.5	10.3
Total			**21.5**	**19.6**	**61.0**	**30.5**	**48.4**

As there are many raw material suppliers based in Fujian Province, PRC, we are not reliant on any particular supplier for our business. 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.

6.13 EXTERNAL CONTRACT MANUFACTURERS

The following table sets out our external contract manufacturers for the Financial Period under Review:

Name of external contract manufacturer	Location	Approximate length of business relationship (years)	Percentage of Group's total subcontracting costs (%)				
			FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
世通鞋业有限公司 Fujian Jinjiang Shitong Footwear Co., Ltd.	Jinjiang	4 years	12.2	13.2	8.9	29.2	32.7
国榕鞋业有限公司 GuoRong Shoes Co., Ltd.	Jinjiang	4 years	11.5	20.0	4.9	29.8	21.8
爱思奇鞋业有限公司 Aisiqi Shoe Co., Limited	Jinjiang	4 years	30.1	23.1	46.8	12.1	-
足尔鞋塑有限公司 ZuEr Shoes Plastic Co., Ltd.	Jinjiang	4 years	13.9	14.3	10.1	28.9	22.4
克力鞋业有限公司 KeLi Shoes Co., Ltd.	Jinjiang	3 years	7.1	11.2	7.5	-	-
江圣鞋业有限公司 Jiang San Shoes Co., Ltd.	Jinjiang	3 years	5.4	5.6	13.5	-	-
威士登鞋业有限公司 WeiShi Deng Shoes Co., Ltd.	Jinjiang	3 years	19.8	12.6	8.3	-	-
福建省晋江市池店华信鞋业有限公司 Fujian Jinjiang Chidian Huaxin Shoes Co., Ltd.	Jinjiang	<1 year	-	-	-	-	23.1
Total			100.0	100.0	100.0	100.0	100.0

As there are many external contract manufacturers based in Jinjiang city, we are not reliant on any particular external contract manufacturer for our business. 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 external contract manufacturers.

6.14 INTELLECTUAL PROPERTY

Save as disclosed below, we do not own nor are we dependent on any registered trademark, patent or license or any other intellectual property rights.

Trademark

As at the LPD, our Group owns the following trademarks:

Trademark	Country of Registration	Class	Registration Number	Registration Date	Term
速登	PRC	25	3033383	21 March 2003	10 years (expiring on 20 March 2013)
	PRC	25	3024815	7 February 2004	10 years (expiring on 6 February 2014)
SODENG	PRC	25	3033382	21 March 2003	10 years (expiring on 20 March 2013)

All the above trademarks were registered for our previous SODENG brand initiative. These trademarks are not presently in use.

We initially intended to develop our own "SODENG"（速登）brand of sports shoe and apparel in the PRC market. However, given strong competition from established local brand names, and potential expenditure to be incurred to launch and maintain a new brand, we have decided to put the branding initiative on hold to focus on our current business, which is enjoying good growth.

The Board has yet to decide on whether or not they intend to launch SODENG brand and will only re-evaluate its position on the launch after the Listing.

Our Group had incurred expenses of approximately RMB2.4 million (or RM1.2 million) and RMB0.6 million (or RM0.3 million) in FYE 2008 and FYE 2009 respectively for the SODENG brand initiative. These expenses mainly relate to advertising expenses, material costs, office rental and salaries for SODENG's D&D staff.

Third Party Licenses

As at the LPD, for the purpose of our OEM and ODM operations, we have been licensed to use the following trademarks in our manufacturing operations: -

(i) By a letter dated 4 April 2008, KAPPA Deutschland GmbH confirmed that Zhenxing Shoes is authorised to produce shoes with "Kappa" trademark;

(ii) By a letter dated 21 April 2008, Road Easy Inc. (路益股份有限公司) confirmed that Zhenxing Shoes is authorised to produce, manufacture and export shoes with "Diadora" trademark;

(iii) By a letter dated 22 April 2008, Arnor (Taiwan) Co. Ltd. (伯诺股份有限公司) confirmed that Zhenxing Shoes is authorised to produce, manufacture and export shoes with "Brooks" trademark; and

(iv) By a letter dated 27 September 2010, Fila Sport (HongKong) Ltd confirmed that Zhenxing Shoes is authorised to produce the shoes with "F" and "FILA" trademarks. The trademarks validity is within the fourth quarter of 2010.

Save as disclosed above, there are no other salient terms stated in the above authorization letters.

6.15 MAJOR LICENSES, PERMITS, REGULATIONS AND CERTIFICATIONS

The major licenses, permits, regulations and certifications awarded to Zhenxing Shoes are as follows:

Type of license or certificate/Name of issuing authority	Date of approval	Expiry date	Purpose	Major conditions imposed	Status of compliance/Remarks
Business License (Registration No. 350500400009750) / AICQZ	2/12/2009	23/06/2029	To certify the official establishment of a company.	Subject to annual review	Complied
Foreign Investment Certificate (商外资闽泉外资字[1999]C0186) / Fujian Province People's Government	15/06/1999	None	To certify the official approval for the establishment of a foreign investment company	Subject to annual review	Complied
Organization Code Certificate (61160746-9) / Quanzhou Qualify & Technology Supervision Bureau	07/06/2007	07/06/2011	To certify the identify code of a company	Subject to annual review	Complied
Tax Registration Certificate (350582611607469) / Jinjiang National Tax Bureau, Jinjiang Local Tax Bureau	20/10/2006	None	For tax registration and management of tax filing of a company	Subject to annual review	Complied
Certificate of Foreign Exchange Registration (350582010080) / SAFE Jinjiang Branch	21/05/2001	None	For foreign exchange registration in the event of any change in a company's registered capital, investment amount, name or business scope	Subject to annual review	Complied
Registration certificate of customs declaration / Shishi Customs Registration No. 3505944336	03/09/2001	21/04/2011	For import and export registration of a company's products	None	Complied

6.16 AWARDS, ACCOLADES AND ACCREDITATIONS

Our commitment to excellence is evidenced by the numerous awards and certifications which we have received to-date, details of which are as follows:

Award/Certification	Awarding Body	Awarded in	Purpose of certification
Outstanding Enterprise for Safe Production (安全生产先进单位)	The Government of Qingyang County (青阳镇人民政府)	August 2001	Appreciation for the Group's safe production
Outstanding Enterprise ("双爱双评"先进企业)	The Committee of China Communism Party in Qingyang County and the Government of Qingyang County (中共青阳镇委员会及青阳镇人民政府)	October 2002	Appreciation for the Group's excellent comprehensive performance
Outstanding Enterprise in Regulated Quality Management (规范化管理质量达标先进企业)	Quanzhou Sub-centre of China Merchandise Trading Centre (中国商品交易中心泉州分中心)	2003	Appreciation for the Group's excellent management of products quality
AA Rating Enterprise of Fujian Province (福建 AA 级诚信企业)	Fujian Enterprise Credit Evaluation Center & Fujian Enterprise Credit Evaluation Association (福建企业信用评价中心、福建企业信用评价协会)	August 2004	Appreciation for the excellent credibility and reputation of the Company with banks
Excellent Quality Unit (质量胜得过单位)	Technology Supervisory Bureau of Jinjiang (晋江技术监督局)	January 2008	Appreciation for the Group's high quality products.
Outstanding Enterprise (先进单位)	The Working Committee of China Communism Party and Office of Meiling Street(中共梅岭街道工作委员会, 梅岭街道办事处)	April 2006, May 2007, January 2008 and February 2008	Appreciation for the Company's excellent comprehensive performance by overall evaluation based on factors such as sales, tax creditability, operation etc

In addition, we have also received the following accreditation in recognition of the stringent internal controls and high quality management system adopted in our production process:-

Award/Certification	Awarding Body	Awarded in
ISO9001:2000	GIC	April 2008

6.17 INSURANCE COVERAGE

We maintain insurance for our full-time employees which provides coverage for work-related accidents, unemployment, maternity benefits and medical expenses.

As at the LPD, we also maintained assets insurance policy with an insurance coverage amount of approximately RMB93.63 million. The validity term is from 12 June 2010 to 11 June 2011. All the above insurance policies are in force and the premiums have been paid thereon. The total insurance expense incurred in 1H 2010 was approximately RMB0.052 million. Our Directors believe that the coverage from these insurance policies is adequate for our present operations.

Currently, we have not taken up any product liability insurance for the products manufactured by us as it is neither an industry requirement nor practice within our industry to do so. As at the LPD, we have not suffered any losses or damages or incurred any liabilities that have a material effect on our business.

6.18 DEPENDENCY ON CONTRACTS OR ARRANGEMENTS

Save for our reliance on our external contract manufacturers as disclosed in **Section 4.1.5**, as at the LPD, there is no single contract or arrangement that our Group depends highly on that could materially affect our business or profitability.

6.19 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 LPD.

6.20 SEASONALITY

We may experience lower level of production activities due to fewer working days resulting from the Chinese New Year holidays in the first quarter of the year. Apart of the above, we generally do not experience any significant seasonality in our business operations.

6.21 ORDER BOOK

Our order book consists of contracts which we have managed to secure from our customers but which have yet to be fulfilled. These orders are scheduled for delivery ranging from 30 days to 60 days of the orders being made and are subject to cancellation, deferral or rescheduling by our customers. Accordingly, our order book as at any particular date may not be indicative of our revenue for any succeeding period. We do not, however, enter into any long term supply agreements with our customers.

As at the LPD, we have approximately RMB92.9 million or RM43.9 million of secured contracts which are expected to be fulfilled in FYE 2010.

7. HISTORICAL FINANCIAL INFORMATION

7.1 HISTORICAL PROFORMA CONSOLIDATED FINANCIAL INFORMATION

Our proforma consolidated financial information was extracted from the audited financial statements of our Group for the Financial Period under Review. 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 Period under Review.

There has been no audit qualification on the audited financial statements for the Financial Period under Review. The audited financial statements for the Financial Period under Review were prepared in accordance with FRS and audited by Messrs. Baker Tilly Monteiro Heng, Malaysia. The bases and accounting policies used for the purpose of preparing our proforma consolidated financial information for the Financial Period under Review are consistent with those adopted in the preparation of the audited consolidated financial statements of our Group, which have been adopted as our Group's accounting policies.

You should read the proforma consolidated financial information in conjunction with the management discussion and analysis of financial conditions and results of operations and the Reporting Accountants' Letter on the proforma consolidated financial information as set out in **Section 7.2 and 7.4** of this Prospectus respectively.

Exchange rate

The average and closing exchange rates as outlined in the table below are extracted from published information by Bank Negara Malaysia. The average exchange rate for the Financial Period under Review reflects the average closing exchange rates on the last day of each month during the respective Financial Period under Review. These exchange rates have been presented solely for information only and should not be construed as a representation that those RMB amounts could have been, or could be, or was converted into RM, at any particular rates, the rates stated below, or at all.

	RMB/RM	
	Average	**Closing**
FYE 2006	0.4597	0.4511
FYE 2007	0.4518	0.4534
FYE 2008	0.4819	0.5084
FYE 2009	0.5157	0.5019
1H 2009	0.5252	0.5151
1H 2010	0.4829	0.4772

(Source: Bank Negara Malaysia)

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

	RMB/RM	
	High	**Low**
May	0.4923	0.4665
June	0.4879	0.4686
July	0.4767	0.4698
August	0.4694	0.4607
September	0.4625	0.4580
October	0.4688	0.4614

(Source: Bank Negara Malaysia)

As at the LPD, the closing exchange rate between RMB and RM was RMB1 to RM0.4725.

7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

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

All figures stated in RMB are converted to RM, where applicable. The applied rates of exchange for the Financial Period under Review are outlined above.

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7.1.1 Proforma Consolidated Income Statements

The following table sets forth a summary of our proforma consolidated income statements for the Financial Period under Review based on the assumption that we have been in existence throughout the Financial Period under Review. The proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter as set forth in **Section 7.2** of this Prospectus:-

	Audited											
	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	159,971	73,539	317,538	143,464	452,492	218,056	583,718	301,023	282,313	148,271	307,434	148,460
Cost of sales	(116,532)	(53,570)	(228,619)	(103,290)	(323,356)	(155,825)	(409,406)	(211,130)	(197,584)	(103,771)	(215,993)	(104,303)
GP	43,439	19.969	88,919	40,174	129,136	62,231	174,312	89,893	84,729	44,500	91,441	44,157
Other operating income	491	226	475	215	1,322	637	523	270	264	139	159	77
Selling and distribution expenses	(796)	(366)	(934)	(422)	(2,946)	(1,420)	(1,811)	(934)	(964)	(506)	(1,104)	(533)
Administrative expenses	(3,652)	(1,679)	(4,572)	(2,066)	(10,100)	(4,867)	(11,779)	(6,075)	(4,585)	(2,408)	(6,538)	(3,157)
Other operating expenses	(1,443)	(663)	(5,972)	(2,698)	(420)	(202)	(922)	(476)	(792)	(418)	(345)	(167)
Profit from operations	38,039	17,487	77,916	35,203	116,992	56,379	160,323	82,678	78,652	41,309	83,613	40,377
Finance cost	(1,001)	(460)	(1,302)	(588)	(901)	(435)	(788)	(406)	(349)	(184)	(432)	(209)
PBT	37,038	17,027	76,614	34,614	116,091	55,944	159,535	82,272	78,303	41,125	83,181	40,168
Income tax	(11,132)	(5,118)	(21,044)	(9,508)	(29,622)	(14,275)	(40,801)	(21,041)	(19,734)	(10,364)	(21,218)	(10,246)
PAT	25,906	11,909	55,570	25,106	86,469	41,669	118,734	61,231	58,569	30,762	61,963	29,922
EBITDA	39,419	18,121	79,705	36,011	119,198	57,441	163,008	84,063	80,040	42,037	84,911	41,003
GP margin (%)	27.2	27.2	28.0	28.0	28.5	28.5	29.9	29.9	30.0	30.0	29.7	29.7
PBT margin (%)	23.2	23.2	24.1	24.1	25.7	25.7	27.3	27.3	27.7	27.7	27.1	27.1
PAT margin (%)	16.2	16.2	17.5	17.5	19.1	19.1	20.3	20.3	20.7	20.7	20.2	20.2
Effective tax rate (%)	28.7	28.7	27.5	27.5	25.5	25.5	25.6	25.6	25.2	25.2	25.5	25.5
No. of Shares in issue prior to the IPO ('000)	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250
Gross EPS (RMB/RM)	0.11	0.05	0.23	0.10	0.35	0.17	0.47	0.24	^0.47	^0.24	^0.49	^0.24
Net EPS (RMB/RM)	0.08	0.04	0.17	0.07	0.26	0.12	0.35	0.18	^0.35	^0.18	^0.37	^0.18

Note:
^ Annualised to 12 months for comparison purposes

7.1.2 Proforma Consolidated Balance Sheets

Our proforma consolidated balance sheets as set out below has been prepared for illustration purposes to show the effects on the audited consolidated balance sheet of our Group as at 30 June 2010 had the IPO been effected on that date. The proforma consolidated balance sheets 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 7.2** of this Prospectus.

	Audited consolidated Balance Sheet of Maxwell as at 30 June 2010		Proforma I After the Public Issue		Proforma II After I and utilisation of proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
NON CURRENT ASSETS						
Property, plant and equipment	61,254	29,230	61,254	29,230	93,945	44,830
Prepaid lease payments	4,674	2,230	4,674	2,230	4,674	2,230
	65,928	31,460	65,928	31,460	98,619	47,060
CURRENT ASSETS						
Inventories	15,328	7,315	15,328	7,315	15,328	7,315
Trade receivables	269,070	128,400	269,070	128,400	269,070	128,400
Other receivables, deposits and prepayments	740	353	740	353	740	353
Cash and bank balances	151,362	72,230	223,502	106,655	171,637	81,905
	436,500	208,298	508,640	242,723	456,775	217,973
TOTAL ASSETS	**502,428**	**239,758**	**574,588**	**274,183**	**555,394**	**265,033**
EQUITY AND LIABILITIES						
Equity attributable to equity holder of the Company						
Share capital	281,852	134,500	335,289	160,000	335,289	160,000
Share premium	-	-	18,703	8,925	11,683	5,575
Merger reserves	(218,296)	(104,171)	(218,296)	(104,171)	(218,296)	(104,171)
Statutory reserve	37,967	18,118	37,967	18,118	37,967	18,118
Foreign currency translation reserve	(22,472)	(10,725)	(22,472)	(10,725)	(22,472)	(10,725)
Retained profits	283,707	135,385	283,707	135,385	271,553	129,585
TOTAL EQUITY	**362,758**	**173,107**	**434,898**	**207,632**	**415,724**	**198,382**
CURRENT LIABILITIES						
Trade payables	103,976	49,617	103,976	49,617	103,976	49,617
Other payables and accruals	11,867	5,663	11,867	5,663	11,867	5,663
Short term loans	10,000	4,772	10,000	4,772	10,000	4,772
Tax payable	13,827	6,599	13,827	6,599	13,827	6,599
	139,670	66,651	139,670	66,651	139,670	66,651
TOTAL LIABILITIES	**139,670**	**66,651**	**139,670**	**66,651**	**139,670**	**86,651**
TOTAL EQUITY AND LIABILITIES	**502,428**	**239,758**	**574,568**	**274,183**	**555,394**	**265,033**
No. of Shares in issue ('000)	336,250	336,250	400,000	400,000	400,000	400,000
Net assets (RM'000/RMB'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net assets per ordinary share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50

7.2 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)

BAKER TILLY
MONTEIRO HENG
Chartered Accountants (AF 0117)

Monteiro & Heng Chambers
22 Jalan Tun Sambanthan 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8988
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www.monteiroheng.com.my

15 NOV 2010

The Board of Directors
Maxwell International Holdings Berhad
24-3, Jalan Tun Sambanthan 3
50470 Kuala Lumpur
Malaysia

Dear Sirs,

MAXWELL INTERNATIONAL HOLDINGS BERHAD
PROFORMA CONSOLIDATED FINANCIAL INFORMATION

We have reviewed the proforma consolidated financial information of Maxwell International Holdings Berhad ("Maxwell") and its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes") (hereinafter collectively referred to as "Maxwell Group") for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010, together with the accompanying notes thereto, for which the directors of Maxwell are solely responsible, as set out in the accompanying statements, which we have stamped for the purpose of identification.

The proforma consolidated financial information of the Maxwell Group has been prepared for illustrative purposes only for inclusion in the prospectus in connection with the listing and quotation of the entire enlarged issued and paid-up share capital of Maxwell on the Main Market of Bursa Malaysia Securities Berhad ("the Proposed Listing"), after making certain assumptions and such adjustments to show the effects on:-

(a) the financial results of the Maxwell Group for the past four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 on the basis that the group structure as of the date of the Prospectus had been in existence since the beginning of the financial years/periods under review;

(b) the financial position of the Maxwell Group as at 30 June 2010 together with the accompanying notes, after incorporating the effects of the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information;

(c) the cash flows of the Maxwell Group for the financial year ended 30 June 2010, after incorporating the effects of the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and

(d) the financial position of the Maxwell Group as at 30 June 2010 after incorporating the effects of the proposals in relation to the Proposed Listing as mentioned in Note 2 of the proforma consolidated financial information.

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Our responsibility is to form an opinion on the proforma consolidated financial information prepared by the directors in accordance with the requirements of the *Prospectus Guidelines – Equity and Debt* issued by the Securities Commission and report to you based on our work. In providing this opinion, we are not updating or re-issuing any reports or opinions previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept the responsibility for such reports or opinions beyond that is owed to those to whom those letters or opinions were addressed to by us at the date of their issue.

Our work consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010, considering and discussing the necessary adjustments and the proforma consolidated financial information with the responsible officers of the Maxwell Group.

Our work involved no independent examination of any of the underlying financial information other than our audit of the financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, and Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 (which have been drawn up by the directors of Maxwell in accordance with the Financial Reporting Standards in Malaysia) and reported to the members of Maxwell and Zhenxing Shoes respectively.

The financial statements of Zhenxing Shoes prepared for reporting purposes in the People's Republic of China ("PRC") for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were audited by Xiamen Huafeng Associated, Certified Public Accountants of the PRC. The financial statements for the abovementioned four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were reported on by the PRC auditors without any qualifications or modifications.

