



特步國際控股有限公司 Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1368

GLOBAL OFFERING



*Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors
(in alphabetical order)*



IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other independent professional advisers.



Xtep International Holdings Limited

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(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	550,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	55,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	495,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$5.50 per Hong Kong Offer Share, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	1368

Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors



The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on or before 27 May 2008 or such later date as may be agreed by the Joint Global Coordinators and us, but in any event before 2 June 2008. The Offer Price will not be more than HK\$5.50 per Offer Share and is currently expected to be not less than HK\$4.05 per Offer Share unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$5.50 for each Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$5.50.

The Joint Global Coordinators (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered pursuant to the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us before 2 June 2008, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the US Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the US Securities Act. The Offer Shares are being sold outside the United States in offshore transactions in accordance with Rule 903 or 904 of Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to the certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Global Coordinators, on behalf of the Underwriters, have the right in certain circumstances, subject to the sole opinion of the Joint Global Coordinators, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 am (Hong Kong time) on the day on which dealings in the Shares first commence on The Stock Exchange of Hong Kong Limited. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

21 May 2008

EXPECTED TIMETABLE⁽¹⁾

Application lists open⁽²⁾11:45 am on Monday, 26 May 2008

Latest time for lodging **white**
and **yellow** Application Forms12:00 noon on Monday, 26 May 2008

Latest time for giving **electronic**
application instructions to HKSCC⁽³⁾12:00 noon on Monday, 26 May 2008

Latest time to complete electronic applications under
White Form eIPO service through the designated
website www.eipo.com.hk⁽⁴⁾11.30 a.m. on Monday, 26 May 2008

Latest time to complete payment of **White Form eIPO**
applications by effecting internet banking transfers)
or PPS payment transfer(s)12:00 noon on Monday, 26 May 2008

Application lists close12:00 noon on Monday, 26 May 2008

Expected Price Determination Date⁽⁵⁾Tuesday, 27 May 2008

Announcement of

- the level of applications in the Hong Kong Public Offer;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares

to the published in South China Morning Post (in English) and
Hong Kong Economic Times (in Chinese) on or beforeMonday, 2 June 2008

Results of allocations in the Hong Kong Public Offer
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of channels
(see paragraph headed "**Publication of Results**" in the section
headed "How to Apply for Hong Kong Offer Shares") fromMonday, 2 June 2008

Dispatch of share certificates on⁽⁶⁾ & ⁽⁸⁾Monday, 2 June 2008

Dispatch of refund cheques on⁽⁷⁾ & ⁽⁸⁾Monday, 2 June 2008

Dealings in Shares on the Stock Exchange to commence onTuesday, 3 June 2008

Notes:

(1) All times refer to Hong Kong local time.

EXPECTED TIMETABLE⁽¹⁾

- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 am and 12:00 noon on Monday, 26 May 2008, the application lists will not open or close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Monday, 26 May 2008, the dates mentioned in this section headed “Expected Timetable” may be affected. We will make a press announcement in such event.
- (3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Tuesday, 27 May 2008 and, in any event, before Monday, 2 June 2008. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us before Monday, 2 June 2008, the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.
- (6) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 am on Tuesday, 3 June 2008 provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.
- (7) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.
- (8) Applicants who have applied on **white** Application Forms for 500,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have indicated in their Application Forms that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 am to 1:00 pm on Monday, 2 June 2008. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Computershare Hong Kong Investor Services Limited at the time of collection. Applicants who have applied on **yellow** Application Forms for 500,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **yellow** Application Form applicants are the same as those for **white** Application Form applicants. Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the paragraph headed “Applying by giving electronic application instructions to HKSCC” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Cheques” in this prospectus.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed “Structure of the Global Offering” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Xtep International Holdings Limited solely in connection with the Hong Kong Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the application forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Joint Global Coordinators, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus and the appendices in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading domestic fashion sportswear enterprise in the PRC. Our Xtep brand is the largest domestic fashion sportswear brand in terms of revenue for 2007, and has a market share of approximately 3.4% in the total PRC sportswear market in 2007 according to Euromonitor International. The fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. Fashion sportswear is defined by Euromonitor International as a hybrid of casual sportswear, which caters to sports needs and is suitable for casual wear, and fashion wear. In particular, fashion sportswear places an emphasis on the combination of sports functions and fashion tastes and trends. We are primarily engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed to us in the PRC pursuant to the Disney License Agreement entered into on 1 November 2006, as amended on 1 January 2007.

Our business began in 1999 as an OEM enterprise which manufactured sports footwear products for various international brands. As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM products, we began to rebuild our business model to develop our own brands starting with our Xtep brand in 2002. We are one of the first sportswear enterprises in the PRC to position our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility, because we believe the market for fashion sportswear products has greater potential and such positioning differentiates us from major competitors. Since we launched our Xtep brand in 2002, it has grown to become the leading domestic fashion sportswear brand in the PRC. We believe the Xtep brand has become synonymous with trendy, innovative and high-quality fashion sportswear products in the PRC. Leveraging our success with Xtep brand, we began to implement a multi-brand strategy to diversify our product offering and launched the Disney Sport products and our Koling brand in the PRC in 2007. While the Disney Sport brand focuses on a range of sportswear with fun and casual designs that feature certain Disney images and characters, the Koling brand provides a more daring, bold and alluring style. This multi-brand strategy has allowed us to segment our target markets with unique brand names that cater and appeal to different consumer groups of different ages, disposable income levels, fashion tastes and preferences.

Our business model begins with the product design, research and development with each of our brands having its own dedicated in-house design team to design sportswear products that meet the tastes and preferences of target consumers. While we implement innovative and multi-faceted

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marketing strategies to promote our brands and our products, new products are usually introduced to our distributors and third-party retailers at our sales fairs, which are normally held four to six months ahead of the introduction of a new season's products to end consumers. Our distributors place most of their orders for these new products at the sales fairs, and we use these orders to determine production schedules for the applicable season. The products are then manufactured by us at our own production facility and/or by a sub-contractor or a contract manufacturer. The products are delivered to our distributors, which in turn either sell the products directly to consumers or on-sell the products to their respective third-party retailers for eventual sales to consumers.

We place great emphasis on meeting consumer demands for fashionable and trendy sportswear utilising the latest technologies and materials. We believe that our product design teams and research and development team, which in aggregate comprised approximately 370 staff as at 30 April 2008, have a proven track record in identifying and responding to market and fashion trends as well as applying new technologies for fashion sportswear. Each of our brands has its own dedicated in-house design team. We believe they are capable of designing trendy, innovative and fashionable sportswear products in a timely and cost-efficient manner to meet different consumer demands and tastes. We also have a research and development team that seeks to enhance the functionality and quality of our products with new technologies. For example, we have developed a spraying technology to apply nano-silver anti-bacterial chemicals (which are capable of killing 99% of the bacteria on which they are applied) to most of our footwear products. The function of nano-silver anti-bacteria chemicals upon application to our footwear products can last for more than approximately 40 times of washing.

We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. As at 31 March 2008, our extensive network of distributors comprised 28, 31 and 30 distributors for the Xtep, Disney Sport and Koling brands, respectively. As at 31 March 2008, these distributors in turn owned, directly operated or managed through third-party retailers 4,678, 265 and 50 Xtep, Disney Sport and Koling retail outlets, respectively. For the Disney Sport branded products, we are authorised to sell them to retailers and wholesalers in the PRC in particular through distribution channels that are subject to Disney (Shanghai)'s approval. All of our distributors and their retailers are Independent Third Parties and we have limited control over our distributors. We also have limited control over the prices at which our distributors or customers are willing to purchase our products as prices are driven mainly by economic factors such as demand and supply, and we do not enter into any agreement with our distributors which provide for a minimum purchase price by the distributors of our products. We believe our network allows us to penetrate into the mass market within the PRC.

We currently employ different distribution models for Xtep and Disney Sport products, as compared to Koling products. The distributors of Xtep and Disney Sport products are required to sell these branded sportswear products exclusively, while the distributors of our Koling branded products are not required to do so. In addition, while Xtep and Disney Sport products are sold at retail outlets operated by our distributors and third-party retailers, Koling branded products are sold only at retail outlets operated directly by our distributors.

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Our distributors are required to follow our pricing policies and adopt our standardised outlet design and layout, promotional equipment and marketing brochures, which we believe strengthen our brand recognition and help to build a consistent brand image and management nationwide. All distributors need our approval to determine the ideal locations for establishment of retail outlets, and we work closely with them to choose locations that have high retail traffic flow and exposure in order to improve our brand recognition and our revenues.

We believe our leading position among domestic brands in the PRC fashion sportswear market is attributable in part to our innovative and multi-faceted marketing strategies. We are one of the first in our industry in the PRC to deploy a marketing campaign using entertainment celebrities, who are popular among the Chinese-speaking communities around the world, rather than professional sports celebrities to promote our brands and products by attracting and appealing to trend-driven consumers. In addition, we also try to enhance our general brand exposure, in particular to sports enthusiasts, through our sponsorship of sports events. For example, we were the sole sports product partner of 中華人民共和國第十屆全國運動會 (the 10th National Games of China), the sole title sponsor of 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA)) and 全國男子籃球聯賽 (National Basketball League (NBL)). We are also participating in the promotion of the Beijing 2008 Olympic Games by being the sole sponsor of one of only four Olympic Trains, 特步號奧運列車 (Xtep Olympic Train), a passenger train operated by the Ministry of Railways of the PRC that services the Beijing-Shanghai route which has been decorated with various Xtep logos and trademarks and images relating to the Beijing 2008 Olympic Games. In addition, we are the only PRC sportswear enterprise that has successfully purchased television commercial airtime during all finals of the Beijing 2008 Olympic Games.

We have our own production facilities in Quanzhou, Fujian province, which enable us to control our production costs and product quality more effectively and to respond to consumer demand more quickly. We operated 8, 12 and 12 footwear production lines with capacity of approximately 7.9 million, 9.5 million and 11.5 million pairs of footwear products per annum as at 31 December 2005, 2006 and 2007, respectively. We commenced our own apparel production at the end of 2007 and we operated 12 apparel production lines with capacity of approximately one million pieces of apparel products per annum as at 31 December 2007. Our Directors confirm that the utilisation rates of our footwear production facility were approximately 98%, 100% and 83% for the three years ended 31 December 2005, 2006 and 2007, respectively, and the utilisation rate of our apparel production facility was approximately 100% for the year ended 31 December 2007. The utilisation rate of our footwear production facility decreased in 2007 because our Group chose to increase the outsourcing percentage of its footwear production in 2007 as the operation of the lean footwear production lines was at a trial stage during that time. "Lean footwear production lines" refers to a special manufacturing process and factory arrangement in which the layout and flow of the production line are designed in such a way that it minimises the need for warehousing of partially finished goods and shorten production cycle times. In addition, our Group chose not to fully utilise the additional production capacity in order to leave capacity for unexpected demand and seasonal fluctuation if needed. For the three years ended 31 December 2005, 2006 and 2007, we self-produced approximately 97.4%, 100% and 68.8% of our footwear products, respectively. For the same periods, approximately 2.6%, nil and 31.2%, respectively, of our footwear products were manufactured by sub-contractors and contract manufacturers. We commenced our own apparel production at the end of 2007 and, in line with our outsourcing strategy, we intend to continue to outsource some of our apparel production to

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sub-contractors and contract manufacturers. We also outsourced the production of all of our accessory products during the Track Record Period. We believe such outsourcing strategy has allowed us to adjust our product mix in a timely manner and on an asset-light basis, allowing us to capture more strategic opportunities.

We grew rapidly during the Track Record Period. Our revenue increased from RMB297.4 million for the year ended 31 December 2005 to RMB483.6 million for the year ended 31 December 2006, and to RMB1,364.9 million for the year ended 31 December 2007, representing a CAGR of approximately 114.2%. The significant growth of our revenue over the Track Record Period reflects the increased market demand and improved PRC economic conditions, and more importantly our strategic decision to focus on the sales of our branded products, which grew from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,259.1 million in 2007, representing 23.6%, 40.9% and 92.2% of our total revenue in 2005, 2006 and 2007, respectively. Our net profit also grew significantly from RMB8.2 million in 2005 to RMB50.1 million in 2006, and to RMB221.9 million in 2007.

We distribute our branded products through a number of sales channels. The following table sets out the breakdown of our revenue from the sales of our branded products by sales channel during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB '000	%	RMB '000	%	RMB '000	%
Distributors	23,705	33.7	164,742	83.4	1,175,236	93.3
Group's direct sales customers	46,625	66.3	32,864	16.6	81,894	6.5
Group's retail outlets	—	—	—	—	2,009	0.2
Total	<u>70,330</u>	<u>100.0</u>	<u>197,606</u>	<u>100.0</u>	<u>1,259,139</u>	<u>100.0</u>

OUR COMPETITIVE STRENGTHS

We are the leading domestic fashion sportswear enterprise in the PRC, where the fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. The following sets forth our key competitive strengths:

- Leading PRC fashion sportswear brand name
- Multi-brand product offerings
- Strong product design and development capabilities
- Innovative and multi-faceted marketing strategies
- Extensive nationwide distribution network in the PRC

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- Strong production capability
- Experienced management team

Our primary goal is to grow our business and increase market share by continuously building our market position as the leading provider of fashion sportswear products that appeal to a wide range of consumer segments in the PRC. The following sets forth elements of our key strategic initiatives:

- Continue to enhance our leading brand name
- Continue to reinforce our multi-brand advantage
- Continue to strengthen product design and development capabilities
- Expand and optimise our distribution network
- Continue to improve our management of production

RISK FACTORS

Our Group's operations are subject to a number of risks, a detailed discussion of which is set out in the section headed "Risk Factors" in this prospectus. These risks can be broadly classified into:

- Risks relating to our Group's business;
- Risks relating to the sportswear industry;
- Risks relating to conducting business in the PRC; and
- Risks relating to the Global Offering and our Shares.

Set out below is a list of the risks referred to above.

Risks relating to our Group's business

- Failure to effectively maintain or promote our brands may adversely affect our future success
- We may not be able to anticipate and respond in a timely manner to rapid changes in consumers' tastes in the PRC
- We are dependent on third-party distributors and third-party retailers over whom we have limited control for sales of our products to consumers and, to some extent, the promotion of our brands
- Selling prices of our products are subject to changes which may be beyond our control

SUMMARY

- We may not be able to accurately track the inventory level at our distributors and retail outlets
- The loss of, or significant decrease in, sales to our major customers could have a material adverse effect on our financial condition and results of operations
- We are heavily dependent on certain of our key executives, design and technical personnel. Our inability to attract, retain and motivate qualified personnel could adversely affect our business and growth prospects
- We face certain risks relating to the Disney License Agreement
- The Disney Sport and Koling brands have limited histories
- We have a limited operating history in the branded sportswear industry
- The use of trademarks or brands that are same as or similar to our trademarks or brands by other parties may have a negative impact on the goodwill, value and images of our brands
- We may not be able to adequately protect our intellectual property rights, which could harm our brands and our business
- Our business could be adversely affected by claims by third-parties for possible infringement of their intellectual property rights
- We are dependent on our sub-contractors and contract manufacturers for the production of a portion of our footwear, most of our apparel and all of accessory products. Any disruption to the supply of or unfavourable changes in the prices or quality of the finished products we source from, or terms of agreement with, sub-contractors or contract manufacturers could have a material adverse effect on our results of operations
- We may not be able to implement successfully our plans to expand production capacity and improve production efficiency, which would have a material adverse effect on our ability to execute our growth strategy
- Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations
- We are exposed to environmental liability. Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in China may cause us to incur additional capital expenditures
- Fluctuations in the price, availability and quality of raw materials could cause production delays and increase production costs

SUMMARY

- We may fail to execute our growth strategy or maintain our growth rate if we cannot adequately increase internal resources to manage our expanded business
- Historical financial performance should not be used as an indicator for our future financial performance
- We recorded negative operating cash flow in 2005 and 2006 and positive operating cash flow in 2007, and we cannot assure you that we will record positive operating cash flow again in the future
- If we are unable to optimise and adjust our product and business mix, our sales may fluctuate and our profit margins may decline substantially
- Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies
- Our owned properties in the PRC may be subject to legal irregularities
- Labour disputes could significantly affect our operations
- We may be exposed to product liability, property damage or personal injury claims, which may adversely affect our reputation and business
- We may be subject to penalties for our past loan advancing activities to an Independent Third Party

Risks relating to the sportswear industry

- We operate in a very competitive market and the intense competition we face may result in a decline in our market share and lower profit margins
- Our industry has historically experienced seasonality, which we expect to continue. This could cause our operating results to fluctuate

Risks relating to conducting business in the PRC

- Fluctuations in consumer spending caused by changes in macro economic conditions in the PRC may significantly affect our business and financial performance
- Changes in the laws, regulations and policies adopted by the PRC Government, including in relation to the environment, labour and taxation, may adversely affect our business, growth strategies, operating results and financial condition

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- Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Group
- Fluctuations in foreign exchange rates may adversely affect our financial condition and results of operations
- Any change in our tax treatment, including an unfavourable change in preferential corporate tax rates in the PRC, may have a negative impact on our operating results
- Gains on the sales of our Shares may become subject to PRC income taxes
- Dividends on our Shares may become subject to PRC income taxes
- It may be difficult to effect service of process on, or to enforce any judgements obtained outside the PRC against, our Directors or our senior management members who reside in the PRC
- The PRC legal system is not fully developed and has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors
- Our business could be adversely affected by intellectual property rights disputes
- Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business
- Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by our beneficial owners may adversely affect our business operations
- New labour laws in the PRC may adversely affect our results of operations

Risks relating to the Global Offering and our Shares

- There has been no prior public market for our Shares and an active trading market for our Shares may not develop
- The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders
- The sale or availability for sale of substantial amounts of our Shares could adversely affect their market price
- Prior dividend distributions are not an indication of our future dividend policy

SUMMARY

- The interests of our Controlling Shareholders may not always coincide with the interests of our Company and our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, public Shareholders' best interests
- Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future
- The costs of share options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme will adversely affect our results of operations and any exercise of the options granted may result in dilution to our Shareholders
- Information relating to the balance of inventory kept by, and average inventory turnover days of, the distributors of our branded products contained in this prospectus have not been independently verified or audited
- Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering

SUMMARY

SUMMARY FINANCIAL INFORMATION

The table below summarises the consolidated financial information of our Group for the three years ended 31 December 2007. The following summary consolidated income statements, balance sheets and cash flow information was derived from our Company's audited consolidated financial information prepared in accordance with HKFRS as set out in the accountants' report in Appendix I to this prospectus and you should read the entire accountants' report, including the notes thereto, included in Appendix I for more details.

Summary Consolidated Income Statements Information

	For the year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Revenue			
Footwear	294,817	441,948	849,135
Apparel	2,628	40,596	497,635
Accessories	—	1,018	18,177
	297,445	483,562	1,364,947
Cost of sales	(237,731)	(347,474)	(921,804)
Gross profit	59,714	136,088	443,143
Other income and gains	437	963	4,417
Selling and distribution costs	(29,251)	(56,153)	(119,414)
General and administrative expenses	(13,170)	(17,651)	(42,151)
Other operating expenses	(3,372)	(6,227)	(16,627)
Finance costs	(5,270)	(6,948)	(14,179)
Profit before tax	9,088	50,072	255,189
Tax	(877)	(3)	(33,311)
Profit for the year	8,211	50,069	221,878
Dividend	—	—	129,455
Earnings per Share attributable to equity holders of our Company			
Basic (RMB cents)	0.56	3.41	15.11
Diluted (RMB cents)	N/A	N/A	14.52

SUMMARY

Summary Consolidated Balance Sheets Information

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Assets			
Non-current assets	81,906	107,484	128,637
Current assets	234,024	414,918	774,890
Total assets	<u>315,930</u>	<u>522,402</u>	<u>903,527</u>
Equity and liabilities			
Current liabilities	183,813	335,035	405,808
Non-current liabilities	—	—	217,923
Total equity	<u>132,117</u>	<u>187,367</u>	<u>279,796</u>
Total liabilities and equity	<u>315,930</u>	<u>522,402</u>	<u>903,527</u>

Summary Consolidated Cash Flow Information

	For the year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Net Cash Inflow/(Outflow) from Operating			
Activities	(13,671)	(62,938)	12,892
Net Cash Flow used in Investing Activities	(43,284)	(42,186)	(9,971)
Net Cash Inflow from Financing Activities	63,729	112,931	189,881

Summary Revenue Breakdown

The following table sets out the breakdown of our revenue by branded product and OEM sales during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
BRANDED PRODUCT SALES						
Xtep	70,330	23.6	197,606	40.9	1,199,231	87.9
Other brands	—	—	—	—	59,908	4.3
Subtotal	<u>70,330</u>	<u>23.6</u>	<u>197,606</u>	<u>40.9</u>	<u>1,259,139</u>	<u>92.2</u>
OEM SALES	<u>227,115</u>	<u>76.4</u>	<u>285,956</u>	<u>59.1</u>	<u>105,808</u>	<u>7.8</u>
Total	<u>297,445</u>	<u>100.0</u>	<u>483,562</u>	<u>100.0</u>	<u>1,364,947</u>	<u>100.0</u>

SUMMARY

We began to reposition ourselves to develop our own brands and introduced our Xtep brand in 2002, and we introduced the Disney Sport and our Koling brands in 2007. Owing to our strategic decision to focus on the sales of branded products and also the increased market demand and improved PRC economic conditions, our revenue derived from the sales of our branded products grew rapidly from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,259.1 million in 2007, representing 23.6%, 40.9% and 92.2% of our total revenue for the years ended 31 December 2005, 2006 and 2007, respectively.

Our Group's revenue from OEM sales was scaled down over the Track Record Period as we began to implement our strategy to emphasise and allocate more resources to our branded product sales. Revenue from OEM sales represented 76.4%, 59.1% and 7.8% of our total revenue for the years ended 31 December 2005, 2006 and 2007, respectively. We expect that revenue contribution from our OEM sales will scale down further in the future as we continue to expand our business through sales of branded products under the three brands, Xtep, Disney Sport and Koling.

GLOBAL OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$4.05	Based on an Offer Price of HK\$5.50
Market capitalisation of the Shares ⁽²⁾	HK\$8,910 million	HK\$12,100 million
Prospective price/earnings multiple		
(a) Pro forma fully diluted ⁽³⁾	17.1 times	23.3 times
(b) Pro forma weighted average ⁽⁴⁾	15.3 times	20.8 times
Unaudited pro forma adjusted consolidated net tangible assets value per Share ⁽⁵⁾	HK\$1.08 (RMB0.97)	HK\$1.43 (RMB1.28)

Notes:

- (1) All statistics in this table assume the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 2,200,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue.
- (3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 31 December 2008 at the respective Offer Prices of HK\$4.05 and HK\$5.50 and on the assumption that the conversion of 10,380,417 and 413,965 Series A Preferred Shares into Shares, the Capitalisation Issue and the Global Offering have taken place since 1 January 2008 with a total number of 2,200,000,000 Share in issue since 1 January 2008.
- (4) The calculation of the prospective price/earnings multiple on a pro forma weighted average basis is based on the forecast earnings per Share for the year ending 31 December 2008 at the respective Offer Prices of HK\$4.05 and HK\$5.50 and on the assumption that the conversion of 10,380,417 and 413,965 Series A Preferred Shares into Shares and the Capitalisation Issue have taken place since 1 January 2008, and the Global Offering occurs on 3 June 2008 with a total number of 2,200,000,000 Share in issue since 3 June 2008.
- (5) The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after the adjustments referred to in the paragraph headed "Unaudited pro forma adjusted net tangible assets" under the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus and on the basis of 2,200,000,000 Shares in issue at the respective Offer Prices of HK\$4.05 and HK\$5.50 per Share immediately following completion of the Global Offering and the Capitalisation Issue.

SUMMARY

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK\$2,451 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$4.78 per Share, being the mid-point of the proposed Offer Price range of HK\$4.05 to HK\$5.50 per Share. We intend to use such net proceeds as follows:

- Approximately HK\$539 million (equivalent to approximately 22% of our total estimated net proceeds) towards media advertising (such as television commercials and sponsorship of television programmes) and brand promotional activities (such as appointment of entertainment celebrities as our brand and image representatives, sponsorship of major sports leagues and events and organising seasonal sales fairs);
- Approximately HK\$417 million (equivalent to approximately 17% of our total estimated net proceeds) towards expanding and improving the coverage of our distribution network in the areas of Hunan, Fujian, Heilongjiang, Jilin, Liaoning, Jiangsu, Guangdong, Zhejiang and Sichuan provinces;
- Approximately HK\$466 million (equivalent to approximately 19% of our total estimated net proceeds) towards expanding our apparel production facilities by increasing our apparel production lines from 12 to approximately 120, and upgrading our production machinery to further improve production efficiency;
- Approximately HK\$588 million (equivalent to approximately 24% of our total estimated net proceeds) towards acquiring brands. We will consider various factors such as market, sales potential and distribution network. At present, we have not identified any specific investment targets;
- Approximately HK\$172 million (equivalent to approximately 7% of our total estimated net proceeds) towards recruiting professional designers, engaging design and consultancy firms and upgrading our laboratories for enhancing our design and technology capabilities;
- Approximately HK\$195 million (equivalent to approximately 8% of our total estimated net proceeds) towards working capital and other general corporate purposes; and
- Approximately HK\$74 million (equivalent to approximately 3% of our total estimated net proceeds) towards upgrading our current information management system to improve efficiency.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK\$381 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

SUMMARY

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$2,827 million, assuming an Offer Price of HK\$4.78 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK\$438 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

INVESTMENT BY CARLYLE

On 13 June 2007, CAGP L.P. and CAGP III, L.P., both being investment funds managed by entities within Carlyle, entered into the Convertible Loan Agreement and the Investment Agreement with, among others, Mr. Ding and our Company. The Convertible Loan Agreement and the Investment Agreement were amended on 24 August 2007, pursuant to the entering of the Supplemental Agreement and on 17 September 2007, pursuant to the entering of the Second Supplemental Agreement.

Pursuant to the Convertible Loan Agreement, the Carlyle Investment Funds agreed to provide our Company with a convertible loan of an aggregate principal amount of approximately RMB40 million convertible into Series A Preferred Shares. On 18 September 2007, pursuant to the Convertible Loan Agreement (as amended), the Carlyle Convertible Loan was converted into 2,161,010 and 86,180 Series A Preferred Shares which were held by CAGP L.P. and CAGP III, L.P., respectively.

Pursuant to the Investment Agreement, the Carlyle Investment Funds agreed to further subscribe to Series A Preferred Shares at an aggregate consideration of approximately RMB180 million. On 18 September 2007, pursuant to the Investment Agreement (as amended), our Company issued 9,724,551 and 387,809 Series A Preferred Shares to CAGP L.P. and CAGP III, L.P., respectively.

On 21 March 2008, the numbers of Series A Preferred Shares held by CAGP L.P. and CAGP III, L.P. were adjusted to 10,380,417 and 413,965 Series A Preferred Shares respectively based on the financial performance of our Group companies for the year ended 31 December 2007 with reference to the pre-determined share adjustment formula stipulated in the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended). Based on such pre-determined adjustment formula, CAGP L.P. and CAGP III, L.P. converted 1,505,144 and 60,024 Series A Preferred Shares previously held by each of them respectively into 1,505,144 and 60,024 ordinary Shares of our Company and transferred the said converted ordinary Shares of our Company to Group Success as beneficial owner free from all encumbrances for nominal consideration of US\$1.00. Other than this share adjustment mechanism, there is no further adjustment as part of the terms of the investments by Carlyle.

As at the Latest Practicable Date, CAGP L.P. and CAGP III, L.P. were holding a total of 10,380,417 and 413,965 Series A Preferred Shares, respectively, on a fully diluted basis constitute approximately 9.2% and 0.4% shareholding in our Company, respectively.

SUMMARY

Pursuant to the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended), the Carlyle Investment Funds are entitled to convert their Series A Preferred Shares into such number of ordinary Share of HK\$0.01 par value in the capital of our Company at any time. Unless the Carlyle Investment Funds choose to convert their Series A Preferred Shares into ordinary Shares of our Company before the completion of the Global Offering, their Series A Preferred Shares will be converted automatically into such number of ordinary Shares of our Company upon the completion of the Global Offering.

On 7 May 2008, each of CAGP L.P. and CAGP III, L.P. delivered a conversion notice to our Company to convert, conditional upon satisfaction of the conditions to the Listing as set out in Appendix VI to this prospectus, the Series A Preferred Shares into our Shares and requested our Company to issue 10,380,417 Shares and 413,965 Shares respectively to CAGP L.P. and CAGP III, L.P. prior to Listing, after adjusting for the subdivision and capitalisation of our Shares. This conversion is based on a one-for-one conversion of each Series A Preferred Share into a Share and the conversion price is a pre-determined fixed price, subject to adjustments upon the occurrence of certain events, such as consolidation, subdivision and capitalisation of our Shares.