As the proforma consolidated financial information of the Maxwell Group has been prepared for illustrative purposes only, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Maxwell Group; and does not purport to predict the future financial position and results of the Maxwell Group.

In our opinion:-

(i) the proforma consolidated financial information of the Maxwell Group have been properly prepared on the basis set out in the accompanying notes to the proforma consolidated financial information based on the audited financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 which have been prepared in accordance with the Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Maxwell Group in the preparation of its audited consolidated financial statements for the six (6) months financial period ended 30 June 2010 ; and

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(ii) the adjustments made to the information used in the preparation of the proforma consolidated financial information of the Maxwell Group are appropriate for the purposes of preparing the proforma consolidated financial information.

This letter has been prepared for inclusion in the prospectus of Maxwell in connection with the Proposed Listing and is not to be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without the prior written consent from us. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants

Heng Ji Keng
No. 578/05/12
Partner

PROFORMA CONSOLIOATEO FINANCIAL INFORMATION

1. INTRODUCTION

1.1 The proforma consolidated financial information of Maxwell International Holdings Berhad ("Maxwell") and its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes") (hereinafter collectively raferrad to as "Maxwell Group"), for which the diractors of Maxwell are solely responsible, has been prepared for illustrative purposes only, for inclusion in the prospectus of Maxwell ("Prospectus") in connection with the listing and quotation of the entire enlarged issued and paid-up share capital of Maxwell on the Main Markat of Bursa Malaysia Securities Berhad ("Bursa Sacurities"). The proforma consolidated financial information may not, because of its nature, give a true picture of the actual financial position and results of the Maxwell Group; and does not purport to predict the future financial position and results of the Maxwell Group.

1.2 The proforma financial information comprises the following:-

Section 4	:	Proforma consolidated statements of comprehensive income for the past four (4) financial years ended 31 Dacember 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 of the Maxwell Group on the basis that the group structure as of the date of the Prospectus had been in existence since the beginning of tha financial years/periods under review;
Section 5	:	Proforma consolidated statement of financial position as at 30 June 2010 of the Maxwall Group together with the accompanying notes, adjusted for the Public Issues as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information;
Section 6	:	Proforma consolidated statement of cash flow for the six (6) months financial period ended 30 June 2010 of the Maxwell Group, adjusted for tha Public Issua as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and
Section 7	:	Proforma consolidated statemants of financial position of the Maxwell Group as at 30 June 2010, after incorporating tha affects of the proposals in relation to the Proposed Listing as mentionad in Note 2 of the proforma consolidatad financial information.

2. LISTING SCHEME

Maxwell undertakes a listing and quotation of its entire enlarged issued and paid-up share capital on the Main Market of Bursa Securities. The listing scheme comprises the following:-

2.1 Public Issua

In conjunction with the Proposed Listing, Maxwell proposes to undertake a public issue of 63,750,000 new Maxwell shares of RM0.40 each ("Maxwell Share or Share"), representing 15.94% of tha enlarged issued and paid-up share capital of Maxwell, at an Issue Price of RM0.54 per Maxwell Share to be allocated in the following manner:-

(a) 43,750,000 Maxwell Shares, representing 10.94% of the enlarged issued and paid-up share capital of Maxwell made available for private placement to selected investors; and

(b) 20,000,000 Maxwell Shares, representing 5% of the enlarged issued and paid-up share capital of Maxwell made available for application by the Malaysian Public.

(Collectively herein after referred to as "the Public Issue")

2.2 Proposad Listing

Upon the completion of the Public Issue, Maxwell proposes to seek the listing of and quotation for its entire anlarged issued and paid-up share capital on the Main Market of Bursa Securities ("tha Proposed Listing").

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3. BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

3.1 The proforma consolidated financial informetion has been prepared to illustrete that:-

a) the financial results of the Maxwell Group for the past four (4) financial years endad 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months finencial periods ended 30 June 2009 and 30 June 2010 on tha basis thet the group structure as of the date of the Prospectus had been in existence since the beginning of the financial years/periods under review;

b) the financial position of the Maxwell Group as at 30 June 2010 together with the accompanying notes, adjusted for the Public Issues as described in Nota 2.1 and the utilisation of listing proceeds es described in Note 7.2.4 of the proforma consolidated financial information;

c) the cash flows of the Maxwell Group for the six (6) months financial period ended 30 June 2010, adjusted for tha Public Issues es described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and

d) the financial position of the Maxwell Group as at 30 June 2010, after incorporating the effects of the proposals in ralation to the Proposed Listing as mentioned in Note 2 of the proforma consolidated financial information.

3.2 The proforma consolideted financial information has been prepared based on the following basis:-

a) The audited financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010; and

b) The audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010.

3.3 The proforme consolidated financial informetion of the Maxwell Group has been preparad for illustrativa purposes only and, such information may not, because of its nature, give a true picture of the actual financial position end the results of the Maxwell; and does not purport to predict the future financial position and results of the Maxwell Group.

3.4 The proforme consolideted financial information of the Maxwell Group have been properly prepared on the basis set out in the accompanying notes to the proforma consolidatad financial information based on the audited financial statements of Maxwell for the financial period from its date of incorporation on 3 November 2009 to 31 December 2009 and the six (6) months financial period endad 30 June 2010, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2006 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 which have been prepared in accordance with the Financial Reporting Standards in Malaysia, and in a mannar consistent with both the format of the financial statements and the accounting policies adopted by the Maxwell Group in the preparation of its audited consolidated financiel statements for the six (6) months financial period ended 30 June 2010.

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3. **BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Continued)**

3.5 Maxwell had on 18 November 2009 entered into a Restructuring Agreement with Sports Asia Limited for the acquisition of the entire equity interests in Zhenxing Shoes for a total consideration of RM134,499,998 ("Acquisition of Zhenxing Shoes"). The Acquisition of Zhenxing Shoes resulted in a business combination involving common control entities. Upon the completion of the Acquisition, the directors of Maxwell are of the opinion that the Maxwell Group is regarded as a continuing entity throughout the financial years/period under review. Therefore, the proforma consolidated financial information has been prepared using the merger method for consolidating Zhenxing Shoes. Under the merger of accounting, the results of Zhenxing Shoes are presented on the basis that the merger would have been effected throughout the financial years/periods under review. The consolidated assets and liabilities are accounted for based on the carrying amounts from the perspective of common control shareholders at the date of transfer. Any differences between the cost of the merger and the values of the shares acquired represent merger reserve or merger deficit, which is classified as a non-distributable reserve.

3.6 The financial information of the Maxwell Group is measured using the currency of the primary economic environment in which the Maxwell Group operates. The functional currency of the Maxwell Group is the Chinese Renminbi ("RMB").

As at the latest practicable date on 15 November 2010 ("LPD"), the exchange rate between the RMB and the RM was RM0.4725 : RMB1.00. The table below sets out the high and low exchange rates for RMB/RM for each month during the six (6) months prior to the LPD. The table below indicates the equivalent amount of RM for RMB1.00.

	RMB/RM	
	High	**Low**
May 2010	0.4923	0.4665
June 2010	0.4879	0.4686
July 2010	0.4767	0.4698
August 2010	0.4694	0.4607
September 2010	0.4625	0.4580
October 2010	0.4688	0.4614

(Source: Bank Negara Malaysia)

The exchange rates used for the purpose of this report are as follows:-

(i) Statement of comprehensive income (based on average of the exchange rates on the last day of each month during the financial years/periods under review)

Financial Year Ended ("FYE") / Financial Period Ended ("FPE")	Exchange Rate
FYE 31 December 2006 ("FYE 2006")	RMB1 : RM0.4597
FYE 31 December 2007 ("FYE 2007")	RMB1 : RM0.4518
FYE 31 December 2008 ("FYE 2008")	RMB1 : RM0.4819
FYE 31 December 2009 ("FYE 2009")	RMB1 : RM0.5157
FPE 30 June 2009 ("1H 2009")	RMB1 : RM0.5252
FPE 30 June 2010 ("1H 2010")	RMB1 : RM0.4829

(Source: Bank Negara Malaysia)

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3. **BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Continued)**

3.6 (Continued)

(ii) Statement of financial position (based on the closing rates at the respective reporting detes)

Reporting Date	Exchange Rate
As at 31 December 2006	RMB1 : RM0.4511
As et 31 December 2007	RMB1 : RM0.4534
As et 31 December 2008	RMB1 : RM0.5084
As at 31 December 2009	RMB1 : RM0.5019
As at 30 June 2009	RMB1 : RM0.5151
As at 30 June 2010	RMB1: RM0.4772

(Source: Bank Negara Malaysie)

3.7 The financial statements of Zhenxing Shoes for the People's Republic of China ("PRC") reporting purposes for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 end 31 December 2009 were audited by Xiamen Huafeng Associated, Certified Public Accountants of the PRC, and reported on by the PRC auditors without eny qualifications or modifications.

3.8 A speciel eudit has been conducted by Baker Tilly Monteiro Heng on the financial statements for Zhenxing Shoes for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 end 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010 which had been prepared in eccordence with the Financial Reporting Standards in Meleysia for the purpose of submission to the Securities Commission end preparation of the prospectus in relation to the Proposed Listing. The auditors' reports were reported on by the auditors without any quelification or modifications for all the financial years/periods under review.

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4. PRDFORMA CDNSOLIDATED STATEMENTS OF COMPREHENSIVE INCDME DF THE MAXWELL GROUP

4.1 The proforma consolidated statements of comprehensive income of the Maxwell Group for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010 as set out below, for which the directors of Maxwell are solely responsible, have been prepared for illustrative purposes only and have been prepared on the assumption that the Maxwell Group has been in existence throughout the financial years/periods under review and are to be read in conjunction with the notes thereto.

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	159,971	73,539	317,538	143,484	452,492	218,056	583,718	301,023	282,313	148,271	307,434	148,460
Cost of sales	(116,532)	(53,570)	(228,619)	(103,290)	(323,356)	(155,825)	(409,406)	(211,130)	(197,584)	(103,771)	(215,993)	(104,303)
Gross profit	43,439	19,969	88,919	40,174	129,136	62,231	174,312	89,893	84,729	44,500	91,441	44,157
Profit before amortisation, depreciation, interests and taxation	39,419	18,121	79,705	36,011	119,198	57,441	163,008	84,063	80,040	42,037	84,911	41,003
Amortisation of prepaid lease payments	(116)	(53)	(116)	(52)	(116)	(56)	(116)	(60)	(58)	(30)	(61)	(29)
Depreciation	(1,563)	(718)	(1,739)	(786)	(2,384)	(1,149)	(2,803)	(1,446)	(1,444)	(758)	(1,380)	(666)
Interest expenses	(959)	(441)	(1,276)	(577)	(890)	(429)	(784)	(404)	(346)	(182)	(431)	(208)
Interest income	257	118	40	18	283	137	230	119	111	58	142	68
Profit before taxation	37,038	17,027	76,614	34,614	116,091	55,944	159,535	82,272	78,303	41,125	83,181	40,168

7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

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4. PROFORMA CONSOLIOATED STATEMENTS OF COMPREHENSIVE INCOME OF THE MAXWELL GROUP (Continued)

	FYE 2006		FYE 2007		FYE 2009		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit before taxation	37,038	17,027	76,614	34,614	116,091	55,944	159,535	82,272	78,303	41,125	83,181	40,168
Taxation	(11,132)	(5,118)	(21,044)	(9,508)	(29,622)	(14,275)	(40,801)	(21,041)	(19,734)	(10,363)	(21,218)	(10,246)
Net profit for the financial years / periods	25,906	11,909	55,570	25,106	86,469	41,669	118,734	61,231	58,569	30,760	61,963	29,922
Effective tax rate (%)	28.67	28.67	27.47	27.47	25.52	25.52	25.57	25.57	25.20	25.20	25.51	25.51
Gross profit margin (%)	27.15	27.15	28.00	28.00	28.54	28.54	29.86	29.86	30.01	30.01	29.74	29.74
Pretax margin (%)	23.15	23.15	24.13	24.13	25.66	25.86	27.33	27.33	27.74	27.74	27.06	27.06
Profit after tax margin (%)	16.19	16.19	17.50	17.50	19.11	19.11	20.34	20.34	20.75	20.75	20.15	20.15
Number of ordinary shares assumed to be in issue of RM0.40 each ('000) *	336,250	336,250	335,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250
Gross Earning Per Share ("EPS") (RMB/RM)	0.11	0.06	0.23	0.10	0.35	0.17	0.47	0.24	0.47 ^	0.24 ^	0.49 ^	0.24 ^
Net EPS (RMB/RM)	0.08	0.04	0.17	0.07	0.26	0.12	0.35	0.18	0.35 ^	0.18 ^	0.37 ^	0.18 ^

* *Number of Maxwell's ordinery shares in issue prior to the Public Issue.*
^ *Annualised to twelve (12) months for comperison purposes.*

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4. **PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE MAXWELL GROUP (Contlnuad)**

4.2 Notes to the proforma consolidated statements of comprehensive income are ea follows:-

4.2.1 **Basis of Preparatlon**

The proforma consolidated statements of comprehensive income of the Maxwell Group are prepared for illustrative purposes only and hava been prasentad on the assumption that the Maxwell Group has been in existence since 1 January 2006 and throughout the financial years/periods under review. There is no fair valua adjustmants relating to the net assets acquired based on the assumption that the Maxwell Group existed since 1 January 2006. The resulting merger reserve has no effect on the proforma consolideted statements of comprehensive income in respect of the financial yaars/periods under review. These proforma consolidated statements of comprehensive income are based on the financial statements of the Maxwell Group as follows:-

Maxwell	:	Audited results of Maxwell for the FPE from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months FPE 30 June 2010.
Zhenxing Shoes	:	Audited results for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010.

4.2.2 The proforma consolidated statements of comprehensive income for the financial years/periods under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of the Maxwell Group for the six (6) months FPE 30 June 2010.

4.2.3 There were no exceptional items in all the financial years/periods under review.

4.2.4 The issued and paid-up share capital of Maxwell of 336,250,000 ordinary shares of RM0.40 each is prior to the Public Issue.

4.2.5 The gross EPS is computed as profit before taxation over the number of Maxwell's ordinary shares prior to the Public Issue.

4.2.6 Tha net EPS is computed aa net profit for the financial years/periods over the number of Maxwell's ordinary shares prior to the Public Issue.

4.2.7 No diluted earnings per share is shown as there were no potential dilutiva shares in issue during the financial years/periods under review.

4.2.8 All significant inter-company transactions ere eliminated on consolidation and the consolidated results reflect extemal transactions only.

4.2.9 There were no minority interests, share of profits of joint ventures or associates.

5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP

5.1 The proforma consolidated statement of financial position of the Maxwell Group as set out below, for which the directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of financial position of Maxwell as at 30 June 2010 had the Public Issue as described in Note 2.1 and the utilisation of proceeds as described in Note 7.2.4 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

		Maxwell Group As At 30.6.2010	
	Note	**RMB'000**	**RM'000**
Non-current assets			
Property, plant and equipment	5.2.4(a)	93,945	44,830
Prepaid lease payments	5.2.4(b)	4,674	2,230
Total non-current assets		98,619	47,060
Current assets			
Inventories	5.2.4(c)	15,328	7,315
Trade receivables	5.2.4(d)	269,070	128,400
Other receivables, deposits and prepayments	5.2.4(e)	740	353
Cash and bank balances	5.2.4(f)	171,637	81,905
Total current assets		456,775	217,973
TOTAL ASSETS		555,394	265,033
EQUITY AND LIABILITIES			
Equity attributable to equity holder of Maxwell			
Share capital	5.2.4(g)	335,289	160,000
Share premium		11,683	5,575
Merger deficit	5.2.4(h)	(218,296)	(104,171)
Statutory reserve	5.2.4(i)	37,967	18,118
Currency translation reserve	5.2.4(j)	(22,472)	(10,725)
Retained earnings		271,553	129,585
Total equity		415,724	198,382
Current liabilities			
Trade payables	5.2.4(k)	103,978	49,617
Other payables and accruals	5.2.4(l)	11,867	5,663
Short term loans	5.2.4(m)	10,000	4,772
Tax payable		13,827	6,599
Total current liabilities		139,670	66,651
Total liabilities		139,670	66,651
TOTAL EQUITY AND LIABILITIES		555,394	285,033
Proforma net assets per ordinary share attributable to equity holders (RMB/RM)	5.2.4(p)	1.04	0.50

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)**

5.2 Notes to the Proforma Consolidated Statement of Financial Position of the Maxwell Group are as follows:-

5.2.1 Basis of Preparation and Consolidation

The proforma consolidated statement of financial position of the Maxwell Group as at 30 June 2010 is prepared based on the audited consolidated statement of financial position of the Maxwell Group as at 30 June 2010.

5.2.2 The proforma consolidated statement of financial position of the Maxwell Group has been prepared based on the accounting policias consistant with those adoptad in the preparation of the audited consolidated financial statements of the Maxwell Group for the six (6) months FPE 30 June 2010.

5.2.3 The Acquisition of Zhenxing Shoes described in Note 3.5 to the proforma consolidated financial information resulted in a business combination involving common control entities. Therefore, the proforma consolidated financial information has been prepared using the merger method for consolidating Zhenxing Shoes. Under the merger of accounting, tha results of Zhenxing Shoes are presented on the basis that the mergar would have been effected throughout the financial years/periods under review. The consolidated assets and liabilities are accounted for based on the carrying amounts from the perspective of common control shareholders at the date of transfer. Any differences between the cost of the merger and the values of the shares acquired represent merger reserve or merger deficit, which is classified as a non-distributable reserve.

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)**

5.2.4 The proforma consolidated statement of financial position of the Maxwell Group should be read in conjunction with the notes below:-

(a) **Property, Plant and Equipment**

	Cost		Accumulated Depreciation		Net Book Value	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Maxwell Group						
As at 30 June 2010						
Plant and machinery	43,228	20,629	3,387	1,617	39,841	19,012
Office equipment	2,038	972	856	409	1,182	563
Motor vehicles	1,146	546	378	180	768	366
Renovation	218	104	13	6	205	98
Buildings	61,321	29,263	9,372	4,472	51,949	24,791
Total	107,951	51,514	14,006	6,684	93,945	44,830

All property, plant and equipment of the Maxwell Group are located in the People's Republic of China ("PRC").

Certain motor vehicles with net book value of RM335,297 (RMB702,634) as at 30 June 2010 were held in trust by the employees of Zhenxing Shoes, a wholly-owned subsidiary of Maxwell.

(b) **Prepaid Lease Payments**

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Cost		
At 1 January	5,800	2,911
Exchange differences	-	(143)
	5,800	2,768
Accumulated amortisation		
At 1 January	1,065	535
Amortised during the financial period	61	29
Exchange differences	-	(26)
At 30 June	1,126	538
Net book value		
At 30 June	4,674	2,230

The prepaid lease payments of the Maxwell Group refer to land located at Zhushuxia Industrial Zone, Jinjinag City Fujian Province, PRC (中国福建省晋江市竹树下工业区).

As at 30 June 2010, a leasehold land with a net book value of RM507,153 (RMB1,062,769) is pledged as security to secure the short term loans as disclosed in Note 5.2.4(m).

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(c) **Invantorlaa**

	Maxwell Group As at 30.6.2010 RMB'000	RM'000
Raw material	10,238	4,886
Work-in-progress	2,288	1,092
Finished goods	2,802	1,337
	15,328	7,315

The inventories are denominated in Chinesa Renminbi.

(d) **Trade Racalvablaa**

Trade receivables of tha Maxwell Group are non-interest bearing and the Maxwell Group's normal trade credit terms ranga from 30 days to 120 days. Other credit terms are assessed and approved on a case-by-case basis. The credit period varies from customers to customers after taking into consideration their payment track record, financial background, length of business relationship and size of transactions. They are recognised at their original invoice amounts which represent their fair valuea on initial recognition.

The currency exposure profile of trade receivables are as follows:-

	Maxwell Group As at 30.6.2010 RMB'000	RM'000
United State Dollars	6,372	3,040
Chinesa Renminbi	262,698	125,360
	269,070	128,400

Ageing analysis of trade receivables are as follows:-

	Maxwall Group As at 30.6.2010 RMB'000	RM'000
Neither past due nor impaired	269,070	128,400

The Maxwell Group believes that, no impairment loss is necessary in respect of these not past dua trade receivables. Majority of the balances ara owed by the customers that have good payment records with the Maxwell Group.

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(e) **Other Receivables, Deposit and Prepayments**

	Maxwell Group As at 30.6.2010 RMB'000	Maxwell Group As at 30.6.2010 RM'000
Advances to suppliers	24	11
Other receivables	604	289
Prepayments	112	53
	740	353

The currency exposure profile of other receivables, deposits and prepayments are as follows:-

	Maxwell Group As at 30.6.2010 RMB'000	Maxwell Group As at 30.6.2010 RM'000
Ringgit Malaysia	34	16
Chinese Renminbi	706	337
	740	353

(f) **Cash and Bank Balances**

	Maxwell Group As at 30.6.2010 RMB'000	Maxwell Group As at 30.6.2010 RM'000
Cash in hand	109	52
Cash at banks	151,253	72,178
Assumed net proceeds from the Public Issue		
- proceeds from the Public Issue	72,140	34,425
- purchase of property, plant and equipment	(32,691)	(15,600)
- payments for development expenses	(5,029)	(2,400)
- defrayment of estimated expenses	(14,145)	(6,750)
	20,275	9,675
	171,637	81,905

The Chinese Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, Zhenxing Shoes is only permitted to exchange Chinese Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances of the Maxwell Group generally have an effective interest at a rate of 0.36% per annum for the financial period under review.

5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)

5.2.4 (Continued)

(f) **Cash and Bank Balances (Continuad)**

The currency exposure profile of cash and bank balances are as follows:-

	Maxwall Group As at 30.6.2010 RMB'000	RM'000
Ringgit Malaysia (assumed net proceeds from the Public Issue after defrayment of estimated expenses)	20,284	9,680
Chinese Renminbi	151,352	72,225
United States Dollars	1	#
Singapore Dollars	^	^
	171,637	81,905

\# *RM320.*
^ *RMB38 (equivalent to RM18).*

(g) **Shara Capital**

The details of the changes in the issued and paid-up share capital of Maxwell as at 30 June 2010 are as follows:-

	Maxwell Group Number of Ordinary Shares Unit '000	Amount RMB'000	RM'000
Ordinary shares of RM0.40 each			
Authorised	1,250,000	1,047,779	500,000
Issued and fully paid-up:			
At 1 January	336,250	281,852	134,500
Arising from the Public Issue	63,750	53,437	25,500
	400,000	335,289	160,000

The holders of ordinary shares of Maxwell are entitled to receive dividends as declared from time to tima and are entitled to one vote per share at meetings of Maxwell. All shares rank equally with regards to Maxwell's residual assets.

(h) **Merger Daficit**

The merger deficit arose from the difference between the nominal value of shares issued by Maxwell as purchase consideration and the paid-up share capital of Zhenxing Shoes consolidated under the merger method of accounting pursuant to the Acquisition of Zhenxing Shoes by Maxwell.

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(i) **Statutory Resarve**

In accordance with relevant laws and regulations of the PRC, Zhenxing Shoes, a wholly-owned subsidiary of Maxwell, is required to transfer 10% of its net profit for the financial year prepared in accordance with the accounting regulation of the PRC to the statutory reserve. The transfer will continue until the reserve balance reaches 50% of its registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of Zhenxing Shoes, subject to the approval from the PRC authority, and are not available for dividend distribution to the shareholders.

(j) **Currency Translation Reserve**

Currency translation reserve represents translation differences arising from the translation of the foreign subsidiary's financial statements into the Maxwell Group's presentation currency.

(k) **Trade Payablaa**

Trade payables are non-interest bearing and and the normal trade credit term granted to Maxwell Group ranges from 30 to 90 days. Trade payables are denominated in Chinese Renminbi.

(l) **Other Payables and Accruala**

	Maxwell Group As at 30.6.2010 RMB'000	RM'000
Advances from customers	132	63
Accrued operating expenses	761	363
Other payables	10,974	5,237
	11,867	5,663

The currency exposure profile of other payables and accruals are as follows:-

	Maxwall Group Aa at 30.6.2010 RMB'000	RM'000
United State Dollars	132	63
Chinese Renmimbi	10,801	5,154
Ringgit Malaysia	934	446
	11,667	5,663

Advances from customers represents advances from customers for sales and other sale related reimbursements, which are denominated in United States Dollars.

5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(m) **Short Tarm Loana**

The carrying amounts of interest-bearing short term loans are denominated in Chinese Renminbi.

The short term loans of RM3,817,600 (RMB8,000,000) are secured by corporate guarantees from related parties and third parties. As at 30 Juna 2010, the Maxwell Group has short term loan of RM954,000 (RMB2,000,000) which is secured over the prepaid lease payments as disclosed in Note 5.2.4(b). The short term loans bear interest at the rates ranging from 6.42% to 6.64% per annum.

(n) **Financial Instrumants**

(i) **Financial Risk Management and Objectives**

The Maxwell Group does not have written financial risk management guidelines. However, the managament meets periodically to analyse and formulate measures to manage the Maxwell Group's exposure to market risk, including changes in interest rates and currency exchange rates. Generally, the Maxwell Group employs a conservative strategy regarding risk management. As the Maxwell Group's exposure to market risk is kept at a minimum level, the Maxwell Group has not used any derivatives financial instruments for trading purposes.

(a) **Cradit Risk**

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Maxwell Group.

The maximum exposure to credit risk for each of the financial assets was as follows:-

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Trade receivables	269,070	128,400
Other receivables and advances to suppliers	628	300
Cash and cash equivalents	171,637	81,905
	441,334	210,605

The Maxwell Group does not hold any collateral as security and other credit enhancements for the above financial assets.

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5. **PROFORMA CONSOLIDATED STATEMENT DF FINANCIAL POSITION OF THE MAXWELL GRDUP (Continuad)**

5.2.4 (Continued)

(n) **Financial Inatrumants (Continuad)**

(i) **Financial Risk Managamant and Objectives (Continuad)**

(a) **Credit Riak (Continuad)**

Receivablas

The management of the Maxwell Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Maxwell Group determines concentrations of credit risks by monitoring the country profile of its trade receivables on an ongoing basis.

Information regarding trade receivables that are neither past due nor impaired is disclosad in Note 5.2.4(d).

Cash and Cash Equivalants

The management of the Maxwell Group adopts the policy of dealing only with reputable financial institutions.

(b) **Liquidity and Caah Flow Risk**

Liquidity risk is the risk that the Maxwell Group will ancounter difficulty in meeting financial obligations due to shortage of funds. The Maxwell Group maintains sufficient cash and cash equivalents, and internally generated cash flows to financa its activities.

The Maxwell Group adopts prudent liquidity risk management by maintaining sufficient cash, and available funding through an adequate amount of committed credit facilities. Due to dynamic nature of the underlying businesses, the Maxwell Group aims at maintaining flexibility in funding by keeping committed credit lines available.

The analysis of financial instruments by remaining contractual maturities (excluding interest) are as follows:-

	Carrying amount		Contractual cash flows		6 months or less		6 to 12 months	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Non-derivative financial instruments								
Secured short term loans	10,000	4,772	(10,000)	(4,772)	-	-	(10,000)	(4,772)
Trade payables	103,976	49,617	(103,976)	(49,617)	(103,976)	(49,617)	-	-
Other payables and accruals	11,867	5,663	(11,867)	(5,663)	(11,867)	(5,663)	-	-
	125,843	60,052	(125,843)	(60,052)	(115,843)	(55,280)	(10,000)	(4,772)

5. **PROFORMA CONSOLIOATEO STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(n) **Financial Inatrumants (Continuad)**

(i) **Financial Riak Managament and Objectives (Continued)**

(c) **Intaraat rata risk**

Interest risk is the risk that tha fair value or future cash flows of the Maxwell Group's financial instruments will fluctuate because of changes in market interest ratas. The Maxwell Group's exposure to interest rate risk arises primarily from short term loans.

The Maxwell Group's policy is to manage interest cost using a mix of fixed and floating rate debts, which depends on the interest rates market and economic conditions. For interast income from cash deposits, the Maxwell Group managed the intarest rate risks by placing cash deposits with reputable financial institutions on varying maturities and interest rate terms.

The interest rate profile of the interest-bearing financial instruments was as follows:-

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Fixed rate financial Instrument		
Short term loans	10,000	4,772

The short term loans are fixed rate instruments and therefore a change in interest rates at the reporting date would not affect profit or loss.

The carrying amounts of short term loans with a maturity of less than one year ara assumed to approximately their fair values because of the short period to maturity.

(d) **Foreign currancy riak**

The Maxwell Group ia exposed to transactional currency risk primarily through sales that are denominated in currencies other than the functional currency of the operations to which they relate. Foreign exchanga exposures in transactional currencies other than functional currencies of tha operating entities are kept to an acceptable level.

As at 30 June 2010, 2.4% of the Maxwell Group's trade receivables were denominated in United States Dollars whilst the remaining trade receivables are denominated in Chinese Renminbi, which is the functional currancy of Zhenxing Shoes, a wholly-owned subsidiary of Maxwell.

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(n) **Financial Instruments (Continuad)**

(i) **Financial Risk Management and Objectives (Continued)**

(d) **Foreign currency risk (Continued)**

The Maxwell Group also hold cash and cash equivalents denominated in foreign currencies as disclosed in Note 5.2.4(f).

The directors of Maxwell believe that the impact of foreign exchange fluctuations will not significantly affect our profitability.

(ii) **Fair Values**

(a) **Recognised Financial Instruments**

The fair values of financial assets and financial liabilities of the Maxwell Group approximate their carrying values on the statement of financial position of the Maxwell Group.

(b) **Unrecognised Financial Inatruments**

There were no unrecognised financial instruments as at 30 June 2010.

(o) **Cash Management**

The primary objective of the Maxwell Group's capital management is to build and maintain a strong capital base so as to maintain healthy capital ratios and at the same time be able to leverage on the capital to provide the Maxwell Group with the funds its expansion and growth.

The Maxwell Group manages its capital structure, and makes adjustment to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, Maxwell may adjust dividend payment to shareholders, return capital to shareholders or issue new shares, raise new debts, reduce existing debts.

Maxwell monitors the level of dividends to be paid to shareholders. Maxwell's objective is also to pay out regular dividends to the shareholders based on the level of its profitability and cash flows.

The capital structure of the Maxwell Group consists of equity attributable to equity holders of Maxwell, comprising share capital, statutory reserve and retained earnings and total liabilities which represents current liabilities.

5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)**

5.2.4 (Continued)

(o) **Cash Management (Continued)**

The debt-to-equity ratio is as follows:-

	Maxwell Group As at 30.6.2010 RMB'000	RM'000
Total liabilities	139,670	66,651
Equity attributable to equity holders of Maxwell	415,724	198,382
Debt-to-equity ratio	0.34	0.34

There were no changes in the Maxwell Group's approach to capital management during the financial period under review.

The Maxwell Group is not subject to externally imposed capital requirements.

(p) **Proforma Net Assets**

	Maxwell Group As at 30.6.2010	
Proforma net assets (RMB'000/RM'000)	415,724	198,382
Number of ordinary shares in issue ('000) ^	400,000	400,000
Proforma net assets per ordinary share of RM0.40 each (RMB/RM)	1.04	0.50

^ *Number of ordinary shares in issue after the Public Issue.*

6. **PROFORMA CONSOLIOATEO STATEMENT OF CASH FLOW OF THE MAXWELL GROUP**

6.1 The proforma consolidatad statement of cash flow of the Maxwell Group as set out below, for which tha directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of cash flow of the Maxwall Group for the six (6) months FPE 30 June 2010 had the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Maxwall Group 1H 2010 RMB'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	78,152	37,768
Adjustments for:		
Amortisation of prepaid lease payments	61	29
Depreciation expenses	1,380	666
Loss on disposal of property, plant and equipment	41	20
Interest expense	431	208
Interest income	(142)	(68)
Property, plant and equipment written off	282	136
Operating profit before working capital changes	80,205	38,759
Changes in Working Capital		
Inventories	(11,239)	(5,427)
Receivables	(60,994)	(29,454)
Payables	54,724	26,426
	62,696	30,304
Interest paid	(431)	(208)
Interest received	142	68
Tax paid	(16,757)	(8,092)
Net Operating Cash Flows	45,650	22,072
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(33,279)	(15,884)
Proceed from disposal of property, plant and equipment	97	47
Net Investing Cash Flows	(33,182)	(15,837)

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6. **PROFORMA CONSOLIDATED CASH FLOW STATEMENT OF THE MAXWELL GROUP (Continuad)**

	Maxwell Group 1H 2010 RMB'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Public Issue	72,140	34,425
Payment of estimated listing expenses	(14,145)	(6,750)
Net change in short term loans	(5,000)	(2,415)
Net Financing Cash Flows	52,995	25,260
NET CHANGE IN CASH AND CASH EQUIVALENTS	65,483	31,495
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD	106,222	53,313
EFFECT OF THE EXCHANGE RATE DIFFERENCES	(48)	(2,903)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	171,637	81,905
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	171,637	81,905

6.2 **Notes to tha Proforma Consolidated Statement of Cash Flow of the Maxwall Group**

6.2.1 Basis of Preparation and Consolidation

The proforma consolidated statement of cash flow of the Maxwell Group, for which the directors are solely responsible, are prepared for illustrative purposes only, to show the effects on the audited consolidated statement of cash flow of the Maxwell Group for the 1H 2010 had the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 been effected on that date.

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7. PRDFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

7.1 The proforma consolidated statements of financial position of tha Maxwell Group as set out below, for which the directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of financial position of the Maxwell Group as at 30 June 2010 had the listing scheme described in Note 2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Maxwell Group Audited Consolidated Statement of Financial Position As At 30.6.2010		Proforma I After the Public Issue		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Non-current assets						
Property, plant and equipment	61,254	29,230	61,254	29,230	93,945	44,830
Prepaid lease payments	4,674	2,230	4,674	2,230	4,674	2,230
Total non-current assets	65,926	31,460	65,928	31,460	98,619	47,060
Current assets						
Inventories	15,326	7,315	15,328	7,315	15,328	7,315
Trade receivables	269,070	128,400	269,070	126,400	269,070	128,400
Other receivables, deposits and prepayments	740	353	740	353	740	353
Cash and bank balances	151,362	72,230	223,502	106,655	171,637	81,905
Total current assets	436,500	208,298	508,640	242,723	456,775	217,973
TOTAL ASSETS	502,426	239,758	574,568	274,183	555,394	265,033

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7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

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7. PRDFORMA CDNSDLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Maxwell Group Audited Consolidated Statement of Financial Position As At 30.8.2010		Proforma I After the Public Issua		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
EQUITY AND LIABILITIES						
Equity attributable to equity holder of Maxwell						
Share capital	281,852	134,500	335,289	160,000	335,289	160,000
Share premium	-	-	18,703	8,925	11,683	5,575
Merger reserve	(218,296)	(104,171)	(218,296)	(104,171)	(218,296)	(104,171)
Statutory reserve	37,967	18,118	37,967	16,116	37,967	18,118
Currency translation reserve	(22,472)	(10,725)	(22,472)	(10,725)	(22,472)	(10,725)
Retained earnings	283,707	135,385	283,707	135,365	271,553	129,585
Total equity	362,758	173,107	434,898	207,532	415,724	198,382
Current liabilities						
Trade payables	103,976	49,617	103,976	49,817	103,976	49,617
Other payables and accruals	11,867	5,663	11,667	5,883	11,867	5,663
Short term loans	10,000	4,772	10,000	4,772	10,000	4,772
Tax payable	13,827	6,599	13,827	8,599	13,627	8,599
Total current liabilities	139,670	66,651	139,870	66,851	139,670	66,651
Total liabilities	139,670	66,651	139,670	66,651	139,670	66,651
TOTAL EQUITY AND LIABILITIES	502,428	239,758	574,568	274,183	555,394	265,033

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7. PRDFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Maxwell Group Audited Consolidated Statement of Financial Position As At 30.6.2010		Proforma I After the Public Issue		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Number of ordinary shares of RM0.40 each ('000)	336,250	336,250	400,000	400,000	400,000	400,000
Net assets (RMB'000/RM'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net assets per share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50
Net tangible assets (RMB'000/RM'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net tangible assets per share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50

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7. **PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)**

7.2 Notee to the proforma consolidated statemants of financial position are ae follows:-

7.2.1 Basis of Preparation

The proforma consolidatad stetements of financial position of the Maxwell Group, for which the directors ere solely responsible, have been prepared for illuetrative purposes only, to show the effects on tha audited consolidated statament of financial position of the Maxwell Group ae et 30 Juna 2010 had the listing schema described in Section 2 been affectad on that date, end ehould be read in conjunction with tha notes accompanying therato, and are prapared based on the audited consolidatad statamant of financial position of tha Maxwell Group as at 30 June 2010.

7.2.2 The proforma consolidated etatamants of financial position of the Maxwell Group have been prepared in a manner consistent with both tha format of tha financiel statements and the accounting policiee adopted by tha Maxwell Group in tha praparation of its audited consolidated financial statements for the six (6) months FPE 30 June 2010, which hava been prepared in accordance with the Financial Raporting Standards in Maleysie.

7.2.3 For the purpose of preeentation, all the balance sheet itams, which include tha equity instrumenta and reserves, wera translatad using the average exchange rates on the last day of aach month during tha six (6) monthe FPE 30 Juna 2010 as described in Nota 3.6.

7.2.4 The proceeds from the Public Issua would be utilised in the following manner:-

	RMB'000	RM'000
Expansion of the Maxwell Group's production capacity and upgrading of existing production facilities	25,147	12,000
Increase the Maxwell Group's product design and development efforts and expansion of product range	12,573	6,000
The Maxwell Group's working capital purposes	20,275	9,675
Defayment of estimate expenses in relation to the Proposed Listing	14,145	6,750
	72,140	34,425

7. **PROFORMA CONSOLIOATEO STATEMENTS OF FINANCIAL POSITION (Continued)**

7.2.5 The proforma consolidated statements of financial position should be read in conjunction with the notes below:-

(a) **Proforma I**

Proforma I incorporatas tha effects of tha Public Issua of 63,750,000 new Maxwell's ordinary shares of RM0.40 each at an indicativa issua price of RM0.54 per ordinary share amounting to RM34.425 million (RMB72.140 million) on the audited consolidated statament of financial position of the Maxwell Group es at 30 Juna 2010.

The Publio Issue has the following impact on the proforma consolidated statamants of financial position of tha Maxwell Group:-

	← Increase/(Decrease)			→
	Effects on Total Assets		Effects on Total Equity and Liabilities	
	RMB'000	RM'000	RMB'000	RM'000
Cash and bank balances	72,140	34,425	-	-
Share Capital	-	-	53,437	26,820
Share premium	-	-	18,703	8,925
	72,140	34,425	72,140	35,745

(b) **Proforma II**

Proforma II incorporates the cumulative effects of Proforma I end the utilisation of proceeds from the Public Issue of RM34.425 million (RMB72.140 million).

The proceeds expected from the Public Issue of RM34.425 million (RMB72.140 million) will be utilised in the manner as described In Note 7.2.4 of the protorma consolideted financial information.

The estimated expenses for tha issuance of new aheres of RM3.35 million (RMB7.02 million) will be written off against the share premium account pursuant to Section B0(3) of the Companies Act, 1965. The remaining estimated expenses for the Proposed Listing of RM3.4 million (RMB7.125 million) will be debited to tha Retained Earnings Account.

Tha proceeds arising from the Public Issue earmarked for the expansion of the Maxwell Group's production capacity and upgrading of its existing production facilities of RM12.0 million (RMB25.147 million) will be debited to Property, Plant and Equipment Account.

The proceeds arising from the Public Issue earmarked to increase the Maxwell Group's product design end development efforts end expansion of product range of RM3.B million (RMB7.544) end RM2.4 million (RMB5.029 million) will be debited to Property, Plant and Equipment Account and Retained Eemings Account respectively.

The proceeds erising from the Public Issue earmarked tor the Maxwell Group's working capital purposes of RM9.675 million (RMB20.275 million) will be included in the Cash and Bank Balances Account.