Following such conversion and upon the completion of the Capitalisation Issue and the Global Offering, CAGP L.P. and CAGP III, L.P. will be holding a total of 152,436,424 and 6,079,076 Shares, respectively, representing approximately 6.9% and 0.3% shareholding in our Company, respectively, assuming there are no diluting issuances by our Company such as consolidation, subdivision or capitalisation of our Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	white application form(s), yellow application form(s) and green application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company adopted on 7 May 2008 and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	acronym for compound annual growth rate
“CAGP L.P.”	Carlyle Asia Growth Partners III, L.P., an exempted limited partnership established under the laws of the Cayman Islands
“CAGP III, L.P.”	CAGP III Co-investment, L.P., an exempted limited partnership established under the laws of the Cayman Islands
“Capitalisation Issue”	the issue of 1,537,640,450 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008” under the section headed “Further Information about our Company” in Appendix VI to this prospectus
“Carlyle”	the entities, investment funds and companies collectively doing business under the name “The Carlyle Group”, details of which are set out in the section headed “Investment by Carlyle” in this prospectus
“Carlyle Convertible Loan”	a convertible loan in the amount of approximately RMB40 million granted to us by the Carlyle Investment Funds, as further described in the section headed “Investment by Carlyle” in this prospectus

DEFINITIONS

“Carlyle Investment Funds”	collectively, CAGP L.P. and CAGP III, L.P.
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “our Company”	Xtep International Holdings Limited 特步國際控股有限公司, an exempted company incorporated with limited liability under the laws of the Cayman Islands on 10 April 2007
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Group Success, Mr. Ding, Ms. Ding Mei Qing (the sister of Mr. Ding), Henley Hope and Mr. Ding Jin Chao (the father of Mr. Ding) who, together, will control the exercise of approximately 67.8% voting rights in the general meeting of our Company immediately after the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised)

DEFINITIONS

“Convertible Loan Agreement”	the convertible loan agreement dated 13 June 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success, details of which are set out in the section headed “Investment by Carlyle” in this prospectus
“Corporate Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganisation” under the section headed “History and Corporate Structure” in this prospectus
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Deed of Non-compete”	a deed of non-compete dated 7 May 2008 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders”
“Director(s)”	the directors of our Company
“Disney License Agreement”	the license agreement, including all schedules and attachments entered into on 1 November 2006 by and between Disney (Shanghai) and Xtep (China) and the amendments thereto as of 1 January 2007 for the territory of the PRC
“Disney (Shanghai)”	The Walt Disney Company (Shanghai) Limited 华特迪士尼(上海)有限公司, a company incorporated under the laws of the PRC, an Independent Third Party
“Disney Sport brand” or “Disney Sport”	the Disney Sport and Disney trademarks and logos licensed to us pursuant to the Disney License Agreement
“Euromonitor International”	Euromonitor International (Asia) Pte Ltd, an Independent Third Party, which engages in the provision of international market intelligence on consumer products, services and lifestyles
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offer and the International Placing

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Group Success”	Group Success Investments Limited (群成投資有限公司), a company incorporated in the BVI with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding and 36.8% by Ms. Ding Mei Qing
“Henley Hope”	Henley Hope Limited, a company incorporated in the BVI with limited liability on 10 October 2007, the entire issued share capital of which is 100% directly owned Mr. Ding Jin Chao
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards (including HKAS and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and in the Application Forms relating thereto
“Hong Kong Offer Shares”	the 55,000,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offer at the Offer Price (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Underwriters”	the several underwriters of the Hong Kong Public Offer listed in the paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offer dated 20 May 2008 between, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional placing of the International Placing Shares (a) in the United States to qualified institutional buyers (as such term is defined in Rule 144A under the US Securities Act) in reliance on Rule 144A under the US Securities Act or another exemption from the registration requirement under the US Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 495,000,000 Shares being initially offered for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the several underwriters of the International Placing
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing expected to be entered into between, among others, our Company, the Joint Global Coordinators and the International Underwriters on or around 27 May 2008
“Investment Agreement”	the investment agreement dated 13 June 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Kolling (HK), Xtep (China), Xtep Jinjiang, Kolling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success, details of which are set out in the section headed “Investment by Carlyle” in this prospectus

DEFINITIONS

“Investor’s Rights Agreement”	the investor’s rights agreement dated 18 September 2007 between our Company, Group Success, CAGP L.P., CAGP III, L.P., Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success, details of which are set out in the section headed “Investment by Carlyle” in this prospectus
“J.P. Morgan”	J.P. Morgan Securities Ltd.
“J.P. Morgan Asia Pacific”	J.P. Morgan Securities (Asia Pacific) Limited
“Joint Bookrunners” or “Joint Lead Managers”	J.P. Morgan and UBS
“Joint Global Coordinators” or “Joint Sponsors”	J.P. Morgan Asia Pacific and UBS
“Koling brand” or “Koling”	the Koling trademarks and logos registered in the name of members of our Group as more particularly set forth in the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this prospectus
“Koling (Fujian)”	柯林(福建)服飾有限公司 (Koling (Fujian) Garment Co., Ltd.), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 5 February 2007 and an indirect wholly-owned subsidiary of our Company
“Koling (HK)”	Koling (HK) Development Co., Limited (柯林(香港)發展有限公司), a company incorporated in Hong Kong with limited liability on 13 September 2006 and an indirect wholly-owned subsidiary of our Company
“Latest Practicable Date”	16 May 2008, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the main board of the Stock Exchange
“Listing Date”	the date, expected to be on or about 3 June 2008, on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company

DEFINITIONS

“Mr. Ding”	Mr. Ding Shui Po, the founder of our Group, the chairman, the chief executive officer of our Company and one of our Controlling Shareholders
“OEM”	acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$5.50 and is expected to be not less than HK\$4.05, such price to be determined on 27 May 2008 or such later date before 2 June 2008 as may be agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters)
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares
“our branded products”	generally refer to products of our Xtep brand, the Disney Sport brand and our Koling brand
“our brands”, “our Xtep brand”, “the Disney Sport brand” and “our Koling brand”	generally refer to the Xtep brand and the Koling brand which are owned by us, and also the Disney Sport brand, which is licensed to us in the PRC pursuant to the Disney License Agreement, as the case may be
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to 82,500,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations of the International Placing (if any) as further described in the section headed “Structure of the Global Offering”
“PBOC”	中國人民銀行 (the People’s Bank of China), the central bank of China
“PRC Government” or “State”	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof

DEFINITIONS

“Pre-IPO Share Option Scheme”	the existing share option scheme for employees of our Group approved and adopted by our Company pursuant to a resolution passed by our Shareholders and holders of Series A Preferred Shares on 7 May 2008, the principal terms of which are summarised under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to this prospectus
“Price Determination Date”	the date, expected to be on or around 27 May 2008 but before 2 June 2008, on which the Offer Price is fixed for the purpose of the Global Offering
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the US Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the US Securities Act
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)
“Sanxing Sports”	泉州市三興體育用品有限公司 (Sanxing Sports Goods Co., Ltd. Quanzhou), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 3 February 1999 and an indirect wholly-owned subsidiary of our Company
“SARS”	severe acute respiratory syndrome
“Second Supplemental Agreement”	the second supplemental agreement dated 17 September 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success, details of which are set out in the section headed “Investment by Carlyle” in this prospectus
“Series A Preferred Share(s)”	the series A preferred share(s) with a nominal value of HK\$0.01 each in the capital of our Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 7 May 2008, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between J.P. Morgan Asia Pacific and Group Success on the Price Determination Date, pursuant to which J.P. Morgan Asia Pacific may borrow up to 82,500,000 Shares from Group Success to cover any over-allocation under the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Supplemental Agreement”	the supplemental agreement dated 24 August 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success, details of which are set out in the section headed “Investment by Carlyle” in this prospectus
“Track Record Period”	the three years ended 31 December 2007
“UBS”	UBS AG, acting through its business group UBS Investment Bank
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America within the meaning of Regulation S
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended from time to time
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO <u>www.eipo.com.hk</u>

DEFINITIONS

“White Form eIPO Service Provider”	the White Form eIPO service provider designated by our Company, as specified on the designated website www.eipo.com.hk
“Xtep brand” or “Xtep”	the Xtep trademarks and logos registered in the name of members of our Group as more particularly set forth in the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this prospectus
“Xtep (China)”	特步(中國)有限公司 (Xtep (China) Co., Ltd.), previously known as 泉州市特步體育用品有限公司 (Tebu Sports Goods Co., Ltd. Quanzhou) and 泉州市特步體育用品有限公司 (Xtep Sports Goods Co., Ltd. Quanzhou), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 7 February 2002 and an indirect wholly-owned subsidiary of our Company
“Xtep Development”	Xtep International Development Limited (特步國際發展有限公司), previously known as Able Great Enterprises Limited (鴻力企業有限公司), a company incorporated in the BVI with limited liability on 9 February 2007 and a wholly-owned subsidiary of our Company
“Xtep Enterprise”	Xtep (Hong Kong) Enterprise Limited (香港特步企業有限公司), previously known as Leader Gain Investments Limited (昇安投資有限公司), a company incorporated in Hong Kong with limited liability on 27 March 2007 and an indirect wholly-owned subsidiary of our Company
“Xtep Jinjiang”	晉江市特步體育用品有限公司 (Xtep Sports Goods Co., Ltd. Jinjiang), previously known as 福建興特鞋服有限公司 (Fujian Xingte Shoes & Garments Co., Ltd.), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 1 November 2004 and an indirect wholly-owned subsidiary of our Company
“Xtep Xiamen”	廈門特步投資有限公司 (Xiamen Xtep Investment Co., Ltd.*), previously known as 廈門特步投資股份有限公司 (Xiamen Xtep Investment Holdings Co., Ltd.*), a limited liability company incorporated under the laws of the PRC on 5 January 2007 and an indirect wholly-owned subsidiary of our Company

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general; and
- future development in our industry.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and that most of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Additional risks and uncertainties not presently known to our Group or that our Group currently deems immaterial could also harm the business, financial condition and operating results of our Group. The trading prices of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed "Regulation" in this prospectus.

RISKS RELATING TO OUR GROUP'S BUSINESS

Failure to effectively maintain or promote our brands may adversely affect our future success

We believe that our brands are critical for our success as a fashion sportswear enterprise, as in our view, market perception of a brand is one of the determining factors for consumers in making purchasing decisions for sportswear products. Our brand marketing efforts are concentrated on establishing and maintaining for each of our brands a unique and distinctive set of cultural, lifestyle and trend-setting images. For example, our Xtep brand is marketed as a trend-setting, high-quality and fashionable brand to the trendy and youthful mass market segment, the Disney Sport products are marketed as a fun and casual sports brand and our Koling brand is marketed as a daring, bold and alluring style to the high-end, fashion conscious consumer. We spent approximately RMB22.8 million, RMB41.7 million, and RMB75.8 million on advertising and promotion in 2005, 2006 and 2007, respectively, which represented 7.7%, 8.6% and 5.6% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively. If we are unsuccessful in promoting these images or fail to maintain our brand position among those targeted consumer groups, market perception and consumer acceptance of our brands may be eroded, and our business, financial condition, results of operations and prospects may be adversely affected. Since we also promote our brands and images through engaging entertainment celebrities as our image and brand representatives, we are, in part, dependent on the market perception of these entertainment celebrities, over which we have no control. Any negative publicity, whether in the PRC or abroad, regarding any of our brands, our image or brand representatives could have a material and adverse effect on the public's perception of our brands, which could have a negative effect on our sales and results of operations.

In addition, we have incurred and expect to continue to incur significant costs and expenses in association with our brand-building activities, including, but not limited to engaging in marketing campaigns using entertainment celebrities, and television advertising during the Beijing 2008 Olympic Games which we estimate will account for approximately 49% of our total advertising and marketing budget in 2008. These brand-building and marketing activities may not be successful and, if so, this could have a negative effect on our business, financial condition and results of operations.

RISK FACTORS

We may not be able to anticipate and respond in a timely manner to rapid changes in consumers' tastes in the PRC

As our sportswear products are closely linked with fashions and trends, our sales are dependent on our ability to cater to different consumer fashion tastes. We believe that a substantial portion of our revenues is dependent on market perception and consumers' acceptance that our brands are fashionable and trendy, which require continued anticipation and responsiveness to ever changing market and fashion trends. Our failure to anticipate accurately and respond to market and fashion trends in a timely manner could result in our distributors and third-party retailers experiencing lower sales volumes, lower selling prices and lower profits. This could in turn negatively affect our sales to our distributors in the future, as well as our financial condition and results of operations.

We are dependent on third-party distributors and third-party retailers over whom we have limited control for sales of our products to consumers and, to some extent, the promotion of our brands

We only operate two self-managed retail outlets and rely mostly on our distributors and third-party retailers over whom we have limited control to distribute our products, and through whom we conduct substantially all of our current sales. We substantially reduced our sales to direct sales customers as a proportion of our branded products sales in 2007, which drove down average selling prices and contributed to the decrease in our gross profit margin for Xtep branded products from 42.9% for the year ended 31 December 2006 to 34.4% for the year ended 31 December 2007. Starting in 2007, we sold most of our branded products to our distributors. Revenues from sales to all of our independent distributors accounted for approximately 33.7%, 83.4% and 93.3%, of our total branded product sales for the three years ended 31 December 2005, 2006 and 2007, respectively. For our Xtep brand, we had 28 distributors as at 31 December 2005, 2006 and 2007, respectively. There was no change of distributors for our Xtep brand during the Track Record Period. Both Disney Sport products and Koling brand were launched in 2007, for which we had 31 and 30 distributors as at 31 December 2007, respectively. As we rely on and will continue to rely on our distributors as well as their network of third-party retailers for substantially all of our sales, our future success is dependent on the growth of our distributors and their ability to grow their network of retailers.

Further, the distributors of our branded products are generally given exclusivity over their territories. In particular, we mainly rely on one or two distributors for each province in China to distribute our Xtep branded products and in some cases, one distributor for several adjacent provinces. If any of them terminates or does not renew its distributorship agreement with us, we may not be able to replace it with a new distributor in a timely manner, or the replacement distributor(s) may not be able to manage the same network of third-party retailers or a network of third-party retailers of similar scale. As a result, our business, financial condition and results of operations may be materially and adversely affected.

As we rely on third-party retailers over whom we only have limited direct control and with whom we do not have direct contractual relationships, our ability to ensure their adherence to our retail policies, which cover, among other operational requirements, exclusivity, customer service, store image and pricing, is limited. We can give no assurance that current arrangements for controlling quality, operations and pricing at the retail level are sufficient to ensure the success of, or to prevent

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negative market opinion about, our brands. While we sell our branded products to all of our distributors at a fixed discount to the suggested retail prices, we have no control over our distributors and third-party retailers regarding sales of our branded products to end customers at a discount to the suggested retail prices 60 days after such products are introduced into the consumer market. We can give no assurance that our distributors and the third-party retailers will not aggressively discount the sales price of our branded products to end consumers in order to reduce their inventory levels or for other reasons. Further, material deviations from our policies by a substantial number of third-party retailers, or aggressive discounting of the sales prices of our branded products by our distributors or third-party retailers could result in, among others, erosion of goodwill, decrease in the market value of our brands and an unfavourable public perception about the quality of our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects. Our recourse in the event of a deviation or breach is generally limited to payment of fines by the relevant distributor or termination of the distributorship agreement with the relevant distributor.

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

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

We may not be able to accurately track the inventory level at our distributors and retail outlets

Our ability to track the sales by our distributors to third-party retailers and the ultimate retail sales by the retail outlets, and consequently their respective inventory levels, is limited. At present, according to our policy, we require our distributors to provide us with their monthly inventory and sales reports and we carry out random on-site inspections of our distributors to track their inventories. The purpose of tracking the inventory level is mainly to allow us to gather sufficient information and data regarding the market acceptance of our products so that we can reflect the consumers' preferences in the design of our products in the next season. The tracking of inventory level also provides useful information such as the market recognition of our products in a particular region so that we can realign our marketing strategy if needed. However, the implementation of the policy requires the cooperation of the distributors in accurately and timely reporting and submitting the relevant data to us, and we may not be able to ensure the accuracy of the data provided by our distributors. In addition, we began using a distribution resource planning (“DRP”) system in 2007 which is designed to allow us to track inventory levels and movements of our products at our warehouses and retail outlets operated by us, our distributors and third-party retailers. However, not all of our distributors and retail outlets had adopted the DRP system as at the Latest Practicable Date. As at the Latest Practicable Date, sales

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to our distributors which had adopted the DRP system accounted for approximately 25% of our total sales. Due to the above reasons, we may not be able to accurately track the inventory levels at our distributors' and their respective third-party retailers' retail outlets, or to identify or prevent any excessive inventory build-up at these retail outlets.

The loss of, or significant decrease in, sales to our major customers could have a material adverse effect on our financial condition and results of operations

Our five largest customers, which consist of distributors of our branded products and our OEM customers, together accounted for approximately 71.8%, 61.5% and 29.9%, respectively, of our total revenues and our largest customer accounted for approximately 38.0%, 35.6% and 7.2%, respectively, of our total revenues for the three years ended 31 December 2005, 2006 and 2007. For our branded products, our agreements generally have a term of one to two years with our distributors, and we can give no assurance that their agreements with us will be renewed on the same or similar terms, or at all. Although we set annual sales and expansion targets for each of our distributors, no minimum purchase amount is stipulated in the distributorship agreements and we can give no assurance that our existing distributors will continue to place orders at historical levels or at all, or that we would be able to find other distributors to purchase similar types and quantities of orders should we lose any of our existing distributors. If any of our major distributors substantially reduces its volume of purchases from us or ceases its business relationship with us, our financial condition and results of operations may be materially and adversely affected.

We are heavily dependent on certain of our key executives, design and technical personnel. Our inability to attract, retain and motivate qualified personnel could adversely affect our business and growth prospects

Our success depends heavily on our ability to attract, retain and motivate key employees, including senior managerial, design and technical personnel. In particular, we rely on the continued services of our executive Directors: Mr. Ding, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong and Mr. Ye Qi, as well as our senior management members, Mr. Ho Yui Pok, Eleutherius, Mr. Wang Jia Ye, Mr. Chen Jian Jun, Mr. Wu Lian Yin, Mr. Liu Qing Xian and Mr. Huang Hai Qing. Most of them have been part of our management team since the inception of our business. If we lose the services of any of these key executives and cannot replace them in a timely manner, our business and prospect may be adversely affected.

In addition, we believe that the competition for qualified senior managerial, design and technical personnel is very intense, and we face competition for such personnel from competitors in our industry. The competition for qualified personnel may be more acute for us given the early stage of our development. In particular, we believe that currently there is a shortage of qualified personnel with sportswear design expertise and industry experience in the PRC. If we are unable to retain or are unsuccessful in recruiting qualified design personnel, we may not be able to maintain our position as the leading domestic fashion sportswear brand in China that meets market expectations for fashion and trendiness. This may lead to us not being able to meet our growth targets, and our business, financial condition, and results of operations will be negatively affected.

RISK FACTORS

We face certain risks relating to the Disney License Agreement

We entered into the Disney License Agreement whereby we were granted a license to design, create, manufacture or source, and sell a range of footwear, apparel and accessory products in the PRC under the Disney Sport brand, using certain Disney trademarks (i.e., “Disney”, “Disney Sport”, “迪士尼” and “迪士尼运动系列”) and certain Disney standard characters (i.e., Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto). The Disney License Agreement also permits us to operate physical retail stores that are free-standing or located within shopping malls using the name “Disney Sport” and “迪士尼运动系列” and to sell Disney Sport products to consumers in those stores. Apart from being the designer and manufacturer of these products in the PRC, we were also authorised to sell these products to retailers and wholesalers in the PRC in particular through distribution channels that are subject to Disney (Shanghai)’s approval. Our Group does not have the exclusive right to sell the Disney Sport branded products to retailers and wholesalers in the PRC as the terms of the Disney License Agreement do not restrict Disney (Shanghai) from designing, manufacturing, selling and distributing products under the Disney Sport name, or licensing others to do so. The term of the Disney License Agreement is for an initial period from 1 November 2006 to 31 December 2009. We have an option to renew the Disney License Agreement at the end of the initial term for a further three years to 31 December 2012, contingent upon Disney (Shanghai) being satisfied with our performance under the Disney License Agreement, including the degree of success in selling the Disney Sport products, our credit rating, and the payment of an agreed-upon amount of royalties to Disney (Shanghai) in 2009.

We can provide no assurance that sales of Disney Sport products will be sufficient to support the minimum royalty payment obligations under the Disney License Agreement or that we will be able to maintain the necessary credit rating. In addition, we can give no assurance that Disney (Shanghai) will be satisfied with our performance under the Disney License Agreement and that we will be able to renew the Disney License Agreement on the same or similar terms, or at all.

We can provide no assurance that we will be able to realise the benefits of the Disney Sport products before the expiration of the license term or that we will be successful in avoiding cannibalisation of the Disney Sport products and our other brands. If we are unsuccessful in the implementation of our business strategy relating to the Disney Sport products, we may not be able to meet our revenue goals or achieve the product and business mix required to maximise our operating margins, which could have a material adverse effect on our business and results of operations.

If any other party is granted the right to manufacture, sell and distribute Disney Sport products, or if Disney (Shanghai) itself manufactures, sells and distributes Disney Sport products, after we have devoted a significant capital and other resources to marketing the Disney Sport brand in the PRC, we will face competition from such additional entrants and our results of operations may be negatively affected.

For details of the Disney License Agreement, please refer to the paragraph headed “Disney Sport” under the section headed “Business” in this prospectus.

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The Disney Sport and Koling brands have limited histories

The Disney Sport and Koling brands have limited histories upon which you can evaluate their prospects. We began selling products under both brands in 2007 and during the year ended 31 December 2007, revenues from sales of the Disney Sport and Koling brands were RMB59.9 million, accounting for a total of 4.3% of our total revenue. Because we have a limited history in the design, manufacturing and marketing of products under these two brands, there is no assurance that they will succeed as we expect or that either brand will ever grow into a significant source of revenue as compared to our Xtep brand.

We have a limited operating history in the branded sportswear industry

We have a limited operating history in the branded sportswear industry. Until 2005, most of our revenues were derived from our OEM activities. You should consider our business and prospects in light of the risks and difficulties we face with a limited operating history in the branded sportswear industry and should not rely on our past results as an indication of our future performance. In particular, our management may have less experience in implementing our business plan and strategy, including our strategy to increase our market share and build our brand recognition. In addition, we may face challenges in planning our growth strategy and forecasting market demand accurately as a result of our limited historical data and inexperience in implementing and evaluating our business strategies. If we are unable to successfully address these risks, difficulties and challenges as a result of our inexperience and limited operating histories in the branded sportswear industry, our ability to implement our strategic initiatives could be adversely affected, which may in turn have a material adverse effect on our business, financial condition and results of operations and prospects.

The use of trademarks or brands that are same as or similar to our trademarks or brands by other parties may have a negative impact on the goodwill, value and images of our brands

The laws of the PRC permit other parties to register trademarks which may be similar to our registered trademarks under certain circumstances. Such activities may cause confusion among consumers. Our control over the quality of products or services provided by third parties who use trademarks similar to ours is limited. We may initiate legal proceedings to defend the ownership of our trademarks or brands against unlawful infringement by third parties. These legal proceedings may be time-consuming and we might be required to devote substantial management time and resources in an attempt to achieve a favourable outcome. We can give no assurance that such legal proceedings would be successful. The goodwill and value of our trademarks and public perception of our brands and images may be adversely affected by the inferior quality of the products and services provided by third parties who use trademarks similar to ours. A negative perception of our brands and images could have a material adverse effect on our sales, and therefore on our business, financial condition and results of operations and prospects.

RISK FACTORS

We may not be able to adequately protect our intellectual property rights, which could harm our brands and our business

We believe our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include our trademarks for Xtep and Koling brands, as well as patents for certain technologies. We are currently applying for the registration of trademarks for a number of logos and patents for a number of technologies. The success of these applications depends upon a number of factors, and we cannot guarantee that we will be successful in registering trademarks and obtaining patents for technologies currently under application or which we may develop in the future. We depend to a significant extent on PRC laws to protect our trademarks, patents or other intellectual property rights. There is no assurance that third parties will not infringe our intellectual property rights. We have discovered counterfeit versions of our products on the market. Our efforts to enforce or defend our intellectual property rights may not be adequate and may require significant attention from our management and may be costly. The outcome of any legal actions to protect our intellectual property rights may be uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition and results of operations and prospects may be adversely affected.

Our business could be adversely affected by claims by third-parties for possible infringement of their intellectual property rights

Third parties, including our competitors, may believe that one or more of our products infringe their intellectual property rights and initiate legal proceedings against us. If any legal proceedings against us for infringement of intellectual property rights is successful, and we are unable to obtain a license for the usage of such intellectual property right on suitable terms, or at all, or unable to design around such intellectual property right, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such cases, they could have a material adverse effect on our business and results of operations. We may also be subject to other legal and equitable claims, as well as damage to our reputation and image, and such proceedings and their consequences could divert management attention from our business, all of which could have a material adverse effect on our business and results of operations.

We are dependent on our sub-contractors and contract manufacturers for the production of a portion of our footwear, most of our apparel and all of accessory products. Any disruption to the supply of or unfavourable changes in the prices or quality of the finished products we source from, or terms of agreement with, sub-contractors or contract manufacturers could have a material adverse effect on our results of operations

For the three years ended 31 December 2005, 2006 and 2007, approximately 2.6%, nil and 31.2%, respectively, of the footwear we produced were manufactured by sub-contractors and contract manufacturers. Before we commenced our own apparel production at the end of 2007, we also outsourced the production of all of our apparel products for the two years ended 31 December 2005 and 2006, and we outsourced approximately 94.5% of our apparel products sold for the year ended 31 December 2007. Ever since we began to sell accessory products in 2006, we have outsourced the

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production of all of our accessory products. We have historically relied on sub-contractors and contract manufacturers to produce certain parts or products which we do not produce internally. As we expect that our business and revenue will continue to grow in 2008, we expect that our reliance on sub-contractors and contract manufacturers will also increase in 2008. In future, as it is likely that the planned increases in our production capacity and enhancements to our production efficiencies may not be sufficient to keep pace with our potential future growth in demand, we believe that we will continue to rely on sub-contractors and contract manufacturers to support our periodic need for additional capacity. Problems with any of our sub-contractors or contract manufacturers' production facilities or processes could result in product defects or failure to produce an adequate number of products meeting the required quality standards. If such events occur, we could be required to recall products previously dispatched, delay delivery of products, or be unable to supply products at all. Product defects or poor quality products could also adversely affect our reputation and brand image. In addition, we may need to record periodic charges associated with manufacturing failures or other production-related costs that are not absorbed into inventory or incur costs to secure additional sources of capacity.

A number of factors could cause prolonged interruptions in the operations of our contract manufacturers' production facilities, including:

- the inability of a supplier to provide raw materials used for the manufacture of our products;
- equipment obsolescence, malfunctions or failures;
- damage to a facility, including warehouses and distribution facilities due to natural disasters;
- changes in law that require modifications to manufacturing processes;
- a contract manufacturer's going out of business or failing to manufacture products as contractually required;
- labour disputes; and
- other similar factors.

Difficulties or delays in our contract manufacturers' manufacturing and supply of existing or new products could increase our costs, cause us to lose revenue or market share and damage our reputation, any of which could have a material adverse effect on our business, financial condition and results of operations and prospects.

In addition, we do not enter into long-term agreements with our contract manufacturers. Instead, for each order, we enter into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms with raw material suppliers among others. We can give no assurance that our existing contract manufacturers will continue to accept our future purchase orders on the same or similar terms (including prices and

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quantities), or at all. We also can give no assurance that we would be able to find other contract manufacturers to supply the same or similar types and quantities of finished products should we lose the services of any of our existing contract manufactures. If any of our major contract manufacturers substantially reduces its volume of supply to us or terminates its business relationship with us, our financial condition and results of operations may be materially and adversely affected.

We may not be able to implement successfully our plans to expand production capacity and improve production efficiency, which would have a material adverse effect on our ability to execute our growth strategy

We believe that achieving economies of scale can yield competitive advantages, such as the ability to negotiate better prices for raw materials and to leverage existing administrative and other fixed costs. Greater scale in production and improvements in production processes can result in a lower cost structure that may make us more competitive in our industry. As a result, we seek to expand production capacity and improve production efficiencies through our research and development efforts. We plan to increase our apparel production capacity from approximately one million to approximately 10 million pieces of apparel per annum by establishing a new apparel production facility and increasing our apparel production lines from 12 to approximately 120. We also plan to enhance production efficiencies of our existing production facilities and production lines by introducing advanced facility design. If we are unsuccessful in expanding our production facilities or improving our existing production processes, we may become less competitive, and our business and results of operations may be materially and adversely affected. There are a number of factors that could delay these expansion projects or increase the costs of building and installing the necessary equipment for these and future production facilities in accordance with our plans. Such factors include, but are not limited to:

- unexpected increases in equipment and construction material costs;
- delays, shortages and late delivery of quality building materials and manufacturing equipment;
- seasonal factors, such as a long and intensive typhoon season that limits productive construction time;
- labour disputes with our employees or a labour dispute, work stoppage or slowdown at any of our service providers, such as raw material or equipment providers, or at construction or engineering firms engaged in the build-out of our production facilities;
- design or construction changes with respect to building spaces or equipment layout;
- delays in securing the necessary governmental approvals; and
- changes in technologies, capacity and other changes to our plans for new facilities necessitated by changes in market conditions or customer demands.

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

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

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

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

Our business operation in the PRC is subject to the environmental laws and regulations issued by the PRC Government. During the Track Record Period, Xtep (China), our PRC subsidiary, received an administrative penalty notice on 6 February 2007 from the Quanzhou Environmental Protection Bureau that ordered the one of our production facilities to cease production immediately and to pay a fine of RMB50,000 because Xtep (China) had not reported the expansion of such production facility before commencing production. Xtep (China) has paid the fine and reported the expansion of such production facility and Quanzhou Environmental Protection Bureau approved such production facility to commence production on 18 April 2007. Save as disclosed above, we have fully complied with the relevant environmental laws and regulations during the Track Record Period. The relevant environmental laws and regulations may be revised by the PRC Government from time to time to reflect the latest environmental needs. Any changes to such regulations and guidelines can increase our cost and burden in complying with them.

Further, our new apparel production facility, which we expect will commence production in 2010, is subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing that may cause environmental wastes to adopt effective measures to control and properly dispose of industrial wastes. If failure to comply with such laws or regulations results in pollution, the administrative department for environmental protection can levy

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finer. Moreover, the PRC government has the discretion to cease or close any operation if the failure to comply with such laws or regulations is serious. There can also be no assurance that the PRC government will not change the existing laws or regulations or impose additional or stricter laws or regulations. Compliance with any of these additional or stricter laws or regulations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers through higher prices for our products.

Fluctuations in the price, availability and quality of raw materials could cause production delays and increase production costs

Fabrics, soles, rubber, plastics and nano-silver anti-bacterial chemicals are the principal raw materials used in the production of our footwear products. The principal raw materials used in the production of our apparel products are fabrics. Substantially all of our raw materials are sourced from PRC suppliers, with a relatively small portion from the international markets. Approximately 21.1%, 28.7% and 26.3% of our raw material needs were sourced from our top five suppliers for the three years ended 31 December 2005, 2006 and 2007, respectively. We do not enter into long-term agreements with our raw material suppliers. For each order, we enter into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms among others. We can give no assurance that our suppliers will continue to supply us the raw materials we need to produce our products at favourable or similar prices, or at all.

In addition, market prices for our raw materials are subject to fluctuation and may be dependent on the prices of commodities. Our results of operations may be adversely affected by increases in the market prices of raw materials, particularly if we are unable to pass on the increased cost of raw materials to our customers by selling our products at higher prices.

We may fail to execute our growth strategy or maintain our growth rate if we cannot adequately increase internal resources to manage our expanded business

Our future growth will impose significant additional responsibilities on our management, including the need to identify, recruit, train and integrate additional employees, and oversee the expansion of our production facilities and distribution network. In addition, rapid and significant growth is expected to place a strain on our administrative and operational infrastructure, in particular on our internal accounting and financial reporting processes and systems. As our operations expand, we expect that additional resources will be required to manage new relationships with additional distributors and their third-party retailers and to oversee an increasing number of retailers, as well as other third parties, including contract manufacturers, equipment providers, consultants and others. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy.

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Historical financial performance should not be used as an indicator for our future financial performance

We believe that we currently enjoy relatively high profit margins due to our competitive cost structure and ability to charge higher prices for our products as compared to similar products offered by our competitors. We can provide no assurance that we will continue to maintain our profit margins if our cost structure increases as a result of, among other factors, increased labour, manufacturing, raw materials or transportation costs. Our profit margins may also be negatively affected if we must, in the face of increasing competition, provide more favourable terms to our distributors, such as product rebates and sales discounts. Further, if we are unable to sustain our brand recognition and a positive public perception of our brand, we may not be able to continue to enjoy the premium pricing for our products. In addition, our strategy for increasing our apparel manufacturing economies of scale by increasing our production capacity may not be successful if we are unable to recruit a sufficient number of production staff for our new apparel production facility, and we may have to manufacture apparel with our current economies of scale and continue to rely on contract manufacturers to supply our apparel products.

With our transformation from a primarily OEM-based business to a branded products business, we have enjoyed a continued profit margin growth that may not be sustainable after completion of the transition. We can give no assurance that we will be successful in implementing our other strategies for growth or that our strategies for growth will, even if successfully implemented, result in expected growth.

We recorded negative operating cash flow in 2005 and 2006 and positive operating cash flow in 2007, and we cannot assure you that we will record positive operating cash flow again in the future

We recorded negative operating cash flow of RMB13.7 million and RMB62.9 million in 2005 and 2006, respectively and positive operating cash flow of RMB12.9 million in 2007. The main reason for our historical negative operating cash flow was the increase in our trade and bills receivables, which was primarily due to the granting of more favourable credit terms to our customers in order to promote our Xtep branded products. The increase in inventories and the increase in prepayments, deposits and other receivables, which were primarily due to the increased purchase of raw materials, also contributed to our negative operating cash flow in 2006. Following the improvement of trade receivables collection and inventory management, we recorded positive operating cash flow of RMB12.9 million in 2007. However, we cannot assure you that we will record positive operating cash flow in our rapid growth stage. Our liquidity and our operations may be adversely affected by our negative operating cash flow. For details of the indebtedness and liquidity, financial resources and capital structure of our Group, please refer to the paragraph headed “Liquidity and Capital Resources” under the section headed “Financial Information” in this prospectus.

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If we are unable to optimise and adjust our product and business mix, our sales may fluctuate and our profit margins may decline substantially

Our ability to achieve and maintain increased profitability depends on our ability to optimise and adjust our product and business mix. We offer a wide range of branded products for both men and women, including footwear, apparel and accessory products. We continuously monitor our product mix and develop new products that we believe will generate higher customer demand and increase our revenue and profit margin. During the Track Record Period, we underwent a shift in the mix of revenue generated from our different product categories and increased the proportion of our revenue derived from sales of apparel products, thereby increasing our overall revenue. We will continue to adjust our product mix and enhance our product positioning in an effort to increase our revenue and gross profit. As we adjust our product mix, our gross profit will be affected both by any change in revenue and by any change in cost of sales attributable to each product category. If we are unable to optimise and adjust our product and business mix, our sales may fluctuate and our profit margins may not meet expectations.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies

We have, to date, financed our working capital and capital expenditure needs primarily through the investment by the Carlyle Investment Funds or debt financing in the form of bank loans from local banking institutions and from operating revenues. We expect our working capital needs and our capital expenditure needs to increase in the future as we continue to expand and enhance our production facilities, increase our design, research and development capabilities and as we continue to implement our other strategies. Our ability to raise additional capital will depend on the financial success of our current business and the successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a further dilutive effect on our stockholders. In addition, we currently have significant levels of short-term debt in the form of bank borrowings which may adversely affect our ability to get future borrowings or obtain debt financing. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocated for research and other activities. If we are unsuccessful in raising additional capital we may not be able to continue our business operations, and advance our development programmes.