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7. PROFORMA CONSOLIDATEO STATEMENTS OF FINANCIAL POSITION (Continued)

(b) Proforma II (Continued)

The Utilisation of Proceeds has the following impact on the proforma consolidated statements of financial position of the Maxwell Group:-

	Increase/(Decrease)			
	Effects on Total Assets		Effects on Total Equity and Liabilities	
	RMB'000	RM'000	RMB'000	RM'000
Property, plant and equipment	32,691	15,600	-	-
Cash and bank balances	(51,865)	(24,750)	-	-
Share premium	-	-	(7,020)	(3,350)
Retained earnings	-	-	(12,154)	(5,800)
	(19,174)	(9,150)	(19,174)	(9,150)

7. PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

7.2.6 Movements are share capital, share premium, merger reserve, statutory reserve and retained earnings are as follows:-

	Share Capital		Share premium		Merger Reserve		Statutory Reserve		Retained Earnings	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Audited consolidated statement of financial position as at 30 June 2010	281,852	134,500	-	-	(218,296)	(104,171)	37,967	18,118	283,707	135,385
Arising from the Public Issue	53,437	25,500	18,703	8,925	-	-	-	-	-	-
Per Proforma I	335,289	160,000	18,703	8,925	(218,296)	(104,171)	37,967	18,118	283,707	135,385
Arising from the Utilisation of Proceeds										
- defrayment of estimated listing expenses	-	-	(7,020)	(3,350)	-	-	-	-	(7,125)	(3,400)
- payments of development expenses	-	-	-	-	-	-	-	-	(5,029)	(2,400)
Per Proforma II	335,289	160,000	11,683	5,575	(218,296)	(104,171)	37,967	18,118	271,553	129,585

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7. PROFORMA CONSOLIOATEO STATEMENTS OF FINANCIAL POSITION (Continued)

7.2.5 Movements in cash and bank balances are as follows:-

	RMB'000	RM'000
Audited consolideted statement of financial position as at 30 June 2010	151,362	72,230
Arising from the Public Issue	72,140	34,425
Per Proforma I	223,502	106,655
Arising from tha Utilisation of Proceeds		
- defrayment of estimated listing expenses	(14,145)	(6,750)
- purchase of property, plant and equipment	(32,691)	(15,600)
- payments for development expenses	(5,029)	(2,400)
Per Proforme II *	171,638	61,905

* *Included in the cash end benk belences es per Proforme II ere emounts of RM9.675 million (RMB20.275 million) from tha Public Issue aarmarked for the Maxwell Group's working capitel purposes.*

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7.3 CAPITALISATIDN AND INDEBTEDNESS

The following table summarises the cash and cash equivalents, capitalisation and indebtedness of our Group:-

(i) based on our audited consolidated financial statements as at 30 June 2010; and

(ii) as adjusted for the net proceeds arising from the Public Issue and the utilisation of proceeds as set out in **Section 3.7** of this Prospectus.

	Audited as at 30 June 2010		After the Public Issue and utilisation of proceeds	
	RMB'000	RM'000	RMB'000	RM'000
Cash and cash equivalents	**151,362**	**72,230**	**171,637**	**81,905**
INDEBTEDNESS				
Short Term (*Due within 12 months*)				
Borrowings	10,000	4,772	10,000	4,772
Total indebtedness	**10,000**	**4,772**	**10,000**	**4,772**
CAPITALISATION				
Total shareholders' equity	362,758	173,107	415,724	198,382
Total capitalisation	**362,758**	**173,107**	**415,724**	**198,382**
Total capltalisation and indebtedness	**372,758**	**177,879**	**425,724**	**203,154**

The contingent liabilities of our Group are as set out in **Section 7.5** of this Prospectus.

7.4 MANAGEMENT'S DISCUSSIDN AND ANALYSIS OF FINANCIAL CONDITIDN, RESULTS DF OPERATIDNS AND PRDSPECTS

The following management's discussion and analysis of our Group's financlal conditions and rssults of operations should bs read in conjunction with the proforma consolidated financlal statemsnts and ths accompanying notes for the Financial Period under Review included in Section 7.1 and 7.2 of this Prospectus.

The discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involves risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in **Section 4** of this Prospectus.

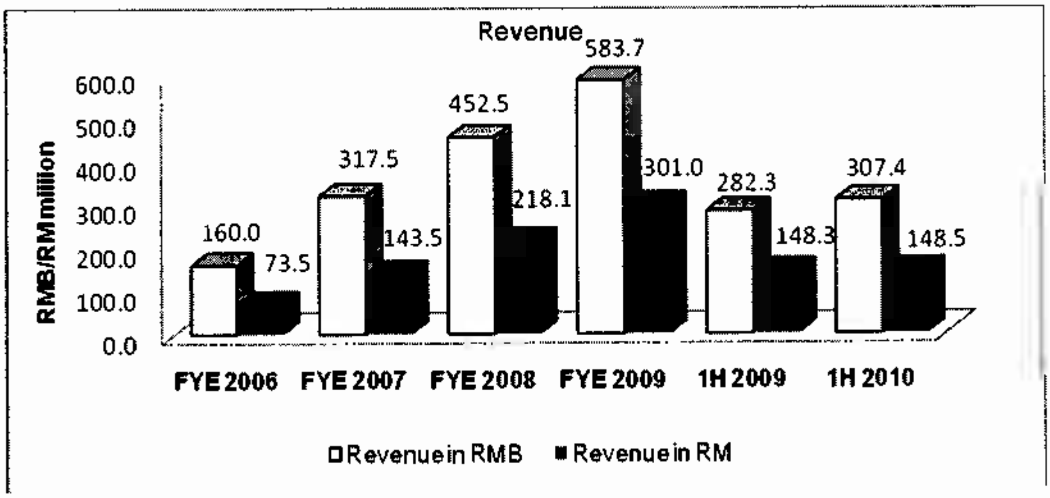
7.4.1 Overview of operations

Our Company's principal activity is investment holding whilst our wholly-owned subsidiary, Zhenxing Shoes is an OEM and ODM manufacturing company specializing in the design, manufacture and sale of sports shoes for various third party brand names. Our sports shoes comprise athletic footwear designed for specific sporting activities such as running, tennis, hiking, badminton, basketball and football as well as casual sports shoes. Our sports shoe products can be broadly categorized into three (3) segments, namely court sports shoes, casual / leisure sports shoes and running shoes.

Our principal production facilities are located at Jinjiang city, Fujian Province, PRC with an average annual production capacity of approximately 8 million pairs of sports shoes. We outsource some of our sports shoe orders to external contract manufacturers to meet the increasing number of orders from our customers. Our customers comprise trading houses and brand distributors based in the PRC and overseas. These trading houses and brand distributors in turn sell our sports shoes to both the local and overseas markets such as Spain, US, France, Japan, Korea, Singapore, Saudi Arabia, South Africa and Australia.

Revenue

Our principal revenue is derived from the sale of sports shoes. The following chart depicts our Group's revenue trend for the Financial Period under Review:-



Our revenues for the FYE 2006, FYE 2007, FYE 2008 and FYE 2009 were approximately RMB160.0 million, RMB317.5 million, RMB452.5 million and RMB583.7 million respectively, representing a CAGR over the past four (4) FYE up to 2009 of approximately 54.0%. In the 1H 2010, we recorded revenue of RMB307.4 million an increase of 8.9% compared to 1H 2009 revenue of RMB282.3 million.

Our revenue growth was mainly due to a significant increase in the sales volume of our sports shoe products. The increase in our sales volume over the Financial Period under Review was primarily driven by:-

(i) the increased orders from our existing customers who were/are satisfied with the quality, competitive pricing and timely delivery of our sports shoes;

(ii) the increase in our sales and marketing activities such as, our active participation in trade fairs and exhibitions in both PRC and overseas; and

(iii) our ability to secure new customers by leveraging on our established track record and business contacts of our Promoter.

In order to satisfy the increasing demand for our products, we expanded our production capacity from two (2) production lines in FYE 2006 to four (4) production lines in FYE 2008. We also outsource some of our sports shoe orders to external contract manufacturers to cope with the increasing number of sales orders from our customers.

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 30.2%, from RMB40.10 per pair of shoes in FYE 2006 to RMB52.20 per pair of shoes in FYE 2009. The overall ASP increased further to RMB62.81 per pair of shoes in 1H 2010. Our selling prices are negotiated with our customers taking into account, amongst other factors, different types of raw material used, raw material costs and the complexity of the shoe design.

Our Board believes that the prospects of our Group will be dependent on and driven by the following factors:-

(i) the economic conditions of the PRC and overseas countries that we sell our products to, including the disposable income level of consumers;

(ii) rising awareness of the importance of sports to one's well-being coupled with the positive influence brought about by international sporting events, such as the Olympic Games and the World Cup; and

(iii) the PRC being able to maintain its cost competitiveness and leading position as the production hub for the sports shoe industry.

Segmental analysis – Revenue by product categories

The breakdown of our revenue by product categories for the respective Financial Period under Review is set out below:-

Product Categories	FYE 2006			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	155,513	71,489	97.2	310,563	140,312	97.8
- Casual/leisure [2]	4,458	2,050	2.8	6,975	3,152	2.2
- Running shoes	-	-	-	-	-	-
Total	**159,971**	**73,539**	**100.0**	**317,538**	**143,464**	**100.0**

Product Categories	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	382,738	184,441	84.6	519,533	267,923	89.0
- Casual/leisure [2]	64,937	31,293	14.3	56,657	29,218	9.7
- Running shoes	4,817	2,322	1.1	7,528	3,882	1.3
Total	452,492	218,056	100.0	583,718	301,023	100.0

Product Categories	1H 2009			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	242,145	127,174	85.8	263,854	127,415	85.8
- Casual/leisure [2]	34,656	18,201	12.3	39,978	19,305	13.0
- Running shoes	5,512	2,896	1.9	3,602	1,740	1.2
Total	282,313	148,271	100.0	307,434	148,460	100.0

Notes:-

(1) *Court sports shoes mainly comprise of soccer shoes, tennis shoes, skateboarding shoes, basketball shoes, badminton shoes and baseball shoes.*

(2) *Casual/leisure sports shoes mainly comprises of boots, kids' shoes, hiking shoes, retro shoes and leather shoes.*

Revenue contribution from our court sports shoe products represented approximately 97.2%, 97.8%, 84.6%, 89.0% and 85.8% of our total revenue for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively, while revenue contribution from casual / leisure sports shoe products represented approximately 2.8%, 2.2%, 14.3%, 9.7% and 13.0% of our total revenue in the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

The overall increase in the revenue for court sports shoes and casual / leisure sports shoes for the Financial Period under Review was mainly attributed to the increase in the sales orders from our customers in line with the increase in the design of sports shoes developed by our D&D Department and the increase effort from the sales and marketing personnel to promote our sports shoes.

Our Board believes that the increase in demand for casual/leisure sports shoes may be due to the changing taste of consumers. Sports shoes are now no longer regarded as just functional/practical apparel, but have also increased in popularity as fashionable leisure wear.

In addition, through our strong D&D capabilities and growing demand for different varieties of sports shoes from our customers, we started producing running shoes which contributed 1.1%, 1.3% and 1.2% of our total revenue in FYE 2008, FYE 2009 and 1H 2010 respectively.

Segmental analysis – Revenue by geographical regions

The breakdown of our revenue by geographical regions for the respective Financial Period under Review is set out below:

	FYE 2006			FYE 2007		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
Domestic (PRC) [(1)]	**128,410**	**59,030**	**80.3**	**280,101**	**126,550**	**88.2**
Exports						
Asia [(2)]	5,777	2,656	3.6	15,257	6,893	4.8
America [(3)]	23,615	10,856	14.8	3,493	1,578	1.1
Europe [(4)]	2,169	997	1.3	18,687	8,443	5.9
Africa [(5)]	-	-	-	-	-	-
Total exports	**31,561**	**14,509**	**19.7**	**37,437**	**16,914**	**11.8**
Total revenue	**159,971**	**73,539**	**100.0**	**317,538**	**143,464**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
Domestic (PRC) [(1)]	**416,114**	**200,525**	**92.0**	**565,529**	**291,643**	**96.9**
Exports						
Asia[(2)]	13,675	6,590	3.0	3,699	1,908	0.6
America[(3)]	1,733	835	0.4	1,568	808	0.3
Europe[(4)]	20,431	9,846	4.5	12,507	6,450	2.1
Africa[(5)]	539	260	0.1	415	214	0.1
Total exports	**36,378**	**17,531**	**8.0**	**18,189**	**9,380**	**3.1**
Total revenue	**452,492**	**218,056**	**100.0**	**583,718**	**301,023**	**100.0**

	1H 2009			1H 2010		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
Domestic (PRC) [(1)]	**272,709**	**143,227**	**96.6**	**293,450**	**141,707**	**95.5**
Exports						
Asia[(2)]	2,115	1,111	0.7	933	451	0.3
America[(3)]	-	-	-	4,183	2,020	1.4
Europe[(4)]	7,074	3,715	2.5	8,868	4,282	2.8
Africa[(5)]	415	218	0.2	-	-	-
Total exports	**9,604**	**5,044**	**3.4**	**13,984**	**6,753**	**4.5**
Total revenue	**282,313**	**148,271**	**100.0**	**307,434**	**148,460**	**100.0**

Notes:-

(1) *Our domastic customars for this businass sagmant are mainly trading housas and brand distributors, who distributa our sports shoas to both domastic and ovarsaas markats. Although wa do not hava spacific information on where our sports shoas are avantually distributad/sold to, wa baliava tha treding houses and brand distributors sell closa to 80% of our sports shoas to Europa, South Amarica and the Middla East.*

(2) *Asia comprisas mainly of Japan, South Korea, Singapore, Hong Kong and Saudi Arabia.*

(3) *America comprisas mainly of USA, Brazil, Chila, Argentina and Panama.*

(4) *Europa comprisas mainly of Spain, France, Garmany, Italy and Russia.*

(5) *Africa comprisas only South Africa.*

Our sports shoe products are sold through trading houses and brand distributors based in the PRC and overseas. For the Financial Period under Review, sales for the domestic market accounted for 80.3%, 88.2%, 92.0%, 96.9% and 95.5% of total revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively, while our exports market sales accounted for 19.7%, 11.8%, 8.0%, 3.1% and 4.5% of total revenue derived in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

The increased sales in the domestic market were due to more foreign shoe related companies setting up offices in the PRC in recent years. We started to establish business relationships with these companies rather than going directly overseas. As a result of the above, our overall direct sales exports decreased from 19.7% of our total revenue in FYE 2006 to 4.5% in 1H 2010. Despite the decrease in direct sales exports, our Group had in 1H 2010 procured new direct sales export orders for America region as a result of our participation in WSA Show organised by the World Shoe Association held in Las Vegas, USA.

Our Board is of the view that the increasing presence of foreign shoe related companies operating in the PRC has contributed positively to our revenue and reduced our Group's risk exposure to foreign currency fluctuations.

<u>Segmental analysis – Revenue by production method / number of sports shoes:</u>

The breakdown of our revenue by production method / number of sports shoes for the respective Financial Period under Review is set out below:-

	FYE 2006			
	RMB'000	**RM'000**	**%**	**Pairs of sports shoes**
In-house production	121,994	56,081	76.3	3,005,861
Outsourced production	37,977	17,458	23.7	983,318
Total	**159,971**	**73,539**	**100.0**	**3,989,179**

	FYE 2007			
	RMB'000	**RM'000**	**%**	**Pairs of sports shoes**
In-house production	242,392	109,513	76.3	6,052,631
Outsourced production	75,146	33,951	23.7	1,935,405
Total	**317,538**	**143,464**	**100.0**	**7,988,036**

	FYE 2008			
	RMB'000	**RM'000**	**%**	**Pairs of sports shoes**
In-house production	257,406	124,044	56.9	5,706,989
Outsourced production	195,086	94,012	43.1	4,412,951
Total	**452,492**	**218,056**	**100.0**	**10,119,940**

7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

	FYE 2009			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	321,241	185,664	55.0	6,194,769
Outsourced production	262,477	135,359	45.0	4,987,193
Total	**583,718**	**301,023**	**100.0**	**11,181,962**

	1H 2009			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	136,087	71,473	48.2	2,881,151
Outsourced production	146,226	76,798	51.8	2,838,701
Total	**282,313**	**148,271**	**100.0**	5,719,852

	1H 2010			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	178,599	86,245	58.1	2,861,433
Outsourced production	128,835	62,215	41.9	2,032,969
Total	**307,434**	**148,460**	**100.0**	4,894,402

We started to outsource some of our sports shoe orders to external contract manufacturers in the FYE 2006. During the Financial Period under Review, revenue contribution from outsourced production *vis-a-vis* in-house production increased from 23.7% in the FYE 2006 to 41.9% in the 1H 2010, reflecting:

a) our growing use of external contract manufacturers to cope with the increasing demand for our sports shoes; and

b) management's strategy to focus more on D&D and sales and marketing activities through participation in trade fairs and exhibitions in the PRC and abroad.

Moving forward, the proportion / production volume to be outsourced to external contract manufacturers would depend on the availability and ability of the external contract manufacturer, the speed of delivery, the type of sales order received from our customer (i.e. the design, quantity and price) and whether or not it would be cost effective. The decision to outsource sales orders are reviewed periodically on a case-by-case basis by our management team. We do not outsource our sports shoe orders which are exported directly to the overseas market as the overseas customers are generally stricter with product design specifications and product quality requirements.

We added a third production line in late 2006, which enabled us to boost in-house production volume to approximately 6 million pairs of sports shoes in FYE 2007. During the same period we also increased outsourced production volume from approximately 0.9 million pairs of sports shoes to approximately 1.9 million pairs of sports shoes.

We subsequently added a fourth production line in the second half of 2008 to increase our annual production capacity from approximately 6 million pairs of sports shoes to 8 million pairs of sports shoes. However, we did not achieve full capacity in FYE 2008 as our Group needed to recruit more workers for the new production line, conduct trial runs on the new production line and provide training for the new workers to familiarise themselves with the production process.

In addition, our utilisation rate for in-house production varied during the Financial Period under Review depending on the complexity of the shoe design and the size of each sales order. As a result, we only produced approximately 5.7 million pairs of sports shoes in FYE 2008, and outsourced another 4.4 million pairs of sports shoes to external contract manufacturers. For the FYE 2009, we increased our in-house production from approximately 5.7 million pairs of sports shoes in FYE 2008 to approximately 6.2 million pairs of sports shoes. For the 1H 2010, we produced approximately 2.9 million pairs of sports shoes for our in-house production and outsourced the remaining 2.0 million sports shoe orders to our external contract manufacturers.

Please refer to **Section 6.8** of this Prospectus for further details on the production capacity and utilisation rate.

ASP analysis

The analysis of the ASP for our sports shoe products is set out below:-

	FYE 2006			FYE 2007			FYE 2008		
	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes
Court Sports	40.30	18.53	3,858,491	40.21	18.17	7,724,684	45.18	21.77	8,485,687
Casual/ leisure	34.11	15.68	130,688	26.49	11.97	263,352	42.02	20.25	1,529,365
Running shoes	-	-	-	-	-	-	45.93	22.13	104,888
Total	**40.10**	**18.43**	**3,989,179**	**39.75**	**17.96**	**7,988,036**	**44.72**	**21.55**	**10,119,940**

	FYE 2009			1H 2009			1H 2010		
	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes
Court Sports	53.05	27.36	9,792,604	49.99	26.25	4,843,908	63.71	30.77	4,141,187
Casual/ leisure	45.65	23.54	1,241,156	45.09	23.68	788,534	57.84	27.93	691,209
Running shoes	50.80	26.20	148,202	51.28	28.93	107,410	58.10	28.06	62,006
Total	**52.20**	**26.92**	**11,181,962**	**49.36**	**25.92**	**5,719,852**	**62.81**	**30.33**	**4,894,402**

The overall ASP of our products increased by approximately 30.2%, from RMB40.10 per pair of shoes in FYE 2006 to RMB52.20 per pair of shoes in FYE 2009. Although total production volume in 1H 2009 was higher than 1H 2010, we recorded higher revenue in 1H 2010 due to the increase in overall ASP from RMB49.36 to RMB62.81 per pair of sports shoes.

The overall ASP depends on the sales mix from year-to-year as we have a wide range of product offerings (i.e. soccer shoes, tennis shoes, skateboarding shoes, basketball shoes, boots, kids' shoes, hiking shoes, retro shoes, etc.) carrying different prices. Furthermore, the ASP is largely dependent on the type and combination of materials used (canvas, PU, 2-Layer leather, suede leather, type of cloth, etc), as well as the functions, designs and features of the shoe (use of breathable material, water resistance material etc.)

We use a "cost-up" method for pricing. In most instances, we will quote based on an internal cost structure and apply a mark-up. In addition, the selling price for each sales order has to be agreed by our customer before signing the order contract. If customers do not agree with the quotation, we will seek for new or alternative materials that can be used for the same product design, and revise the selling price accordingly, in order to maintain the profit margin for each sales order.

The price range for each category of sports shoe can vary significantly due to the many types and designs of sports shoes sold by us as set out below:-

	Price range			
	FYE2006		FYE2007	
	RMB	RM	RMB	RM
Court Sports	18.80 – 63.87	8.64 – 29.36	18.80 – 64.69	8.49 – 29.23
Casual/leisure	14.53 – 87.36	6.68 – 40.18	14.53 – 68.38	6.56 – 30.89
Running Shoes	–	-	–	–

	Price range			
	FYE 2008		FYE 2009	
	RMB	RM	RMB	RM
Court Sports	24.77 – 104.27	11.94 – 50.25	25.68 – 94.14	13.24 – 48.55
Casual/ leisure	14.53 – 111.11	7.00 – 53.54	19.85 – 106.61	10.24 – 54.98
Running shoes	35.99 – 55.56	17.34 – 26.77	38.46 – 64.10	19.83 – 33.06

	Price range			
	1H 2009		1H 2010	
	RMB	RM	RMB	RM
Court Sports	28.21 – 94.14	14.82 – 49.44	35.08 – 110.37	16.94 – 53.30
Casual/ leisure	22.65 – 106.61	11.90 – 55.99	28.47 – 109.49	13.75 – 52.87
Running shoes	38.46 – 64.10	20.20– 33.67	45.09 – 69.15	21.78 – 33.39

Cost of sales

The table below sets out the breakdown of our cost of sales for the respective Financial Period under Review:-

	FYE 2008			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials [1]	[3]72,911	33,517	62.6	[3]166,874	75,394	73.0
Direct Labour	21,834	10,037	18.7	32,123	14,513	14.1
Manufacturing overheads	[4]13,629	6,265	11.7	[4]13,983	6,317	6.1
Subcontracting costs[2]	8,158	3,751	7.0	15,639	7,066	6.8
Total	**116,532**	**53,570**	**100.0**	**228,619**	**103,290**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials[1]	228,592	110,158	70.7	291,016	150,077	71.1
Direct Labour	38,868	18,634	12.0	48,013	24,760	11.7
Manufacturing overheads	18,208	8,774	5.6	17,888	9,225	4.4
Subcontracting costs[2]	37,888	18,259	11.7	52,489	27,068	12.8
Total	**323,356**	**155,825**	**100.0**	**409,406**	**211,130**	**100.0**

	1H 2009			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials[1]	144,434	75,858	73.1	156,811	75,627	72.5
Direct Labour	20,331	10,678	10.3	26,937	13,008	12.5
Manufacturing overheads	8,396	4,410	4.3	9,454	4,565	4.4
Subcontracting costs[2]	24,423	12,827	12.3	22,991	11,103	10.6
Total	**197,584**	**103,771**	**100.0**	**215,993**	**104,303**	**100.0**

* *We do not track the allocation of our cost of sales by product categories or geographical regions, as the information does not serve any specific purpose for our business operations.*

Notes:-

(1) *Including cost of raw materials supplied to our external contract manufacturers.*

(2) *External contract manufacturers' costs including processing fee for workmanship and manufacturing overhead costs.*

(3) *There were reclassification of the consumable expenses in relation to purchase of glue, polyester thread, shoe boxes and packaging boxes ("Non-Core Materials") amounting to RMB9.840 million and RMB18.594 million from manufacturing overheads to raw material costs for the FYE 2006 and FYE 2007 respectively, in order to be consistent with the classification adopted in the FYE 2008 and FYE 2009. The amounts reclassified to raw material were computed based on the average cost of the Non-Core Materials per pair of shoes for the FYE 2008 multiplied by the number of sports shoes sold in FYE 2006 and FYE 2007 as we did not maintain the inventory movements for the Non-Core Materials prior to the FYE 2008.*

(4) *Prior to the said reclassification, the manufacturing overheads for the FYE 2006 and FYE 2007 were approximately RMB23.469 million and RMB32.576 million respectively, reflecting the increase in the manufacturing overheads resulting from the introduction of the new production line and the increase in production.*

The core raw materials that we use in the manufacture of our sports shoes are leather, fabrics, PU, PVC and sole units comprising the midsole and outsole. Raw materials constituted approximately 62.6%, 73.0%, 70.7%, 71.1% and 72.5% of our total cost of sales for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

We source all of our raw material supplies from local suppliers within the Fujian Province as there is a good concentration of suppliers in the Fujian Province. Owing to keen competition among the suppliers, we have been able to obtain raw materials at competitive prices. The prices of our raw materials, however, generally move in tandem with oil prices and labour costs, and are also affected by the general economic conditions in the PRC.

Direct labour costs comprise mainly salaries and wages and compulsory statutory contribution of workers who are directly involved in the production of our sports shoes. These costs are affected by the number of production workers, production volume, and the industry level of wages and labour market conditions. Direct labour costs accounted for approximately 18.7%, 14.1%, 12.0%, 11.7% and 12.5% of our cost of sales in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Manufacturing overheads comprised mainly salaries and compulsory statutory contributions of indirect labour, depreciation of plant and equipment used for production purposes, utilities and repair and maintenance expenses. These expenses are dependent on the capital expenditure in connection with plant and equipment used for production and the level of production activity.

The subcontracting costs are the costs incurred for the engagement of external contract manufacturers. We supply raw materials to these external contract manufacturers, who in turn charge us a processing fee for workmanship and manufacturing overheads. The increase in subcontracting costs during the past four (4) FYE up to 2009 was in line with the increase in outsourced production volume.

Cost of sales by production methods

	FYE 2006			FYE 2007		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
In-house production	92,463	42,505	79.4	180,132	81,383	78.8
Outsourced production	24,069	11,065	20.6	48,487	21,907	21.2
Total	**116,532**	**53,570**	**100.0**	**228,619**	**103,290**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
In-house production	186,079	89,672	57.5	225,594	116,339	55.1
Outsourced production	137,277	66,153	42.5	183,812	94,791	44.9
Total	**323,356**	**155,825**	**100.0**	**409,406**	**211,130**	**100.0**

	1H 2008			1H 2010		
	RMB'000	**RM'000**	**%**	**RMB'000**	**RM'000**	**%**
In-house production	100,095	52,569	50.7	126,113	60,900	58.4
Outsourced production	97,489	51,202	49.3	89,880	43,403	41.8
Total	**197,584**	**103,771**	**100.0**	**215,993**	**104,303**	**100.0**

Our in-house produced sports shoes represent 79.4%, 78.8%, 57.5%, 55.1% and 58.4% of our total cost of sales in the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. The general decrease in the cost of in-house production as a proportion of total cost of sales is in line with our growing use of external contract manufacturers to cope with the increasing demand from our customers.

GP and GP margin

GP	FYE 2008			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	29,531	13,576	68.0	62,260	28,130	70.0
Outsourced production	13,908	6,393	32.0	26,659	12,044	30.0
Total	**43,439**	**19,969**	**100.0**	**88,919**	**40,174**	**100.0**

GP	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	71,327	34,372	55.2	95,647	49,325	54.9
Outsourced production	57,809	27,859	44.8	78,665	40,568	45.1
Total	**129,136**	**62,231**	**100.0**	**174,312**	**89,893**	**100.0**

GP	1H 2008			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	35,992	18,904	42.5	52,486	25,346	57.4
Outsourced production	48,737	25,596	57.5	38,955	18,811	42.6
Total	**84,729**	**44,500**	**100.0**	**91,441**	**44,157**	**100.0**

GP margin	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2008	1H 2010
In-house production	24.2%	25.7%	27.7%	29.8%	26.5%	29.4%
Outsourced production	36.6%	35.5%	29.6%	30.0%	33.3%	30.2%
Overall GP margin	**27.2%**	**28.0%**	**28.5%**	**28.8%**	**30.0%**	**29.7%**

Our overall GP margin grew gradually from 27.2% in FYE 2006 to 29.9% in FYE 2009. This was mainly due to the improvement in the ASP for our sports shoes and a well managed cost structure. Between 1H 2009 and 1H 2010, the overall GP margin decreased marginally from 30.0% to 29.7%.

During the Financial Period under Review, we adopted a "cost-up" method for pricing. In most instances, we will quote our customers based on an internal cost structure after taking into consideration the budgeted production costs and the budgeted GP margin which will vary in accordance with the type of sports shoe to be manufactured, the volume of orders, the complexity of the designs, the types of raw materials used and the features of the sports shoe.

The GP margin for our in-house production increased from 24.2% to 29.4% during the Financial Period under Review. This was mainly due to the fact that we were able to increase ASP at a faster pace than the average cost of sales per pair of sports shoe. In particular, our ASP for in-house production increased from RMB40.59 to RMB62.42 representing an increase of approximately 53.8%, whereas our average cost of sales over the same Financial Period under Review increased from RMB30.76 to RMB44.07 representing an increase of approximately 43.3%.

The GP margin from outsourced production was much higher than our in-house production in FYE 2006 and FYE 2007 as we subcontracted simpler design shoes using cheaper and more basic raw materials. However, the GP margin for outsourced production subsequently narrowed to record similar GP margins as our in-house production in FYE 2008, FYE 2009 and 1H 2010. This was mainly due to the increase in processing fees charged by the external contract manufacturers and more expensive raw material used by the external contract manufacturers. In order to cope with the increasing sales volume we also subcontracted some of our more complex sports shoe designs to our external contract manufacturers resulting in the narrowing GP margin between in-house and outsourced production. However, in order to ensure that the quality of the sports shoes is maintained, we station our quality control personnel at the contract manufacturers' premises.

Other operating income

Other operating income mainly comprises of export incentives, foreign exchange gain and interest income on bank deposits. For the Financial Period under Review, we enjoyed certain export incentives awarded by the People's Government of Jinjiang city based on our export amount.

Foreign exchange gain accounted for 12.0%, 68.2%, 65.2% and 13.1% of total other operating income for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Interest income on bank deposits accounted for 52.2%, 8.4%, 21.4%, 44.0% and 88.4% of total other operating income for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Selling and distribution expenses

Selling and distribution expenses comprises mainly advertising and promotion expenses, freight and delivery charges, salaries and compulsory statutory contribution of our sales and marketing staff, entertainment and travelling expenses, as well as D&D expenses. The D&D expenses were classified under selling and distribution expenses as we generate/secure sales orders through our D&D capabilities.

Our overall distribution and selling expenses increased by approximately RMB2.0 million or 215.5% from RMB0.9 million in FYE 2007 to RMB2.9 million in FYE 2008. This was mainly due to D&D expenses amounting to RMB1.4 million in FYE 2008. The D&D expenses mainly relate to salaries of our D&D staff and raw materials cost used in D&D.

The increase in development expenses in the FYE 2008 was mainly due to the expansion of our D&D Department which was staffed with 35 personnel as at end of FYE 2008 as compared to 14 personnel in FYE 2006 and FYE 2007 and the raw material costs and other incidental costs incurred by the D&D staff to increase the number of designs of our products.

Our overall distribution and selling expenses decreased by approximately RMB1.1 million or 38.5% from RMB2.9 million in FYE 2008 to RMB1.8 million in FYE 2009. This was mainly due to material costs and advertising expenses incurred for the preparation of the launch of SODENG brand amounting to RMB0.9 million in FYE 2008. Please refer to **Section 6.14** of this Prospectus for details on SODENG brand.

Between 1H 2009 and 1H 2010, the overall distribution and selling expenses increased by approximately RMB0.1 million from RMB1.0 million in 1H 2009 to RMB1.1 million in 1H 2010. The selling and distribution expenses mainly relate to salaries of our D&D staff and raw materials cost used in D&D.

General administrative expenses

General and administrative expenses represented 2.3%, 1.4%, 2.2%, 2.0% and 2.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. General and administrative expenses comprises mainly salaries and staff-related expenses of general administrative staff, depreciation charges for buildings and office equipment, telecommunication expenses, rental expenses and other general office overheads. The staff-related expenses relate to subscription fees to workers' association, social insurance contribution, staff income taxes and welfare benefit.

General and administrative expenses increased by RMB0.9 million or 25.2% from RMB3.7 million in FYE 2006 to RMB4.6 million in FYE 2007. The increase was mainly due to the increase in salaries and related expenses of our administrative and finance employees by RMB0.7 million.

General and administrative expenses increased by RMB5.5 million or 120.9% from RMB4.6 million in FYE 2007 to RMB10.1 million in FYE 2008. The increase was mainly due to the increase in salaries and related expenses of our administrative and finance employees amounting to RMB6.9 million in FYE 2008, of which RMB3.4 million related to social insurance as the China government enforced the social insurance contributions in FYE 2008 onwards. The increase in our salaries by 64.19% from RMB1.7 million in FYE 2007 to RMB2.8 million in FYE 2008 was mainly due to our hiring of more D&D staff for our SODENG brand initiative. Please refer to **Section 6.14** of this Prospectus for details on SODENG brand.

General and administrative expenses increased by RMB1.7 million or 16.6% from RMB10.1 million in FYE 2008 to RMB11.8 million in FYE 2009. The increase was mainly due to the partial payment of listing expenses amounting to RMB2.6 million. The increase was partially offset by the decrease in SODENG brand related expenses from RMB1.5 million in FYE 2008 to RMB0.6 million in FYE 2009. For the FYE 2008 and FYE 2009, SODENG brand expenses related mainly to salaries for SODENG's D&D staff, office rental, depreciation charge and office maintenance.

Between 1H 2009 and 1H 2010, the overall general and administrative expenses increased by approximately RMB1.9 million from RMB4.6 million in 1H 2009 to RMB6.5 million in 1H 2010. The increase was mainly due to the partial payment of listing expenses and non-statutory audit fees amounting to RMB1.6 million in 1H 2010.

Other operating expenses

Other operating expenses relate mainly to foreign exchange losses, bad debts written off, loss on disposal of property, plant and equipment and property, plant and equipment written off. Other operating expenses amounted to RMB1.4 million, RMB5.9 million, RMB0.4 million and RMB0.9 million and RMB0.3 million for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively and represented 0.9%, 1.9%, 0.1%, 0.2% and 0.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

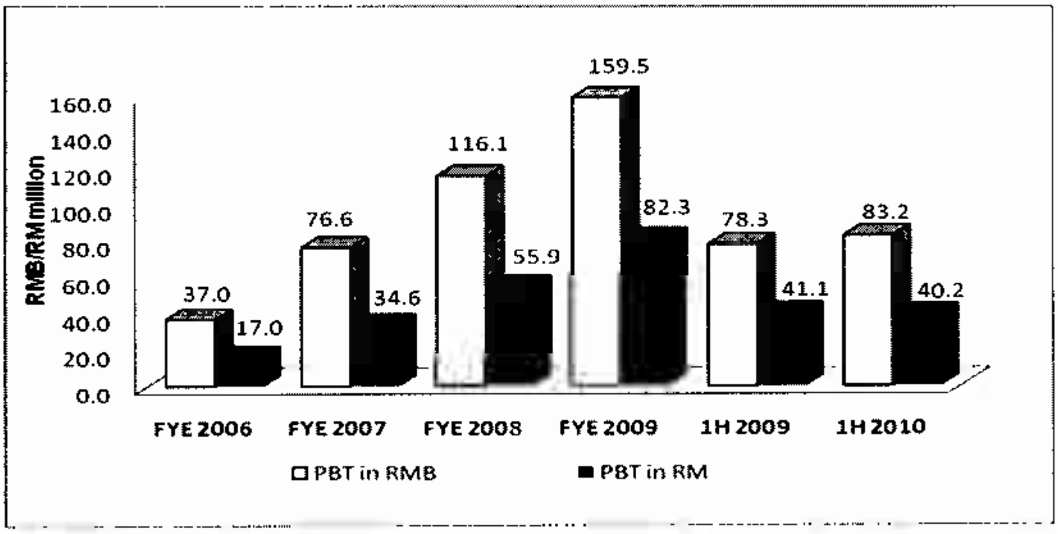
During the FYE 2009, foreign exchange losses accounted for 90.7% of other operating expenses, which was mainly due to the full settlement of amount due to former holding company.

In 1H 2010, other operating expenses totalling approximately RMB0.3 million mainly comprise of loss on disposal of property, plant and equipment and property, plant and equipment written off.

Finance costs

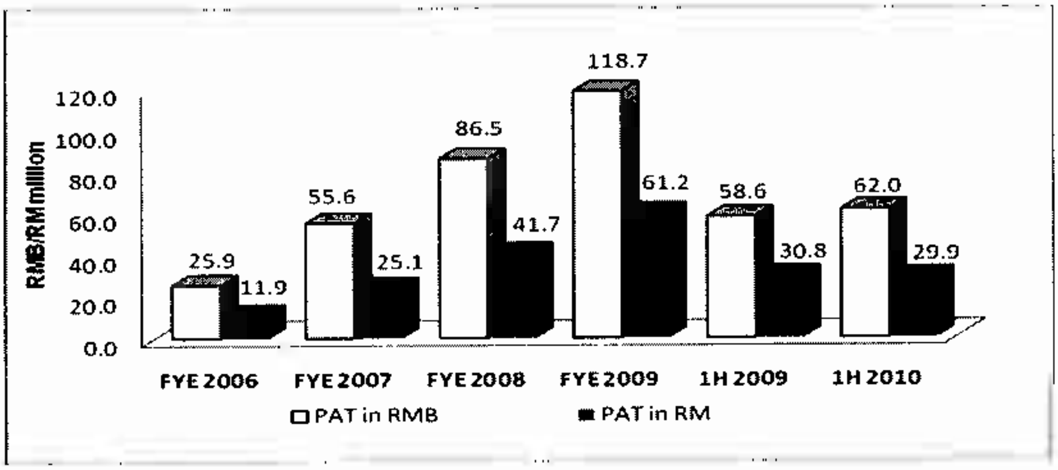
Finance costs represented 0.6%, 0.4%, 0.2%, 0.1% and 0.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. Finance costs comprise mainly interest charges on bank borrowings and bank charges. Bank borrowings were used mainly for working capital purposes.

PBT



Our Group recorded a significant growth in PBT of 331.1% between the FYE 2006 and FYE 2009 mainly due to strong customer demand for our products and increase in average GP margins. In addition, the PBT margin also increased steadily from 23.2% in FYE 2006 to 27.3% in FYE 2009 as our Group, being an OEM and ODM company, is not involved in the activities of brand development, distribution and retail management. In 1H 2010, our Group recorded a growth in PBT of 6.3% compared to 1H 2009 (in RMB terms). However, the PBT margin in 1H 2010 decreased marginally to 27.1% mainly due to the increase in general and administrative expenses.

PAT



Our Group also reported a significant increase in PAT of 358.3% between the FYE 2006 and FYE 2009. In 1H 2010, our Group recorded an increase of 5.8% compared to 1H 2009 (in RMB terms). The Group's effective tax rates were 28.7%, 27.5%, 25.5%, 25.6% and 25.5% in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Commentary on financial performance

FYE 2006 to FYE 2007

Revenue

Our revenue increased by RMB157.5 million or 98.4% from RMB160.0 million in FYE 2006 to RMB317.5 million in FYE 2007. This increase was mainly due to an increase in sales volume of our products which doubled from approximately 4.0 million pairs of sports shoes in FYE 2006 to approximately 8.0 million pairs of sports shoes in FYE 2007. Our new production line set up in late FYE 2006 also contributed to the growth in revenue. In FYE 2007, repeat orders from our existing customers accounted for 94.1% of revenue. Our Directors believe that this is because we have established good relationships with our customers by producing quality products at competitive prices, and delivering our products in a timely manner. Our customer base increased from 16 in FYE 2006 to 49 in FYE 2007.