Our owned properties in the PRC may be subject to legal irregularities

As at the Latest Practicable Date, we had not obtained valid building ownership certificates with respect to a gross floor area of 15,937.7 sq.m. of our buildings, out of which:

- 12,288.7 sq.m. are used by us as warehouses, representing approximately 21% of the total gross floor area of all of our buildings used by us as warehouses;

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- 3,649 sq.m. are used as dormitories, representing approximately 9% of the total gross floor area of all of our buildings used as dormitories.

We may be required to cease occupation and usage of the above buildings in respect of which no valid building ownership certificates have been issued, in which case we will have to relocate the staff members currently residing in the dormitories and the inventory stored at the storage area, as the case may be. If our Group is required to vacate these properties, our Directors estimate that additional costs of approximately RMB1 million may be incurred, including relocation expenses, and it may take up to approximately one month to complete the relocation. Our Controlling Shareholders have undertaken to indemnify us for all costs and losses suffered by us as a result of the lack of valid title certificates for the above buildings, including relocation costs and expenses. Details of the properties are set out in no. 1 in the section headed “Group I — Property interests held and occupied by our Group in the PRC” in Appendix IV to this prospectus. If we are prevented from usage of the above premises, our operations and financial performance may be adversely affected.

Labour disputes could significantly affect our operations

Labour disputes with our employees or labour disputes, work stoppages or slowdowns at any of our contract manufacturers or suppliers or at construction or engineering firms engaged in the construction of our production facilities could significantly disrupt our operations or our expansion plans. Delays caused by any such disruptions could materially affect our projections for increased capacity, production and revenues, which could have a material adverse effect on our business and results of operations.

We may be exposed to product liability, property damage or personal injury claims, which may adversely affect our reputation and business

The development, manufacture and marketing of sportswear may be subject to product liability claims. We may be subject to product liability claims in the event that any of our products is alleged to have a defect which causes harm or damage to a consumer, and we may, as a result, have to expend significant financial and managerial resources to defend against such claims. We believe that such product liability claim risks will increase as legal concepts in product liability claims begin to develop and mature in the PRC and in other countries and regions where our products may be sold. In line with the standard industry practice, we do not maintain product liability insurance coverage and we cannot provide any assurance that our business, results of operations and prospects will not be negatively affected by a successful product liability claim against us. In addition, we do not maintain third party liability insurance against claims for property damage or personal injury. Regardless of the ultimate merits of a claim or dispute, we may face significant costs and expenses to defend against such claims or enter into settlement agreements, and we may suffer serious damage to our reputation, be subject to material monetary damages and be subject to government investigations. In such cases, it may lead to fines and sanctions against us and which may result in negative public perception of our brands, all of which could have a material adverse effect on our business, prospects, financial condition and results of operations.

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We may be subject to penalties for our past loan advancing activities to an Independent Third Party

We have made advances to an Independent Third Party in the past. The aggregate principal amounts of such advances were RMB10 million and RMB15 million as at 31 December 2005 and 2006, respectively. Such amounts were fully repaid in October 2007, and we have not made any such advances since then. As confirmed by our PRC legal adviser, Jingtian & Gongcheng, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the maximum penalty that may be imposed on our Group by the PBOC for such contravention is a total fine of approximately RMB8.6 million. Although we are not aware of any plans to levy such a fine or other penalty, there can be no assurance that the PBOC will not take such action. In addition, although the Controlling Shareholders have agreed to indemnify us for any such penalty, such indemnity may not be enforceable or the amount of the fine may exceed what the Controlling Shareholders are able to pay. Such a penalty may also adversely affect our reputation.

RISKS RELATING TO THE SPORTSWEAR INDUSTRY

We operate in a very competitive market and the intense competition we face may result in a decline in our market share and lower profit margins

The sportswear industry is characterised by intense competition from both international and domestic brands. We face competition in each of our brands based on, among other factors, brand recognition, design, quality and price. The market is ever-evolving, and we face competition from brands with similar brand positioning, as well as others. Our strategy of leveraging our business model of having our own production facilities to provide higher quality products and be more responsive to market conditions may not prove to be effective. We can provide no assurance that we will be able to compete effectively against competitors who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors, and increase capital expenditures, which may in turn negatively affect our profit margins and other results of operations.

In addition, the PRC's accession to the World Trade Organisation, or WTO, may result in further changes to and developments in our industry, such as the removal of entry barriers for international brands so that foreign-invested enterprises may engage in the retail business and reduction of import tariffs, all of which may result in greater competitive pressures on our business.

Our industry has historically experienced seasonality, which we expect to continue. This could cause our operating results to fluctuate

We typically achieve higher sales when we sell summer and autumn products to our distributors due to seasonality of demand for sportswear. In addition, weather conditions, such as unusual weather or temperatures may affect our sales, which are dependent on the sales of our distributors and

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third-party retailers. Our quarterly operating results may fluctuate from period to period based on changes in fashion trends, consumer demand and the seasonality of consumer spending on sportswear products. Therefore, any comparison of our operating results between interim and annual results may not be meaningful. Our results of operations are likely to continue to fluctuate due to seasonality.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

A substantial portion of our assets are located in the PRC and substantially all of our revenues are derived from our operations in the PRC. As a result, our operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in the PRC, which are discussed in more detail below.

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

Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, where all of our revenues have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy, where the PRC's nominal GDP was estimated by the National Bureau of Statistics to have grown at a CAGR of approximately 16.1% from 2003 to 2007. We can provide no assurance that the PRC will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect our prospects and operating results.

Changes in the laws, regulations and policies adopted by the PRC Government, including in relation to the environment, labour and taxation, may adversely affect our business, growth strategies, operating results and financial condition

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. For the past three decades, the PRC Government has implemented economic reform and measures emphasising the utilisation of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, we cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC Government continues to play a significant role in regulating industrial development, the allocation of natural resources, production, pricing and management of currency, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

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Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. The PRC Government has recently articulated the need to control economic growth by tightening bank lending standards. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC Government will not implement any additional measures to tighten lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our products and our business, financial condition and results of operations may be adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Group

At present, the RMB is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Under our current Group structure, our Company's source of funds will primarily consist of dividend payments and repayment of inter-company loans by its subsidiaries in the PRC denominated in RMB. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If the subsidiaries are unable to obtain SAFE approval to repay loans to our Company, or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third-party payment obligations, and its ability to distribute dividends in respect of the Shares, could be materially adversely affected.

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Fluctuations in foreign exchange rates may adversely affect our financial condition and results of operations

The value of the Renminbi against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under current unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which has generally been stable. However, the PRC Government reformed the exchange rate regime in 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi appreciated against the Hong Kong and US dollars by approximately 2.0% on the same date. On 23 September 2006, the PRC Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

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

Any change in our tax treatment, including an unfavourable change in preferential corporate tax rates in the PRC, may have a negative impact on our operating results

On 16 March 2007, the National People's Congress of the PRC promulgated the 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC) ("**New Tax Law**"), which came into effect on 1 January 2008 and supersedes both the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law ("**FIE Tax Law**") and the Provisional Regulations on Enterprise Income Tax of the PRC. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprise.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

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Under the previous tax regime, Xtep (China), being a foreign-invested enterprise engaged in manufacturing business, is entitled to an enterprise income tax exemption for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years), and a 50% tax reduction for the following three consecutive years. Xtep (China) enjoyed a full exemption from state enterprise income tax in 2005 and 2006, as well as a 50% reduction of its current state enterprise income tax rate of 24% in 2007, which had a significant positive effect on our profit after taxation during the years ended 31 December 2005, 2006 and 2007. Under the New Tax Law, we expect that Xtep (China) will continue to be entitled to a 50% reduction of the phased-in enterprise income tax rate of 25% for the two years from 2008 to 2009, and will thereafter be subject to a 25% tax rate from 2010 onwards. We expect that upon the expiry of the partial exemption from enterprise income tax previously enjoyed by Xtep (China), other considerations aside our Group's tax payment will increase from 2010 onwards.

Koling (Fujian), being a foreign-invested enterprise engaged in the manufacturing business and incorporated before the New Tax Law's promulgation, is also entitled to the above enterprise income tax exemption for its first two profitable years and a 50% tax reduction for the following three consecutive years. Under the New Tax Law, we expect that Koling (Fujian) will enjoy such tax exemption for the two years from 2008 to 2009 and a 50% reduction of the phased-in enterprise income tax rate of 25% for the three years from 2010 to 2012. We expect that upon the expiry of the full exemption from enterprise income tax currently enjoyed by Koling (Fujian), other considerations aside our Group's tax payment will increase from 2010 onwards and will further increase from 2012 following the expiry of the above preferential tax treatment.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. We cannot rule out the possibility that members of our Group which are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprise according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the short history of the New Tax Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents. Our financial performance will be adversely affected if such dividends are subject to enterprise income tax.

Gains on the sales of our Shares may become subject to PRC income taxes

Under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities, capital gains realised by shareholders from sales of our Shares may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If foreign Shareholders are required to pay PRC income tax on capital gains on sales of Shares, the value of the investment in our Shares may be materially affected.

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Dividends on our Shares may become subject to PRC income taxes

Under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities, dividends on our Shares may be regarded as income from “sources within the PRC” and therefore become subject to a 10% withholding income tax. If foreign Shareholders are required to pay PRC income tax on dividends on our Shares, the value of the investment in our Shares may be adversely and materially affected.

It may be difficult to effect service of process on, or to enforce any judgements obtained outside the PRC against, our Directors or our senior management members who reside in the PRC

Substantially all of our operating assets, officers and directors are located in the PRC. Accordingly, it may not be possible for investors to effect service of process upon these persons or to enforce against them court judgements obtained outside of the PRC, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements awarded by courts in many developed countries, including the United States, the United Kingdom, Japan and the Cayman Islands. Hence, the recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The PRC legal system is not fully developed and has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors

Substantially all of our operations are conducted in the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference and are non-binding. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations have not yet been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC.

Our business could be adversely affected by intellectual property rights disputes

Infringement of trademarks and counterfeiting of products is not uncommon in the PRC. Although we rely on the registration of trademarks to protect our intellectual property, there is no assurance that this measure will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop designs and technologies that are substantially similar to ours. The legal framework governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other more developed jurisdictions such as the United States and United Kingdom. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual

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property rights, we could suffer losses due to the weakening of our competitive edge and the sales of competing products that exploit or infringe our intellectual property. In addition, we have in the past had to instigate, and may in the future have to instigate, legal proceedings in order to safeguard our intellectual property rights, which will require us to incur legal costs and divert the efforts of our management. If we do not succeed in these proceedings, we may lose our proprietary rights over our intellectual properties.

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are particularly susceptible to floods, earthquakes, sandstorms and droughts. Our business, financial condition and results of operations may be materially and adversely affected if such natural disasters occur. Political unrest, acts of war and terrorists attacks may cause damage or disruption to us, our employees, our facilities, the distribution channels operated by our distributors or their third-party retailers and our markets, any of which could materially and adversely affect our sales, cost of sales, overall operating results and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries, including the PRC, have encountered epidemics such as SARS, or incidents of the avian flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in the PRC. A recurrence of an outbreak of SARS, avian flu or any other similar epidemic could cause a slowdown in the levels of economic activity generally, which could in turn adversely affect our results of operations and the price of the Shares.

Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by our beneficial owners may adversely affect our business operations

On 21 October 2005, the SAFE issued a new public notice which became effective on 1 November 2005. The notice requires PRC residents to register with the local SAFE branch before establishing or controlling any company, referred to in the notice as a “special purpose offshore company”, outside of the PRC for the purpose of capital financing, and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC, which we refer to herein as a round-trip investment. Also, any change of shareholding or any other material capital alteration in such special purpose offshore company involving no round-trip investment shall be filed within 30 days starting from the date of shareholding transfer or capital alteration. Our beneficial owners fall within the definition of PRC residents and thus are required to comply with the relevant requirements in all material respects in connection with our investments and financing activities. If such beneficial owners fail to comply with the relevant requirements, such failure may subject the beneficial owners to fines and legal sanctions, which may consequently also adversely affect our business operations.

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

As at 30 April 2008, we had 6,188 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely, 中華人民共和國勞動合同法 (the Labour Contract Law of the PRC) (the “**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 our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares and an active trading market for our Shares may not develop

Our Shares are not listed on any stock exchange or organised trading market, including in the PRC. Prior to the Global Offering, there has not been a public market for our Shares. While we have applied to list and deal in the Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. The Offer Price of the Shares will be determined through negotiations between us and the Joint Global Coordinators (on behalf of themselves and the other underwriters of the Global Offering), and it may not necessarily be indicative of the market price of the Shares after the Global Offering is complete. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares. In addition, as there will be a five Business Day gap between the pricing and trading of the Shares offered in the Global Offering, the initial trading price of our Shares could be lower than the Offer Price due to a variety of reasons including material negative events affecting our Company.

The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors some of which are beyond our control, including:

- our financial results;
- changes in securities analysts’ estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;

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- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the sportswear industry and sportswear companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

The sale or availability for sale of substantial amounts of our Shares could adversely affect their market price

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 2,200,000,000 Shares outstanding immediately after the Global Offering, assuming the Underwriters do not exercise their Over-allotment Option and no outstanding stock options were exercised prior to the Latest Practicable Date. Although we and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up with the Underwriters until six months after the date of this prospectus, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up represent approximately 25% of the total issued share capital immediately after the Global Offering (assuming no exercise of the Underwriters' Over-allotment Option) and will be freely tradable immediately after the Global Offering.

Prior dividend distributions are not an indication of our future dividend policy

Our Company was incorporated in 10 April 2007 and we declared a dividend of approximately RMB129.5 million with respect to our reserves as at 31 December 2007, to our Shareholders. All declared dividend has been fully settled. The sources of funding for payment of such dividends are our operating cash flow.

The foregoing dividend distributions are to our Shareholders prior to the Global Offering only. Historical dividend distributions are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial

RISK FACTORS

condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Cayman Islands Company Law, including (where required) the approval of shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in the PRC, which are subject to restrictions described in “— Dividends on our Shares may become subject to PRC income tax.” above. For further details of the dividend policy of our Company, please see the section headed “Financial information — Dividend policy” in this prospectus.

The interests of our Controlling Shareholders may not always coincide with the interests of our Company and our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, public Shareholders’ best interests

The Controlling Shareholders will control the exercise of voting rights of 67.8% of the Shares eligible to vote in the general meeting of our Company immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Therefore, the Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to control actions which do not require the approval of independent shareholders. Subject to our Company’s Memorandum and Articles as well as the Companies Law, the Controlling Shareholders will also be able to control the election of our Directors, alter our share capital, make amendments to our Company’s Memorandum and Articles, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with the Controlling Shareholders. The Controlling Shareholders may cause us to take actions that are not in, or may conflict with, the interests of us or the public Shareholders. In the case where the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders and the price of the Shares could be adversely affected.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

An investor who purchases Shares in the Global Offering will pay more for such Shares than the amount paid by existing Shareholders for their Shares. As a result, the investor will experience immediate dilution of approximately HK\$3.33 per Share, representing the difference between our pro forma net tangible book value per Share as of 31 December 2007 after giving effect to the Global Offering and after deduction of estimated underwriting fees and expenses, and assuming an Offer Price of HK\$4.78 (being the mid-point of the indicative Offer Price range). If the Underwriters exercise the Over-allotment Option or if we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

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The costs of share options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme will adversely affect our results of operations and any exercise of the options granted may result in dilution to our Shareholders

Issuance of Shares for the purpose of satisfying any award made under the Pre-IPO Share Option Scheme will increase the number of Shares in issue after such issuance, and thus may result in the dilution to the percentage of ownership of our Shareholders, the earnings per Share and net asset value per Share.

The value of the options granted under our Pre-IPO Share Option Scheme will be recognised as an expense and amortised on a straight line basis over a period since the date of the grant to the end of the vesting period.

We have also adopted the Share Option Scheme pursuant to which we will in the future grant to our employees options to subscribe to Shares. Such options if exercised in full will represent approximately 10% of the issued share capital of our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation which may have a negative affect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus may result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme and the options granted thereunder are set out in the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix VI to this prospectus.

Information relating to the balance of inventory kept by, and average inventory turnover days of, the distributors of our branded products contained in this prospectus have not been independently verified or audited

We have included in this prospectus various information relating to the balance of inventory kept by, and average inventory turnover days of, the distributors of our branded products to assist investors to evaluate the inventory position and performance of distributors of, and the popularity of, our branded products during the Track Record Period. Such information was provided by the relevant distributors which are Independent Third Parties. We, the Joint Sponsors and the Underwriters have not independently verified or audited the accuracy of such information. Should any of such information be incorrect, it may have a negative impact on the investors' assessment and evaluation of the inventory and other financial position of the distributors or the popularity of our branded products.

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Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering

There has been press coverage regarding us and the Global Offering in certain news publications in Hong Kong including Ming Pao Daily News and Hong Kong Economic Journal on 9 May 2008 which included certain financial information, industry comparison, profit forecasts and other information about us (the “**Information**”). We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorised by us. We make no representation as to appropriateness, accuracy, completeness or reliability of any of the Information and the underlying assumptions. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVER FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, Mr. Ho Yui Pok, Eleutherius, our company secretary and qualified accountant, is ordinarily resident in Hong Kong but none of our executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Ho Yui Pok, Eleutherius, who is ordinarily resident in Hong Kong, and Mr. Ding, an executive Director. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange;
- (b) We appoint a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our communication channel with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;
- (c) Both the authorised representatives have means to contact all members of the Board (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (a) each executive Director will provide his or her mobile phone number, residential phone number, fax number and e-mail address to the authorised representatives; (b) each executive Director will provide valid phone numbers or means of communication to the authorised representatives when he or she is travelling; and (c) each executive Director will provide his or her mobile phone number, residential phone number, office phone number, fax number and e-mail address to the Stock Exchange; and
- (d) All executive Directors, non-executive Director and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered for subscription and sale solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Joint Global Coordinators, any of the Underwriters, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offer.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between us and the Joint Global Coordinators (on behalf of the Underwriters). Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

If we and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price before 2 June 2008, the Global Offering will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SELLING RESTRICTIONS

Each person acquiring the Offer Shares will be required to confirm, or by his acquisition of the Offer Shares be deemed to confirm, that he is aware of the restriction on offers or sales of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription and sale solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of their respective directors, agents, employees or advisers or any other persons or parties involved in the Global Offering.

Prospective applicants for Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

United States

Our Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered or sold to QIBs in reliance on an exemption from registration under the US Securities Act or outside the United States in offshore transactions in accordance with Regulation S. Our Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from registration under the US Securities Act. In addition, until 40 days after the commencement of the Global Offering, an offer or sale of our Offer Shares within the United States (whether or not as a part of the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Our Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus relating to the Global Offering. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

Each International Underwriter (i) has not made and will not make an offer of our Offer Shares to the public in the United Kingdom prior to the publication of a prospectus in relation to our Offer Shares that has been approved by the FSA except that it may make an offer of our Offer Shares to persons who fall within the definition of “qualified investor” as that term is defined in section 86(1) of Financial Services and Markets Act 2000, as amended, (“FSMA”) or otherwise in circumstances which do not require the publication by our Company of a prospectus pursuant to section 85(1) of FSMA; (ii) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of our Offer Shares in circumstances in which section 21(1) of FSMA does not apply; and (iii) has complied with and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to our Offer Shares in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of our Offer Shares may not be made in that Relevant Member State, except that an offer of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) by the International Underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the International Underwriters for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of our Offer Shares shall result in a requirement for the publication by our Company or any International Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

For the purposes of the above, the expression an “offer to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe any Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

Our Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and our Offer Shares will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our Offer Shares may not be circulated or distributed, nor may our Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where our Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired our Offer Shares pursuant to an offer made under Section 275 except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

PRC

This prospectus has not been and will not be circulated or distributed in the PRC, and our Offer Shares may not be offered or sold, and will not be offered or sold, directly or indirectly, to any resident of the PRC or to person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. For the purpose of this paragraph only, the PRC does not include Taiwan and the special administrative regions of Hong Kong and Macau.

Australia

This prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the “**Australian Corporations Act**”), has not been and will not be lodged with the Australian Securities and Investments Commission as a disclosure document for the purposes of the Australian Corporations Act and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. Our Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe to or buy our Offer Shares may be issued, and no draft or definitive offering circular, advertisement or other offering material relating to any of our Offer Shares may be distributed in Australia except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. Accordingly:

- (i) the offer of our Offer Shares under this prospectus is only made to select persons who are “Sophisticated Investors” that meet the criteria set out in Section 708(8) of the Australian Corporations Act or “Professional Investors” as referred to in Section 708(11) and as defined in Section 9 of the Australian Corporations Act or investors who receive the offer through an Australian financial services licensee where all of the criteria set out in section

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

708(10) of the Australian Corporations Act have been satisfied or persons to whom it is otherwise lawful to offer our Shares without disclosure under Chapter 6D of the Australian Corporations Act under one or more exemptions set out in Section 708 of the Australian Corporations Act;

- (ii) this prospectus may only be made available in Australia to those persons who are able to demonstrate that they are within one of the categories of persons as set forth in clause (i) above;
- (iii) as any offer of our Offer Shares under this document will be made without disclosure in Australia under Chapter 6D of the Australian Corporations Act, the offer of those securities for resale in Australia within 12 months may, under section 707 of the Australian Corporations Act, require disclosure to investors under Chapter 6D if none of the exemptions in section 708 apply to that resale. Accordingly, any person who acquires securities pursuant to this document should not, within 12 months of acquisition of our Offer Shares, offer, transfer, assign or otherwise alienate those securities to investors in Australia except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act or unless a compliant disclosure document is prepared and lodged with the Australian Securities and Investments Commission; and
- (iv) the offeree must be sent a notice stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (i) above, and, unless permitted under the Australian Corporations Act, agrees not to sell or offer for sale within Australia any of our Offer Shares sold to the offeree within 12 months after its transfer to the offeree under this offering circular.

The provisions that define the exempt categories of person as set forth in clause (i) above are complex, and if you are in any doubt as to whether you fall within one of these categories, you should seek appropriate professional advice regarding those provisions.

This document is intended to provide general information only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Investors should review and consider the contents of this document and obtain financial advice specific to their situation before making any decision to make an application for Offer Shares.

Cayman Islands

Our Offer Shares are not offered or sold, and will not be offered or sold, directly or indirectly, to the public in the Cayman Islands.

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United Arab Emirates

Our Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except (i) in compliance with all applicable laws and regulations of the United Arab Emirates, and (ii) through persons or corporate entities authorised and licensed to engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates. The information contained in this offering circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

Our Offer Shares have not been offered or sold in the Dubai International Financial Centre (the “**DIFC**”). Our Offer Shares will not be offered or sold in the DIFC unless such offer is (a) deemed to be an “Exempt Offer”, made in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “**Rules**”); (b) made to Qualified Investors as defined in the Rules; and (c) made through a duly authorised firm in the DIFC.

State of Kuwait

Our Offer Shares have not been authorised or licensed for offering, marketing or sale in the State of Kuwait (“Kuwait”). The distribution of this offering circular and the offering, marketing and sale of the Offer Shares in Kuwait is restricted by law unless a license is obtained from the Kuwaiti Ministry of Commerce and Industry in accordance with Law No. 31 of 1990, and the various Ministerial Regulations issued pursuant thereto. Persons into whose possession this offering circular comes are required by us and the International Underwriters to inform themselves about and to observe such restrictions. Investors in Kuwait who approach us or any of the International Underwriters to obtain copies of this prospectus are required by us and the International Underwriters to keep such offering circular confidential and not to make copies thereof nor distribute the same to any other person in Kuwait and are also required to observe the restrictions provided for in all jurisdictions with respect to offering, marketing and the sale of the Offer Shares.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of our Offer Shares in the Kingdom of Saudi Arabia, or possession or distribution of any offering materials in relation thereto. Our Offer Shares may only be offered and sold in the Kingdom of Saudi Arabia through persons authorised to do so in accordance with Part 5 (Exempt Offers) of the Offers of Securities Regulations dated 20/8/1425 AH corresponding to 4/10/2004 (as amended) (the “**Regulations**”) and, in accordance with Part 5 (Exempt Offers) Article 16(a)(3) of the Regulations, the Shares will be offered to no more than 60 offerees in the Kingdom of Saudi Arabia with each such offeree paying an amount not less than Saudi Riyals one million or an equivalent amount in another currency. Investors are informed that Article 19 of the Regulations places restrictions on secondary market activity with respect to our Offer Shares. Any resale or other

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transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by us. Prospective purchasers of our Offer Shares should conduct their own due diligence on the accuracy of the information relating to the Offer Shares. If you do not understand the contents of this document you should consult an authorised financial adviser.

Bahrain

This offering circular has not been reviewed by the Central Bank of Bahrain (“**CBB**”). This prospectus may not be circulated within the Kingdom of Bahrain nor may any of interests in our Company be offered for subscription or sold, directly or indirectly, nor may any invitation or offer to subscribe to any Shares in our Company be made to persons in the Kingdom of Bahrain. The CBB is not responsible for the performance of our Company nor the International Underwriters.

State of Qatar

The investment described in this prospectus has not been offered, sold or delivered and will not be offered, sold or delivered, at any time, directly or indirectly in the State of Qatar in a manner that would constitute a public offering.

This prospectus has not been, and will not be, registered with or approved by the Qatar Financial Market Authority or Qatar Central Bank and may not be publicly distributed. The document is intended for the original recipient only and must not be provided to any other person. It is not for circulation in the State of Qatar and may not be reproduced or used for any other purpose.

Switzerland

This prospectus is being communicated in Switzerland or from Switzerland to a limited number of investors only without any public offering. Each copy of this document is addressed to a specifically named recipient and shall not be passed to a third party.

Malaysia

This prospectus and any other offering material or document relating to our Offer Shares does not constitute and is not intended to constitute an offer or an invitation to subscribe to or purchase our Offer Shares in Malaysia; they are being made available to you, at your request for information purposes only. No invitation or offer to subscribe or purchase securities is made in Malaysia as the prior approval of the Securities Commission of Malaysia has not been obtained.

No prospectus or other offering material or document, including this offering circular, has been or will be registered as a prospectus with the Securities Commission of Malaysia pursuant to the Securities Commission Act, 1993 of Malaysia (“**SCA**”), as the offer for purchase of, or invitation to purchase, our Offer Shares is meant to qualify as an “excluded offer or excluded invitation” or

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“excluded issue” within the meaning of sections 38 and 39 of the SCA. Accordingly, this prospectus shall not be circulated or distributed and no invitation or offer, whether directly or indirectly, of our Shares will be made, to any persons other than to persons specified in Schedules 2 and 3 of the SCA (“**Sophisticated Investors**”). In accepting the offer under this prospectus, you represent that you are one of the persons as set out in Schedule 2 and Schedule 3 of the SCA and the offer or issuance to you falls within the meaning of an excluded offer or excluded issue as defined under the said Act.

In addition, our Offer Shares shall not be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe to or sell, any Offer Shares, be made in Malaysia to Sophisticated Investors unless such offer or invitation has been approved by the Securities Commission of Malaysia or exempted from the requirement for the approval of the Securities Commission of Malaysia by virtue of falling within Schedule 1 of the SCA.

Each International Underwriter has acknowledged that this prospectus has not been and will not be registered as a prospectus with the Securities Commission of Malaysia under the SCA but will be deposited as an information memorandum with the Securities Commission of Malaysia in accordance with the SCA.

Italy

This prospectus has not been and will not be filed with or cleared by the Italian securities exchange commission (Commissione Nazionale per le società la Borsa — the “**CONSOB**”) pursuant to Legislative Decree No. 58 of 24 February 1998 (as amended, the “**Finance Law**”) and to CONSOB Regulation No. 11971 of 14 May 1999 (as amended, the “**Issuers Regulation**”). Accordingly, copies of this prospectus or any other document relating to the Offer Shares may not be distributed, made available or advertised in Italy, nor may the Offer Shares be offered, purchased, sold, promoted, advertised or delivered, directly or indirectly, to the public other than (i) to “Professional Investors (such being the persons and entities as defined pursuant to article 31(2) of CONSOB Regulation No. 11522 of 1 July 1998 , as amended, the “**Intermediaries Regulation**”) pursuant to article 100 of the Finance Law; (ii) to prospective investors where the offer of the Offer Shares relies on the exemption from the investment solicitation rules pursuant to, and in compliance with the conditions set out by article 100 of the Finance Law and article 33 of the Issuers Regulation, or by any applicable exemption; provided that any such offer, sale, promotion, advertising or delivery of the Offer Shares or distribution of this prospectus, or any part thereof, or of any other document or material relating to the Offer Shares in Italy is made: (a) by investment firms, banks or financial intermediaries authorised to carry out such activities in the Republic of Italy in accordance with the Finance Law, the Issuers Regulation, Legislative Decree No. 385 of 1 September 1993 (as amended, the “**Banking Law**”), the Intermediaries Regulation, and any other applicable laws and regulations; (b) by foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same EU Member State) authorised to place and distribute securities in Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act; and (c) in compliance with any applicable notification requirement or duty which may, from time to time, be imposed by CONSOB, Bank of Italy or by any other competent authority.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Netherlands

The Offer Shares may not be offered or sold, directly or indirectly, in the Netherlands other than (i) Offer Shares with a minimum denomination of Euro 50,000 (or the equivalent thereof in another currency), which Offer Shares are fully paid up at their issuance, (ii) to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, investment undertakings, pension funds, other institutional investors and insurance companies and treasury departments of large enterprises) or (iii) in circumstances where one of the exceptions to or exemptions from the prohibition contained in article 3(1) of the Securities Transactions Supervision Act 1995 (Wet toezicht effectenverkeer 1995) applies.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may fall to be issued under the Over-allotment Option), the conversion of Series A Preferred Shares and the Capitalisation Issue and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme. Save as disclosed in this prospectus, no part of our Share or loan capital is listed on or dealt in on any other stock exchange. At present, we are not seeking or proposing to seek such listing of, or permission to deal in, our Shares or loan capital on any other stock exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All of the Shares issued and sold pursuant to applications made in the Hong Kong Public Offer and the International Placing will be registered on our branch register of members to be maintained in Hong Kong. We will maintain our principal register of members at our head office in the Cayman Islands.

Dealings in the Shares registered in our Hong Kong branch register will be subject to stamp duty in Hong Kong.

Unless we determine otherwise, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on our Hong Kong share register, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares should consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares. It is emphasised that none of us, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of our and their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by the Underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the stabilisation price will not exceed the initial public offer price.