Cost of sales

Our cost of sales increased by RMB112.1 million or 96.2% from RMB116.5 million in FYE 2006 to RMB228.6 million in FYE 2007 as a result of:-

(i) an increase of RMB94.0 million or 128.9% in direct material costs from RMB72.9 million in FYE 2006 to RMB166.9 million in FYE 2007 which was in line with the 98.4% increase in our revenue from FYE 2006 to FYE 2007. The increase was also due to an increase in raw material prices;

(ii) an increase of RMB10.3 million or 47.2% in direct labour costs from RMB21.8 million in FYE 2006 to RMB32.1 million in FYE 2007 as we hired more production staff to meet the increasing demand for our sports shoe products. The number of production staff increased from 953 staff in FYE 2006 to 1,267 staff in FYE 2007; and

(iii) subcontracting costs increased by approximately RMB7.4 million or 91.7% from RMB8.2 million in FYE 2006 to RMB15.6 million in FYE 2007, which was due to the increase of outsourced production volume from 0.9 million pairs of sports shoes in FYE 2006 to 1.9 million pairs of sports shoes in FYE 2007.

GP, GP margin and PBT

Our GP increased by RMB45.5 million or 104.8% from RMB43.4 million in FYE 2006 to RMB88.9 million in FYE 2007 while our GP margin increased marginally from 27.2% in FYE 2006 to 28.0% in FYE 2007.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 94.8% from RMB5.9 million in FYE 2006 to RMB11.5 million in FYE 2007 and represented 3.6% of our revenue for the FYE 2008.

Despite the increase in our expenses as highlighted above, we recorded an increase in PBT from RMB37.0 million to RMB76.6 million as a result of our improving GP.

PAT and PAT margin

In FYE 2007, our Group posted a PAT of RMB55.6 million after deducting income tax expense of RMB21.0 million. The effective tax rate of 27.5% was marginally higher than the statutory tax rate of 27% due to certain expenses not deductible for tax purposes.

Our PAT margin increased marginally from 16.2% in FYE 2006 to 17.5% in FYE 2007 as a result of the improvement in PBT and lower effective tax rate in FYE 2007 as compared to FYE 2006.

FYE 2007 to FYE 2008

Revenue

Our revenue increased by RMB135.0 million or 42.5% from RMB317.5 million in FYE 2007 to RMB452.5 million in FYE 2008. The increase was primarily driven by the increase in sales volume due to the following factors:-

(i) Increased sales from repeat customers, which accounted for approximately 84.7% of our Group's total revenue. Our management believes that this is because of our Group's ability to offer quality products coupled with our strong D&D capabilities which are becoming increasingly recognised by our customers;

(ii) Most of the trading houses in PRC have also diversified their risk by expanding their own customer bases and also increasing their product range to encompass hiking shoes, casual shoes, running shoes, retro shoes, skateboarding shoes, and boots. For the FYE 2008, the revenue contribution from casual/leisure sports shoes increased from 2.2% of the total revenue in 2007 to 14.3% of the total revenue in 2008; and

(iii) We had 48 customers in FYE 2008 compared to 49 customers in the previous year. In particular, we secured two (2) new customers, namely Jinjiang Qingfeng Trading Co., Ltd. and Jinjiang YuanYang Trading Co., Ltd. in June and July 2008 respectively, which in aggregate contributed approximately RMB33.4 million or 7.4% of total revenue in FYE 2008.

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 12.5%, from RMB39.75 per pair of shoes in FYE 2007, to RMB44.72 per pair of shoes in FYE 2008. The overall ASP has been on a general upward trend in line with the increasing complexity of shoe designs and higher raw materials cost. We were able to pass on such cost increases to our customers in the form of higher selling prices.

Cost of sales

Our cost of sales increased by RMB94.8 million or 41.5% from RMB228.6 million in FYE 2007 to RMB323.4 million in FYE 2008 as a result of:-

(i) an increase of RMB61.7 million or 37.0% in direct material costs from RMB166.9 million in FYE 2007 to RMB228.6 million in FYE 2008 which was in line with the 42.5% increase in our revenue from FYE 2007 to FYE 2008. The increase was also due to an increase in raw material prices partly as a result of the increase in oil prices;

(ii) an increase of RMB6.6 million or 20.6% in direct labour costs from RMB32.1 million in FYE 2007 to RMB38.7 million in FYE 2008 due to an increase in number of production staff from 1,267 staff in FYE 2007 to 1,291 staff in FYE 2008;

(iii) an increase of RMB4.2 million or 30.0% in manufacturing overheads from RMB14.0 million in FYE 2007 to RMB18.2 million in FYE 2008 due to the increase in depreciation charge, consumable materials and electricity as a result of the addition of the fourth production line; and

(iv) subcontracting costs increased by approximately RMB22.3 million or 142.9% from RMB15.6 million in FYE 2007 to RMB37.9 million in FYE 2008, which was due to the increase of outsourced production volume from 1.9 million pairs of sports shoes in FYE 2007 to 4.4 million pairs of sports shoes in FYE 2008 and an increase in the average processing rate charged by our external contract manufacturers.

GP, GP margin and PBT

Our GP increased by RMB40.2 million or 45.2% from RMB88.9 million in FYE 2007 to RMB129.1 million in FYE 2008. At the same time, we manage to increase our GP margin from 28.0% in FYE 2007 to 28.5% in FYE 2008.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 17.3% from RMB11.5 million in FYE 2007 to RMB13.5 million in FYE 2008 and represented 3.0% of our revenue for the FYE 2008.

In FYE 2008, our Group recorded an increase in PBT by 51.6%, from RMB76.6 million to RMB116.1 million. The increase was primarily due to our revenue growth and no bad debts were written off during the year (bad debts totalling RMB4.9 million was written off in FYE 2007).

PAT and PAT margin

In FYE 2008, our Group posted a net profit of RMB86.5 million after deducting income tax expense of RMB29.6 million. The effective tax rate of 25.5% was marginally higher than the statutory tax rate of 25% due to certain expenses not deductible for tax purposes.

Our PAT margin increased from 17.5% in FYE 2007 to 19.1% in FYE 2008 mainly due to the decrease in effective tax rate from 27.5% in FYE 2007 to 25.5% in FYE 2008.

FYE 2008 to FYE 2009

Revenue

Our Group's revenue increased from RMB452.5 million to RMB583.7 million in FYE 2009, representing an increase of approximately 29.0%. This increase was mainly due to our Group securing three (3) new customers in FYE 2009, namely Fujian Hua Yi Trading Co., Ltd, Fujian Jinjiang JinHe Shoes & Garments Co., Ltd. and Fujian Lian Ming Sheng Industry & Trading Co., Ltd, which accounted for 24.7% of the total revenue as well as the increase in sales orders from two (2) existing customers, namely Jinjiang Qingfeng Trading Co., Ltd. and Jinjiang YuanYang Trading Co., Ltd., which accounted for approximately 15.2% of the total revenue in FYE 2009. Notwithstanding the above, our customer base decreased from 48 customers to 34 customers in the current year, while revenue contribution from repeat customers decreased to 74.7% % (compared to 84.7% in FYE 2008).

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 16.7%, from RMB44.72 per pair of shoes in FYE 2008, to RMB52.20 per pair of shoes in FYE 2009. The overall ASP has been on a general upward trend in line with the increased complexity of shoe designs and raw materials cost. We were able to pass on such cost increases to our customers in the form of higher selling prices.

Cost of sales

Our cost of sales increased by RMB86.0 million or 26.6% from RMB323.4 million in FYE 2008 to RMB409.4 million in FYE 2009 as a result of:-

(i) an increase of RMB62.4 million or 27.3% in direct material costs from RMB228.6 million in FYE 2008 to RMB291.0 million in FYE 2009 in line with the increase in revenue;

(ii) an increase of RMB9.3 million or 24.0% in direct labour costs from RMB38.7 million in FYE 2008 to RMB48.0 million in FYE 2009 as we hired more production staff to meet the increasing demand for our sports shoe products. The number of production staff increased from 1,291 staff in FYE 2008 to 1,412 staff in FYE 2009; and

(iii) subcontracting costs increased by approximately RMB14.6 million or 38.5% from RMB37.9 million in FYE 2008 to RMB52.5 million in FYE 2009 due to an increase of outsourced production volume from 4.4 million pairs of sports shoes in FYE 2008 to 4.9 million pairs of sports shoes in FYE 2009, and an increase in the average processing rate charged by our external contract manufacturers.

GP, GP margin and PBT

Our GP increased by RMB45.2 million or 35.0% from RMB129.1 million in FYE 2008 to RMB174.3 million in FYE 2009. Our overall GP margin increased from 28.5% in FYE 2008 to 29.9% in FYE 2009. This was mainly due to the improvement in overall ASP.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 7.8% from RMB13.5 million in FYE 2008 to RMB14.5 million in FYE 2009 and represented 2.5% of our revenue for the FYE 2009.

In FYE 2009, our Group recorded an increase in PBT by 37.4%, from RMB116.1 million to RMB159.5 million. The increase was primarily due to our sales growth and GP margin during the financial year under review.

PAT and PAT margin

In FYE 2009, our Group posted a PAT of RMB118.7 million after deducting income tax expense of RMB40.8 million. The effective tax rate of 25.6% was marginally higher than the statutory tax rate of 25% due to certain expenses not deductible for tax purposes.

Our PAT margin increased from 19.1% in FYE 2008 to 20.3% in FYE 2009 as a result of the increase in our PBT in FYE 2009.

1H 2009 to 1H 2010

Revenue

Our Group's revenue increased from RMB282.3 million in 1H 2009 to RMB307.4 million in 1H 2010, representing an increase of approximately 8.9%. This was mainly due to increase in the overall ASP. Our overall ASP increased by approximately 27.2%, from RMB49.36 per pair of shoes in 1H 2009, to RMB62.81 per pair of shoes in 1H 2010. The overall ASP has been on a general upward trend in line with the increased complexity of shoe designs and raw materials cost.

Cost of sales

Our cost of sales increased by RMB18.4 million or 9.3% from RMB197.6 million in 1H 2009 to RMB216.0 million in 1H 2010 as a result of:-

(i) an increase of RMB12.2 million or 8.4% in direct material costs from RMB144.4 million in 1H 2009 to RMB156.6 million in 1H 2010 in line with the increase in revenue; and

(ii) an increase of RMB6.6 million or 32.5% in direct labour costs from RMB20.3 million in 1H 2009 to RMB26.9 million in 1H 2010 as we hired more production staff to meet the demand for more complex shoe designs and general wage increase in the industry. In addition, the number of production staff increased from 1,300 staff in 1H 2009 to 1,528 production staff in 1H 2010.

GP, GP margin and PBT

Our GP increased by RMB6.7 million or 7.9% from RMB84.7 million in 1H 2009 to RMB91.4 million in 1H 2010. Our overall GP margin decreased marginally from 30.0% in 1H 2009 to 29.7% in 1H 2010.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 25.4% from RMB6.3 million in 1H 2009 to RMB7.9 million in 1H 2010 and represented 2.6% of our revenue for 1H 2010. The increase was mainly due to partial payment of listing expenses and non-statutory audit fees amounting to RMB1.6 million in 1H 2010.

In 1H 2010, our Group recorded an increase in PBT by 6.3%, from RMB78.3 million in 1H 2009 to RMB83.2 million in 1H 2010. The increase was primarily due to our improved GP and ASP.

PAT and PAT margin

In 1H 2010, our Group posted a PAT of RMB62.0 million after deducting income tax expense of RMB21.2 million. The effective tax rate of 25.5% was marginally higher than the statutory tax rate of 25%. As a result, our PAT margin decreased marginally from 20.7% in 1H 2009 to 20.2% in 1H 2010.

7.4.2 Factors affecting the financial condition of our Group

(i) Ability to maintain existing customers and expand our customer base

Our success depends largely on our ability to keep abreast of fashion trends as well as our ability to anticipate and react to the fast changing fashion trends in a timely manner, particularly when we develop designs for customer selection. Hence, it is important that we continue to react promptly to changing fashion trends and produce designs that would appeal to our target customers.

We are also dependent on the relationship with our customers and external contract manufacturers, and the quality of our products for the continued growth of our business. Failure to consistently deliver quality products may materially and adversely affect our ability to retain our existing customers, secure new customers or develop new market segments, thereby hampering our future business growth.

However, we have put in place stringent quality control measures throughout our production process to ensure that our products are of high quality.

(ii) Demand and supply conditions

Our Group's revenue and profits are dependent on the demand and supply conditions of the sports shoe industry as set out in **Section 5** of this Prospectus.

(iii) Fluctuations in the prices of raw materials

Our Group sources all of our raw materials and components locally in PRC. The raw materials used by our Group include shoe soles, upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials. The costs of our raw materials are subject to fluctuations in oil prices as well as our relationship and bargaining power with suppliers in the PRC. Any increase in the cost of raw materials would have on impact on the profitability of our Group. However, our Group is able to obtain the raw materials from our suppliers at competitive prices due to the availability of a large pool of suppliers based in Fujian province, PRC.

We have thus far been able to pass on such raw material costs increase to our customers to avoid reductions in our profit margins. Nonetheless, we may absorb part of the price increases to remain competitive.

(iv) D&D capabilities

Our Group places great emphasis on D&D in order to stay competitive in the sports shoe market. The objectives of our D&D initiatives are to develop and introduce new designs to cater to the ever-changing consumer tastes and market trends and to expand our product range for customer selection.

As at the end of 1H 2010, our D&D Department is staffed with 30 personnel, half of whom have more than 10 years of experience in the D&D field.

(v) Tax consideration

Income tax expense represented 28.7%, 27.5%, 25.5%, 25.6% and 25.5% of our profit before tax for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Our Company and subsidiary are incorporated in Malaysia and the PRC respectively and are taxed in accordance with the respective prevailing tax regulations of the jurisdiction in which they are incorporated.

Our Company is subjected to corporate income tax rate in Malaysia. However, since the date of incorporation, we have no chargeable profit and thus is not subject to any taxation.

Presently, our subsidiary, Zhenxing Shoes is subject to an income tax rate of 25% and 15% tax rebate in the PRC. Moreover, according to "Certain Opinions for Encouragement to Expand Export (晋政文(2004)131号) issued by People's Government of Jinjiang City, a company engaging in normal trade business shall enjoy reward based on its actual annual export amount. Accordingly, Zhenxing Shoes who exports sports shoes is entitled to enjoy such reward yearly for its self-support exportation from the Finance Bureau of Jinjiang City.

However, there is no assurance that the current income tax rate, the tax rebate rate and reward policy for exportation, their application or their interpretation will remain in effect or will not be subject to change. In the event that we are required to pay higher income tax rate, or we are unsuccessful in our application for the tax rebate and tax reward, our profit margin may be affected.

(vi) Foreign exchange exposure

Our Group carries out its business operations in the PRC and purchases raw materials from local suppliers, as such our cost of goods sold and operating expenses are mainly denominated in RMB. However, we have business transactions in foreign currencies, which are primarily our products sold directly to overseas customers and denominated in USD.

To the extent that our revenue is not naturally matched in the same currency and to the extent that there are timing differences between invoicing and collection, as the case may be, we will be exposed to any adverse fluctuation of the RMB and USD.

We set out below the net foreign exchange losses/gain over the Financial Period under Review:-

	FYE 2006 RMB	FYE 2007 RMB	FYE 2008 RMB	FYE 2009 RMB	1H 2010 RMB
Net foreign exchange (Loss) / Gain	(159,116)	(266,025)	703,328	(767,870)	(23,893)
As a percentage of PBT (%)	0.4	0.3	0.6	0.5	0.03

	FYE 2006 RM	FYE 2007 RM	FYE 2008 RM	FYE 2009 RM	1H 2010 RM
Net foreign exchange (Loss) / Gain	(73,146)	(120,190)	338,934	(395,990)	(11,538)
As a percentage of PBT (%)	0.4	0.3	0.6	0.5	0.03

In 1H 2010, approximately 5% of our revenue was denominated in USD whilst the remaining revenue is denominated in RMB. Hence, our Broad believes that the impact of foreign exchange fluctuations will not significantly affect our profitability.

As at the LPD, we do not have a formal foreign currency hedging policy with respect to our foreign exchange exposure as our revenue denominated in USD is minimal. However, we will continue to monitor our foreign exchange exposure in the future and will consider formalising a hedging policy to manage our foreign exchange exposure should the need arise.

(vii) Impact of inflation / interest rates / commodity prices

For the fluctuation in prices of key raw materials, we believe that we are able to pass on any prolonged price increase of raw materials to our customers as our supply orders are based on purchase orders and not long term supply contracts.

There were no material impact of inflation, interest rates and commodity prices on our historical profits for the Financial Period under Review.

(viii) Exceptional and extraordinary items

There were no exceptional and extraordinary items for the Financial Period under Review.

(ix) Government / economic / fiscal / monetary policies

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in **Section 4** of this Prospectus.

There is no government, economic, fiscal or monetary policies or factors that have materially impacted our profits for the Financial Period under Review.

7.5 LIQUIDITY AND CAPITAL RESOURCES

7.5.1 Working Capital

Our operations are funded by a combination of internally generated funds and external bank borrowings. As at 30 June 2010, we have a healthy cash and cash equivalent balance of RMB151.4 million and an outstanding short term loan facility of RMB10.0 million. The principal uses of these funds and credit facility are for our daily working capital purposes such as purchases of raw materials and consumables, financing of trade receivables and payment of operating expenses.

As at 30 June 2010, we have total current assets of RMB436.5 million and current liabilities of RMB139.7 million, amounting to RMB296.8 million of net working capital and a current ratio of 3.1 times. The current assets comprise mainly of inventories, cash and bank balances and trade receivables. Please refer to **Section 7.5.10** of this Prospectus for the key financial ratios of our trade receivables, trade payables and inventories.

Our Directors are of the opinion that we have sufficient working capital for a period of twelve (12) months from the date of this Prospectus after taking into account our internal and external sources of funds, and the gross proceeds from the Public Issue.

7.5.2 Cash flow

We set out below a summary of our Group's cash flow for the 1H 2010:

	1H 2010	
	RMB'000	**RM'000**
Net cash from operating activities	50,679	24,472
Net cash used in investing activities	(491)	(237)
Net cash used in financing activities	(5,000)	(2,415)
Net increase in cash and cash equivalents	**45,188**	**21,820**
Effect of foreign exchange translation	(48)	(2,903)
Cash and cash equivalents at the beginning of period	106,222	53,313
Cash and cash equivalents at the end of the period	**151,362**	**72,230**

Our cash and bank balances are mainly held in RMB. For further information on the financial and legal restriction on the ability of our subsidiary to transfer funds to Maxwell in the form of cash dividends, loans or advances, please refer to **Appendix** B of this Prospectus for the opinion in relation to foreign investment policies, taxation, foreign exchange control and repatriation of profits out of PRC. In particular, you should note that in the PRC, foreign investment enterprises are not allowed to transfer funds abroad in foreign exchange to its investors in the form of loans and advances.

Subject to the above, and the summary of PRC laws and regulations as set out in **Appendix A** of this Prospectus, our directors are of the opinion that there are no economic restrictions on the ability of our subsidiary to transfer funds to our Company in the form of cash dividend and therefore do not foresee any difficulties in meeting our cash obligations.

<u>**Net cash from operating activities**</u>

In 1H 2010, we recorded a net cash inflow before working capital changes of approximately RMB85.2 million. After accounting for amongst others, the increase in inventories of approximately RMB11.2 million, the increase in receivables of approximately RMB61.0 million, the increase in payables of approximately RMB54.7 million and the payment for corporate income tax of approximately RMB16.8 million, our net cash generated from operating activities was approximately RMB50.7 million.

Net cash used in investing activities

In 1H 2010, our cash flows used in investing activities amounted to approximately RMB0.5 million, which arose from purchase of property, plant and equipment of RMB0.6 million after offsetting the proceeds from the disposal of property, plant and equipment amounting to RMB0.1 million. Our Group's investment activities in the immediate future will primarily consist of investment into new production lines to cater for the demand of our sports shoes and upgrading works on our existing facilities. This will be funded by proceeds from our IPO and internally generated funds. Please refer to **Section 3.7** and **Section 5.12** of this Prospectus for more details.