In connection with the Global Offering, J.P. Morgan Asia Pacific, its affiliates or any person acting for it, as stabilising manager, on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on J.P. Morgan Asia Pacific, its affiliates or any persons acting for it, to conduct any such stabilising action. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of J.P. Morgan Asia Pacific, its affiliates or any person acting for it. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 82,500,000 Shares, which is 15% of the shares initially available under the Global Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe to, the Shares pursuant to the Over-allotment Option in order to close out any position

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- J.P. Morgan Asia Pacific, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which J.P. Morgan Asia Pacific, its affiliates or any person acting for it, will maintain such a long position;
- liquidation of any such long position by J.P. Morgan Asia Pacific, its affiliates or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on 25 June 2008, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of our Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

For the purpose of covering any over-allocations, J.P. Morgan Asia Pacific may borrow from Group Success up to 82,500,000 Shares, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between J.P. Morgan Asia Pacific and Group Success on the Price Determination Date. The loan of Shares by Group Success pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules, which restricts the disposal of Shares by the Controlling Shareholders subsequent to the date of this prospectus, subject to compliance with the following requirements in accordance with the requirements of Rule 10.07(3) of the Listing Rules:

- (i) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Placing;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (ii) the maximum number of Shares which may be borrowed from Group Success must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Group Success or its nominees, as the case may be, on or before the third Business Day following the earlier of (a) the last day for exercising the Over-allotment Option, and (b) the date on which the Over-allotment Option is exercised in full;
- (iv) the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (v) no payments will be made to Group Success by J.P. Morgan Asia Pacific in relation to such Stock Borrowing Agreement.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

CURRENCY TRANSLATIONS

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars at an exchange rate of RMB0.90 = HK\$1.00 or RMB6.99 = US\$1.00, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK dollars or US dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “*” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Ding Shui Po	Unit 501 Sanxing Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000	Chinese
Ding Mei Qing	Unit 502 Sanxing Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000	Chinese
Lin Zhang Li	Unit 502 Sanxing Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000	Chinese
Ding Ming Zhong	Unit 503 Sanxing Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Ye Qi	Room 404, Block 2 Xtep Dormitory Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000	Chinese
<i>Non-executive Director</i>		
Xiao Feng	7-2-2905, Green Lake International Apartment, Chaoyang District Beijing PRC	Chinese
<i>Independent non-executive Directors</i>		
Sin Ka Man	Flat A, 9/F Kingston Heights Belair Gardens Shatin New Territories Hong Kong	Chinese
Xu Peng Xiang	10-301 Baocheng Huayuan Qianban Xincun Fengze District Quanzhou City Fujian Province PRC	Chinese
Gao Xian Feng	Room 1803, Block 1-A Fu Run Jia Yuan No. 6, Xueyuan Road Haidian District Beijing PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Global Coordinators and
Joint Sponsors**

J.P. Morgan Securities (Asia Pacific) Limited
27/F Chater House
8 Connaught Road Central
Hong Kong

UBS AG acting through its business group
UBS Investment Bank
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

**Joint Bookrunners and Joint
Lead Managers**

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

UBS AG acting through its business group
UBS Investment Bank
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong and United States law:
Coudert Brothers
in association with
Orrick, Herrington & Sutcliffe LLP
39th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
15th Floor The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Legal advisers to the Joint Sponsors
and the Underwriters**

As to Hong Kong and United States law:

Herbert Smith
23rd Floor Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Jun He Law Offices
20th Floor, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
PRC

Auditors and reporting accountants

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Property valuer

Jones Lang LaSalle Sallmanns Limited
22/F, Siu On Centre
188 Lockhart Road
Hong Kong

Receiving banker

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office in the PRC	Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000
Principal place of business in Hong Kong	Suite 2401-2 24/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Company's website	www.xtep.com.hk (<i>information contained in this website does not form part of this prospectus</i>)
Qualified accountant	Ho Yui Pok, Eleutherius <i>ACA, CPA</i>
Company secretary	Ho Yui Pok, Eleutherius <i>ACA, CPA</i>
Authorised representatives	Ding Shui Po Unit 501 Sanxing Building 431 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC 362000 Ho Yui Pok, Eleutherius Unit B, 4th Floor, Sutherland Court, Ville de Cascade, 2-4 Lai Wo Lane, Fotan, Shatin, New Territories, Hong Kong
Audit committee	Sin Ka Man (<i>Chairman</i>) Xu Peng Xiang Gao Xian Feng

CORPORATE INFORMATION

Remuneration committee	Xu Peng Xiang (<i>Chairman</i>) Gao Xian Feng Ding Mei Qing
Nomination committee	Ding Shui Po (<i>Chairman</i>) Xu Peng Xiang Gao Xian Feng
Compliance adviser	Shenyin Wanguo Capital (H.K.) Limited 28th Floor Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
Principal bankers	Quanzhou Qingmeng Sub-branch China Construction Bank 114 Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC Quanzhou Economic and Technical Development Zone Sub-branch Agricultural Bank of China 1-2F Prince Restaurant Detai Road Economic and Technical Development Zone Quanzhou City Fujian Province PRC Quanzhou Quanxiu Sub-branch China Merchants Bank Jingdu International Building Quanxiu Road Quanzhou City Fujian Province PRC

CORPORATE INFORMATION

Jinjiang Chen Geng Sub-branch
Industrial Bank Co., Ltd.
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Chen Geng Town
Jinjiang City
Fujian Province
PRC

Quanzhou Branch
Bank of Communications
550 Fengze Street
Fengze District
Quanzhou City
Fujian Province
PRC

Xiamen Branch
Industrial Bank Co., Ltd.
Industrial Bank Building
78 North Hubin Road
Xiamen City
Fujian Province
PRC

**Cayman Islands principal share registrar
and transfer office**

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

**Hong Kong branch share registrar
and transfer office**

Computershare Hong Kong Investor Services
Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China. Investors should also note that we commissioned Euromonitor International to prepare an independent report on the sportswear market of the PRC. Euromonitor International is the world's leading independent provider of business intelligence on industries, countries and consumers. Industries in which Euromonitor International conducts research are wide-ranging and include clothing and footwear, personal and leisure goods and retailing. Founded in 1972, Euromonitor International has offices in London, Chicago, Singapore, Shanghai and Vilnius and has a team of over 600 in-country analysts worldwide. Its Global Market Information Database (GMID) has been named "Best Business Information Product" by the international information industry. A fee of US\$25,000 was paid to Euromonitor International for the preparation of the independent report. We make no representation as to the correctness or accuracy of any of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

INTRODUCTION

Our Company operates primarily in the fashion sportswear industry in the PRC, where the fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. The performance of the PRC fashion sportswear industry is driven by the growth of the Chinese economy and in particular the increase in disposable income in the Chinese population. Furthermore, market demand for sportswear products has been on the rise, especially as interest in sports participation increases in anticipation of the Beijing 2008 Olympic Games.

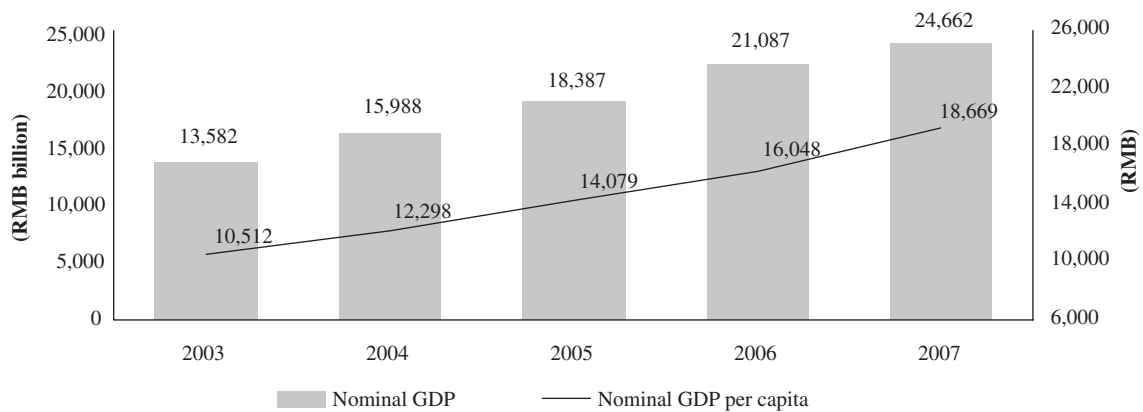
RAPID GROWTH OF THE CHINESE ECONOMY AND ITS CONSUMER SPENDING POWER

Growth of the PRC economy

The PRC economy has expanded rapidly since the "reform and market liberalisation" policies initiated by the Chinese government in the late 1970s. Since then, the PRC Government has actively sought to become engaged in international trade. Economic growth was further spurred by the launch of special economic zones along coastal PRC in the early 1990s. From 2003 to 2007, the PRC's National Bureau of Statistics estimated that the PRC's nominal GDP grew at a CAGR of approximately 16.1%, making the PRC's economy one of the fastest growing economies in the world. The following chart illustrates the nominal GDP and nominal GDP per capita in the PRC between 2003 and 2007.

INDUSTRY OVERVIEW

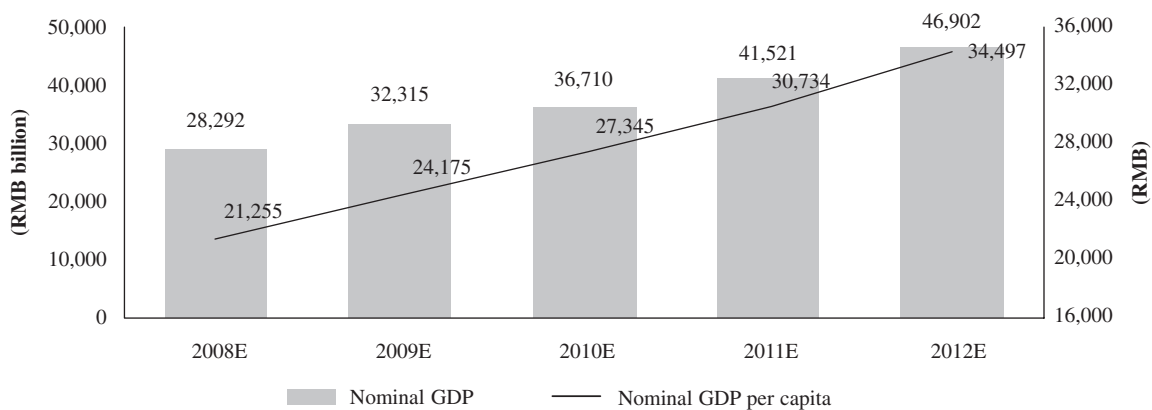
2003 — 2007 Nominal GDP and nominal GDP per capita in the PRC¹



Source: National Bureau of Statistics of China

In addition, according to the Economist Intelligence Unit² (“EIU”), economic expansion in the PRC is expected to remain strong in the coming years. The chart below illustrates the expected growth in GDP and GDP per capita in the PRC from 2008 to 2012.

2008 — 2012 Nominal GDP and nominal GDP per capita in the PRC¹



Source: EIU

¹ Nominal GDP per capita calculated based on nominal GDP and total population.

² The EIU is a specialist publisher serving companies establishing and managing operations across national borders. The EIU provides a constant flow of analysis and forecasts on more than 200 countries and eight key industries.

INDUSTRY OVERVIEW

Accelerating urbanisation trend and increasingly affluent urban residents

Urbanisation has accelerated in the PRC as a result of the country's rapid economic growth. Populations in urban cities have swelled with the influx of people from rural and less developed areas. During the short span between 2003 and 2007, the total urban population in the PRC increased by approximately 70 million or approximately 13.4%. In 2007, the total urban population was approximately 594 million and accounted for around 44.9% of the total population. The table below shows the growth of the urban population in the PRC from 2003 to 2007.

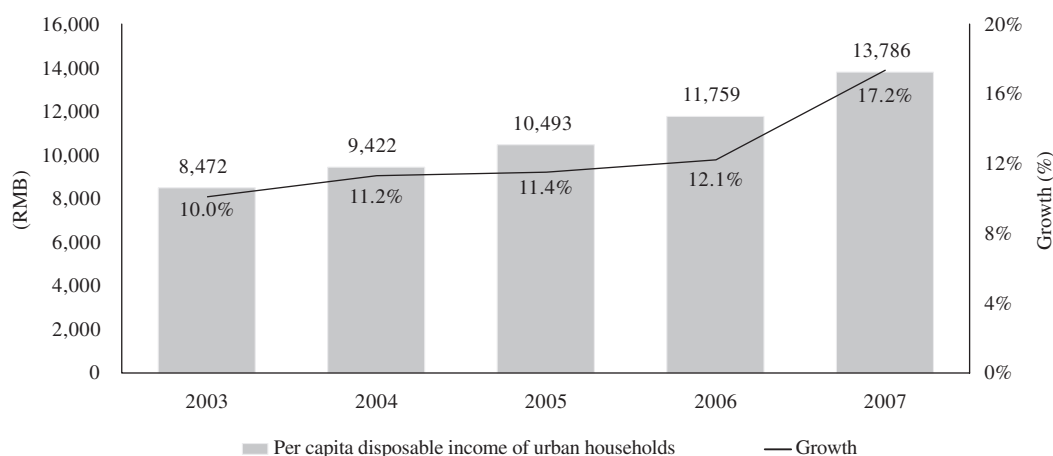
2003 — 2007 Growth of urban population in the PRC

	2003	2004	2005	2006	2007	CAGR
Urban population (millions)	524	543	562	577	594	3.2%
Total population (millions)	1,292	1,300	1,306	1,314	1,321	0.6%
Urbanisation rate (%)	40.5%	41.8%	43.0%	43.9%	44.9%	

Source: National Bureau of Statistics of China

Associated with the growth in GDP and the proportion of urban residents is an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban PRC residents have increased substantially since 2003. The chart below illustrates the per capita disposable income levels in the PRC from 2003 to 2007.

2003 — 2007 Per capita disposable income of urban households in the PRC



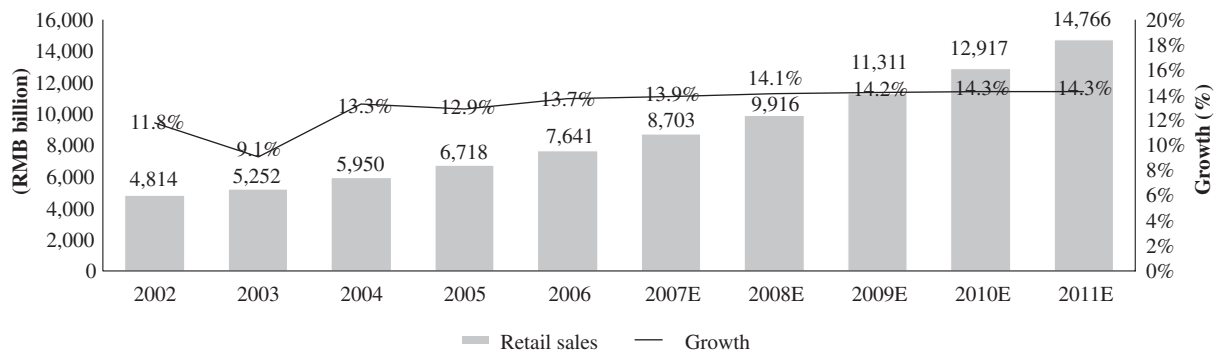
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

THE BOOMING RETAIL INDUSTRY IN THE PRC

The PRC's market for consumer goods expanded rapidly in the past few years amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics have coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. This has undoubtedly contributed to the development of the retail industry. Total retail sales in the PRC between 2002 and 2006 grew from RMB4,814 billion to RMB7,641 billion, representing a CAGR of 12.2%, as shown in the chart below. According to the EIU, retail sales growth is expected to remain strong through year 2011 to reach RMB14,766 billion in sales, representing a 2006 to 2011 CAGR of 14.1%.

2002 — 2011 Retail sales and growth rate in the PRC



Source: National Bureau of Statistics of China — China Statistical Yearbook (2007) for historical figures 2002-2006
EIU for forecast figures 2007E-2011E

Key drivers of sustainable growth in the PRC's retail market

The increasing size of the PRC's middle class and growing affluence in the PRC overall have greatly contributed to the increasing consumption of lifestyle-enhancing products such as entertainment, leisure, technology, and fashion apparel and footwear. As the level of disposable income increases among these people, their purchase decisions become increasingly less driven by price and functionality, but more by brand image, product design and style.

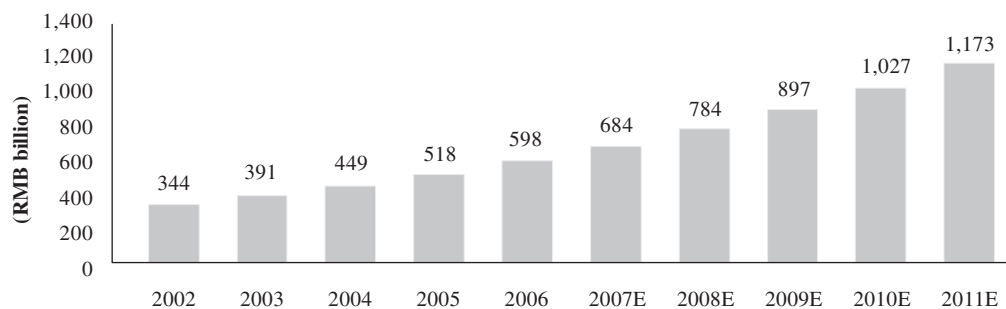
The PRC's generation Y, those born between 1980 and 1990, are expected to be a large driver of consumption among the population. This generation grew up amidst rising consumerism and entrepreneurship in the PRC, free from famine and political instability experienced by the previous generation. Their higher education and stronger earning power coupled with the influx of Western culture and mentality into the PRC have slowly bred a completely different perception of borrowing for consumption.

INDUSTRY OVERVIEW

THE GROWING APPAREL MARKET IN THE PRC

Since joining the World Trade Organisation in 2002, the PRC has benefited from freer trade and liberalisation from many trade restrictions on textile and apparel products. According to Euromonitor International, these liberalisations are expected to result in a gradual upward growth trend in apparel sales over the next few years. As shown in the chart below, apparel sales in the PRC are expected to grow from approximately RMB598 billion in 2006 to reach approximately RMB1,173 billion by 2011, representing a CAGR of 14.4%.

2002 — 2011 Annual apparel sales in the PRC



Source: © Euromonitor International

According to Euromonitor International, the proportion of apparel sales relative to footwear sales are expected to increase going forward as apparel fashions and trends tend to change more quickly, giving consumers a reason to make more frequent apparel purchases.

THE PRC FOOTWEAR INDUSTRY

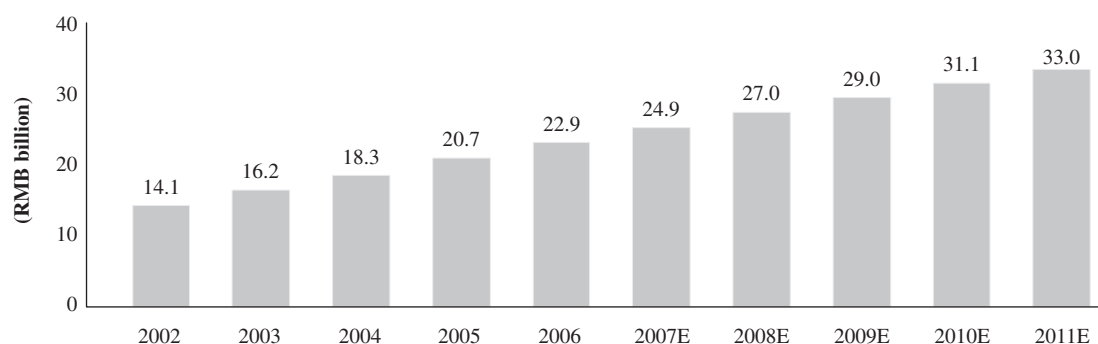
According to SATRA Technology Centre¹, in 2005, the PRC's footwear production increased to 9 billion pairs, representing a 62% share of global footwear production. Consumption of footwear in 2005 in the PRC reached 2.1 billion pairs, representing 16% of global footwear consumption.

The following chart illustrates annual sales for footwear in the PRC between 2002 and 2011. Annual footwear sales grew from approximately RMB14.1 billion in 2002 to approximately RMB22.9 billion in 2006, representing a CAGR of 12.9%, and are expected to continue this strong growth from 2006 to 2011 at a CAGR of 7.6% to reach approximately RMB33.0 billion in sales by 2011.

¹ SATRA Technology was formed in 1919 to serve the footwear industry and is the world's leading research and technology centre of its kind.

INDUSTRY OVERVIEW

2002 — 2011 Annual footwear sales in the PRC



Source: © Euromonitor International

EXPANDING SPORTS CULTURE IN THE PRC

The PRC has emerged as a major sporting nation over the past decade and as host of the upcoming Beijing 2008 Olympic Games the nation is expected to be near or at the top of the medals charts in Beijing in 2008. Along with the 2009 East Asian Games in Hong Kong and the 2010 Asian Games in Guangzhou, these high-profile sporting events will help grow and sustain the PRC public's interest in sports for the next few years. Furthermore, the emergence of world-class athletes such as basketball star Yao Ming and world hurdling champion Liu Xiang has boosted interest in sports across the PRC. These developments should drive the growth of domestic demand for sporting apparel and footwear.

More people than ever are improving their health by engaging in sports, as health consciousness among the PRC population has increased in recent years. Through constructing sporting facilities and organising events, the PRC's General Administration of Sport, a PRC government sports body, has provided people with more opportunities to exercise.

China's per capita GDP has surpassed a level where its consumers' main expenditure is likely to have shifted to higher-value lifestyle goods and services and away from basic goods. According to Euromonitor International, by 2010, sports-related industries in China are expected to account for 0.3% of GDP, but this still lags behind the estimated 1.0%-3.0% average for more developed countries. In the near future, therefore, there remains significant scope for further sustained growth in sports-related industries in the PRC.

There is a link between increasing income levels and the rising popularity of sports and trend toward health and fashion. The PRC's General Administration of Sport has published data that generally shows an increasing level of participation in sports in the PRC, driven mainly by improving living standards and increasing levels of income. According to the PRC's 十一五體育規劃 (The 11th Five Year Plan for Sports), the PRC Government targets to have an additional 55 million active participants in sports activities by 2010.

INDUSTRY OVERVIEW

The increased popularity of sports and fitness in the PRC is also evidenced by the number of sporting events held in the PRC at the county level, increasing from 24,880 in 1995 to 40,281 in 2006.

THE PRC SPORTSWEAR INDUSTRY

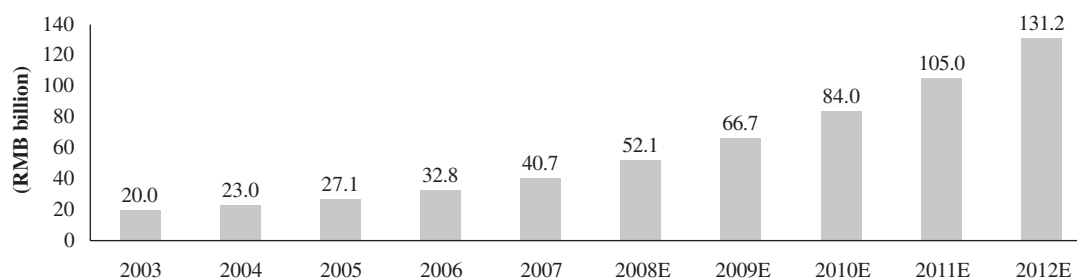
The PRC sportswear market, which includes footwear, apparel and accessories, has expanded rapidly in recent years. Important factors contributing to the growth of the PRC sportswear market are the overall GDP growth in the PRC, rising income levels and shifting consumption preferences of increasingly affluent consumers.

According to Euromonitor International, looking at the products under review, sportswear in China (“**sportswear market**”) can basically be classified into three key style sectors: professional sportswear, casual sportswear and fashion sportswear. Professional sportswear refers to sportswear that is tailor-made for a certain sports game in view of its athletic characteristics, rules and athletes’ physiological needs, with an attempt to better athletic achievement. Casual sportswear refers to footwear, apparel and accessories not only catering to the sports needs, but also suitable for casual wear. Finally, fashion sportswear is a hybrid of casual sportswear and fashion wear and places an emphasis on the combination of sports functions and fashion tastes and trends.

Estimated PRC’s sportswear market size

The PRC’s sportswear market has experienced double-digit growth in recent years, with the 2006 sportswear market having a total size of approximately RMB32.8 billion. The sportswear market is expected to quadruple in size from RMB32.8 billion in 2006 to RMB131.2 billion in 2012, representing a CAGR of 26.0%. The chart below illustrates the size of the PRC sportswear market as measured by revenue.

2003 — 2012 Sportswear market in the PRC¹



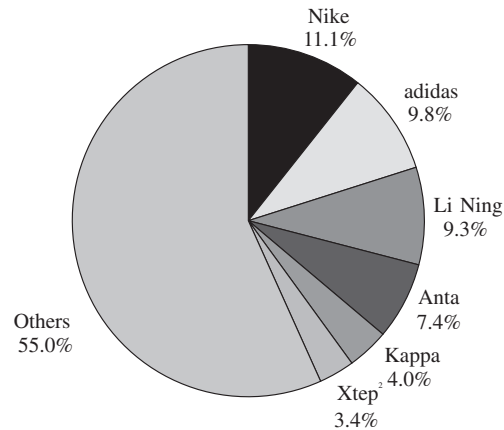
Source: © Euromonitor International

¹ The chart represents the total sportswear market

INDUSTRY OVERVIEW

According to Euromonitor International, leading sportswear brands in the PRC include well-known international brands such as Nike, adidas and Kappa, as well as top domestic brands such as Li Ning, Anta and Xtep.

2007 Breakdown by revenue of the sportswear market in the PRC¹



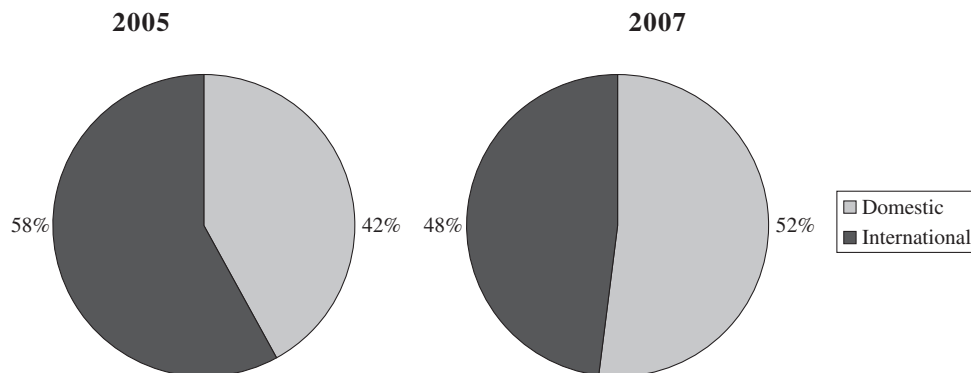
Source: © Euromonitor International

¹ The chart represents the total sportswear market

² Xtep's market share increased from 1.2% in 2006 to 3.4% in 2007

Relevant market research by Euromonitor International indicates that domestic brands are becoming increasingly prominent and successful. Despite the higher positioning and name recognition of major international brands, domestic brands are very effective in capturing market share by penetrating all levels of the Chinese market, whereas international brands tend to be less effective in penetrating markets beyond major cities such as Beijing, Shanghai and Guangzhou due to their brand positioning. The charts below set forth the share of international sportswear brands in the top 10 versus the share of domestic sportswear brands in the top 10 in terms of revenue in 2005 and in 2007.

2005 and 2007 Market share between international and domestic sportswear brands in the top 10



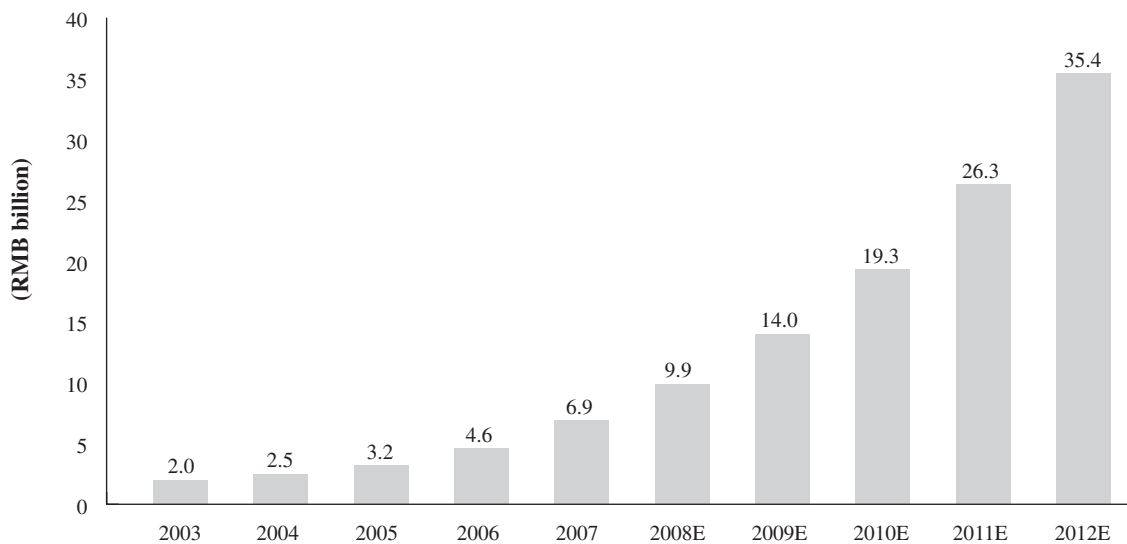
Source: © Euromonitor International

INDUSTRY OVERVIEW

Fashion sportswear market in the PRC

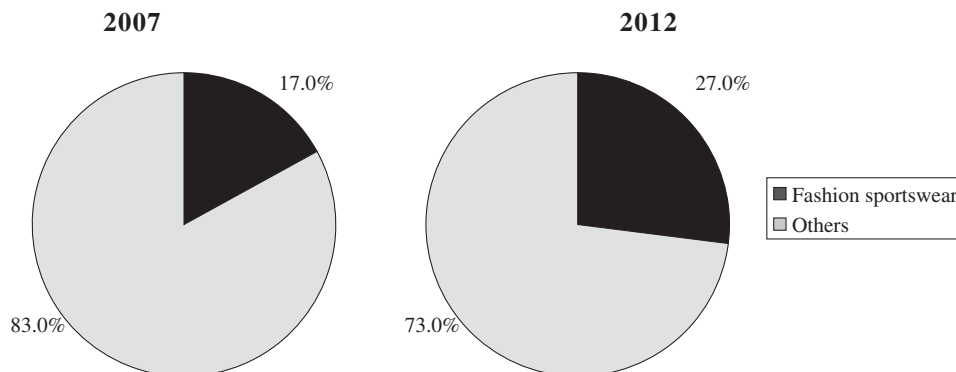
Overall, there is a trend in the sportswear industry toward fashion and comfort. Fashion sportswear serves both the functional needs of consumers engaging in sports activities as well as the need for convenience and comfort for everyday wear. Due to this combination, the fashion sportswear market has been growing rapidly since 2003, its growth far exceeds that of other sportswear segments. From 2003 to 2007, the fashion sportswear market grew at a CAGR of 36.3%. Euromonitor International estimates that, in 2007, the fashion sportswear market size was RMB6.9 billion in terms of revenue, or 17.0% of the total sportswear market in the PRC, up from the 10% share in 2003. In 2012, this segment is expected to account for 27.0% of the total market, or RMB35.4 billion in terms of revenue.

2003-2012 Fashion sportswear market in the PRC



Source: © Euromonitor International

Fashion sportswear segment's share of the sportswear market

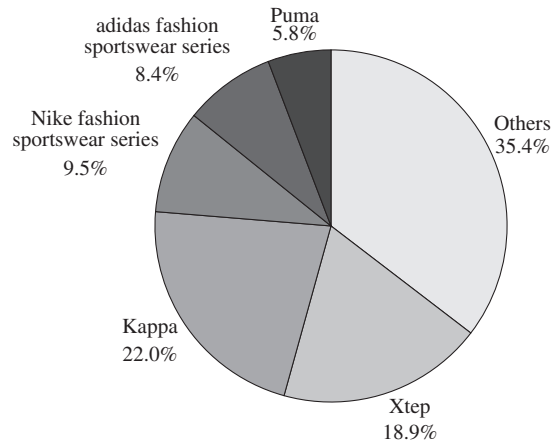


Source: © Euromonitor International

INDUSTRY OVERVIEW

In light of this growth potential, international brands such as Nike and adidas have introduced fashion sportswear series. For example, in 2007, adidas introduced Adilibria and adi-Fuse for women and Nike added its Nikewomen series. Other players such as Kappa, Xtep and Puma have positioned themselves as fashion sportswear brands and have experienced substantial growth. The chart below sets forth the share in terms of revenue in the fashion sportswear market for the top 5 brands in 2007:

2007 Market share breakdown of the top 5 fashion sportswear brands in the PRC



Source: ©Euromonitor International

Note: The market share of Nike and adidas brands only include their product series that fit the description of "fashion sportswear"

It is expected that fashion sportswear brands will become increasingly popular and spending in this area will increase. In addition, the PRC Government has consistently promoted competitive athletics and athletic programmes for the general public. The upcoming Beijing 2008 Olympic Games is expected to increase the Chinese public's interest in, and awareness of, sports and fitness. We expect that the Beijing 2008 Olympic Games will stimulate consumer spending generally, and in particular, spending in sporting goods, including sportswear.

REGULATIONS

REGULATIONS

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group's operation and business.

Establishment, operation and management of a wholly foreign-owned enterprise

The establishment, operation and management of corporate entities in China is governed by 中華人民共和國公司法 (the Company Law of the PRC) (the “**Company Law**”), which was promulgated by 全國人民代表大會常務委員會 (the Standing Committee of the National People's Congress) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law shall also apply to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by 中華人民共和國外商獨資企業法 (the Wholly Foreign-owned Enterprise Law of the PRC) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with 外商投資產業指導目錄 (the Guidance Catalogue of Industries for Foreign Investment) (the “**Catalogue**”), which was amended and promulgated by 商務部 (the Ministry of Commerce) and 國家發展和改革委員會 (the National Development and Reform Commission) on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

Taxation

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by 中華人民共和國外商投資企業和外國企業所得稅法 (the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC) (“**FIE Tax Law**”) promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on

REGULATIONS

foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

According to the newly promulgated 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC) (“**New Tax Law**”), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. However, there will be a transition period for enterprises that previously receive preferential tax treatments under the FIE Tax Law. Foreign-invested enterprises that are subject to an enterprise income rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate after the effective date of the Income Tax Law. Foreign-invested enterprises that enjoy a tax rate of 24% will have their tax rate increased to 25% in 2008. Foreign-invested enterprises which enjoy a fixed period of exemptions or reductions under the existing applicable rules and regulations may continue to enjoy such treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the New Tax Law.

Value-added tax

Pursuant to 中華人民共和國增值稅暫行條例 (the Provisional Regulations on Value-added Tax of the PRC) effective from 1 January 1994 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“**VAT**”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product type.

Environmental protection

According to 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC) (the “**Environmental Protection Law**”), promulgated and effective in 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;

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- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefore.

Violation of the Environmental Protection Law may result in fines, suspension of operation, close-down or even criminal liabilities.

Foreign currency exchange and dividend distribution

Foreign currency exchange

The principal regulations governing foreign currency exchange in China is 中華人民共和國外匯管理條例 (the Foreign Exchange Administration Rules of the PRC) (the “**Foreign Exchange Administration Rules**”), promulgated by 國務院 (the State Council) on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transaction involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

Dividend distribution

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for the employee bonus and welfare fund from their after-tax profits each year at percentages determined at their sole discretion. These reserves are not distributable as cash dividends.

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Overseas investment by domestic residents

According to 關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles) (the “SPV”), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

- domestic residents who plan to establish or control an overseas SPV must conduct foreign exchange registration with the local foreign exchange authority;
- domestic residents who have contributed their assets or shares of a domestic enterprise into an overseas SPV, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas SPV with the local foreign exchange authority; and
- domestic residents who are the shareholder of an overseas SPV are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

Anti-unfair Competition

The principal legal provisions governing market competition are set out in 中華人民共和國反不正當競爭法 (the Anti-unfair Competition Law of the PRC) (the “**Competition Law**”), which was promulgated on 2 September 1993 and came into effect on 1 December 1993.

The Competition Law provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or confidential business information;
- false publicity through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and
- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices, and offering prizes as sales rebates illegally.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of its business license as well as incurrance of criminal liability.

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Product Quality

The principal legal provisions governing product liability are set out in 中華人民共和國產品質量法 (the Product Quality Law of the PRC) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet quality standards in accordance with the Product Quality Law.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in 中華人民共和國消費者權益保護法 (the Consumer Protection Law of the PRC) (the “**Consumer Protection Law**”), which was promulgated on 31 October 1993 and came into effect on 1 January 1994.

The Consumer Protection Law sets out standards of behaviour which business operators must observe in their dealings with consumers.

Violations of the above Consumer Protection Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

HISTORY AND CORPORATE STRUCTURE

BACKGROUND

Our history began with the establishment of Sanxing Sports on 3 February 1999 with an initial registered capital of HK\$16.8 million invested by our chairman and founder Mr. Ding. On 1 November 1999, Mr. Ding contributed an additional HK\$20 million to the registered capital of Sanxing Sports, which was then increased to HK\$36.8 million during the same year and the equity interest in Sanxing Sports continued to be wholly owned by Mr. Ding. Sanxing Sports primarily manufactured OEM sports footwear products for various international brands until 2005 when it ceased to manufacture such products. In 2006, the entire OEM sports footwear business of Sanxing Sport was transferred to Xtep (China). After the said transfer, Sanxing Sports has not carried on any other business activities and holds the land use rights and building ownership certificates of a number of properties used by our Group.

As the PRC economy has been growing significantly since 2000, our Group started to reposition ourselves in the sportswear industry and set up 泉州市特步體育用品有限公司 (Tebu Sports Goods Co., Ltd. Quanzhou) on 7 February 2002 to focus on and develop our own Xtep brand, which is a fashion sportswear brand. At the time of the establishment of 泉州市特步體育用品有限公司 (Tebu Sports Goods Co., Ltd. Quanzhou), it had an initial registered capital of HK\$8.8 million held entirely by Ms. Ding Ming Fang, the wife of Mr. Ding, on trust for Mr. Ding. The reason for such trust arrangement is that Mr. Ding intended to keep his ownership of 泉州市特步體育用品有限公司 (Tebu Sports Goods Co., Ltd. Quanzhou) confidential for commercial reasons. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that the said trust arrangement did not violate any laws or regulations in the PRC. On 30 January 2003, 泉州市特步體育用品有限公司 (Tebu Sports Goods Co., Ltd. Quanzhou) changed its English name to Xtep Sports Goods Co., Ltd. Quanzhou with the same Chinese company name. On 2 April 2004, Ms. Ding Ming Fang executed an equity transfer agreement to transfer all of her equity interests in the then 泉州市特步體育用品有限公司 (Xtep Sports Goods Co., Ltd. Quanzhou) to Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) at a consideration of HK\$8.8 million determined with reference to the registered capital of the company at the time of transfer. Subsequent to the transfer, the registered capital of 泉州市特步體育用品有限公司 (Xtep Sports Goods Co., Ltd. Quanzhou) was increased to HK\$100 million, and its name was changed to 特步(中國)有限公司 (Xtep (China) Co., Ltd.). On 22 May 2007, Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) entered into an equity transfer agreement with Xtep Enterprise, then indirectly and wholly-owned by Mr. Ding, to sell its 100% equity interests in Xtep (China) to Xtep Enterprise for a total consideration of HK\$900. The consideration was determined with reference to the par value of the 900 shares in Xtep Enterprise to be subscribed by Xtep Development, nominated by Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司), as part of our Group's restructuring. After the acquisition, the entire equity interests in Xtep (China) are owned by Xtep Enterprise.

For the period beginning on 2 April 2004 and ending on 22 May 2007, the registered owner of Xtep (China) was Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司), which was beneficially owned and controlled by Mr. Ding. Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) was a trade name used by Mr. Ding in carrying out business in Hong Kong as a sole proprietor. During the period from 2 April 2004 and ending on 6 September 2006, Mr. Ding Ming Zhong, the brother of Mr. Ding, was holding the equity interest in the trade name Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) on trust for Mr. Ding. The reason for such trust arrangement is that Mr. Ding intended to keep his ownership of Xtep (China) confidential for commercial reasons. Mr. Ding Ming

HISTORY AND CORPORATE STRUCTURE

Zhong registered the trade name Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) solely for the purpose of holding Mr. Ding's business interests on trust for Mr. Ding. During such period, Mr. Ding Ming Zhong did not carry out any business and was a vice president of Xtep (China) primarily responsible for procurement management. On 7 September 2006, Mr. Ding became the registered owner of the trade name Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) and he remained as the registered owner of such trade name at the time of the transfer of 100% equity interests in Xtep (China) from Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to Xtep Enterprise on 22 May 2007.

The principal business of the sole proprietorship business Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) was investment holding, and Mr. Ding used the trade name Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) solely to hold his investment in Xtep (China) and Xtep Jinjiang. After the transfers of Xtep (China) and Xtep Jinjiang to Xtep Enterprise, Mr. Ding has ceased to use Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) as a trade name to carry out any business in Hong Kong or elsewhere. Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) did not receive any dividend from Xtep (China) and Xtep Jinjiang. It did not generate any revenue on its own and there are no financial results to be incorporated in our Group's financial statement during the Track Record Period.

As evidenced by a trust agreement (股權代持協議) dated 8 August 2002 between Mr. Ding and Mr. Ding Ming Zhong, Mr. Ding Ming Zhong had been holding the interest of the trade name of Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) in his personal capacity for and on behalf of Mr. Ding since the time when Mr. Ding Ming Zhong had registered the trade name. The said arrangement is further confirmed by Mr. Ding and Mr. Ding Ming Zhong by statutory declarations executed by each of them. As confirmed by our Company's PRC legal adviser, Jingtian & Gongcheng, such trust arrangement did not violate any laws or regulations in the PRC.

In 2006, we started our multi-brand strategy and pursuant to the Disney License Agreement, we were granted a license to design, create, manufacture or source, and sell a range of footwear, apparel and accessory products in the PRC, using certain Disney trademarks (i.e., "Disney", "Disney Sport", "迪士尼" and "迪士尼运动系列") and certain Disney standard characters (i.e., Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto). The Disney License Agreement also permits us to operate physical retail stores that are free-standing or located within shopping malls using the name "Disney Sport" and "迪士尼运动系列" and to sell Disney Sport products to consumers during the term of the Disney License Agreement. Apart from being the designer and manufacturer of these products in the PRC, we are also authorised to sell these products to retailers and wholesalers in the PRC in particular through distribution channels that are subject to Disney (Shanghai)'s approval.

Following the multi-brand strategy, we started to develop our Koling brand business in 2007. Koling (HK) was incorporated in Hong Kong on 13 September 2006. At the time of its incorporation, Koling (HK) was held as to one share by Mr. Ding (50%) and one share by Ms. Ding Ming Fang (50%), the wife of Mr. Ding, on trust for Mr. Ding. The reason for such trust arrangement is because at least two members are necessary to hold a general meeting under the then articles of association of Koling (HK). Subsequently, Koling (Fujian) was established on 5 February 2007 as a wholly foreign owned enterprise in the PRC with a registered capital of HK\$8 million, wholly-owned by Koling (HK). On 23 January 2007, Mr. Ding and Ms. Ding Ming Fang (on behalf of Mr. Ding) transferred their

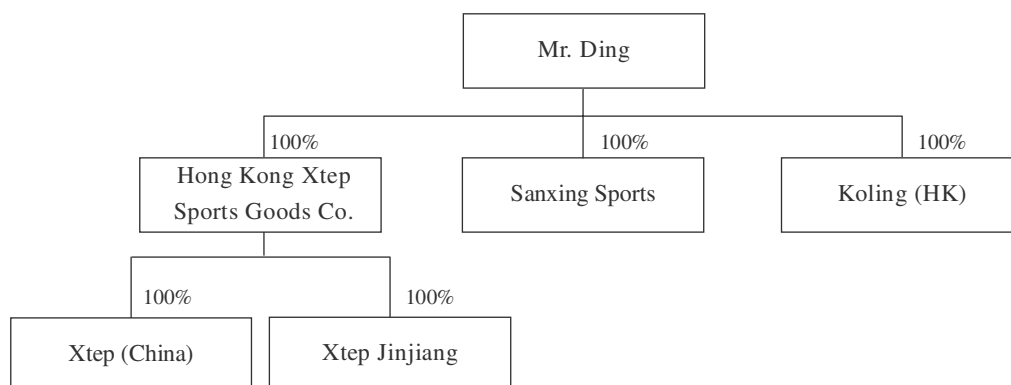
HISTORY AND CORPORATE STRUCTURE

respective one share in Koling (HK) to Mr. Cai Hui Ting (an employee of our Group) and Ms. Ding Ru Nan (a sister of Ms. Ding Ming Fang), respectively, each at a consideration of HK\$1 equivalent to the par value of the share. Each of the said shares in Koling (HK) was held on trust by Mr. Cai Hui Ting and Ms. Ding Ru Nan respectively for Mr. Ding. The reason for such trust arrangement is that Mr. Ding intended to keep his ownership in Koling (Fujian) confidential for commercial reasons. On 14 May 2007, Mr. Ding acquired the legal interest of these shares from Mr. Cai Hui Ting and Ms. Ding Ru Nan for an aggregate consideration of HK\$2, equivalent to the par values of these shares. Koling (Fujian) is principally engaged in the development of our Koling brand business. Our legal adviser as to Hong Kong laws advised that the above trust arrangements did not violate any laws or regulations in Hong Kong.

We are now the leading domestic fashion sportswear enterprises in the PRC focusing on developing and selling our own branded products. Our Group now comprises our Company, Xtep Development, Xtep Enterprise, Xtep (China), Sanxing Sports, Xtep Jinjiang, Xtep Xiamen, Koling (HK) and Koling (Fujian). Our Group's principal operating subsidiaries are Xtep (China) and Koling (Fujian), held by our wholly-owned subsidiary Xtep Enterprise and Koling (HK) respectively. For details of our subsidiaries, please refer to the section "Statutory and General Information" in Appendix VI to this prospectus.

CORPORATE REORGANISATION

Set out below is the shareholding structure of Sanxing Sports and other companies owned by Mr. Ding immediately prior to the Corporate Reorganisation:



In order to rationalise our organisational structure, our Group underwent the Corporate Reorganisation prior to the Listing which involves the following steps:

- (a) establishment of our offshore shareholding structure; and
- (b) restructuring of our PRC operating subsidiaries.

HISTORY AND CORPORATE STRUCTURE

Establishment of our offshore shareholding structure

We streamlined our offshore holding structure in April 2007 in preparation for investments by the Carlyle Investment Funds in us and in contemplation of the Global Offering.

(1) *Our Company*

Our Company was incorporated as an exempted company in the Cayman Islands on 10 April 2007 to act as the ultimate holding company of the subsidiaries in our Group. At the time of its incorporation, our Company was wholly-owned by Mr. Ding. On 28 May 2007, Group Success acquired one share in our Company, which represented its entire issued share capital at that time, from Mr. Ding. At the time of the said acquisition, Group Success was held by Mr. Ding, Mr. Ding Jin Chao and Ms. Ding Mei Qing. No monetary consideration was paid by Mr. Ding Jin Chao and Ms. Ding Mei Qing for the acquisition of their indirect interests in our Company as Mr. Ding intended to divide the relevant interests among his family members. Our Company issued and allotted an aggregate of 99 new Shares to Group Success on 27 June 2007. On 17 September 2007, our Company issued and allotted an additional 99,999,900 new Shares credited as fully paid to Group Success. On 22 December 2007, in consideration of Mr. Ding Jin Chao transferring the entire interest held by him in Group Success to Mr. Ding and Ms. Ding Mei Qing respectively, Group Success, at the directions of Mr. Ding and Ms. Ding Mei Qing, transferred 5,000,000 Shares held by it in our Company to Henley Hope, a BVI company wholly-owned by Mr. Ding Jin Chao. On 21 March 2008, pursuant to the pre-determined share adjustment formula stipulated in the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended) based on the financial performance of our Group companies for the year ended 31 December 2007, CAGP L.P. and CAGP III, L.P. converted 1,505,144 and 60,024 Series A Preferred Shares previously held by each of them respectively into 1,505,144 and 60,024 ordinary Shares of our Company and transferred the said converted ordinary Shares of our Company to Group Success as beneficial owner free from all encumbrances for nominal consideration of US\$1.00. For details of the investments by the Carlyle Investment Funds and the aforesaid share adjustment, please refer to the section headed “Investment by Carlyle” in this prospectus.

(2) *Xtep Development*

Xtep Development, previously known as Able Great Enterprises Limited, was incorporated in the BVI on 9 February 2007 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 10 April 2007, our Company subscribed for one share in Xtep Development, which became our wholly-owned subsidiary.

(3) *Xtep Enterprise*

Xtep Enterprise, previously known as Leader Gain Investments Limited, was incorporated in Hong Kong on 27 March 2007 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 10 April 2007, Mr. Ding acquired from Harefield Limited one share of HK\$1.00 each in Xtep Enterprise for a consideration of HK\$1.00 and nine shares of HK\$1.00 each in Xtep Enterprise were allotted and issued credited as fully paid to Xtep Development for a consideration of HK\$9.00, equivalent to the par values of these shares. Subsequent to our acquisition of Xtep Development on 10 April 2007, Xtep Development acquired one share in Xtep Enterprise held

HISTORY AND CORPORATE STRUCTURE

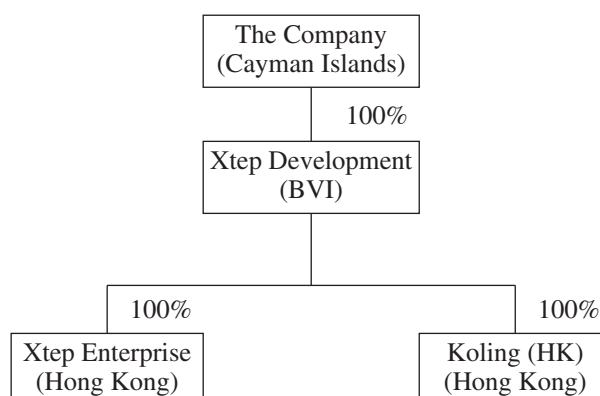
by Mr. Ding for a consideration of HK\$1.00 on 11 April 2007 and after the acquisition, Xtep Enterprise also became our wholly-owned subsidiary. The consideration was determined with reference to the par value of the share. On 27 June 2007, an additional 990 shares of HK\$1.00 in Xtep Enterprise were allotted and issued credited as fully paid to Xtep Development for a consideration of HK\$990, equivalent to the par value of those shares.

(4) *Koling (HK)*

Koling (HK) was incorporated as a limited liability company in Hong Kong on 13 September 2006 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. At the time of its incorporation, two shares of HK\$1.00 each in Koling (HK) were allotted and issued credited as fully paid to Mr. Ding and Ms. Ding Ming Fang, on trust for Mr. Ding for the consideration of HK\$1.00 each, respectively. The consideration was determined with reference to the par values of these shares. On 23 January 2007, Mr. Cai Hui Ting and Ms. Ding Ru Nan acquired from Mr. Ding and Ms. Ding Ming Fang two shares of HK\$1.00 each in Koling (HK) for an aggregate consideration of HK\$2.00, equivalent to the par values of these shares. Each of the said shares in Koling (HK) was held on trust by Mr. Cai Hui Ting and Ms. Ding Ru Nan respectively for Mr. Ding. On 14 May 2007, Mr. Ding acquired from Mr. Cai Hui Ting and Ms. Ding Ru Nan the legal interest in two shares of HK\$1.00 each in Koling (HK) for an aggregate consideration of HK\$2.00, equivalent to the par values of these shares.

On 13 June 2007, Xtep Development acquired two shares in Koling (HK), which represented its entire issued share capital at that time, from Mr. Ding for a consideration of HK\$2.00, equivalent to the par values of these shares. As a result of the acquisition, Koling (HK) became our wholly-owned subsidiary. Pursuant to the same sale and purchase agreement, Xtep Development acquired the entire shareholder's loan of HK\$8,016,712 provided by Mr. Ding to Koling (HK) by the issue and allotment of an aggregate of 9,999 new shares of Xtep Development to our Company as directed by Mr. Ding.

The following diagram sets out our offshore shareholding structure upon completion of the above steps:



HISTORY AND CORPORATE STRUCTURE

Restructuring of our PRC operating subsidiaries

(1) *Xtep (China)*

On 22 May 2007, Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) entered into an equity transfer agreement with Xtep Enterprise to sell its 100% equity interests in Xtep (China) to Xtep Enterprise for a total consideration of HK\$900. The consideration was determined with reference to the par value of the 900 shares in Xtep Enterprise to be subscribed by Xtep Development, nominated by Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司), as part of our Group's restructuring. After the acquisition, the entire equity interests in Xtep (China) are owned by Xtep Enterprise. On 15 October 2007, the registered capital of Xtep (China) was increased from HK\$100 million to HK\$280 million.

(2) *Xtep Jinjiang*

Xtep Jinjiang, previously known as Fujian Xingte Shoes & Garments Co., Ltd. (福建興特鞋服有限公司), was established on 1 November 2004 with a registered capital of US\$6 million held entirely by Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司), a trade name used by Mr. Ding in carrying out business in Hong Kong as a sole proprietor. The initial business scope of Xtep Jinjiang was to engage in the production of footwear, apparel, footwear materials and accessories. On 17 May 2006, it changed its name to 晉江市特步體育用品有限公司 (Xtep Sports Goods Co., Ltd. Jinjiang). Xtep Jinjiang currently is not involved in any operation but will engage in the operation of new apparel production facility in future.

On 22 May 2007 and 7 June 2007, Xtep Enterprise entered into an equity transfer agreement and a supplemental agreement, respectively, with Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to acquire its 100% equity interests in Xtep Jinjiang for a consideration of HK\$90. The consideration was determined with reference to the par value of the 90 shares in Xtep Enterprise to be subscribed by Xtep Development, nominated by Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司), as part of our Group's restructuring. Xtep Enterprise currently holds 100% equity interests in Xtep Jinjiang.

(3) *Sanxing Sports*

On 19 September 2007, Xtep Enterprise entered into an equity transfer agreement with Mr. Ding to acquire his 100% equity interests in Sanxing Sports for a consideration of HK\$36.8 million. The consideration was determined with reference to the registered capital of Sanxing Sports at the time of transfer. Xtep Enterprise currently holds 100% equity interests in Sanxing Sports.

(4) *Xtep Xiamen*

Xtep Xiamen was established on 5 January 2007 as a joint stock limited company in the PRC with a registered capital of RMB50 million, contributed as to RMB32.5 million by Xtep (China) (65%) and RMB17.5 million by Mr. Lin Zhang Li (35%). On 2 November 2007, Xtep Xiamen was converted from a joint stock limited company to a limited liability company incorporated under the laws of PRC. In order to achieve absolute management control and to have 100% controlling interest in Xtep Xiamen,

HISTORY AND CORPORATE STRUCTURE

on 15 November 2007, Xtep (China) entered into an equity transfer agreement with Mr. Lin Zhang Li to acquire his 35% equity interests in Xtep Xiamen for a consideration of RMB 17.5 million. The consideration was determined with reference to the registered capital of Xtep Xiamen at the time of transfer. Mr. Lin Zhang Li has assigned the right to receive such consideration to Mr. Ding as the initial capital injected in Xtep Xiamen of RMB17.5 million was borrowed by Mr. Lin Zhang Li from Mr. Ding. Xtep Enterprise currently indirectly holds 100% equity interests in Xtep Xiamen through Xtep (China). Xtep Xiamen has not yet commenced any operation but will perform the function of sales and marketing centre as well as research and development centre of our Group in future.

(5) *Koling (Fujian)*

Koling (Fujian) was established by Koling (HK) as a wholly foreign owned enterprise in the PRC with a registered capital of HK\$8 million on 5 February 2007.

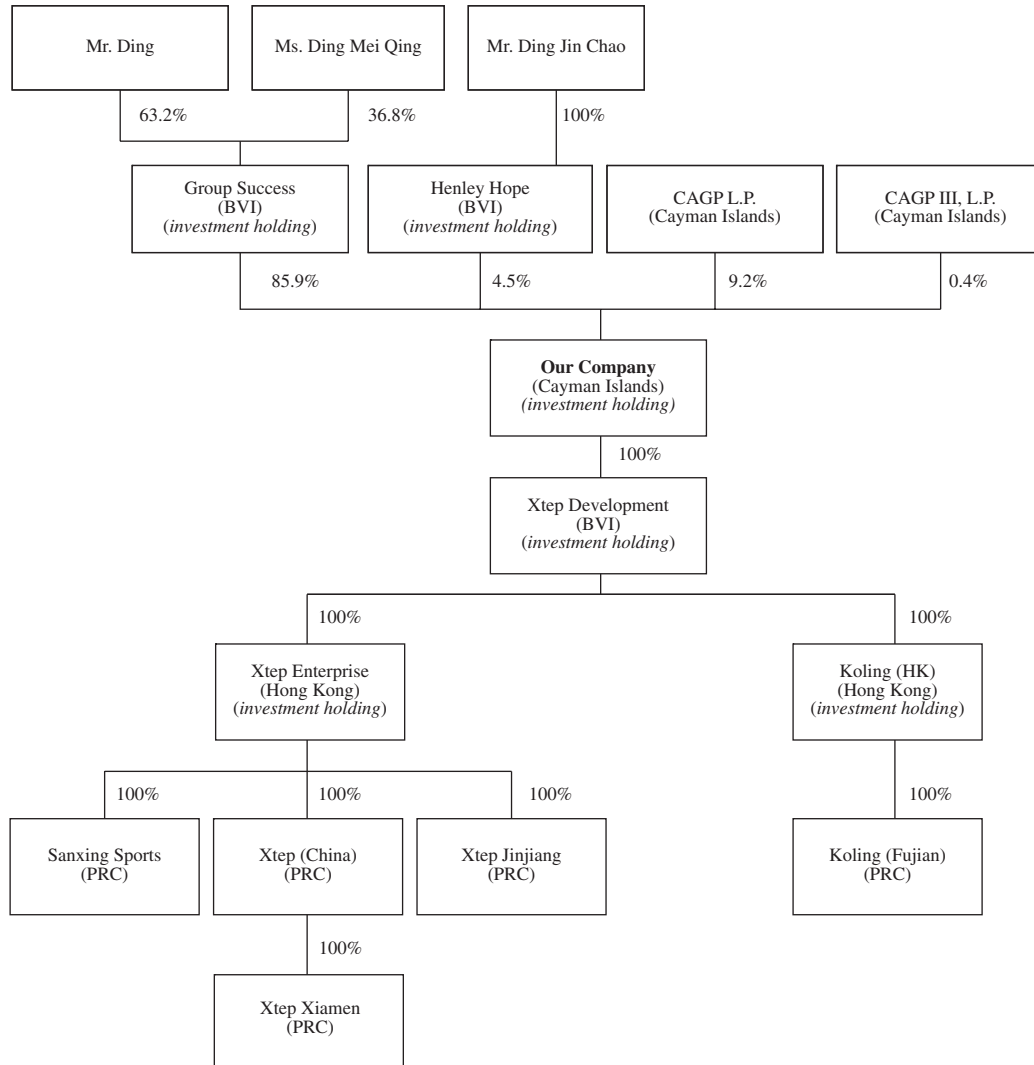
On 8 August 2006, six PRC governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated 關於外國投資者併購境內企業的規定 (the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors) (the “**M&A Regulation**”), which became effective on 8 September 2006. Article 40 of the M&A Regulation requires that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals, shall obtain the CSRC approval prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that the foreign investment companies of our Group in PRC were all established before 8 September 2006 and have obtained all approvals from relevant authorities, therefore, the Listing does not require the approval of CSRC and any other PRC government authorities under current PRC laws, regulations and rules.

On 21 October 2005, the SAFE issued a new public notice which became effective on 1 November 2005. The notice requires PRC residents to register with the local SAFE branch before establishing or controlling any company, referred to in the notice as a “special purpose offshore company”, outside of the PRC for the purpose of capital financing, and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC, which we refer to herein as a round-trip investment. Also, any change of shareholding or any other material capital alteration in such special purpose offshore company involving no round-trip investment shall be filed within 30 days starting from the date of shareholding transfer or capital alteration. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that our beneficial owners who fall within the definition of PRC residents comply with all relevant SAFE registration requirements under the PRC laws which are applicable to them in respect of their investments in our Group.

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that we have obtained all approvals and permits required under PRC laws and regulations in connection with each stage of the reorganisation and the Listing.

HISTORY AND CORPORATE STRUCTURE

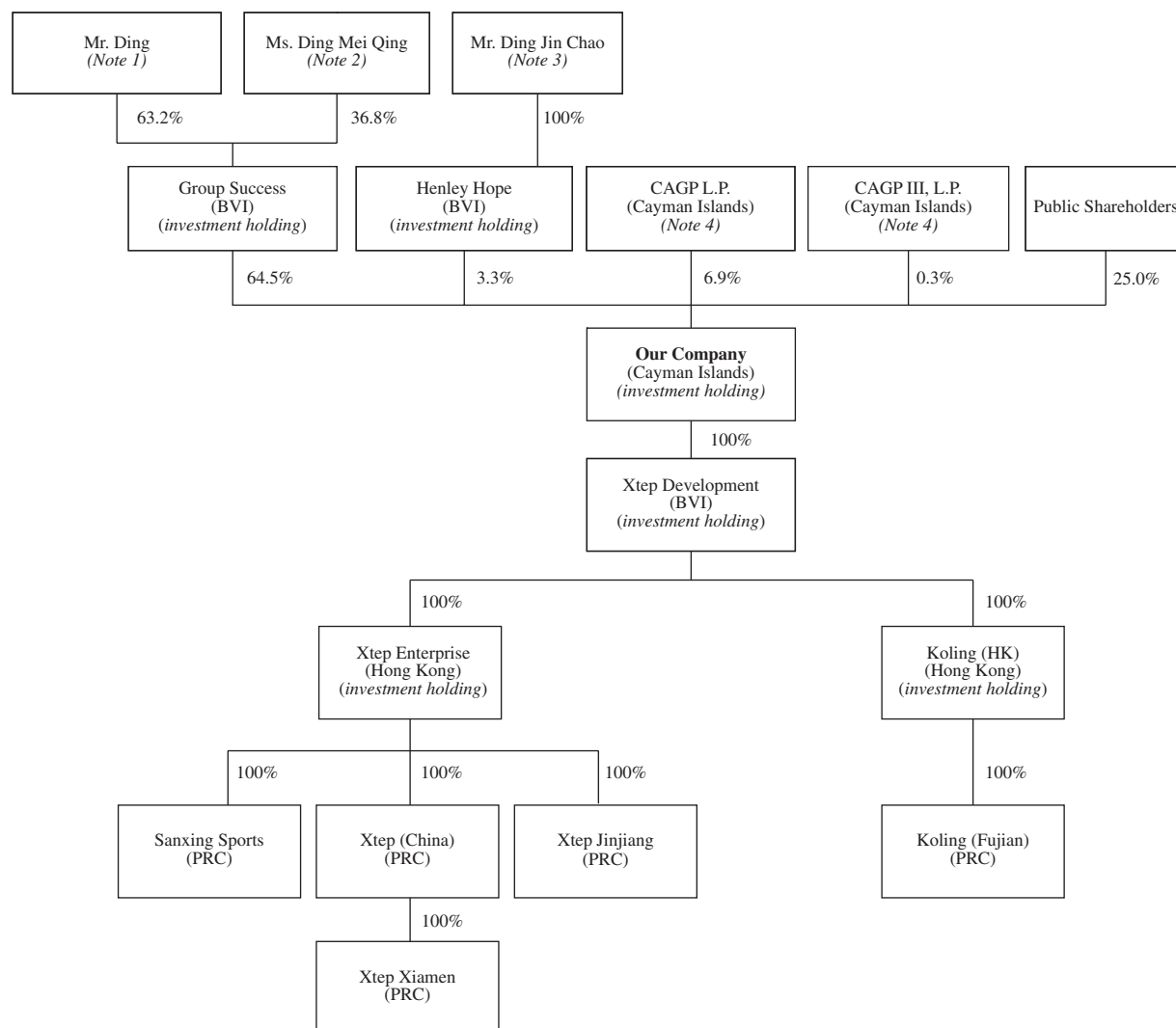
Set out below is the shareholding structure of our Group immediately following the Corporate Reorganisation and before the Global Offering, the conversion of Series A Preferred Shares and the Capitalisation Issue:



HISTORY AND CORPORATE STRUCTURE

STRUCTURE UPON LISTING

The following diagram sets out the shareholding structure of our Group after the Corporate Reorganisation and immediately after the Global Offering, the conversion of Series A Preferred Shares and the Capitalisation Issue, and assuming the Over-allotment Option is not exercised:



Notes:

- 1 Mr. Ding is the founder of our Group, the chairman, the chief executive officer and an executive Director of our Company.
- 2 Ms. Ding Mei Qing is an executive Director and the sister of Mr. Ding.
- 3 Mr. Ding Jin Chao is the father of Mr. Ding.
- 4 For details regarding investment by CAGP L.P. and CAGP III, L.P., please refer to the section headed “Investment by Carlyle” in this prospectus.

INVESTMENT BY CARLYLE

BACKGROUND

On 13 June 2007, CAGP L.P. and CAGP III, L.P., both being investment funds managed by entities within Carlyle, entered into the Convertible Loan Agreement and the Investment Agreement with, among others, Mr. Ding and our Company. The Convertible Loan Agreement and the Investment Agreement were amended on 24 August 2007, pursuant to the entering of the Supplemental Agreement and on 17 September 2007, pursuant to the entering of the Second Supplemental Agreement.

Pursuant to the Convertible Loan Agreement, the Carlyle Investment Funds agreed to provide our Company with a convertible loan of an aggregate principal amount of approximately RMB40 million convertible into Series A Preferred Shares. On 18 September 2007, pursuant to the Convertible Loan Agreement (as amended), the Carlyle Convertible Loan was converted into 2,161,010 and 86,180 Series A Preferred Shares which were held by CAGP L.P. and CAGP III, L.P., respectively.

Pursuant to the Investment Agreement, the Carlyle Investment Funds agreed to further subscribe to Series A Preferred Shares at an aggregate consideration of approximately RMB180 million. On 18 September 2007, pursuant to the Investment Agreement (as amended), our Company issued 9,724,551 and 387,809 Series A Preferred Shares to CAGP L.P. and CAGP III, L.P., respectively.