Net cash used in financing activities

In 1H 2010, our net cash outflow from financing activities amounted to approximately RMB5.0 million due to repayment of short term loans for working capital purpose.

7.5.3 Borrowings

As at 30 June 2010, the total outstanding bank borrowings are as follows:-

	RMB'000	RM'000
Short Term (*Due within 12 months*)		
Term loan	10,000	4,772
Long Term (*Due after 12 months*)		
Term loan	-	-
Total interest-bearing borrowings	10,000	4,772
Gearing ratio of Maxwell Group (prior to the IPO)[(1)]	0.03	0.03
Gearing ratio after the IPO and utilisation of proceeds[(2)]	0.02	0.02

Notes:-

(1) *Computed based on total borrowings as at 30 June 2010 divided by our Group's shareholders' funds of RMB362.8 million (equivalent to RM173.1 million).*

(2) *Computed based on total borrowings as at 30 June 2010 divided by our Group's proforma shareholders' funds of RMB415.7 million (equivalent to RM198.4 million) upon completion of the IPO.*

Our Group's borrowings comprise short-term credit facility denominated in RMB, with an interest rate of 6.42% to 6.64% per annum as at 30 June 2010. We do not have any foreign borrowings.

We have not defaulted on any payments on either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year immediately preceding the date of this Prospectus and the subsequent financial period up to the LPD.

We are not in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loans which could materially affect our financial position and results of business operations or the investment by our shareholders.

7.5.4 Type of financial instruments used

As at LPD, we do not have nor are we using any financial instruments.

7.5.5 Capital Expenditures

The material expenditures for capital investment made by our Group for the Financial Period under Review were as follows:

	FYE 2008		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Plant and machinery	(1)459	207	(2)696	316	(3)6,174	3,139	(4)662	341	78	38
Furniture, fittings and office equipment	148	67	18	8	(5)1,751	890	47	24	77	37
Motor vehicles	5	2	133	60	765	389	-	-	216	104
Renovation	-	-	-	-	(5)384	195	-	-	(7)218	105
Leasehold Buildings(6)	1,920	866	13,388	6,070	-	-	24	12	-	-
Total	**2,532**	**1,142**	**14,235**	**6,454**	**9,074**	**4,613**	**733**	**377**	**589**	**284**

Notes:-

(1) *The capital expenditures on plant and machinery in FYE 2006 mainly related to the acquisition of the third production line (which was a used production line) and replacement of some of the older machineries.*

(2) *The capital expenditures in FYE 2007 mainly related to the acquisition of additional sewing machineries in line with the increase in production capacity from the third production line and further enhancement to the existing plant and machineries.*

(3) *The capital expenditures for the FYE 2008 mainly related to the (i) acquisition of the fourth production line amounting to approximately RMB2.0 million (RM1.0 million); (ii) major overhaul works involving the upgrade of the first production line to infrared technology amounting to approximately RMB2.0 million (RM1.0 million); and (iii) acquisition of a small D&D production line for purposes of producing shoe samples amounting to approximately of RMB1.1 million (RM0.55 million).*

(4) *The capital expenditures on plant and machinery in FYE 2009 mainly related to the replacement of some of the older machineries.*

(5) *The capital expenditure on the furniture, fittings and office equipment, and renovation in FYE 2008 mainly relate to the upgrading/ expansion works in the factory and renovation costs in the leased office/ showroom.*

(6) *For the FYE 2007, we built a new block of dormitory building for our employees.*

(7) *For the 1H 2010, the renovation costs mainly related to renovation of existing dormitory buildings for our employees.*

For the abovementioned period, our Group's capital expenditure was focused primarily on plant and machinery in line with our continuous effort to expand, upgrade and improve our production capacity.

7.5.6 Divestments

We did not make any material divestment of assets for the Financial Period under Review.

7.5.7 Material Commitments

As at the date of this Prospectus, our Directors are not aware of any other capital commitments for capital expenditures that may have a material and adverse impact on our financial position.

7.5.8 Contingent Liabilities

As at the LPD, there are no material contingent liabilities incurred by our Group, which may have a substantial impact on the financial position of our Group.

7.5.9 Material Litigation

As at the LPD, neither we nor our subsidiary company are engaged in any material litigation or arbitration either as plaintiff or defendant that has a material effect on the financial position of our Group. Our Directors are not aware of any proceedings pending or threatened against us or our subsidiary company or of any facts likely to give rise to any proceedings that may materially affect our Group's position and business.

7.5.10 Other key financial ratios

The key financial ratios of our Group are as follows:-

	<------ FYE ------>				1H*	
	2006	2007	2008	2009	2009	2010
Trade receivables turnover period (days)	79	69	70	98	110	140
Trade payables turnover period (days)	68	46	36	38	66	64
Inventories turnover period (days)	100	39	12	4	7	8

* *Turnover period computed based on 181 days*

Trade receivables

Our normal credit terms granted to customers is 30 days to 120 days. Other credit terms are assessed and approved on a case-by-case basis. However, in respect of new customers, depending on our assessment of their creditworthiness, we may require an initial payment on their purchases before delivery of our products to them. For the 1H 2010, we recorded trade receivables turnover period of 140 days as the bulk of our sales was secured during the second quarter of 2010. Accordingly, the bulk of the trade receivables are within the normal credit period and has yet to be settled as at 30 June 2010.

As at 1H 2010, the trade receivables of our Group amounted to approximately RMB269.1 million which can be analysed as follows:-

	<------ Within credit period ------>				Exceed credit period		
Aa at 30 June 2010	30 days	31-60 days	61-90 days	91-120 days	121-150 days	Over 150 days	Total
Trade receivables (RMB'000)	84,199	79,667	63,838	41,366	-	-	**269,070**
Trade receivables (RM'000)	40,180	38,017	30,464	19,739	-	-	**128,400**
% of total trade receivables	31.3	29.6	23.7	15.4	-	-	**100.0**

As at the LPD, all of the trade receivables as at 1H 2010 have been fully collected. We monitor all outstanding debts closely to ensure that adequate provision may be made in the event that the recovery of any debt appears doubtful. The quantum of such provision is dependent on the duration for which the debt is overdue as well as our assessment of the likelihood that such debt may be unrecoverable.

Trade payables

Credit terms granted to us by our suppliers vary from supplier to supplier and are dependent, amongst others, on our relationship with the particular supplier and the size of our purchases. The usual credit terms extended to us by our trade suppliers generally range between 30 to 90 days. We typically pay within the given credit period.

Our trade payables turnover period is within the normal credit period and has been gradually improving over the past four (4) financial years up to 2009. This improvement was mainly due to early payments made to suppliers in order to enjoy better discounts. The faster payment was also in line with our strengthening cash flow position.

As at 30 June 2010, the trade payables of our Group amounted to approximately RMB104.0 million which can be analysed as follows:-

As at 30 June 2010	Within the credit period			Exceed credit period	Total
	30 days	31-60 days	61-90 days		
Trade payables (RMB'000)	46,473	57,503	-	-	**103,976**
Trade payables (RM'000)	22,177	27,440	-	-	**49,617**
% of total trade payables	44.7	55.3	-	-	**100.0**

Inventories

Our inventory comprises mainly of raw materials, semi-finished products and finished products. Our raw materials mainly consist of leather, fabrics, PU, PVC and sole units comprising the midsole and outsole.

Prior to January 2008, we had purchased our raw materials based on forecasted production volumes. Consequently, we recorded relatively high inventory levels and high inventory turnover as at 31 December 2006 and 2007 due to the over-estimation of our raw material requirements and purchases.

We had with effect from January 2008 implemented a new inventory management policy wherein we maintain a production schedule, and purchase raw materials based on confirmed customer orders to keep the inventory levels low. We do not maintain any inventory ageing report due to our low inventory turnover. However, as an additional control measure, our Production Department, Purchasing Department and Sales and Marketing Department will meet weekly to ensure that the raw materials are delivered on time and our customers' expectations on delivery of the completed product is met.

Our low inventory turnover period is also supported by the fact that we obtain all of our raw material supplies from suppliers within the Fujian Province, a place which is renowned as one of the world's largest sports shoe manufacturing hubs. At the same time as almost all of our sales are to customers located at close proximity, we are able to deliver our finished products almost immediately upon completion.

For reference and information only, we have set out below, the inventory turnover period of some of the overseas public listed companies principally engaged in manufacturing of sports shoes for third party brand names. Please note however, that the overseas companies (which may not be exhaustive) may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. As such comparisons made in respect of the selected companies serve only as a reference, and may not be exhaustive.

	Listed Exchange	FYE	Inventory turnover period (days)[2]
Maxwell	-	31.12.09	4
Feng Tay Enterprise Co Ltd	TWSE	31.12.09	49
KTP Holdings Limited	HKSE	31.3.10	76
Pegasus International Holdings Ltd	HKSE	31.12.09	192
Symphony Holdings Limited	HKSE	31.12.09	56
Yue Yuan Industrial (Holdings) Ltd	HKSE	30.9.09	68

TWSE = Taiwan Stock Exchange; HKSE = Hong Kong Stock Exchange

Notes:
1) *Source: Companies' annual report.*
2) *Inventory turnover period = (Average year-end inventory balances / cost of sales) x 365 days.*

Management believes that the difference in inventory turnover period is due to the following:

a) the above companies may have different inventory management policies;
b) Maxwell has low inventory balances as at 31 December 2008 and 31 December 2009; and
c) some of the above companies have manufacturing operations in multiple locations across different countries, different raw material procurement practices as well as different logistical and delivery arrangements with their suppliers and customers.

7.6 TREND INFORMATION

Based on our track record for the Financial Period under Review, including our segmental analysis of revenue and profitability, our Board observes and anticipates the following trend:-

(a) We anticipate revenue and demand for our sports shoes to remain favourable as a result of our continued efforts to increase our sales and marketing activities, our active participation in domestic and overseas trade fairs and efforts taken to enhance our product D&D. In the longer term, we expect our revenue to be driven by an increase in production volume as we step-up our capacity utilisation rate and add new production lines to complement our existing production facilities.

(b) Our cost of raw materials for sports shoes generally fluctuates in tandem with the movement of oil prices and labour costs. We do not foresee a significant fluctuation in the cost of raw materials in the near term.

(c) We expect labour costs to rise in tandem with the strength and growth of the PRC economy. However, as our sales volume increases, we expect to leverage on our economies of scale whilst at the same time consider outsourcing production of certain shoe designs to better manage overall costs.

(d) The ASP has generally been on an increasing trend for the Financial Period under Review. We believe ASP will rise in tandem with increasing production costs as we have generally been able to pass on cost increases to our customers in the past. The increase in ASP is also underpinned by the growing affluence and wealth of the local population.

(e) We have recorded fairly consistent overall GP margins of 27.2%, 28.0%, 28.5%, 29.9% and 29.7% for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. Our Board believes that the aforementioned GP margin range is maintainable and is not aware of any circumstances which would result in a significant decline in our overall GP margin, save as disclosed in **Section 7.4.2** of this Prospectus,

(f) Our main components of administrative, selling and distribution expenses and other operating expenses include employee salaries, depreciation charges, sales and marketing expenses, and provision of doubtful debts. We have not witnessed any significant fluctuation in the abovementioned expenses in the past and believe that such expenses will not materially affect our profitability in the future. Such expenses are generally expected to move in tandem with the growth of our business, as we increase our expenditure on recruitment and/or incur further cost in D&D to improve our product range.

(g) In the near term and similar to FYE 2009, we expect to maintain our current level of outsourced shoe production at between 40% to 45% based on total number of sports shoes sold per annum. However, the longer term trend for outsourced production would depend on the level of demand we envisage for our products, our ability to cope with the sales orders with different specifications and designs, efforts taken to step-up capacity utilisation rate and the decision to acquire new production lines in the next two (2) years.

Save as disclosed above, including our Management's Discussion and Analysis of Financial Conditions and Results of Operations, **Section 4**, **Section 5** and **Section 6** of this Prospectus, our Board believes that barring any unforeseen circumstances, there are no other significant known trends, uncertainties, demand, commitments or events that are reasonably likely to have a material favourable or unfavourable impact on our financial performance, position and operations of our Group, or that would cause financial information disclosed in this Prospectus to be not indicative of our future operating results and financial condition.

7.7 DIVIDEND POLICY

We currently do not have a formal dividend policy and have not declared or paid any dividends on our Shares since our incorporation. There can be no assurance that dividends will be paid in the future or as to the timing of any dividends that are to be paid in the future. The declaration and payment of future dividends will depend upon our operating results, financial conditions, other cash requirements including capital expenditure, the terms of borrowing arrangements (if any), dividend yield of comparable companies (if any) listed in Malaysia and other factors deemed relevant by our Directors.

Subject to the above, our Directors intend to recommend and distribute dividends of not less than 20% of our net profits attributable to our Shareholders for FYE 2010 and FYE 2011 (the "Proposed Dividend"). Our Company will declare dividends, if any, in RMB and make payment of the dividend in RM. However, investors should note that all the foregoing statements, including the statements on the Proposed Dividend, are merely statements of our present intention and shall not constitute legally binding statements in respect of our future dividends which may be subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion. Investors should not treat the Proposed Dividend as an indication of our Group's future dividend policy. No inference should or can be made from any of the foregoing statements as to our actual future profitability or ability to pay dividends in any of the periods discussed.

Information relating to taxes payable on our dividends is set out in **Appendix B** of this Prospectus. Please refer to **Section 4.2.4** of this Prospectus for risks relating to payment of dividends.

(Prepared for inclusion in this Prospectus)

BAKER TILLY
MONTEIRO HENG
Chartered Accountants (AF 0117)

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18 OCT 2010

The Board of Directors
Maxwell International Holdings Berhad
24-3, Jalan Tun Sambanthan 3
50470 Kuala Lumpur
Malaysia

STRICTLY CONFIDENTIAL

Dear Sirs,

MAXWELL INTERNATIONAL HOLDINGS BERHAD
ACCOUNTANTS' REPORT

---

1. INTRODUCTION

This report has been prepared by Baker Tilly Monteiro Heng, an approved company auditor, for inclusion in the Prospectus of Maxwell International Holdings Berhad ("Maxwell") for inclusion in the Prospectus of Maxwell in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of Maxwell of RM160,000,000 comprising 400,000,000 Maxwell ordinary shares of RM0.40 each ("Maxwell Share(s)") on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), and should not be relied upon for any other purposes.

2. DETAILS OF THE LISTING SCHEME

The listing scheme comprises of the following:-

2.1 Public Issue

In conjunction with the Proposed Listing, Maxwell proposes to undertake a public issue of 63,750,000 new Maxwell Shares, representing 15.94% of the enlarged issued and paid-up share capital of Maxwell, allocated in the following manner:-

(a) 43,750,000 Maxwell Shares, representing 10.94% of the enlarged issued and paid-up share capital of Maxwell made available for private placement to selected investors; and

2. LISTING SCHEME (Continued)

2.1 Public Issue (Continued)

(b) 20,000,000 Maxwell Shares, representing 5% of the enlarged issued and paid-up share capital of Maxwell made available for application by the Malaysian Public.

(Collectively herein after referred to as "the Public Issue")

2.2 Proposed Listing

Upon the completion of the Public Issue, Maxwell proposes to seek the listing of and quotation for its entire enlarged issued and paid-up share capital of RM160,000,000 comprising 400,000,000 Maxwell Shares on the Main Market of Bursa Securities ("the Proposed Listing").

3. GENERAL INFORMATION

3.1 Background Information

Maxwell was incorporated in Malaysia under the Companies Act, 1965 as a public limited liability company on 3 November 2009 under its present name. The principal activity of Maxwell is investment holding. Further details on its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes"), are set out in paragraph 3.3 below.

3.2 Share Capital of Maxwell

At the date of incorporation, the authorised share capital of Maxwell was RM500,000,000 comprising 1,250,000,000 ordinary shares of RM0.40 each. At that date, the issued and paid up share capital of Maxwell was RM2.00 comprising five (5) ordinary shares of RM0.40 each.

The movements in the issued and paid-up share capital of Maxwell since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares of RM0.40 each Allotted	Par Value RM	Consideration	Cumulative Issued and Paid-up Share Capital RM
3-11-2009	5	0.40	Subscribers' shares	2
8-12-2009	336,249,995	0.40	Acquisition of Zhenxing Shoes	134,500,000

Upon completion of the Public Issue as detailed in Section 2.1, the issued and paid-up share capital of Maxwell will be enlarged to RM160,000,000 comprising 400,000,000 Maxwell Shares.

3. GENERAL INFORMATION (Continued)

3.3 Subsidiary of Maxwell

The details of the subsidiary, Zhenxing Shoes at the date of this report, which was incorporated in Jinjiang City, Fujian Province, the People's Republic of China (中国福建省晋江市竹树下工业区), are as follows:

Date of Incorporation	Registered and Paid-up Capital RMB	Effective Equity Interest %	Principal Activity
23 June 1999	59,655,346	100	An original design manufacturer (ODM) and original equipment manufacturer (OEM) manufacturing company specialising in the design and manufacturing of sport shoes

4. DIVIDENDS

No dividends have been paid or declared by Maxwell since its date of incorporation.

Details of dividends declared by Zhenxing Shoes for the financial years under review are set out in Section 9.3.5(u).

5. AUDITORS AND AUDITED FINANCIAL STATEMENTS

The financial year end of Maxwell and its subsidiary, Zhenxing Shoes is 31 December.

Messrs. Baker Tilly Monteiro Heng was appointed as the auditors of Maxwell since the date of its incorporation.

The financial statements of Zhenxing Shoes prepared for reporting purposes in the People's Republic of China ("PRC") for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were audited by Xiamen Huafeng Associated, Certified Public Accountants of the PRC. The financial statements for the abovementioned four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were reported on by the PRC auditors without any qualifications or modifications.

In connection with the Proposed Listing, Baker Tilly Monteiro Heng was appointed by the directors to conduct a special audit on the financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006 to 31 December 2009 and the six (6) months financial period ended 30 June 2010 in accordance with Malaysian Approved Standards on Auditing. The audited financial statements were prepared by the management and the director of Zhenxing Shoes in accordance with the Financial Reporting Standards in Malaysia, for the purpose of submission to the Securities Commission in relation to the Proposed Listing. The audited financial statements of Zhenxing Shoes used in the preparation of this report for the financial years/periods under review were not subject to any qualifications or modifications.

5. AUDITORS AND AUDITED FINANCIAL STATEMENTS (Continued)

The audited financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, which were used in the preparation of this report, were not subject to any qualifications or modifications.

6. CONVERSION RATE

The financial information of Maxwell and its subsidiary ("Maxwell Group") is measured using the currency of the primary economic environment in which the Maxwell Group operates. The functional currency of the Maxwell Group is Chinese Renminbi. For the preparation of this report, the financial information stated in Chinese Renminbi (RMB) has been converted to Ringgit Malaysia (RM) for information purposes only.

The exchange rates used for the purpose of this report are as follows:-

(i) Statement of comprehensive income (based on average of the exchange rates on the last day of each month during the financial years/periods under review)

Financial Year Ended ("FYE")/ Financial Period Ended ("FPE")	Exchange Rate
FYE 31 December 2006 ("FYE 2006")	RMB1 : RM0.4597
FYE 31 December 2007 ("FYE 2007")	RMB1 : RM0.4518
FYE 31 December 2008 (FYE 2008")	RMB1 : RM0.4819
FYE 31 December 2009 (FYE 2009")	RMB1 : RM0.5157
FPE 30 June 2010 ("1H 2010")	RMB1 : RM0.4829

(Source: Bank Negara Malaysia)

(ii) Balance sheets (based on the closing rates at the respective reporting dates)

Reporting Date	Exchange Rate
As at 31 December 2006	RMB1 : RM0.4511
As at 31 December 2007	RMB1 : RM0.4534
As at 31 December 2008	RMB1 : RM0.5084
As at 31 December 2009	RMB1 : RM0.5019
As at 30 June 2010	RMB1 : RM0.4772

(Source: Bank Negara Malaysia)

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been adopted by the Maxwell Group and used consistently in dealing with items which are considered material in the preparation of the audited consolidated financial statements for the financial years/periods under review, which have been prepared in accordance with the Financial Reporting Standards ("FRS") in Malaysia. These policies have been consistently applied to all the financial years/periods presented except for the adoption of new and revised FRSs, amendments/improvements to FRSs and IC Interpretations ("IC Int") that are mandatory for the Maxwell Group for the financial period beginning 1 January 2010 as disclosed in Note 7B.