On 21 March 2008, the numbers of Series A Preferred Shares held by CAGP L.P. and CAGP III, L.P. were adjusted to 10,380,417 and 413,965 Series A Preferred Shares respectively based on the financial performance of our Group companies for the year ended 31 December 2007 with reference to the pre-determined share adjustment formula stipulated in the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended). The pre-determined share adjustment formula was that if the net income of our Group companies for the year ended 31 December 2007 as agreed between our Company and the Carlyle Investment Funds (the “**2007 Net Profit**”) is more than or equal to RMB200 million, the shareholding percentage held by the Carlyle Investment Funds in the total issued and outstanding share capital of our Company shall be adjusted downwards as follows:

The shareholding percentage held by the
Carlyle Investment Funds in the total
issued and outstanding share capital of
our Company = 11% x (200 million / 2007 Net Profit)

The above references to the 2007 Net Profit being less than, more than or equal to RMB200 million are simply benchmarks that we pre-agreed with the Carlyle Investment Funds for the purposes of the share adjustment mechanism, which is a purely pre-determined private arrangement among the parties to the Investment Agreement (as amended) and the Convertible Loan Agreement (as amended). Based on such pre-determined adjustment formula, CAGP L.P. and CAGP III, L.P. converted 1,505,144 and 60,024 Series A Preferred Shares previously held by each of them respectively into 1,505,144 and 60,024 ordinary Shares of our Company and transferred the said converted ordinary Shares of our Company to Group Success as beneficial owner free from all encumbrances for nominal consideration of US\$1.00. Other than this share adjustment mechanism, there is no further adjustment as part of the terms of the investments by Carlyle.

INVESTMENT BY CARLYLE

As at the Latest Practicable Date, CAGP L.P. and CAGP III, L.P. were holding a total of 10,380,417 and 413,965 Series A Preferred Shares, respectively, on a fully diluted basis constitute approximately 9.2% and 0.4% shareholding in our Company, respectively.

INFORMATION REGARDING CARLYLE

Carlyle is one of the world's largest global private equity firms, with more than US\$75.6 billion under management. Carlyle is independent of, and not connected with, the Directors, chief executives or substantial Shareholders of our Company (other than via the Carlyle Investment Funds) or any of our subsidiaries or any of their respective associates. The general partner of CAGP L.P. and CAGP III, L.P. is CAGP General Partner L.P., an exempted limited partnership established under the laws of the Cayman Islands which itself sets by its general partner CAGP Ltd, an exempted company established under the laws of the Cayman Islands. The Carlyle Investment Funds are principally engaged in investments across a broad range of sectors with exclusive geographical focus on China, India, Japan and South Korea.

PRINCIPAL TERMS

The principal terms of the investment by Carlyle are summarised as follows:

Conversion into ordinary Shares

Pursuant to the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended), the Carlyle Investment Funds are entitled to convert their Series A Preferred Shares into such number of ordinary Share of HK\$0.01 par value in the capital of our Company at any time. Unless the Carlyle Investment Funds choose to convert their Series A Preferred Shares into ordinary Shares of our Company before the completion of the Global Offering, their Series A Preferred Shares will be converted automatically into such number of ordinary Shares of our Company upon the completion of the Global Offering.

On 7 May 2008, each of CAGP L.P. and CAGP III, L.P. delivered a conversion notice to our Company to convert, conditional upon satisfaction of the conditions to the Listing as set out in Appendix VI to this prospectus, the Series A Preferred Shares into our Shares and requested our Company to issue 10,380,417 Shares and 413,965 Shares respectively to CAGP L.P. and CAGP III, L.P. prior to Listing, after adjusting for the subdivision and capitalisation of our Shares. This conversion is based on a one-for-one conversion of each Series A Preferred Share into a Share and the conversion price is a pre-determined fixed price, subject to adjustments upon the occurrence of certain events, such as consolidation, subdivision and capitalisation of our Shares.

Following such conversion and upon the completion of the Capitalisation Issue and the Global Offering, CAGP L.P. and CAGP III, L.P. will be holding a total of 152,436,424 and 6,079,076 Shares, respectively, representing approximately 6.9% and 0.3% shareholding in our Company, respectively, assuming there are no diluting issuances by our Company such as consolidation, subdivision or capitalisation of our Shares.

INVESTMENT BY CARLYLE

The price per Share paid by the Carlyle Investment Funds was approximately HK\$1.55 (the “**Entry Price**”). Based on the stated Offer Price range, the Entry Price represents a discount of approximately 61.7% to the Offer Price of HK\$4.05 per Share, being the bottom end of the stated Offer Price range, and a discount of approximately 71.8% to the Offer Price of HK\$5.50 per Share, being the top end of the stated Offer Price range.

The investment risks that the Carlyle Investment Funds were subject to when making the investment in our Company back in June 2007 were entirely different from the risks which the investing public may have to bear in the context of the Global Offering. The Entry Price reflected the illiquidity of the Shares, the historical financial performance of our Group companies, the lock-up arrangement, the strategic value added by the Carlyle Investment Funds to our Company as set out below and the bargaining positions of the parties at that time.

The proceeds from the investment by the Carlyle Investment Funds in our Company were used as our working capital for the expansion of our business and for our internal restructuring. We believe that the presence of the Carlyle Investment Funds has added strategic value to our Group including boosting the profile of our Company and our Shareholder base, reinforcing good corporate governance practices and generally enhancing accountability and transparency of our Company. In addition, our Directors believe that the Carlyle Investment Funds’ global network and previous investments and expertise in the consumer goods sector can also benefit the development of our Group.

Lock-up

Each of the Carlyle Investment Funds undertakes that without the prior written consent of our Company, J.P. Morgan Asia Pacific and UBS, it shall not, whether directly or indirectly, at any time during the period of six months from the Listing Date (the “**Lock-up Period**”) dispose of any of the Shares or other securities of our Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares held by the Carlyle Investment Funds on the Listing Date.

The above restrictions shall not prevent the Carlyle Investment Funds from transferring all or part of the Relevant Shares to any entities or funds, directly or indirectly, controlling, controlled by or under common control of Carlyle (“**Carlyle Affiliates**”). The Carlyle Affiliates will be subject to the restrictions on disposals imposed on the Carlyle Investment Funds pursuant to the Convertible Loan Agreement (as amended) and/or the Investment Agreement (as amended). If a Carlyle Affiliate ceases to be a Carlyle Affiliate during the Lock-up Period, it shall transfer the Relevant Shares to the Carlyle Investment Funds or another Carlyle Affiliate which undertakes to abide by the terms and restrictions on disposals imposed on the Carlyle Investment Funds pursuant to the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended).

INVESTMENT BY CARLYLE

In addition to the lock-up arrangement set out above, each of the Carlyle Investment Funds undertakes to us that, subject to, among others, (i) the commencement date of trading of the Shares on the Stock Exchange pursuant to the Listing being before 31 December 2009, and (ii) the conversion of the Series A Preferred Shares held by the Carlyle Investment Funds into ordinary Shares of our Company before 31 December 2009, the Carlyle Investment Funds shall not:

- (a) within the calendar year in which the date of the Listing falls into (the “**First IPO Year**”), dispose of or enter into any agreement to agree to dispose during the First IPO Year of more than 20% of those ordinary Shares of our Company held by the Carlyle Investment Funds on the Listing Date;
- (b) within the calendar year immediately subsequent to the First IPO Year (the “**Second IPO Year**”), dispose of or enter into any agreement to agree to dispose during the Second IPO Year of more than 30% of those ordinary Shares of our Company held by the Carlyle Investment Funds on the date of the Listing, provided that (i) this 30% limit shall not include, and (ii) there shall be no restriction on the rights of the Carlyle Investment Funds to dispose after the First IPO Year, any ordinary Shares of our Company which they have the right to dispose but has not disposed of within the First IPO Year.

Redemption of the Series A Preferred Shares

The Carlyle Investment Funds are entitled to redeem their Series A Preferred Shares if, among others, one of the following events occur:

- (a) any event has occurred giving rise to a right to terminate the Convertible Loan Agreement (as amended) or the Investment Agreement (as amended), including mutual consent, material breach of any provision of the Convertible Loan Agreement (as amended) or the Investment Agreement (as amended), and any action by any governmental authority prohibiting the consummation of any material transactions contemplated therein, or
- (b) the initial public offering has not occurred before the fifth anniversary of the initial issuance of the Series A Preferred Shares.

The redemption price for each Series A Preferred Share shall be equal to the sum of the issue price for each Series A Preferred Share, plus 15% of the issue price for each Series A Preferred Share (as adjusted in accordance with the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended) and for any dividend of shares, division or combination of shares, recapitalisations and the like) compounded annually from the initial issuance date of the Series A Preferred Share until completion of the redemption of such Series A Preferred Share, provided that such interest shall not be applicable for such period when a force majeure event has happened.

INVESTMENT BY CARLYLE

Management of our Company

Pursuant to the terms of the Investor's Rights Agreement, for so long as the Carlyle Investment Funds collectively hold any Series A Preferred Shares (including any ordinary Shares of our Company issued upon conversion thereof), the Carlyle Investment Funds shall have the right to appoint one director to the board of directors of our Company. The Carlyle Investment Funds shall also elect one independent director jointly selected by Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and the Carlyle Investment Funds. The Investor's Rights Agreement and the foregoing rights of the Carlyle Investment Funds to appoint directors shall cease to have effect upon the completion of the Global Offering.

The Carlyle Investment Funds currently have one representative, Mr. Xiao Feng, on our Board, which comprises nine Directors.

Preferential rights of the Convertible Loan Agreement, the Investment Agreement, the Investor's Rights Agreement and the Right of First Refusal and Co-sale Agreement ceasing to exist upon completion of the Global Offering

Under the Convertible Loan Agreement (as amended), the Investment Agreement (as amended), the Investor's Rights Agreement and the Right of First Refusal and Co-sale Agreement, other than the right to appointment one director to the board of directors of our Company as set out above, the Carlyle Investment Funds has been granted preferential rights since the entering of the aforesaid agreements primarily in relation to the following:

Dividends. The rights of the Series A Preferred Shares as regards to dividends shall in all respects rank pari passu with the ordinary Shares of our Company.

Reserved Matters. Certain reserved matters of our Group (such as the approval or amendment of our Company's employee option plan, incurrence of indebtedness or expenditure over a certain limit other than those described and permitted by the business plan and budget, amendment of constitutional documents and the distribution of dividend by our Group) must be approved by the Carlyle Investment Funds.

Pre-emptive Right. Each of the Carlyle Investment Funds has a pre-emptive right to purchase up to its pro rata share of any new securities which our Company may, from time to time, propose to sell, offer or issue.

Right of First Offer. Each of the Carlyle Investment Funds has a right of first offer over the Shares proposed to be sold by initial shareholders of our Company.

Tag-along Rights. In the event that any of the initial shareholders of our Company sells any part of its shareholding interest in our Company to a third party (subject to the approval by the Carlyle Investment Funds, the shareholders' rights of first offer and certain other stipulated conditions), the

INVESTMENT BY CARLYLE

Carlyle Investment Funds have the right to have up to a pro rata portion of its shareholding interest in our Company included in such sale, on substantially the same terms and conditions as such share sale by the initial shareholders of our Company.

Information Rights. The Carlyle Investment Funds are entitled to have full and equal access to our financial and accounting information, annual business plan and other books and records subject to certain confidentiality obligations.

The above-mentioned preferential rights of the Carlyle Investment Funds shall cease to have effect upon the completion of the Global Offering.

BUSINESS

OVERVIEW

We are the leading domestic fashion sportswear enterprise in the PRC. Our Xtep brand is the largest domestic fashion sportswear brand in terms of revenue for 2007, and has a market share of approximately 3.4% in the total PRC sportswear market in 2007 according to Euromonitor International. The fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. Fashion sportswear is defined by Euromonitor International as a hybrid of casual sportswear, which caters to sports needs and is suitable for casual wear, and fashion wear. In particular, fashion sportswear places an emphasis on the combination of sports functions and fashion tastes and trends. We are primarily engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed to us in the PRC pursuant to the Disney License Agreement entered into on 1 November 2006, as amended on 1 January 2007.

Our business began in 1999 as an OEM enterprise which manufactured sports footwear products for various international brands. As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM products, we began to rebuild our business model to develop our own brands starting with our Xtep brand in 2002. We are one of the first sportswear enterprises in the PRC to position our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility, because we believe the market for fashion sportswear products has greater potential and such positioning differentiates us from major competitors. Since we launched our Xtep brand in 2002, it has grown to become the leading domestic fashion sportswear brand in the PRC. We believe the Xtep brand has become synonymous with trendy, innovative and high-quality fashion sportswear products in the PRC. Leveraging our success with Xtep brand, we began to implement a multi-brand strategy to diversify our product offering and launched the Disney Sport products and our Koling brand in the PRC in 2007. While the Disney Sport brand focuses on a range of sportswear with fun and casual designs that feature certain Disney images and characters, the Koling brand provides a more daring, bold and alluring style. This multi-brand strategy has allowed us to segment our target markets with unique brand names that cater and appeal to different consumer groups of different ages, disposable income levels, fashion tastes and preferences.

Our business model begins with the product design, research and development with each of our brands having its own dedicated in-house design team to design sportswear products that meet the tastes and preferences of target consumers. While we implement innovative and multi-faceted marketing strategies to promote our brands and our products, new products are usually introduced to our distributors and third-party retailers at our sales fairs, which are normally held four to six months ahead of the introduction of a new season's products to end consumers. Our distributors place most of their orders for these new products at the sales fairs, and we use these orders to determine production schedules for the applicable season. The products are then manufactured by us at our own production facility and/or by a sub-contractor or a contract manufacturer. The products are delivered to our distributors, which in turn either sell the products directly to consumers or on-sell the products to their respective third-party retailers for eventual sales to consumers.

BUSINESS

We place great emphasis on meeting consumer demands for fashionable and trendy sportswear utilising the latest technologies and materials. We believe that our product design teams and research and development team, which in aggregate comprised approximately 370 staff as at 30 April 2008, have a proven track record in identifying and responding to market and fashion trends as well as applying new technologies for fashion sportswear. Each of our brands has its own dedicated in-house design team. We believe they are capable of designing trendy, innovative and fashionable sportswear products in a timely and cost-efficient manner to meet different consumer demands and tastes. We also have a research and development team that seeks to enhance the functionality and quality of our products with new technologies. For example, we have developed a spraying technology to apply nano-silver anti-bacterial chemicals (which are capable of killing 99% of the bacteria on which they are applied) to most of our footwear products.

We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. As at 31 March 2008, our extensive network of distributors comprised 28, 31 and 30 distributors for the Xtep, Disney Sport and Koling brands, respectively. As at 31 March 2008, these distributors in turn owned, directly operated or managed through third-party retailers 4,678, 265 and 50 Xtep, Disney Sport and Koling retail outlets, respectively. For the Disney Sport branded products, we are authorised to sell them to retailers and wholesalers in the PRC in particular through distribution channels that are subject to Disney (Shanghai)'s approval. All of our distributors and their retailers are Independent Third Parties and we have limited control over our distributors. We also have limited control over the prices at which our distributors or customers are willing to purchase our products as prices are driven mainly by economic factors such as demand and supply, and we do not enter into any agreement with our distributors which provide for a minimum purchase price by the distributors of our products. We believe our network allows us to penetrate into the mass market within the PRC.

We currently employ different distribution models for Xtep and Disney Sport products, as compared to Koling products. The distributors of Xtep and Disney Sport products are required to sell these branded sportswear products exclusively, while the distributors of our Koling branded products are not required to do so. In addition, while Xtep and Disney Sport products are sold at retail outlets operated by our distributors and third-party retailers, Koling branded products are sold only at retail outlets operated directly by our distributors.

We believe our leading position among domestic brands in the PRC fashion sportswear market is attributable in part to our innovative and multi-faceted marketing strategies. We are one of the first in our industry in the PRC to deploy a marketing campaign using entertainment celebrities, who are popular among the Chinese-speaking communities around the world, rather than professional sports celebrities to promote our brands and products by attracting and appealing to trend-driven consumers. In addition, we also try to enhance our general brand exposure, in particular to sports enthusiasts, through our sponsorship of sports events. For example, we were the sole sports product partner of 中華人民共和國第十屆全國運動會 (the 10th National Games of China), the sole title sponsor of 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA)) and 全國男子籃球聯賽 (National Basketball League (NBL)). We are also participating in the promotion of the Beijing 2008 Olympic Games by being the sole sponsor of one of only four Olympic Trains, 特步號奧運列車 (Xtep

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Olympic Train), a passenger train operated by the Ministry of Railways of the PRC that services the Beijing-Shanghai route which has been decorated with various Xtep logos and trademarks and images relating to the Beijing 2008 Olympic Games. In addition, we are the only PRC sportswear enterprise that has successfully purchased television commercial airtime during all finals of the Beijing 2008 Olympic Games.

We have our own production facilities in Quanzhou, Fujian province, which enable us to control our production costs and product quality more effectively and to respond to consumer demand more quickly. We operated 8, 12 and 12 footwear production lines with capacity of approximately 7.9 million, 9.5 million and 11.5 million pairs of footwear products per annum as at 31 December 2005, 2006 and 2007, respectively. We commenced our own apparel production at the end of 2007 and we operated 12 apparel production lines with capacity of approximately one million pieces of apparel products per annum as at 31 December 2007. Our Directors confirm that the utilisation rates of our footwear production facility were approximately 98%, 100% and 83% for the three years ended 31 December 2005, 2006 and 2007, respectively, and the utilisation rate of our apparel production facility was approximately 100% for the year ended 31 December 2007. The utilisation rate of our footwear production facility decreased in 2007 because our Group chose to increase the outsourcing percentage of its footwear production in 2007 as the operation of the lean footwear production lines was at a trial stage during that time. In addition, our Group chose not to fully utilise the additional production capacity in order to leave capacity for unexpected demand and seasonal fluctuation if needed. For the three years ended 31 December 2005, 2006 and 2007, we self-produced approximately 97.4%, 100% and 68.8% of our footwear products, respectively. For the same periods, approximately 2.6%, nil and 31.2%, respectively, of our footwear products were manufactured by sub-contractors and contract manufacturers. We commenced our own apparel production at the end of 2007 and, in line with our outsourcing strategy, we intend to continue to outsource some of our apparel production to sub-contractors and contract manufacturers. We also outsourced the production of all of our accessory products during the Track Record Period. We believe such outsourcing strategy has allowed us to adjust our product mix in a timely manner and on an asset-light basis, allowing us to capture more strategic opportunities.

We grew rapidly during the Track Record Period. Our revenue increased from RMB297.4 million for the year ended 31 December 2005 to RMB483.6 million for the year ended 31 December 2006, and to RMB1,364.9 million for the year ended 31 December 2007, representing a CAGR of approximately 114.2%. The significant growth of our revenue over the Track Record Period reflects the increased market demand and improved PRC economic conditions, and more importantly our strategic decision to focus on the sales of our branded products, which grew from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,259.1 million in 2007, representing 23.6%, 40.9% and 92.2% of our total revenue in 2005, 2006 and 2007, respectively. Our net profit also grew significantly from RMB8.2 million in 2005 to RMB50.1 million in 2006, and to RMB221.9 million in 2007.

OUR COMPETITIVE STRENGTHS

We are the leading domestic fashion sportswear enterprise in the PRC, where the fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. The following sets forth our key competitive strengths:

Leading PRC fashion sportswear brand name

We are one of the first sportswear enterprises in the PRC to position our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility. Our business has

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grown significantly over the past few years and our Xtep brand is the largest PRC fashion sportswear brand in terms of revenue for 2007, according to Euromonitor International. We believe that our fashionable and trendy sportswear products have allowed us to differentiate our brands from those of our competitors and have helped increase our brand recognition. Our Xtep brand was also recognised by World Brand Laboratory (世界品牌實驗室), an international brand research institute specialising in brand appraisal, training, management and marketing and chaired by Noble Prize-winning economist Robert Mundell, as one of 中國 500 最具價值品牌 (China's 500 Most Valuable Brands) in both 2004 and 2006 as well as 中國品牌年度大獎 (No.1) (體育用品類) (the Chinese Brand of the Year and ranked No. 1 in the sports products category) in both 2006 and 2007.⁽¹⁾

In addition to being fashionable and trendy, we also place great emphasis on quality. As a result, since 2002, our Xtep brand, trademark and products have been highly recognised in the PRC and were awarded five national honours, namely, 中國馳名商標 (China's Well-Known Trademarks), 中國名牌產品 (China's Famous Brand Products), 出口商品免驗 (Exemption of Export Commodities From Inspection), 產品質量免檢 (Product Exemption From Quality Surveillance Inspection) and 中國質量500強企業 (China Top 500 Elite Enterprises). For further details of the above recognition, please refer to the paragraph headed "Brand recognition" in this section of the prospectus.

Multi-brand product offerings

The commercial success of our Xtep branded sportswear products has led to a licensing arrangement with Disney (Shanghai) to develop and launch products under the Disney Sport brand in 2007. This not only broadens our product offerings, but also adds an international element to our Group's image. We also launched the Koling brand in 2007, our high-end fashion sports brand that features daring, bold and alluring styles. As a result, we have multiple brands which are differentiated across consumer segments. We have been successful in developing these distinct brands, which generally do not overlap in terms of ages, preferences and tastes of the respective targeted consumer groups. Xtep brand, which was the first brand launched by us and is now the greatest contributor to our revenue, is targeted towards the trendy and youthful mass market segment. The Disney Sport label is a fun and casual sports brand featuring certain Disney standard characters, and is targeted towards younger consumers. Our Koling brand, which offers a more daring, bold and alluring style as compared to our other brands, is our high-end and high-fashion brand targeting relatively higher-income consumers in the PRC. Our three differentiated brands share the common elements of fashion in addition to sports functionality.

Strong product design and development capabilities

We believe that our product design teams and research and development team, which in aggregate comprised approximately 370 staff as at 30 April 2008, have a proven track record in identifying and responding to market and fashion trends as well as applying new technologies to fashion sportswear.

Note:

⁽¹⁾ According to the information available to our Company, the World Brand Laboratory evaluates the current value of a brand with reference to the profitability level of an enterprise based on its sales income and profits, and taking into account market and industry competition risk analysis.

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Each of our brands has its own dedicated in-house design team. They designed and developed a total of approximately 6,000 sportswear designs for the autumn seasonal sales fairs held in February and March 2008, including approximately 1,700 different footwear designs, 2,900 different apparel designs and 1,300 different accessory designs. We believe that our product design teams are able to identify and anticipate market and fashion trends in different regions within the PRC and design trendy, innovative and fashionable sportswear products to meet any changes in the tastes and preferences of consumers for each brand in different regions within the PRC.

Our product design teams also work closely with our research and development team in connection with the latest technologies and raw materials, to help ensure that our products have the desired function and application, utilise the latest technology and raw materials, and respond to market developments.

Our total expenditure for research and development amounted to approximately RMB3.4 million, RMB6.2 million and RMB16.6 million representing 1.1%, 1.3%, 1.2% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively.

Innovative and multi-faceted marketing strategies

We have implemented innovative and multi-faceted marketing strategies to promote our brands and our products. Examples of our activities include:

- **Promotion by entertainment celebrities.** We believe that we are one of the first in our industry in the PRC to implement marketing campaigns with entertainment celebrities, rather than professional sports celebrities, to promote our brands and sportswear products to the fashion-conscious consumers. We select entertainment celebrities, who are popular in the Chinese-speaking communities around the world, such as Nicolas Tse (謝霆鋒), Twins (蔡卓妍和鍾欣桐), Jolin Tsai (蔡依林) and Wilber Pan (潘瑋柏), as brand representatives of our Xtep brand to add more elements of fashion and lifestyle to our Xtep's brand image so as to appeal to the trendy and youthful mass market segment.
- **Sponsorships of sports teams and events.** We strategically sponsor selected sports teams and sports events which give us significant brand exposure to the general public, in particular to sports enthusiasts. Our sponsorships included being the sole sports product partner for 中華人民共和國第十屆全國運動會 (the 10th National Games of China), the sole title sponsor of 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA)), 全國男子籃球聯賽 (National Basketball League (NBL)) and CX全國極限精英賽 (CX-Games). We have recently been selected to be the sole sports product partner for the 中華人民共和國第十一屆全國運動會 (the 11th National Games of China) in 2009.

To take advantage of the national, as well as global, media coverage opportunities presented by the Beijing 2008 Olympic Games, we currently are engaged in, and have planned, various marketing programmes relating to the Olympic, including 特步號奧運列車 (Xtep Olympic Train). We are also the sole provider of footwear, apparel and accessory products to the Belarusian Olympic delegation to be worn at award ceremonies and other ceremonial

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and social events. In addition, we are the only PRC sportswear enterprise that has successfully secured television commercial airtime of CCTV Sports Channel, which is the official television channel in the PRC authorised to broadcast the Beijing 2008 Olympic Games, during all finals of the Beijing 2008 Olympic Games.

- **Media advertising.** We utilise media advertising to increase the general public's recognition of our brands, as well as to target specific consumer segments. We strategically select different forms of media for each of our three brands to match each brand's image and market position. In addition to advertisements for Xtep branded products on the Internet and on billboards, buses and bus stops, we have used and will continue to use television advertising, on networks such as the CCTV Sports Channel (the official sports channel in the PRC) and Hunan Satellite TV (one of the most popular entertainment channels in the PRC) for the promotion of our Xtep products to both sports and entertainment audiences. We were the title sponsor for the 2007 國球大典 (Pingpang Carnival 2007), a high-profile TV show on Hunan Satellite TV organised by the International Table Tennis Federation, the Chinese Table Tennis Association and Hunan Satellite TV, which combined "sports" and "entertainment", the two key elements in our market positioning, by inviting the audience to play table tennis with world champions or PRC national champions. We use advertising in print media such as high-end fashion magazines to promote our Koling brand to those readers with higher purchasing power.

We spent RMB22.8 million, RMB41.7 million, and RMB75.8 million on advertising and promotion in 2005, 2006 and 2007, respectively, which represented approximately 7.7%, 8.6% and 5.6% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively. Out of the aforesaid expenditure, our total expenditure for media advertising amounted to approximately RMB15.6 million, RMB30.2 million and RMB30.0 million representing 5.3%, 6.2%, 2.2% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively.

Extensive nationwide distribution network in the PRC

We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. Each brand generally has a separate distributor for a relevant territory. As at 31 March 2008, our extensive network of distributors comprised 28, 31 and 30 distributors for the Xtep, Disney Sport and Koling products, respectively. As at 31 March 2008, these distributors in turn owned, directly operated or managed through third-party retailers 4,678, 265 and 50 Xtep, Disney Sport and Koling retail outlets, respectively. We maintain stable relationships with our distributors and most of the distributors for our Xtep brand had been our distributors throughout the Track Record Period.

The distributors of Xtep and Disney Sport products are generally given exclusivity over their territories and are not allowed to market, carry or sell brands of other sportswear companies, which we believe increases loyalty and provides incentives to our distributors to expand market share, provide quality customer service and aggressively market our Xtep and Disney Sport products. We

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believe that our distributors are well known and have extensive local experience, know-how and contacts in their respective territories. We also attribute our success to the rapid increase in size and number, as well as the location of the retail outlets operated by our distributors and third-party retailers.

Our distributors are required to follow our pricing policies and adopt our standardised outlet design and layout, promotional equipment and marketing brochures, which we believe strengthen our brand recognition and help to build a consistent brand image and management nationwide. All distributors need our approval to determine the ideal locations for establishment of retail outlets, and we work closely with them to choose locations that have high retail traffic flow and exposure in order to improve our brand recognition and our revenues. In addition, we co-operate with our distributors on various marketing, promotional and advertising campaigns and programmes for our sportswear products. We also organise frequent training programmes for all distributors and staff working at the retail outlets.

Strong production capability

We have our own production facilities, which enable us to control our production costs and product quality more effectively and to respond to consumer demand more quickly. We own and operate multiple production lines with capacity of approximately 11.5 million pairs of footwear and capacity of approximately one million pieces of apparel per annum as at the Latest Practicable Date. While we believe that our current production facilities are cost competitive, we are constantly trying to refine and improve our production facilities and production lines to improve production rates, reduce stoppages and improve quality control. We also believe that we have effective management on the production process and enjoy great flexibility in adjusting our production schedules to meet unforeseen production demands through the use of both internal and outsourced production.

Our production facilities are strategically located in Quanzhou, Fujian province, which is considered to be a hub city of the PRC sportswear industry, with many of our raw material providers located in this area. We have also developed long-term business relationships with our key suppliers. Given the large volume of purchases made by us, we are able to negotiate competitive prices for our raw materials and are able to be flexible in maintaining raw material inventory, with purchases being made only when our manufacturing needs dictate, as suppliers generally make it a priority to supply our needs and the delivery time is minimal given the proximity of such suppliers to our production facilities.

Experienced management team

Our senior management, including our executive Directors and senior managers, have extensive experience in the sportswear industry in design, manufacturing, sales and marketing as well as financial management. Mr. Ding, our chairman and chief executive officer, has over 20 years' industry experience. Ms. Ding Mei Qing, our executive Director and vice president, has over 10 years' experience in product design and research and development of sportswear and fashion. Mr. Lin Zhang Li, our executive Director and vice president, has over 10 years' industry experience. Mr. Ding Ming Zhong, our executive Director and vice president, has over 10 years' experience in the sportswear industry. Mr. Ye Qi, our executive Director and vice president, has over 16 years' sales and industry

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experience. Mr. Ho Yui Pok, Eleutherius, our chief financial officer, qualified accountant, company secretary and investor relations officer, has over 18 years' accounting, financial management and investor relations experience. We believe that their design, manufacturing, distribution and marketing experience in the sportswear industry, prudent financial management as well as the broad experience of Mr. Wang Jia Ye, Mr. Chen Jian Jun, Mr. Wu Lian Yin, Mr. Liu Qing Xian and Mr. Huang Hai Qing of our senior management team in design, financial management, information technology management, administrative management and human resources management have been essential for us to grow rapidly over recent years, and will be critical in implementing our key strategies in the future.

OUR STRATEGIES

Our primary goal is to grow our business and increase market share by continuously building our market position as the leading provider of fashion sportswear products that appeal to a wide range of consumer segments in the PRC. The following sets forth elements of our key strategic initiatives:

Continue to enhance our leading brand name

Through the implementation of an innovative and multi-faceted marketing campaigns and strategies targeted towards our key consumer segments, we will continue to enhance our brand name and recognition as a leading and innovative developer and manufacturer of fashionable and trendy sportswear products.

One of our initiatives is to appoint entertainment celebrities, who are popular in the trendy and youthful mass market and have a fresh image that closely matches the cultural and lifestyle images that we want our brands to be associated with, to be our image and brand representatives. In addition to Nicholas Tse (謝霆鋒) and Twins (蔡卓妍和鍾欣桐), we have recently engaged Jolin Tsai (蔡依林) and Wilber Pan (潘瑋柏) to be our image and brand representatives, all of whom are popular entertainment celebrities in Asia.

We will continue to implement our strategy of sponsoring national sports leagues and events to enhance recognition of our brands. We believe this marketing strategy is a cost-effective and efficient means of promoting our brands. We will continue to sponsor the National Games of China by being the sole sports product partner for 中華人民共和國第十一屆運動會 (the 11th National Games of China) in 2009. In addition to our sponsorship of sports leagues and events such as 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA)), 全國男子籃球聯賽 (National Basketball League (NBL)) and CX全國極限精英賽 (CX-Games), we will also sponsor sports games in universities and secondary schools. We will also take advantage of the Beijing 2008 Olympic Games to market our brands to both national and international audiences. In particular, we are the only PRC sportswear enterprise that has successfully purchased television commercial airtime during all finals of the Beijing 2008 Olympic Games, in addition to being the sole sponsor of 特步號奧運列車 (Xtep Olympic Train), which is a passenger train operated by the Ministry of Railways of the PRC that services the Beijing-Shanghai route.

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Continue to reinforce our multi-brand advantage

Building on our success with our Xtep brand, we launched two additional brands, Disney Sport (pursuant to the Disney License Agreement with Disney (Shanghai)) and Koling in 2007. This multi-brand strategy not only enables us to provide a more comprehensive product offering but also allows us to differentiate and segment our target markets with unique brand names that cater and appeal to different consumer groups.

We believe that we have an opportunity to substantially grow the business of the Disney Sport products and our Koling branded products. As purchasing power continues to grow in the PRC and consumers become more brand-conscious, we believe Disney-themed products will become more popular.

We will continue to develop and market each of these brands as a distinct and unique brand targeting differentiated consumer segments. We currently plan to increase public recognition of our Xtep brand, especially in high-growth markets such as, among others, Changsha, Xiamen, Wuxi and Shenyang. We will continue to position this brand as the leading fashion sportswear brand that appeals to the youth mass market. We believe our marketing efforts will result in increased market penetration of our brands, especially in the high-growth regions of the PRC.

We believe the popularity of the Disney Sport products will also add an international element to our Group's image. We will continue to position our Koling brand as our high-end fashion sports brand. We will advertise in high-end fashion magazines and organise fashion shows to launch new designs and products and we intend to continue to build the daring, bold and alluring styles of this brand.

Continue to strengthen product design and development capabilities

We expect to continue to develop new, trendy and innovative products to appeal to a wide cross-section of society with themes including various different sports and with other themes, such as leisure and entertainment. Our design and research and development teams have worked together to introduce a total of approximately 6,000 sportswear designs for the autumn seasonal sales fairs held in February and March 2008 and are currently developing new products in all categories of our products, including footwear, apparel and accessory products. Our product design and research and development teams have increased from approximately 150 in 2005 to approximately 370 as at 30 April 2008 and we expect that we will continue to hire additional employees, including foreign-trained designers, dedicated to such functions.

We will also continue to work closely with our distributors in order to keep up with the latest trends and preferences of our target consumer groups in the various markets throughout the PRC. In order to continue to expand our product categories and introduce innovative and fashionable products, we will also aim to retain our current employees and recruit designers and production specialists globally by offering attractive compensation packages and a work environment that is conducive to the innovation and design of new products. We will also continue to participate in international fashion shows and trade shows, gather information and market trends from all of the major fashion centres throughout the world and engage international fashion trend research and design agencies from South Korea, France and other countries that are known to be at the forefront of fashion and innovation to assist us in designing and creating trend-setting fashion sportswear for the PRC market.

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We have also begun using computer-assisted drawing software for designing our apparel products to increase accuracy and efficiency in our design process. We believe we are the first sportswear manufacturer in the PRC to use computer-assisted drawing software provided by 恩富(上海)软件有限公司 (Infor Global Solutions (Shanghai) Co., Ltd.), a leading global design software system, and this will further enhance our product design capabilities including data analysis, drawing and sample-making. We plan to continue to use this software for designing our apparel products and extend the use of it for designing footwear and accessory products from 2008 onwards.

Expand and optimise our distribution network

We will continue to expand and optimise the distribution network of each of our branded products by working closely with our distributors. In particular, we plan to continue our existing practice of providing training on sales and marketing skills as well as detailed criteria for selection of locations for retail outlets, outlet design and display. In addition to the major metropolitan cities in the PRC such as Beijing, Shanghai and Guangzhou, we believe that a key to the growth of our business is to further enhance our distribution network in the fast-growing consumer base of various medium to large size cities and municipalities throughout the PRC such as, among others, Changsha, Xiamen, Wuxi and Shenyang.

We will also continue to work closely with our distributors to improve the purchasing experience at our retail outlets by enhancing the ambiance and atmosphere of the retail outlets and focusing on improving customer service through training and incentive programmes. In addition, we will continue to closely monitor our distributors' performance by requiring them to provide us with monthly and quarterly performance reports. Furthermore, we will continue to work closely with our distributors to plan the expansion of the existing retail network and place specific requirements on the number and type of new retail outlets to be opened.

Continue to improve our management of production

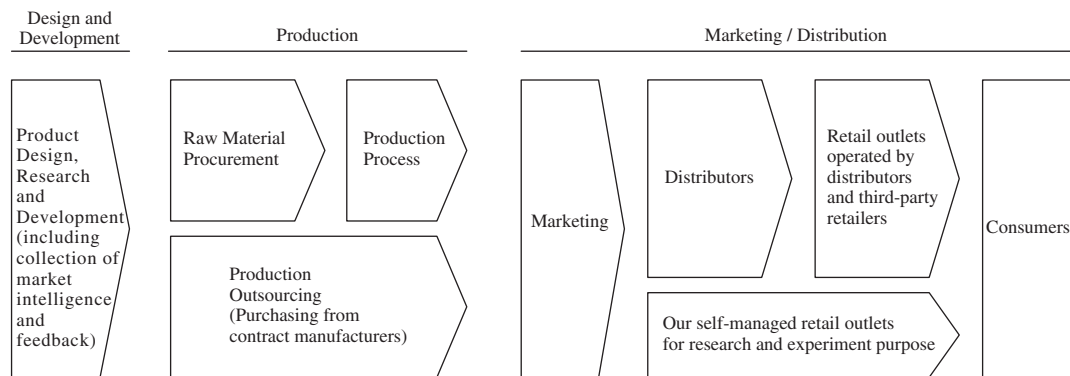
While we believe we currently enjoy great flexibility in adjusting our production schedules to meet production demands by outsourcing production to our contract manufacturers, we will continue to expand and enhance our production facilities in order to meet the expected growth of our business and the increasing demands for our sportswear products. In particular, we plan to apply a portion of the proceeds from the Global Offering to increase our apparel production capacity from approximately one million to approximately 10 million pieces of apparel per annum by establishing a new apparel production facility and increasing our apparel production lines from 12 to approximately 120. We plan to apply approximately HK\$200 million of the proceeds from the Global Offering to the construction of this facility, which is expected to commence production in 2010. We plan to do this in order to strengthen our control over quality and cost and to respond rapidly to changes in market trends and preferences. We believe that the growth in our operations and business and production volume will allow us to improve efficiency in terms of product line utilisation rates and allow us to lower our cost of raw materials. We will also continue to refine and improve our production facilities to improve production rates, reduce stoppages and improve quality control.

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BUSINESS MODEL

Our business began in 1999 as an OEM enterprise which manufactured sports footwear products for various international brands. As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM products, we began to rebuild our business model to develop our own brands starting with our Xtep brand in 2002. We are one of the first sportswear enterprises in the PRC to position our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility because we believe the market for fashion sportswear products has greater potential and such positioning differentiates us from major competitors.

We primarily design, develop, manufacture and market sportswear products, including footwear, apparel and accessory products under the Xtep, Disney Sport and Koling brands. The following diagram illustrates our business model:



Each of our brands has its own dedicated in-house design team to design sportswear products that meet the tastes and preferences of target consumers. We generally manufacture and sell our branded products on a wholesale and made-to-order basis to our distributors. We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. Our distributors generally operate their own retail outlets and/or manage a network of third-party retailers. All of our distributors and their retailers are Independent Third Parties. We also operate two retail outlets where we sell our Xtep and the Disney Sport products directly to consumers primarily to research and experiment with various store designs and layouts and conduct consumer preference tests.

New products are usually introduced to our distributors and third-party retailers at our sales fairs, which are normally held four to six months ahead of the introduction of a new season's products to end consumers. Prior to 2007, we organised sales fairs twice a year. Starting from 2007, we began to organise four seasonal sales fairs every year for each of our brands in order to be more responsive to the market and fashion trends. The four seasonal sales fairs are normally held during the periods of January to February, April to May, July to August and September to October each year. Our distributors place most of their orders for these new products at the sales fairs, and we use these orders to determine production schedules for the applicable season. The products are then manufactured by

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us at our own production facility and/or by a sub-contractor or a contract manufacturer. The products are delivered to our distributors, which in turn either sell the products directly to consumers or on-sell the products to their respective third-party retailers for eventual sales to consumers. A very small percentage of products is sold by us to consumers directly at our self-managed retail outlets.

We believe that the maintenance of our brand images and the public's perception of our brands are critical to our success. Accordingly, we require distributors to undergo mandatory training sessions upon appointment and at regular intervals and spend a certain percentage of the revenue for advertising and other approved marketing activities. In addition, we impose operational guidelines for retail outlets, which include certain standard operating procedures relating to the design and layout of retail outlets, customer service and pricing policies, to preserve our brand image as a leading fashion sportswear brand. To ensure compliance with our standard operating procedures, we routinely conduct random inspections of retail outlets operated by our distributors and third-party retailers. If any deviations from the standard operating procedures are discovered at a retail outlet, we will work with the relevant distributor who operates directly or manages through third-party retailers such retail outlet to rectify them. Our Directors confirmed that there is no non-compliance relating to pricing policies based on the random inspections of retail outlets conducted by our Group during the Track Record Period.

BRANDS AND PRODUCTS

We now offer a wide range of fashion sportswear products, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed to us in the PRC pursuant to the Disney License Agreement entered into on 1 November 2006, as amended on 1 January 2007. Each of these brands has its own consumer segment target and is managed by separate management teams, with each team being responsible for its own strategy, product design and development, production, marketing and promotion, distribution and retail.

Xtep

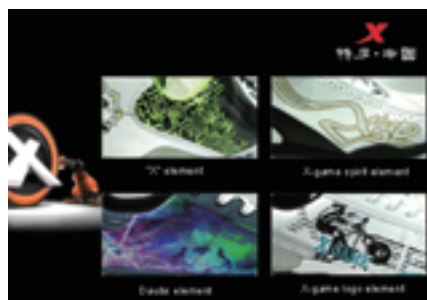
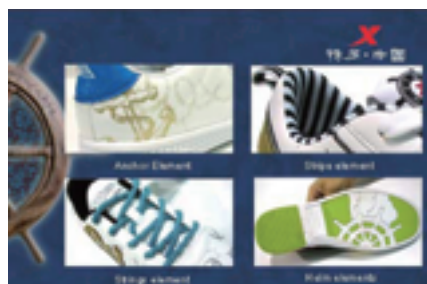
The Xtep brand was launched in 2002 and is owned by us. It is widely recognised in the PRC and we sold approximately 10.4 million pairs of footwear products and approximately 8.8 million pieces of apparel products under our Xtep brand in 2007. Our brand name "Xtep" comes from the brand's Chinese name "特步", which means special steps. The Xtep logo "" is in the shape of the English letter "X" in a bright red colour, symbolising "extreme", "unique" and "special". We believe that we have been successful in associating an unique and distinctive set of cultural, lifestyle and trend-setting images with the Xtep brand. We mainly use the following three slogans, which emphasise uniqueness, to market our Xtep branded products:

- “非一般的感覺”, meaning “exceptional feeling”
- “讓運動與眾不同”, meaning “let sports be unique”
- “特步 — you are the one”

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The Xtep brand focuses on fashionable and trendy sportswear. We position this brand to appeal to the trendy and youthful mass market segment. We have also created theme-oriented collections within our Xtep brand, with each collection including a combination of footwear, apparel and accessory products that have been designed around a common theme. Some major examples of past, present and planned theme-oriented collections include:

- 曙光 (Light of Dawn) — the 10th generation of our Windfire collection since the Windfire collection started in 2002
- 奧運中國 (Olympic China) — featuring ancient Chinese traditions such as 古代漢字 (ancient Chinese characters), 古代貨幣 (ancient Chinese currencies), 中國繩結藝術 (Chinese knot art) and 京劇面譜 (Peking opera masks), in celebration of the Beijing 2008 Olympic Games
- 海之樂章 (Music of the Sea) — featuring ocean-related elements such as harbour, helm, canvas, ropes, anchors and marine badge styles in sportswear
- 團隊 (Team) — featuring logos of all basketball leagues and events that we sponsor, for example, 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA)), 全國男子籃球聯賽 (National Basketball League (NBL)) and 中國業餘籃球公開賽 (China Basketball Open (CBO))
- Show自己 (Show yourself) — featuring X-game sports such as kiteboarding, wakeboarding and skateboarding, as well as hip-hop street styles



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- Car racing collection — featuring motorsports styles



Apart from theme-oriented collections, we also develop other sportswear collections that focus on sports activities, combining functionality and fashion elements. These collections include sportswear for basketball, tennis, football, cross-training, baseball and skiing.

Disney Sport

In 2006, we and Disney (Shanghai) began discussions to create a new product line under license from Disney (Shanghai) — Disney Sport branded sportswear — in the PRC. We believe our relationship with Disney (Shanghai) will enhance our Group's overall image and enable us to further diversify our product offerings. Our discussions with Disney (Shanghai) culminated in the execution of the Disney License Agreement in November 2006. In August 2007, we began manufacturing and selling Disney Sport products, adding an international element to our Group's image. Pursuant to the Disney License Agreement, we shall, among other things, formulate a sales and marketing strategy for all Disney Sport products, design, develop and produce these products, as well as sell and distribute these products through our nationwide distribution networks.

We launched the Disney Sport products in the PRC in 2007, and are now focused on a range of sportswear products with fun and casual designs that feature certain Disney standard characters (i.e., Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto) and target a younger market segment. Some examples of past, present and planned collections include:


- 時尚運動 (Fashion sports) — featuring fashion sportswear that is popular among young people
- 校園風格 (Campus sports) — featuring the Scottish style of sportswear popular in prestigious schools in Scotland
- 競技運動 (Competitive sports) — featuring sportswear for basketball, football and tennis
- 水上運動 (Water sports) — featuring sportswear for water sports

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The Disney License Agreement

We entered into the Disney License Agreement on 1 November 2006, as amended on 1 January 2007, whereby we were granted a license to design, create, manufacture or source, and sell a range of footwear, apparel and accessory products in the PRC under the Disney Sport brand, using certain Disney trademarks (i.e., “Disney”, “Disney Sport”, “迪士尼” and “迪士尼运动系列”) and certain Disney standard characters (i.e., Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto). The Disney License Agreement also permits us to operate physical retail stores that are free-standing or located within shopping malls using the name “Disney Sport” and “迪士尼运动系列” and to sell Disney Sport products to consumers in those stores. Apart from being the designer and manufacturer of these products in the PRC, we were also authorised to sell these products to retailers and wholesalers in the PRC in particular through distribution channels that are subject to Disney (Shanghai)’s approval. Our Group does not have the exclusive right to sell the Disney Sport branded products to retailers and wholesalers in the PRC as the terms of the Disney License Agreement do not restrict Disney (Shanghai) from designing, manufacturing, selling and distributing products under the Disney Sport name, or licensing others to do so. The term of the Disney License Agreement is for an initial period from 1 November 2006 to 31 December 2009. We have an option to renew the Disney License Agreement at the end of the initial term for a further three years to 31 December 2012, contingent upon Disney (Shanghai) being satisfied with our performance under the Disney License Agreement, including the degree of success in selling the Disney Sport products, our credit rating, and the payment of an agreed-upon amount of royalties to Disney (Shanghai) in 2009.

Koling

The Koling brand was launched in 2007 and is owned by us. The Koling logo “” is in the shape of a flying bull, which is the unofficial symbol of Spain. We use the slogan “Koling — The Call of Living” to market our Koling branded products.

The Koling brand has a more daring, bold and alluring style focusing more on fashion elements than functionality when compared to our other brands. As a high-end brand, our Koling branded products are higher priced and are designed to appeal to the consumer group who generally have stronger purchasing power and are willing to pay more for the additional styling details characterising this brand. Our design concepts for the Koling brand include the innovative application of sports concepts on fashion design, the creative mix-and-match of different materials and the bold use of colours, which represent the latest trends prevailing in the largest metropolitan cities in the world. Some examples of past, present and planned collections include:

- Car-racing — featuring car-racing flags with the use of leather and jeans materials to present a carefree and alluring style
- Clubbing — featuring the bold use of eye-catching colours (such as gold and purple)
- Skiing — featuring the winter sports of skiing
- Sword — featuring fencing, a traditional sport in Spain, to present the blue-blood image of Koling through a gold badge and royal uniform

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Brand recognition

Our Xtep brand, trademark and products have been highly recognised in the PRC since 2002 as evidenced by the following awards and certificates:

Year of grant	Award/Certificate	Awarding body
2002	Xtep branded sports footwear was accredited as 福建名牌產品 (Famous Brand Products in Fujian Province) (valid until March 2005)	福建省人民政府 (People's Government of Fujian Province)
	Xtep trademark was accredited as 福建省著名商標 (Well-known Trademark in Fujian Province) (valid until March 2005)	福建省著名商標認定委員會 (Fujian Province Well-known Brand Accreditation Committee)
2003	ISO9001:2000 (valid until October 2009)	中國質量認證中心 (China Quality Certification Centre)
	產品質量免檢 (Product Exemption from Quality Surveillance Inspection) (valid until December 2006)	國家質量監督檢驗檢疫總局 (State General Administration for Quality Supervision and Inspection and Quarantine)
2004	中國500最具價值品牌 (China's 500 Most Valuable Brands)	World Brand Laboratory (世界品牌實驗室)
	網民最熟悉品牌 (Internet Users' Most Familiar Brand)	SINA Corporation
2005	Xtep trademark was accredited as 福建省著名商標 (Well-known Trademark in Fujian Province) (valid until August 2008)	福建省著名商標認定委員會 (Fujian Province Well-known Brand Accreditation Committee)
	Xtep branded outdoor sports footwear was accredited as 中國名牌產品 (China's Famous Brand Products) (valid until September 2008)	國家質量監督檢驗檢疫總局 (State General Administration for Quality Supervision and Inspection and Quarantine)
	中國最具影響力行業十佳品牌 (Ten Famous Brands from China's Most Influential Industries)	世界著名企業聯盟、美中經貿投資總商會與全球華人名牌網 (World Union of VIP Enterprises, US-China Economic Trade & Investment General Chamber of Commerce and China Famous Brand Online Inc)
	亞洲大學生最心儀品牌 (Asian University Students' Most Desirable Brand)	第一屆亞洲大學生田徑錦標賽組委會 (Organising Committee of the First Asian University Athletics Championship)

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Year of grant	Award/Certificate	Awarding body
2006	中國馳名商標 (China's Well-known Trademark)	國家工商行政管理局 (State Administration for Industry and Commerce)
	出口商品免驗 (Exemption of Export Commodities from Inspection) (valid until January 2009)	國家質量監督檢驗檢疫總局 (State General Administration for Quality Supervision and Inspection and Quarantine)
	中國 500 最具價值品牌 (China's 500 Most Valuable Brands), 2006 年“中國品牌年度大獎 (No.1)” (體育用品類) (Chinese Brand of the Year 2006 and ranked No. 1 in the sporting goods category) (valid until December 2007)	World Brand Laboratory (世界品牌實驗室)
	Xtep brand was accredited as 消費者心目中最信得過的十大民族運動鞋品牌 (Ten Most Trusted Domestic Sports Footwear Brands)	中國鞋網 (China Footwear Online)
2007	Footwear Product of the Year	Global Apparel Accessories & Footwear Committee
	Xtep brand was named 2007 年“中國品牌年度大獎 (No.1)” (體育用品類) (Chinese Brand of the Year 2007 and ranked No. 1 in the sporting goods category) (valid until December 2008)	World Brand Laboratory (世界品牌實驗室)
	產品質量免檢 (Product Exemption from Quality Surveillance Inspection) (valid until December 2009)	國家質量監督檢驗檢疫總局 (State General Administration for Quality Supervision and Inspection and Quarantine)
	Xtep brand and products was accredited as 中國質量 500 強企業 (China Top 500 Elite Enterprises)	人民日報網絡中心 (People's Daily Internet Centre), 消費日報 (Consumption Daily), 中國質量信用網 (China Quality and Trustworthiness Net), 中國質量領先企業調查組委會 (China's Quality Leading Enterprises Investigation Committee) and 中質信(北京)顧客滿意度測評中心 (China Quality and Trustworthiness (Beijing) Customer Satisfaction Examination Centre)

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Product offerings

We offer a wide range of products in three categories: footwear, apparel and accessory products. The table below lists out our main product types under each of these product categories:

Footwear	Apparel	Accessories
<ul style="list-style-type: none"> • Jogging footwear • Leisure footwear • Classic footwear • Basketball footwear • Tennis footwear • Outdoor sports footwear • Canvas footwear • Beach sandals 	<ul style="list-style-type: none"> • Vests • Short sleeve T-shirts • Long sleeve T-shirts • Pullover • Windbreakers • Woollen sweater / cardigan • Cotton apparel • Down coat • Beach pants • Short pants • Long pants • Cotton pants • Knitted sportswear set 	<ul style="list-style-type: none"> • Bags • Hats • Socks • Balls • Protection equipment

As it took time for us to rebuild our business model to develop our branded products and to build up the public recognition and market penetration of our branded products, during 2005 and 2006, the majority of our revenue was derived from OEM sales, and the remainder of our revenue was derived from sales of our Xtep branded products. The revenue derived from our Xtep brand increased rapidly from 23.6% of our total revenue in 2005 to 40.9% of our total revenue in 2006, and from 2007 onwards, the majority of our revenue was derived from sales of our Xtep branded products. We also began to benefit from our multi-brand strategy after we started selling the Disney Sport products and our Koling branded products in 2007. The following table sets forth the breakdown of our revenues by branded product sales and OEM sales during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
BRANDED						
PRODUCT SALES						
Xtep	70,330	23.6	197,606	40.9	1,199,231	87.9
Other brands	—	—	—	—	59,908	4.3
Subtotal	70,330	23.6	197,606	40.9	1,259,139	92.2
OEM SALES	<u>227,115</u>	<u>76.4</u>	<u>285,956</u>	<u>59.1</u>	<u>105,808</u>	<u>7.8</u>
Total	<u>297,445</u>	<u>100.0</u>	<u>483,562</u>	<u>100.0</u>	<u>1,364,947</u>	<u>100.0</u>

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The following table sets forth a breakdown of our revenues by product categories during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
Footwear	294,817	99.1	441,948	91.4	849,135	62.2
Apparel	2,628	0.9	40,596	8.4	497,635	36.5
Accessory products . . .	—	—	1,018	0.2	18,177	1.3
Total	297,445	100.0	483,562	100.0	1,364,947	100.0

PRODUCT DESIGN AND RESEARCH AND DEVELOPMENT

Product design

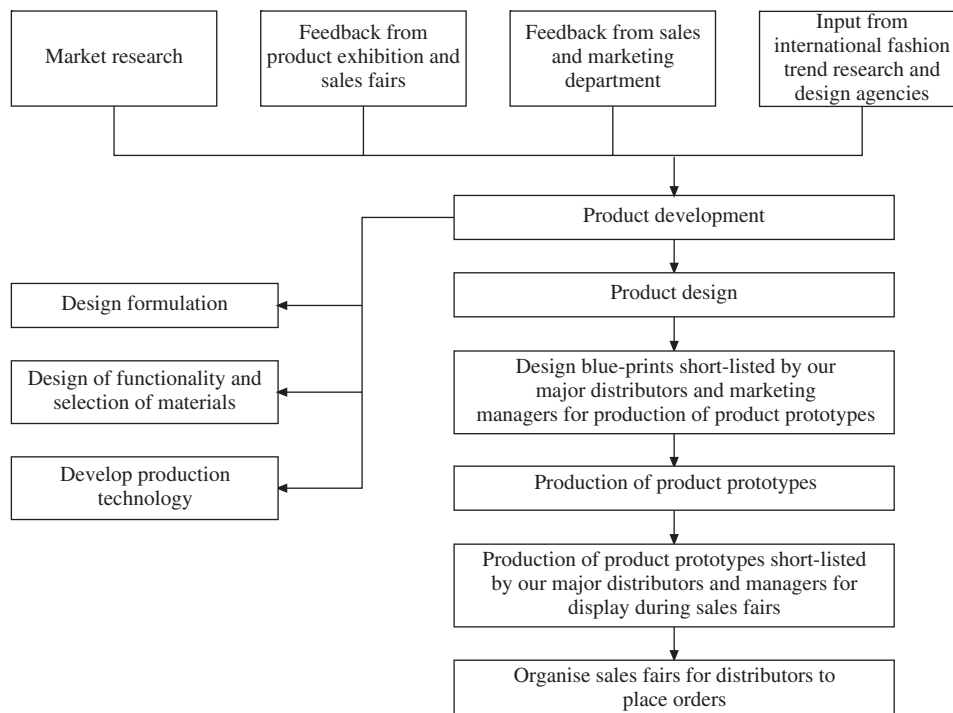
As a fashion sportswear enterprise, we believe we must continue to develop new, trendy and innovative products that appeal to a wide cross-section of society to achieve and maintain success. We believe that one of our core competitive strengths is our ability to meet consumer demands by providing leading fashion sportswear products. Each of our brands has its own dedicated product design team. We plan to continue recruiting additional employees, including foreign-trained designers. We aim to retain our current employees and recruit designers and production specialists globally by offering attractive compensation packages and a work environment that is conducive to the innovation and design of new products.

To add international perspective to our designs, each product design team, as well as members of our sales and marketing team, visit major cities in Europe and Asia to experience first hand the leading trends in fashion in those cities, by visiting leading fashion stores, shopping centres and fashion districts. We also co-operate with and engage international fashion trend research and design agencies from South Korea, France and other countries that are known to be in the forefront of fashion and innovation, such as Promostyl, to assist us in designing and creating trend-setting fashion sportswear for the PRC market. We believe that our three product design teams have a proven track record in identifying and responding to market and fashion trends. The majority of our designers graduated from renowned design or art schools with an average of more than three years of work experience in related fields. Our designers are also highly recognised in the industry and some of them were accredited as 金榜設計師 (Elite Designer) during 中國服裝設計博覽會 (Chinese Apparel Design Expo) and 中國十佳服裝設計師 (Top Ten Apparel Designer) from 中國服裝設計師協會 (China Garments Designer Association). For the autumn seasonal sales fairs held in February and March 2008, our product design teams designed and developed a total of approximately 6,000 sportswear designs, including approximately 1,700 footwear designs, 2,900 apparel designs and 1,300 accessory designs. Our Xtep product design team developed the “Windfire (風火)” design which was one of the best-selling footwear collections in the PRC in 2002. Due to its popularity, this Windfire collection has become the representative collection of our Xtep brand, and we will launch the 10th generation of the Windfire collection in June 2008.

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We have also begun using computer-assisted drawing software for designing our apparel products to increase accuracy and efficiency in our design process. We believe we are the first sportswear manufacturer in the PRC to use such computer-assisted drawing software provided by 恩富(上海)软件有限公司 (Infor Global Solutions (Shanghai) Co., Ltd.), a leading global design software system, and that using this software will further enhance our product design capabilities including data analysis, drawing and sample-making. We plan to extend the use of this software to the design of footwear and accessory products from 2008 onwards.

Our product design process is divided into several stages and the diagram below illustrates the typical design process for our footwear and apparel products:



Our product design teams, with the assistance of international fashion trend research and design agencies, analyse the latest global fashion trends based on data gathered through market research and recent product exhibitions and sales fairs. With a deep understanding of the current fashion trends, our product design teams formulate various fashion themes for our products to cater to the varying tastes and preferences of consumers in different regions within the PRC. Subsequently, our product design teams will refine their design ideas by considering the functionalities and features of the products, as well as the materials used for production. Design blueprints short-listed by our major distributors and marketing managers will be developed into product prototypes, which will be voted on by our major distributors and market managers again. The short-listed product prototypes will then be displayed in seasonal sales fairs where our distributors will place their orders.

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Research and Development

As a sportswear enterprise, we believe innovation in technology is critical to providing functional products with high utility. Our research and development team, focusing on various aspects of the product manufacturing process, including research and development in connection with the latest technologies, fibres, materials and raw materials, ensures that our products have the desired function and application, utilise the latest technology and raw materials, and respond to market developments. We believe our future success depends in part on our ability to deliver new technologies and to adopt existing technologies for application in our products. The following technologies were developed through the efforts of our research and development team:

- Nano-silver anti-bacteria spraying technology — We apply this spraying technology to apply nano-silver anti-bacterial chemicals (which are capable of killing 99% of the bacteria on the material on which it is applied) to most of our footwear products. This spraying technology is the result of our research co-operation with the China Academy of Science. We are in the process of applying for the relevant patent to be registered.
- Fragrance feature — We apply a fragrance on most of our footwear products. Such fragrances generally last three to four months and do not affect durability. We import our fragrances from suppliers in South Korea and hold the exclusive right to use them on our footwear products in the PRC.
- Organic silicone — starting from the summer of 2008, we will use organic silicone that we intend to import from the United States on one-sided humidity conducive fabrics to make our apparel products more heat-resistant and to preserve the silk screen images that are imprinted on them.

Our total expenditure for research and development amounted to approximately RMB3.4 million, RMB6.2 million and RMB16.6 million representing 1.1%, 1.3%, 1.2% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively.

MARKETING AND PROMOTION

Our marketing and promotion strategy has been an important component of our success. We are one of the first sportswear enterprises in the PRC to position our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility. We have implemented innovative and multi-faceted marketing strategies, which includes promotion by entertainment celebrities, sponsorship of national sporting and entertainment events, various forms of advertising, including print, billboard, bus, Internet, motion picture and television advertising, retail sales promotions and other promotional activities. We have also endeavoured to differentiate images, tastes and styles of the Xtep, Disney Sport and Koling brands for each to appeal to different consumer groups through different marketing channels. We will continue to centre our marketing strategies around

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images, logos, advertising slogans and hobbies attractive to our target consumer groups. Each of our brands has its own marketing team, which collects and evaluates market information and trends, coordinates unified brand marketing strategies among distributors, and organises advertising and promotional activities.

Promotion by entertainment celebrities

We believe that we are one of the first in our industry in the PRC to deploy a marketing campaign using entertainment celebrities to promote our brands and products, rather than professional sports celebrities to attract and appeal to the fashion-conscious consumer. We selected entertainment celebrities, who are popular among the Chinese-speaking communities, such as Nicolas Tse (謝霆鋒) and Twins (蔡卓妍和鍾欣桐), as image and brand representatives of our Xtep brand because we believe they matched our culture and the lifestyle images that we wanted to associate with our Xtep brand. We believe this marketing strategy has been effective in attracting certain target consumers to our Xtep brand, which has resulted in increased market awareness and acceptance of our Xtep brand as trend-setting sportswear brand. Following this strategy, we have also recently engaged other famous Asian entertainment celebrities such as Jolin Tsai (蔡依林) and Wilber Pan (潘瑋柏) to promote our brands. We will select celebrities who are popular in the trendy and youthful mass market segment, present a fresh new image and most closely match the cultural and lifestyle images that we are trying to associate with our brands. We also take advantage of concerts, new CDs release promotional activities and autograph sessions organised by our brand and image representatives to promote our brands and products.

Sponsorships of sports teams and events

We strategically sponsor selected national and college sports leagues and sports events which give us significant brand exposure to the general public, in particular to sports enthusiasts. Our sports-related sponsorships include the following:

- Sole sports product partner for 中華人民共和國第十及第十一屆全國運動會 (the 10th and the 11th National Games of China), the largest national sports event sponsored by National Sports Committee, in 2005 and 2009, respectively
- Sole sportswear provider for 2007 年中華人民共和國第六屆城市運動會 (the 6th National Cities Games of the PRC in 2007), a major national multi-sports event held for cities every four years to promote sports development in cities all over China and to identify more young sports talent for the Chinese national teams
- Sole sportswear provider for 2006 年第三屆全國體育大會 (the 3rd China Sports Games in 2006), a national games for non-Olympic events
- Sole title sponsor of 中國女子籃球甲級聯賽 (Women's Chinese Basketball Association (WCBA))
- Sole title sponsor of 全國男子籃球聯賽 (National Basketball League (NBL))

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- Strategic cooperative partner and sole sportswear provider for 中國業餘籃球公開賽 (China Basketball Open (CBO))
- Sole title sponsor of CX全國極限精英賽 (CX-Games), a nation-wide extreme sports competition organised by 中國極限運動協會 (Chinese X Games Association) and us

We also sponsor sports games in universities and secondary schools to target the trendy and youthful mass market segment. For example, we are the sole sportswear sponsor of 中國大學生排球聯賽 (China University Volleyball Association) and 中國大學生排球超級賽 (China University Volleyball Association — Super League) in 2006.

To take advantage of the national as well as global media coverage opportunities presented by the Beijing 2008 Olympic Games, we currently are engaged in, and have planned, various other marketing programmes relating to the Olympics, including:

- Designer and provider of footwear, apparel and accessory products to the Belarusian Olympic delegation to be worn at award ceremonies and other ceremonial and social events, as well as at press conferences and celebration dinners at the Beijing 2008 Olympic Games; and
- Sole sponsor of one of only four Olympic Trains, 特步號奧運列車 (Xtep Olympic Train), a passenger train operated by the Ministry of Railways of the PRC that services the Beijing-Shanghai route which has been decorated with various Xtep logos, trademarks and images relating to the Beijing 2008 Olympic Games.

Media advertising

Apart from the significant presence in various media provided to us by our sponsorship activities, we also strategically select other forms of advertising for our three brands that we believe match each brand's image and market position.

We primarily advertise our Xtep brand on television networks, such as the CCTV Sports channel (the official sports channel in the PRC), Hunan Satellite TV and Eastern Satellite TV (one of the most popular entertainment channels in the PRC), for promoting our Xtep products to both sports and entertainment audiences. In addition, we are the only PRC sportswear enterprise that has successfully purchased television commercial airtime during all the finals of the Beijing 2008 Olympic Games. We were the title sponsor for the 2007 Pingpang Carnival, a high-profile TV show on Hunan Satellite TV organised by the International Table Tennis Federation, the Chinese Table Tennis Association and Hunan Satellite TV, which combines “sports” and “entertainment”, the two key elements in our business mix, by inviting the audiences to play table tennis games with world champions or PRC national champions. We also advertise our Xtep brand through the Internet on various websites such as www.sportschina.com and www.mop.com, as well as on billboards, buses and bus stops. We also organise press conferences and publish newspaper articles to increase the publicity of our Group and our brands.