A. BASIS OF PREPARATION

The financial statements of the Maxwell Group have been prepared in accordance with the FRS and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements of the Maxwell Group have been prepared under the historical cost basis, except as disclosed herein.

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires the directors' best knowledge of current events and actions, and therefore actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 8.

B. NEW AND REVISED FRS, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INTERPRETATIONS ("IC Int")

(i) Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int

On 1 January 2010, the Maxwell Group adopted the following new and revised FRSs, amendments/improvements to FRSs and IC Int mandatory for annual financial period beginning on or after 1 January 2010.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)**

(i) **Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)**

New FRSs

FRS 4	Insurance Contracts
FRS 7	Financial Instruments : Disclosures
FRS 139	Financial Instruments : Recognition and Measurement

Revised FRSs

FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs

Amendments/Improvements to FRSs

FRS 1	First time Adoption of Financial Reporting Standards
FRS 2	Share-Based Payment
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 107	Statement of Cash Flows
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Reporting Period
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 123	Borrowing Costs
FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate
FRS 128	Investment In Associates
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Presentation
FRS 134	Interim Financial Reporting
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 139	Financial Instruments : Recognition and Measurement
FRS 140	Investment Property

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)**

(i) **Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)**

IC Int	
IC Int 9	Reassessment of Embedded Derivatives
IC Int 10	Interim Financial Reporting and Impairment
IC Int 11	FRS 2 – Group and Treasury Share Transactions
IC Int 13	Customer Loyalty Programmes
IC Int 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new and revised FRSs, amendments/ improvements to FRSs and IC Int do not have any material impact on the financial performance or position of the Maxwell Group except for those as discussed below:-

FRS 7 Financial Instruments: Disclosure

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Maxwell Group has applied FRS 7 prospectively in accordance with the transitional provisions. Hence the new disclosures have not been applied to the comparatives.

FRS 101 Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. This revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes equity presented as a single line. This standard also introduces the statement of comprehensive income, with all items of income and expense recognised directly in the statement of comprehensive income, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or two linked statements. The Maxwell Group has elected to present the statement of comprehensive income in single statement.

The revised FRS 101 was adopted retrospectively by the Maxwell Group. The change in accounting policy only impacts presentation aspects.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)**

(i) **Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)**

FRS 139 Financial Instruments: Recognition and Measurement

The Maxwell Group has adopted FRS 139 prospectively in accordance with the transitional provisions in FRS 139 for recognising and measuring financial assets and financial liabilities as at 1 January 2010.

(ii) **New and Revised FRSs, Amendments/Improvements to FRSs and IC Int that are issued, not yet effective and have not been adopted early**

The Maxwell Group has not adopted the following new and revised FRSs, amendments/improvements to FRSs and IC Int that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Maxwell Group:-

		Effective for financial periods beginning on or after
Revised FRS		
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 127	Consolidated and Separate Financial Statements	1 July 2010
Amendments/Improvements to FRSs		
FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2011
FRS 2	Share-based Payment	1 July 2010
FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
FRS 7	Financial Instruments: Disclosure	1 January 2011
FRS 132	Financial Instruments: Presentation	1 March 2010
FRS 138	Intangible Assets	1 July 2010
IC Int		
IC Int 4	Determining whether an Arrangement contains a Lease	1 January 2011
IC Int 12	Service Concession Arrangements	1 July 2010
IC Int 15	Agreements for the Construction of Real Estate	1 January 2010
IC Int 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Int 17	Distributions of Non-Cash Assets to Owners	1 July 2010
IC Int 18	Transfers of Assets from Customers	1 January 2011

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)**

(ii) **New and Revised FRSs, Amendments/Improvements to FRSs and IC Int that are issued, not yet effective and have not been adopted early (Continued)**

		Effective for financial periods beginning on or after
<u>Amendment to IC Int</u>		
IC Int 9	Reassessment of Embedded Derivatives	1 July 2010

The initial application of the above new and revised FRSs, amendments/improvements to FRSs and IC Int are not expected to have any material impact on the financial statements of the Maxwell Group or any material changes in accounting policy.

C. **BASIS OF CONSOLIDATION**

(i) **Subsidiary**

Subsidiary is the entity in which the Maxwell Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Maxwell Group controls another entity.

In Maxwell's separate financial statements, investment in subsidiary is stated at costs less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 7J. On disposal of such investments, the difference between the net disposal proceeds and their carrying amount is included in the statement of comprehensive income.

(ii) **Basis of Consolidation under Common Control Business Combination**

The consolidated financial statements include the financial statements of Maxwell and its subsidiary made up to the end of the financial years/periods. The financial statements of the parent and its subsidiary are all drawn up at the same reporting date.

The acquisition of 100% equity in Zhenxing Shoes pursuant to the restructuring under common control has been accounted for using the merger method of consolidation. A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **BASIS OF CONSOLIDATION (Continued)**

(ii) **Basis of Consolidation under Common Control Business Combination (Continued)**

Under the merger method, components of financial statements of the combining entities or businesses for the reporting periods in which the common control combination occurs are included in the consolidated financial statements of the consolidated entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The cost of the merger should be cancelled against the nominal values of the shares/paid-up capital received. The difference between the cost of the merger and nominal values of the shares/paid-up capital received will remain and continue to be classified as part of equity of the Maxwell Group and will be adjusted against suitable reserve in future, where appropriate. Balances and transaction and resulting unrealised profits between the combining entities are eliminated, if any. Unrealised losses resulting from intra-group transactions are also eliminated unless costs cannot be recovered.

D. **CURRENCIES**

(i) **Functional and Presentation Currency**

The individual financial statements of each entity in the Maxwell Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Maxwell Group is Chinese Renminbi. The financial statements are presented in Ringgit Malaysia, which is the Maxwell Group's presentation currency.

(ii) **Foreign Operations**

The results and financial position of the subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:-

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- all exchange differences are recognised directly in other comprehensive income.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 7J.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Maxwell Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income as incurred.

Property, plant and equipment are depreciated on a straight line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets concerned. The estimated useful lives used for this purpose are as follows:-

Plant and machinery	5 – 10 years
Office equipment	5 years
Motor vehicles	5 years
Renovation	5 years
Buildings	50 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. The effects of any revisions of the residual values and useful lives are included in the statement of comprehensive income for the financial years/period in which the changes arise.

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the financial years/period the asset is derecognised.

F. **PREPAID LEASE PAYMENTS**

Leasehold land that normally has a finite economic life and title is not expected to pass to the lessee by the end of lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments which are amortised to the statement of comprehensive income over the lease term in accordance with the pattern of benefits provided. The prepaid lease payments are amortised over a lease term of 50 years and expiring in year 2049 and 2056 respectively.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Costs comprise direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined using first-in-first out basis.

Net realisable value represents the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

H. FINANCIAL INSTRUMENTS

(i) Financial Assets

Initial Recognition
Financial assets within the scope of FRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity financial assets, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Maxwell Group determines the classification of its financial assets at initial recognition. Financial assets are recognised on the statement of financial position when, and only when the Maxwell Group becomes a party to the contracted provisions of the financial instruments.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Maxwell Group commits to purchase or sell the asset. The Maxwell Group's financial assets include cash and cash equivalents, trade and other receivables.

Subsequent Measurement
The subsequent measurement of financial assets depends on their classification as follows:-

(i) ***Financial Assets at Fair Value Through Profit or Loss***
Financial assets at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income.

(ii) ***Loans and Receivables***
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method less impairment.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. **FINANCIAL INSTRUMENTS (Continued)**

(i) **Financial Assets (Continued)**

Subsequent Measurement (Continued)

(iii) ***Held-to-Maturity Financial Assets***
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Maxwell Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the EIR method less impairment. The losses arising from impairment are recognised in the statement of comprehensive income.

(iv) ***Available-for-Sale Financial Assets***
Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of comprehensive income. Available-for-sale financial assets are measured at cost if the fair value of the unquoted equity instrument cannot be reliably measured.

(ii) **Financial Liabilities**

Initial Recognition
Financial liabilities within the scope of FRS 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Maxwell Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Maxwell Group's financial liabilities include trade payables, other payables and short-term loans.

Subsequent Measurement
The subsequent measurement of financial liabilities depends on their classification as follows:-

(i) ***Financial Liabilities at Fair Value Through Profit or Loss***
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. **FINANCIAL INSTRUMENTS (Continued)**

(ii) **Financial Liabilities**

Subsequent Measurement (Continued)

(ii) ***Loans and Borrowings***
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR method amortisation process.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Maxwell Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

I. **SHARE CAPITAL**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the reporting date. A dividend proposed or declared after the reporting date, but before the financial statements are authorised for issue, is not recognised as a liability at the reporting date.

J. **IMPAIRMENT**

(i) **Financial Assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Maxwell Group on terms that the Maxwell Group would not considers otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. IMPAIRMENT (Continued)

(i) Financial Assets (Continued)

The Maxwell Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Maxwell Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in statement of comprehensive income and reflected in an allowance account against receivables. When the trade receivables become uncollectible, it is written off against the allowance accounts. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date and the amount of reversal are recognised as profit or loss in the statement of comprehensive income.

(ii) Non-financial Assets

The carrying amounts of the Maxwell Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis.

An impairment loss is recognised in the statement of comprehensive income in the period in which it arises. An impairment loss for an asset is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed its carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the statement of comprehensive income.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. EMPLOYEE BENEFITS

(i) **Short Term Employee Benefits**

Wages, salaries, bonuses and non-monetary benefits are recognised as an expense in the financial years / period in which the associated services are rendered by the employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave and maternity leave are recognised when absences occur.

(ii) **Post-Employment Benefits**

The Maxwell Group contributes to Employees' Provident Fund, the national defined contribution plan. The contributions are charged to statement of comprehensive income in the period to which they are related. Once the contributions have been paid, the Maxwell Group has no further payment obligations.

Pursuant to the relevant laws and regulations of the PRC, Zhenxing Shoes, a wholly-owned subsidiary of Maxwell, has joined a basic pension insurance scheme for the employees arranged by local Labour and Social Security Bureau, whereby Zhenxing Shoes makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment on the basic pension benefits to the retired employees.

L. REVENUE RECOGNITION

The Maxwell Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Maxwell Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Maxwell Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) **Sales of goods**

Revenue is recognised upon delivery of products and customers' acceptance, net of sales tax, discounts and returns and when the significant risk and rewards of ownership have been passed to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. **REVENUE RECOGNITION (Continued)**

(ii) **Interest income**

Interest income is recognised on an accrual basis.

M. **BORROWING COSTS**

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction and production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowings costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised as an expense in the statement of comprehensive income in the period in which they are incurred. Borrowing costs consist of interest that the Maxwell Group incurred in connection with the borrowing of funds.

N. **TAXATION**

(i) **Current Tax**

The tax expense in the statement of comprehensive income represents the aggregate amount of current tax and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year/period and is measured using the tax rates that have been enacted at the balance sheet date.

(ii) **Deferred Tax**

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred tax assets, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. TAXATION (Continued)

(iii) Other Taxes

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

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

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

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

O. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past event and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Maxwell Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

P. CASH AND CASH EQUIVALENTS

For the purpose of cash flow statements, cash and cash equivalents comprise cash in hand, bank balances, deposits and demand deposits that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value, net of deposits pledged to financial institutions.

8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(1) Critical judgements in applying accounting policies

In the process of applying the Maxwell Group's accounting policies, the director is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements except for matter discussed below:

Basis of consolidation – business combination involving entities under common control

The Maxwell Group is regarded as a continuing entity resulting from the restructuring exercise, i.e. acquisition of 100% equity interests in Zhenxing Shoes, since the management of all the entities, which took part in the restructuring exercise was ultimately controlled by the same management and under the common controlling parties before and immediately after the restructuring exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decisions, and risk and benefits to the ultimate controlling parties that existed prior to the restructuring exercise, and that control is not transitory. The restructuring exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest method or merger. Accordingly, consolidated financial statements have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiary, which was under common control of the ultimate controlling parties and management that existed prior to the restructuring exercise during the relevant period or since their respective dates of incorporation.

(2) Key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below:-

8. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

(2) **Key sources of estimation uncertainty (Continued)**

(i) Depreciation of property, plant and equipment

Management estimates the useful life of the Maxwell Group's property, plant and equipment to be within 5 to 50 years. The Maxwell Group estimates the useful life of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment are reviewed periodically and are updated if expectations differ from the previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful life of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

The estimates for the useful life and related depreciation charges for its property, plant and equipment is based on commercial and production factors which could change significantly as a result of the level of usage, technical innovation and competitor actions in response to severe market conditions. Changes in those commercial and production factors could impact the economic useful life and the residual values of these assets and therefore future depreciation charges could be revised.

(ii) Impairment of non-current assets

The Maxwell Group reviews the carrying amount of its non-current assets, which include property, plant and equipment, prepaid lease payments and investment in a subsidiary, to determine whether there is an indication that those assets have suffered an impairment loss in accordance with relevant accounting policies on the respective category of non-current assets. Independent professional valuations to determine the carrying amount of these assets will be procured when the need arise.

As at the end of the financial period under review, the director is of the view that there is no indication of impairment to these assets and therefore no independent professional valuation was procured by the Maxwell Group during the financial year/period to determine the carrying amount of these assets.

(iii) Allowance for writedown in inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the carrying value of inventories.

8. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

(2) **Key sources of estimation uncertainty (Continued)**

(iv) Impairment on loan and receivables

The Maxwell Group assess at each reporting date whether there is any objective evidence that loan and receivables is impaired. To determine whether there is objective evidence of impairment, the Maxwell Group considers factors such as the profitability of insolvency or significant financial difficulties of the debtors and defaults or significant delays in payments.

Where there is objective evidence of impairment, the amount and timing of the future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(v) Income taxes

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

9. AUDITED FINANCIAL STATEMENTS

9.1 The Maxwell Group

The consolidated financial statements of the Maxwell Group for the FYE 2009 have been prepared on the basis of pooling of interest method or merger accounting, where the financial statements of Maxwell and its subsidiary, Zhenxing Shoes, have been included in the consolidated financial statements as if they have been in effect since the beginning of the current financial year, i.e. 1 January 2009.

9.1.1 The audited consolidated statements of comprehensive income of the Maxwell Group for the FYE 2009 and 1H 2010 are as follows:-

		FYE 2009		1H 2010	
	Note	RMB'000	RM'000	RMB'000	RM'000
Revenue	9.1.5(a)	583,718	301,023	307,434	148,460
Cost of sales		(409.406)	(211,130)	(215,993)	(104,303)
Gross profit		174,312	89,893	91,441	44.157
Other income	9.1.5(b)	523	270	159	77
Selling and distribution expenses		(1,811)	(934)	(1,104)	(533)
Administrative expenses		(11,779)	(6,075)	(6,538)	(3.157)
Other expenses		(922)	(476)	(345)	(167)
Finance costs	9.1.5(c)	(788)	(406)	(432)	(209)
Profit before taxation	9.1.5(d)	159,535	82,272	83,181	40,168
Taxation	9.1.5(f)	(40,801)	(21,041)	(21,218)	(10.246)
Net profit for the financial year/ period		118,734	61.231	61,963	29,922
Other comprehensive income					
Foreign currency translation differences for foreign operation		(74)	(955)	(161)	(7,865)
Total comprehensive income for the financial year/period		118,660	60,276	61,802	22,057
Gross profit margin (%)		29.86	29.86	29.74	29.74
Profit before taxation margin (%)		27.33	27.33	27.06	27.06
Effective tax rate (%)		25.57	25.58	25.51	25.51
Number of ordinary shares in issue at the end of the finanical year/ period ('000)		336,250	336,250	336,250	336,250
Gross earnings per share (RMB/RM)		0.47	0.24	0.49 ^	0.24 ^
Net earnings per share (RMB/RM)		0.35	0.18	0.37 ^	0.18 ^

^ *Annualised to twelve (12) months for comparison purposes.*

9. AUDITED FINANCIAL STATEMENTS (Continued)

9.1 The Maxwell Group (Continued)

9.1.2 The audited consolidated statements of financial position of the Maxwell Group as at 31 December 2009 and 30 June 2010 are as follows:-

	Note	As at 31 December 2009 RMB'000	As at 31 December 2009 RM'000	As at 30 June 2010 RMB'000	As at 30 June 2010 RM'000
Non-current assets					
Property, plant and equipment	9.1.5(g)	62,465	31,351	61,254	29,230
Prepaid lease payments	9.1.5(h)	4,735	2,376	4,674	2,230
Total non-current assets		67,200	33,727	65,928	31,460
Current assets					
Inventories	9.1.5(i)	4,088	2,052	15,328	7,315
Trade receivables	9.1.5(j)	207,866	104,328	269,070	128,400
Other receivables and prepayments	9.1.5(k)	947	475	740	353
Cash and bank balances	9.1.5(l)	106,222	53,313	151,362	72,230
Total current assets		319,123	160,168	436,500	208,298
TOTAL ASSETS		386,323	193,895	502,428	239,758
EQUITY AND LIABILITIES					
Equity attributable to equity holder of Maxwell					
Share capital	9.1.5(m)	267,210	134,500	267,210	134,500
Merger deficit	9.1.5(n)	(207,554)	(104,171)	(207,554)	(104,171)
Statutory reserve	9.1.5(o)	29,402	15,037	35,783	18,118
Foreign currency translation reserve	9.1.5(p)	(74)	(2,860)	(235)	(10,725)
Retained earnings		211,972	108,544	267,554	135,385
Total equity		300,956	151,050	362,758	173,107
Current liabilities					
Trade payables	9.1.5(q)	48,524	24,353	103,976	49,617
Other payables and accruals	9.1.5(r)	12,476	6,262	11,867	5,663
Short term loans	9.1.5(s)	15,000	7,529	10,000	4,772
Tax payable		9,367	4,701	13,827	6,599
Total current liabilities		85,367	42,845	139,670	66,651
Total liabilities		85,367	42,845	139,670	66,651
TOTAL EQUITY AND LIABILITIES		386,323	193,895	502,428	239,758

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9. AUDITED FINANCIAL STATEMENTS (Continued)

9.1 The Maxwell Group (Continued)

9.1.3 The audited consolidated statement of changes in equity of the Maxwell Group for the FYE 2009 and 1H 2010 are as follows:-

	← Non-Distributable							→	Distributable			
	Share Capital		Merger Reserve		Statutory Reserve		Foreign Currency Translation Reserve		Retained Earnings		Total Equity	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Balance at 1 January 2009 ^#	59.656	30.329	-	-	17.264	8.777	-	(1.905)	105.376	53.573	182.296	90.774
Total comprehensive income for the financial year	-	-	-	-	-	-	(74)	(955)	118.734	61.231	118.660	60.276
Transactions with owner:												
Issue of shares	*	*	-	-	-	-	-	-	-	-	*	*
Arising from the acquisition of Zhenxing Shoes	207.554	104.171	(207.554)	(104.171)	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	12.138	6.260	-	-	(12.138)	(6.260)	-	-
Total transactions with owners	207.554	104.171	(207.554)	(104.171)	12.138	6.260	-	-	(12.138)	(6.260)	-	-
Balance at 31 December 2009	267.210	134.500	(207.554)	(104.171)	29.402	15.037	(74)	(2.860)	211.972	108.544	300.956	151.050
Total comprehensive income for the financial period	-	-	-	-	-	-	(161)	(7.865)	61.963	29.922	61.802	22.057
Transactions with owner:												
Transfer to statutory reserve	-	-	-	-	6.381	3.081	-	-	(6.381)	(3,081)	-	-
Total transactions with owners	-	-	-	-	6.381	3.081	-	-	(6.381)	(3.081)	-	-
Balance at 30 June 2010	267.210	134.500	(207.554)	(104.171)	35.783	18.118	(235)	(10.725)	267.554	135.385	362.758	173.107

^ *The share capital balance as at 1 January 2009 represents the fully paid-up capital of Zhenxing Shoes.*
\# *For consolidation purposes, balance as at 1 January 2009 have been converted at the closing rate as at 1 January 2009.*
* *RMB4 (RM2).*

BAKER TILLY
MONTEIRO HENG