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For the Koling brand, we use advertising in fashion magazines, such as 瑞麗時尚先鋒 (Rayli Fashion Pioneer), a nation-wide monthly fashion magazine for women, the audience of which consists primarily of affluent and fashion-conscious women, who are likely to be identified with its daring, bold and alluring styles.

We spent RMB22.8 million, RMB41.7 million, and RMB75.8 million on advertising and promotion in 2005, 2006 and 2007, respectively, which represented 7.7%, 8.6% and 5.6% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively. Out of the aforesaid expenditure, our total expenditure for media advertising amounted to approximately RMB15.6 million, RMB30.2 million and RMB30.0 million representing 5.3%, 6.2%, 2.2% of our total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively.

Other promotional activities

We also participated in 第二十屆中國國際體育用品博覽會 (the 20th China International Sporting Goods Show) organised by 國家體育總局 (General Administration of Sport of China), 中國奧林匹克委員會 (the Chinese Olympic Committee), 中華全國體育總會 (All-China Sports Federation), 中國體育用品聯合會 (China Sporting Goods Federation) and 中國體育科學學會 (China Sports Science Society) in June 2007 and we plan to continue to participate in the same show in June 2008.

For our Koling brand, we organise fashion shows in bars and clubs where the waiters and waitresses wear Koling branded apparel to promote Koling's clubbing collection.

We also organise promotional activities, some of which are run by our distributors at local level, to market and promote our products. These events include sales programmes that take place during "golden week", (i.e. National Day holidays) and summer vacation, store opening events and product display shows, such as Sports Source Asia 2007.

SALES AND DISTRIBUTION

General operations for our branded products

We generally sell all of our branded products on a wholesale basis to our distributors. Some of them manage a network of third-party retailers and some of them operate their own retail outlets. While retail outlets of Xtep brand and Disney Sport brand can only sell products of that particular brand and retail outlets of Koling brand are allowed to sell other high-end fashion products not manufactured or promoted by us, retail outlets of each brand do not sell products of other brands owned and/or used by our Group. For the Disney Sport products, we are authorised to sell them to retailers and wholesalers in the PRC in particular through distribution channel that are subject to Disney (Shanghai)'s approval. We also operated two self-managed retail outlets as at 31 March 2008 where we sold Xtep and Disney Sport products directly to end consumers. During the Track Record Period, we also sold a portion of our branded products to direct sales customers, which were mainly sole proprietors and department stores and in aggregate accounted for approximately 66.3%, 16.6% and 6.5%, respectively, of our total branded product sale revenue. In 2006, sales to direct sales customers decreased and, starting from 2007, we sold most of our branded products to our distributors because we believe that our wholesale business model would enable us to achieve growth in sales by

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leveraging the respective strengths and advantages of the distributors engaged under our distributorship arrangement. Sales and distribution by our Group to its direct sales customers is not one of the current major sales and distribution channels of our Group. Its revenue contribution to our Group has been decreasing and is expected to become immaterial as we continue to reduce selling our branded products to direct sales customers in 2008.

We recognise our revenue from the sales of goods to our distributors when the significant risks and rewards of ownership have been transferred to our distributors, provided that our Group maintains neither managerial involvement to the degree usually associated with the ownership, nor effective control over the goods sold. During the Track Record Period, we did not receive any sales returns from our distributors.

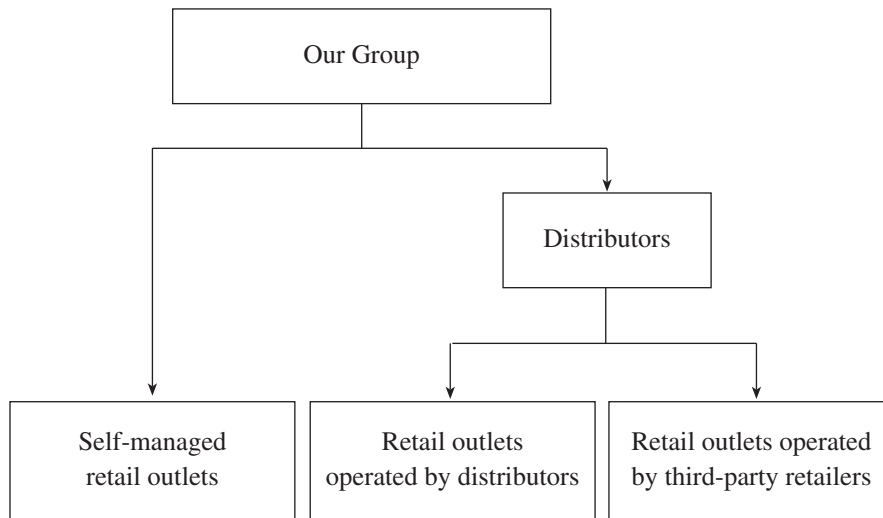
We currently employ different distribution models for Xtep and Disney Sport products, as compared to Koling products. The distributors of Xtep and Disney Sport products are required to sell these branded sportswear products exclusively, while the distributors of our Koling branded products are not required to do so. In addition, while Xtep and Disney Sport products are sold at retail outlets operated by our distributors and their third-party retailers, Koling branded products are sold only at retail outlets operated directly by our distributors. All of our distributors and their retailers are Independent Third Parties.

Each brand is driven by a unique marketing and distribution strategy. For example, the distributors of our Xtep brand and the Disney Sport products are generally given exclusivity over their territories and are not allowed to market, carry or sell brands of other sportswear companies in such territory over which they are given exclusivity. We believe this increases loyalty and provides incentives to our distributors to expand market share, provide quality customer service and aggressively market our products. We seek to position our Xtep brand as a brand that is more popular in the trendy and youthful mass market, which requires a broad and general distribution network. As a result, each distributor of our Xtep brand is granted a broad geographic territory, such as a province, over which it will have exclusive control in terms of managing retailers and opening new retail outlets under our Group's standards and procedures. For the Disney Sport products, due to the early stage of development and market position, we grant distributors of our Disney Sport products exclusivity over a smaller geographic territory to focus on brand image development. As for our Koling brand, we have positioned it as a high-end fashion brand, and Koling distributors are allowed to sell other high-end fashion products not manufactured or promoted by us. In order to focus and develop these high-end fashion products, Koling distributors are only allowed to sell our Koling branded products at retail outlets operated by themselves.

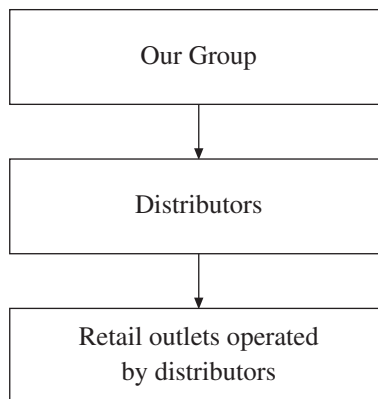
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The following charts illustrate the current major sales and distribution models of our branded products:

(a) *Xtep and Disney Sport products*



(b) *Koling products*



Our distribution network for our branded products

We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. Each brand generally has a separate distributor for a relevant territory. As at 31 March 2008, our extensive network of distributors comprised 28, 31 and 30 distributors for the Xtep, Disney Sport and Koling brands, respectively. As at 31 March 2008, these distributors in turn owned, directly operated or managed through third-party retailers 4,678, 265 and 50 Xtep, Disney Sport and Koling retail outlets, respectively. We maintain stable relationships with our distributors and most of the distributors for our Xtep brand had been our distributors throughout the Track Record Period.

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The following table sets out the total number of our distributors in the PRC under the Xtep, Disney Sport and Koling brands as at 31 December 2005, 2006 and 2007, respectively:

Brand	As at 31 December		
	2005	2006	2007
Xtep	28	28	28
Disney Sport	—	—	31
Koling	—	—	30

There was no change of distributors for our Xtep brand during the Track Record Period. We believe that our distributors are well known in the districts and areas they cover, and have extensive local experience, know-how and contacts in their respective territories. We also attribute our sales success to the rapid increase in size and number, as well as the location of the retail outlets operated by our distributors and third-party retailers.

The following table sets out the number of our distributors in the PRC under the Xtep, Disney Sport and Koling brands by region as at 31 March 2008:

Location	Number of distributors		
	Xtep	Disney Sport	Koling
Eastern Region ⁽¹⁾	10	12	10
Southern Region ⁽²⁾	5	8	5
South-western Region ⁽³⁾	5	3	2
North-eastern Region ⁽⁴⁾	1	4	9
Northern Region ⁽⁵⁾	4	3	3
North-western Region ⁽⁶⁾	3	1	1
Total	28	31	30

Notes:

- ⁽¹⁾ Eastern region includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian
- ⁽²⁾ Southern region includes Hubei, Hunan, Henan, Guangdong, Guangxi and Hainan
- ⁽³⁾ South-western region includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing
- ⁽⁴⁾ North-eastern region includes Heilongjiang, Jilin and Liaoning
- ⁽⁵⁾ Northern region includes Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia
- ⁽⁶⁾ North-western region includes Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang

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Criteria for selection of distributors

We strategically select our distributors based on the following conditions:

- sales channels, local recognition and social resources;
- managerial capabilities;
- industrial and retail experience;
- capital resources;
- ability to secure ideal retail outlet locations; and
- the principal personnel who hold in high regard our corporate culture and development strategies.

Distributorship agreements

We enter into a distributorship agreement with each of our distributors which generally include the following principal terms:

- Geographical exclusivity — Each distributor is authorised to sell our products within an exclusively defined geographical area.
- Undertakings — To build a consistent brand image and management nationwide, distributors undertake to comply with our sales policies, adhere to our pricing policies and adopt our standardised outlet design and layout, promotional equipment and marketing brochures.
- Promotional commitment — We require our distributors to spend a certain percentage of the revenue derived from the products they purchase from us for advertising and other approved marketing activities to market and promote our products.
- Transportation and insurance — Distributors bear transportation expenses and insurance costs for delivery of products.
- Regular reconciliation — We require our distributors to reconcile their inventory and make payments to us on a monthly basis.
- Payment and credit terms — We require our distributors to comply with specific payment and credit terms, which are determined on a case-by-case basis.

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- Duration — The agreement generally has a term of one to two years which may be renewed by agreement of the parties.
- Purchase and settlement target — The agreement stipulates that the distributors should agree with us on an annual purchase and accounts payable settlement target.
- Distributors' obligations — The distributors are responsible for all disputes and debts between the distributors and their respective third-party retailers.
- Termination rights — We are entitled to terminate the agreement in certain circumstances, for instance, breaches of the agreement by the distributors which are not remedied, sale by the distributors of pirated products, damaging of our image by the distributors, failure to meet our minimum standard or distribute our products without our consent. The distributors are entitled to terminate the agreement, for instance, if we cease our operations or cease the supply of products to the distributors without valid cause.

The distributors will then enter into separate sales agreements with their third-party retailers on terms and conditions similar to those stipulated in the distributorship agreements. Our Directors confirmed that there has been no non-performance of the distributorship agreements by our Group or our distributors during the Track Record Period.

Seasonal sales fairs and ordering process

Most of our new product launches are conducted through sales fairs, which are often highlighted by fashion shows displaying the new designs and collections for that particular season. Prior to 2007, we organised sales fairs twice a year. In 2007, we began to organise four seasonal sales fairs for each of our brands for our distributors and third-party retailers in order to be more responsive to the market and fashion trends. Our seasonal sales fairs are generally held four to six months ahead of the introduction a new season's products to end consumers. Historically, we held our seasonal sales fairs in various cities in the PRC, such as Beijing, Xiamen, Quanzhou, Shenyang and Chengdu. The locations of the seasonal sales fairs are determined by the marketing strategies adopted at the relevant time and occasion. For example, to further promote our Olympic China-theme oriented products, we held the sales fairs for our 2008 autumn products of our Xtep brand and the Disney Sport brand in Beijing in February 2008.

Our distributors and third-party retailers attend our sales fairs, in which they review new products' prototypes. Our distributors, after collecting orders from their third-party retailers, will place orders with us during the sales fairs. While our distributors enter into contractual relationship with the third-party retailers, we do not enter into any contractual relationship with the third-party retailers. We also collect feedback from our distributors and exchange ideas with them regarding the market and fashion trends during the sales fairs.

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We then use orders received from the sales fairs to formulate production schedules for the applicable season. The senior management of our Group will review orders received, discuss internally and finalise the production quantity, types and schedule, and then confirm with distributors before mass production. Since then, we do not permit our distributors to cancel or adjust these confirmed sales orders placed with us but allow ad hoc orders (usually for hot-selling products) from our distributors in view of market response. We re-confirm the delivery schedule of sales orders with each distributor before delivery, which normally continues for three to four months after the sales fairs. Distributors' failure to comply with the confirmed sales orders may adversely affect their future co-operation opportunities with us. Our Directors confirm that no sales orders confirmed by our distributors were cancelled and hence no penalties were imposed on our distributors for failure to comply with the confirmed sales orders during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, approximately 95% of the total orders received by us were placed with us at the sales fairs.

Management of our distributors

Our distributors are required to ensure third-party retailers to follow our pricing policies and adopt our standardised outlet design and layout, promotional equipment and marketing brochures, which we believe strengthen our brand recognition and help to build a consistent brand image and management nationwide. Both our Company and our distributors regularly conduct on-site inspections on randomly selected retail outlets to ensure that our distributors comply with the terms in the distribution agreements and that the third-party retailers follow our standardised design and layout. All distributors need our approval to determine the ideal locations for retail outlet, and we work closely with them to choose locations that have high retail traffic flow and exposure in order to improve our brand recognition and our revenues. In addition, we co-operate with our distributors on various marketing, promotional and advertising campaigns and programmes for our sportswear products. Apart from co-operating with 北京大學 (Peking University) and 清華大學 (Tsinghua University) to organise management training programmes to our distributors and third-party retailers, we also organise frequent training programmes for all distributors and staff working at the retail outlets. We believe that working closely with our distributors and sharing information on traffic patterns and consumer purchase patterns through our comprehensive information system allow us to gauge market and fashion trends and to control our production and inventory management systems.

Pricing policies

We have adopted a suggested retail price system that is applied nationwide to all retail outlets operated by our distributors and third-party retailers to maintain brand image and avoid price competition among our distributors and third-party retailers. We sell our branded products to all of our distributors at a fixed discount to the suggested retail prices. In determining our pricing strategies, we take into account market supply and demand, production cost and the prices of our competitors' products. Yet, we have limited control over the prices at which our distributors or customers are willing to purchase our products as prices are driven mainly by economic factors such as demand and

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supply, and we do not enter into any agreement with our distributors which provide for a minimum purchase price by the distributors of our products. Distributors and their third-party retailers may, after taking into account local market conditions and consumer preferences, sell a product at a discount to the suggested retail price, but in any event they are not allowed to offer discounts for the first 60 days after introduction of that product into the consumer market without our approval.

Payment terms and credit control

Our distributors are invoiced at the time that products are delivered. At the same time, we recognise our sales to our distributors. Our sales made to OEM customers are also recognised when the products are delivered to them. We generally grant credit periods of two to three months to our distributors and OEM customers based on their credit history and historical sales performance. We require our distributors and OEM customers to comply with our credit policy and our finance and sales departments carry out regular reconciliations of outstanding balances. Our management team monitors our receivable balances on an ongoing basis and will make appropriate assessment on a timely basis as to whether or not a bad debt provision will need to be made. We did not make any bad debt provisions during the Track Record Period.

Sales return policies

Our sales return policies only permit our distributors to return to us products due to quality defects. Although our distributorship agreements with our distributors require us to accept exchanges for products with material defects, we received no such request for sales return from our distributors during the Track Record Period. During the Track Record Period, our Directors confirmed that we received a very limited number of notifications from our distributors with respect to products with minor quality deviations, and such deviations were not related to any particular product model but minor deviations in specifications and did not warrant a full exchange. As the number of products involved was very limited, such notifications from our distributors were handled by allowing our distributors and their third-party retailers to sell the relevant products to end consumers at a discount to the suggested retail prices. The discount was determined on a case-by-case basis and no standard discount rate was applied by us during the Track Record Period. In light of the very limited number of notifications received during the Track Record Period and with the very small number of products involved, our Directors considered that there was no financial impact on our Group caused by such notifications and hence no accounting adjustment was made in relation to the book value of the relevant inventories up to the Latest Practicable Date. Furthermore, the standard operating procedures that we impose on our distributors, which in turn impose on their third-party retailers, state that claims for defective product from consumers should be handled in accordance with applicable consumer protection laws, which generally require defective products to be accepted for return or exchange if claimed within certain prescribed time periods. With respect to our customers at our self-managed retail outlets, we have adopted a return and exchange policy that is in form and substance identical to the return and exchange policy that we impose on our distributors. As confirmed by our Directors, we have not received any return or exchange request during the Track Record Period.

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Our customers

We sell substantially all of our products on a wholesale basis and substantially all of our customers are the distributors of our branded products, whom we have limited direct control over, as well as our OEM customers. We also record a very small portion of our total revenue to consumers through our self-managed retail outlets. Our top five customers accounted for approximately 71.8%, 61.5% and 29.9%, respectively, of our total revenues, and our largest customer accounted for approximately 38.0%, 35.6% and 7.2%, respectively, of our total revenues for the three years ended 31 December 2005, 2006 and 2007. We anticipate that our customer base will become more diversified as we expand our product offerings and as our multi-brand strategy materialises.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our Group's top five customers, during the Track Record Period.

Retail network

As at 31 March 2008, our distributors and their third-party retailers altogether operated 4,678, 265 and 50 Xtep, Disney Sport and Koling retail outlets, respectively. While retail outlets of Xtep brand and Disney Sport brand can only sell products of that particular brand and retail outlets of Koling brand are allowed to sell other high-end fashion products not manufactured or promoted by us, retail outlets of each brand do not sell products of other brands owned and/or used by our Group. Altogether, our retail network covers all 31 provinces, autonomous regions and municipalities in the PRC for the Xtep, Disney Sport and Koling brands. As at 31 March 2008, there were:

- 4,678 Xtep retail outlets in the PRC operated by our distributors and third-party retailers, and we maintained one self-managed retail outlet primarily to research and experiment with various store designs and layouts and conduct consumer preference tests;
- 265 retail outlets for Disney Sport products in the PRC operated by our distributors and third-party retailers, and we maintained one self-managed retail outlet primarily to research and experiment with various store designs and layouts and conduct consumer preference tests; and
- 50 Koling retail outlets in the PRC operated by our distributors. For the Koling brand, our distributors are not allowed to appoint any third-party retailers and we do not operate any self-managed retail outlets for this brand.

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The following table sets forth the total number of the retail outlets operated by our distributors and their third-party retailers in the PRC under the Xtep, Disney Sport and Koling brands by region as at 31 December 2005, 2006 and 2007, respectively:

Brand	As at 31 December		
	2005 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>	2006 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>	2007 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>
Xtep	739	1,586	4,380
	<i>(140/599)</i>	<i>(228/1,358)</i>	<i>(664/3,716)</i>
Eastern Region	330	567	1,681
	<i>(76/254)</i>	<i>(113/454)</i>	<i>(287/1,394)</i>
Southern Region	124	521	1,071
	<i>(16/108)</i>	<i>(57/464)</i>	<i>(151/920)</i>
South-western Region	120	181	546
	<i>(14/106)</i>	<i>(15/166)</i>	<i>(55/491)</i>
North-eastern Region	65	103	388
	<i>(5/60)</i>	<i>(15/88)</i>	<i>(49/339)</i>
North Region	56	153	473
	<i>(18/38)</i>	<i>(22/131)</i>	<i>(85/388)</i>
North-western Region	44	61	221
	<i>(11/33)</i>	<i>(6/55)</i>	<i>(37/184)</i>
Disney Sport	—	—	217
	—	—	<i>(153/64)</i>
Eastern Region	—	—	74
	—	—	<i>(55/19)</i>
Southern Region	—	—	48
	—	—	<i>(40/8)</i>
South-western Region	—	—	29
	—	—	<i>(23/6)</i>
North-eastern Region	—	—	29
	—	—	<i>(18/11)</i>
North Region	—	—	35
	—	—	<i>(15/20)</i>
North-western Region	—	—	2
	—	—	<i>(2/0)</i>

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Brand	As at 31 December		
	2005 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>	2006 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>	2007 <i>(Total number of retail outlets operated by our distributors/Total number of retail outlets operated by third-party retailers)</i>
Koling	—	—	50
	—	—	(50/0)
Eastern Region	—	—	18
	—	—	(18/0)
Southern Region	—	—	7
	—	—	(7/0)
South-western Region	—	—	2
	—	—	(2/0)
North-eastern Region	—	—	16
	—	—	(16/0)
North Region	—	—	5
	—	—	(5/0)
North-western Region	—	—	2
	—	—	(2/0)

We also operate and manage our own retail outlets where we sell our Xtep and the Disney Sport products directly to consumers. As at 31 March 2008, we maintained one self-managed retail outlet for our Xtep branded products and one self-managed retail outlet for the Disney Sport products, both located next to our headquarters in Quanzhou, Fujian province, primarily to research and experiment with various store designs and layouts and conduct consumer preference tests.

We worked closely with our distributors to expand the retail network of our Xtep brand, and the number of the retail outlets operated by our distributors and their third-party retailers in respect of our Xtep brand has grown rapidly from 739 in 2005 to 1,586 in 2006, and to 4,380 in 2007. 739, 847 and 2,824 new retail outlets for our Xtep brand were opened in 2005, 2006 and 2007, respectively. A total of 26 and 4 retail outlets for our Xtep brand were closed down in 2007 due to (i) replacement by new retail outlets of larger size or improved location, and (ii) unsatisfactory sales performance of such retail outlets, respectively.

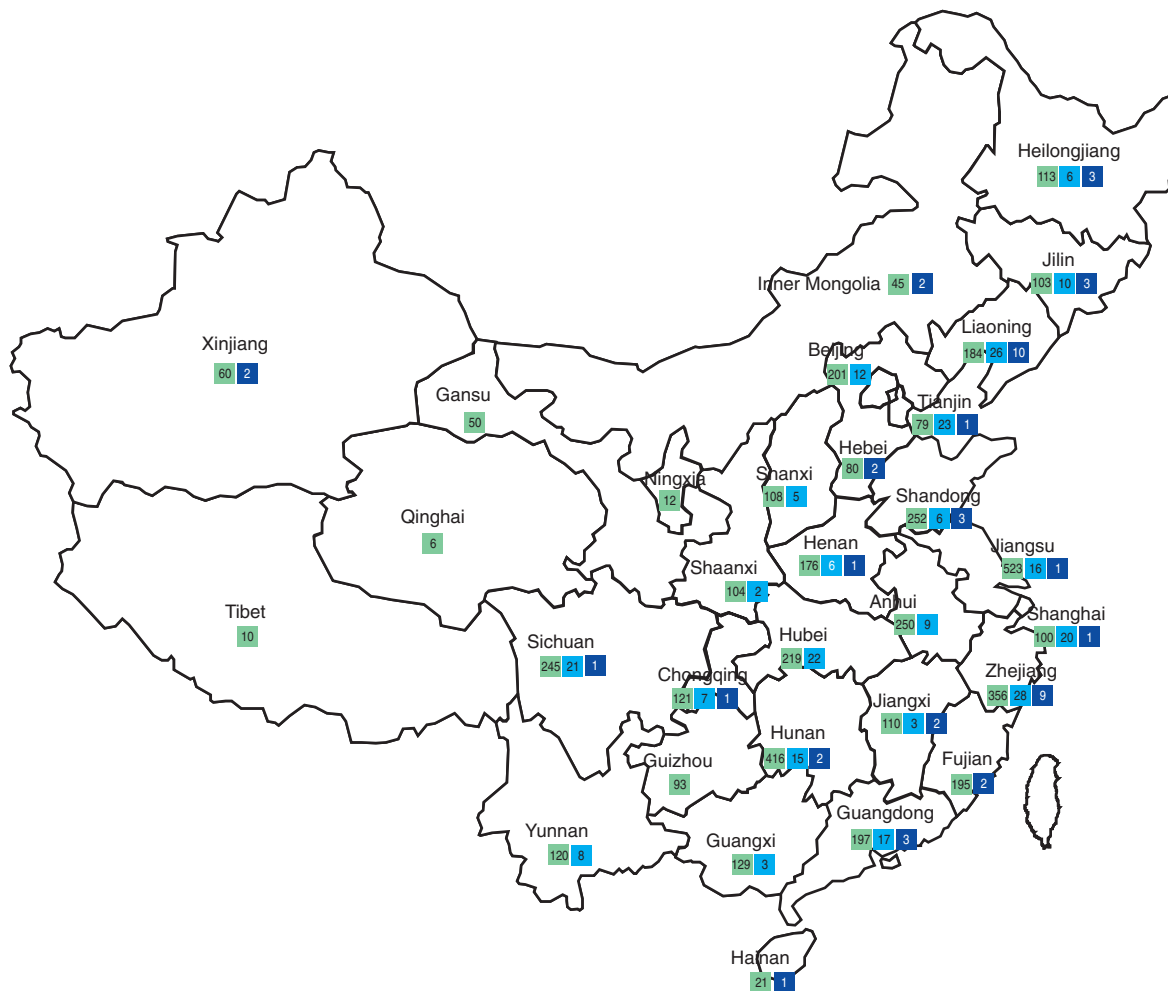
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The following table sets out the number of retail outlets operated by our distributors and third-party retailers in the PRC under the Xtep, Disney Sport and Koling brands by region as at 31 March 2008:

Location	Number of retail outlets			Total
	Xtep	Disney Sport	Koling	
Eastern Region	1,786	82	18	1,886
Southern Region	1,158	63	7	1,228
South-western Region	589	36	2	627
North-eastern Region	400	42	16	458
Northern Region	513	40	5	558
North-western Region	232	2	2	236
Total	<u>4,678</u>	<u>265</u>	<u>50</u>	<u>4,993</u>

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The following map illustrates the geographical distribution of the retail outlets operated by our distributors and third-party retailers in the PRC under Xtep, Disney Sport and Koling brands as at 31 March 2008:



**Total number of
retail outlets as at
31 March 2008**

■ Xtep	4,678
■ Disney Sport	265
■ Koling	50

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The following table sets forth the breakdown of our revenues from branded product sales to our distributors, our direct sales customers and consumers of our retail outlets by region for the three years ended 31 December 2005, 2006 and 2007:

Location	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Branded Product Sales						
Eastern Region	22,081	31.4	85,759	43.3	506,860	40.3
Southern Region	5,145	7.3	32,522	16.5	319,804	25.4
South-western Region	6,514	9.3	23,876	12.1	136,665	10.8
North-eastern Region	14,440	20.5	24,697	12.5	132,849	10.6
Northern Region	6,448	9.2	22,662	11.5	103,658	8.2
North-western Region	15,702	22.3	8,090	4.1	59,303	4.7
Total	70,330	100.0	197,606	100.0	1,259,139	100.0

The following table sets forth the average sales per retail outlet of our Xtep brand⁽¹⁾ by region for the three years ended 31 December 2005, 2006 and 2007:

Location	For the year ended 31 December		
	2005	2006	2007
	RMB	RMB	RMB
Xtep			
Eastern Region	32,971	126,862	257,083
Southern Region	18,162	55,280	243,643
South-western Region	9,120	100,972	274,080
North-eastern Region	111,769	214,912	301,909
Northern Region	38,911	98,989	161,247
North-western Region	777	138,567	375,881
Overall	32,077	103,872	255,531

Note:

(1) average sales per retail outlet of our Xtep brand operated by our distributors and their third-party retailers represent the revenue from the sales of our Xtep products to our distributors for the year divided by the total number of retail outlets operated by them as at 31 December of the year

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The total sales of our Xtep branded products and the average sales per retail outlet of our Xtep brand to our distributors in the Northeastern part of China and Hunan are generally higher than those to distributors located in other economically more developed cities such as Shanghai and Beijing. Our Directors believe that we achieved the relatively high sales in the Northeastern part of China and Hunan during the Track Record Period because the populations, hence the customer base and the demand for sportswear in the Northeastern part of China and Hunan, are generally higher than those in other economically more developed cities such as Shanghai and Beijing. Further, our Directors consider that consumers in the Northeastern part of China and Hunan are, as compared to customers in Shanghai and Beijing, less exposed to and less able to afford to some international sportswear brands. In addition, greater number and larger size of retail outlets as well as the longer operation history in these economically less developed provinces and cities (as compared to certain economically more developed provinces or cities) gave the local customers greater accessibility to our branded products during the Track Record Period. Our marketing efforts and business strategies have also increased the general public's recognition and market penetration of our brands, in particular, in the Northeastern part of the China and Hunan.

Retail outlets operated by distributors and third-party retailers

While Xtep and the Disney Sport products are sold at retail outlets operated by our distributors and their third-party retailers, Koling branded products are sold at retail outlets operated by our distributors. As at 31 March 2008, there were 4,678 Xtep retail outlets and 265 Disney Sport retail outlets operated by our distributors and third-party retailers while there were 50 Koling retail outlets operated by our distributors throughout 31 provinces, autonomous regions and municipalities in the PRC. Our distributors enter into contractual relationships with third-party retailers and we do not enter into any contractual relationship with the third-party retailers operating the retail outlets. All retail outlets are required to be operated with a standardised store layout. However, we only have limited control over whether the third-party retailers adhere to our retail policies, which cover, among other operational requirements, customer service, inventory controls and pricing. We routinely conduct random inspections of retail outlets operated by our distributors and third-party retailers to ensure compliance with our standard operating procedures. If any deviations from the standard operating procedures are discovered at a retail outlet, we work with the relevant distributor to rectify them.

Self-managed retail outlets

We also operate and manage our own retail outlets where we sell our Xtep and the Disney Sport products directly to consumers. As at 31 March 2008, we had one retail outlet for our Xtep branded products and one retail outlet for the Disney Sport products, both located next to our headquarters in Quanzhou, Fujian province. As our current business model is not focused on retail sales, we maintain self-managed retail outlets primarily to research and experiment with various store designs and layouts and conduct consumer preference tests. We apply the knowledge gained from our self-managed retail outlets to assist our distributor and their third-party retailers in improving the design and layout of, as well as operations at, their retail outlets.

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Expand and optimise our distribution network

We will continue to expand and optimise the distribution network of each of our branded products by working closely with our distributors. In particular, we plan to continue our existing practice of providing training on sales and marketing skills as well as detailed criteria for selection of locations for retail outlets, outlet design and display. In addition to the major metropolitan cities in the PRC such as, among others, Beijing, Shanghai and Guangzhou, we believe that a key to the growth of our business is to further enhance our distribution network in the fast growing consumer base of various medium to large size cities and municipalities throughout the PRC such as, among others, Changsha, Xiamen, Wuxi and Shenyang.

We also work closely with our distributors to improve the purchasing experience at our retail outlets by enhancing the ambiance and atmosphere of the retail outlets and focusing on improving customer service through employee training and incentive programmes at both sales fairs and retail outlets and points of sale. In addition, we closely monitor our distributors' performance by requiring them to provide us with monthly and quarterly performance reports. Furthermore, we will continue to work closely with our distributors in various regions to plan the expansion of the existing retail network and place specific requirements on the number and type of new retail outlets to be opened.

OEM sales

In 2005, approximately 76.4% of our revenues were derived from OEM sales. In 2006, although the majority of our revenues was still derived from OEM sales, our management began the process of shifting our business focus to branded fashion sportswear because we believe the market for fashion sportswear products has greater potential and such positioning differentiates us from major competitors. In 2006 and 2007, the revenue derived from OEM sales decreased to 59.1% and 7.8%, respectively. We will take advantage of our outsourcing strategy to maintain flexibility in our production schedule for both our branded fashion sportswear business and our OEM business. However, we will continue to concentrate our resources to strengthen our branded product business and we plan to continue to reduce our OEM business and its contribution to our Group's total revenue.

MANUFACTURING AND PRODUCTION

Our production facilities and capacities

We have our own production facilities, which enable us to control our product quality more effectively, to provide our contract manufacturers with model products and to respond to consumer demand more quickly. We produce the majority of our footwear products and some apparel products at our own production facilities located in Quanzhou, Fujian province. We operated 8, 12 and 12 footwear production lines with capacity of approximately 7.9 million, 9.5 million and 11.5 million pairs of footwear products per annum as at 31 December 2005, 2006 and 2007, respectively. We commenced our own apparel production at the end of 2007 and we operated 12 apparel production lines with capacity of approximately one million pieces of apparel products per annum as at 31

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December 2007. Our Directors confirm that the utilisation rates of our footwear production facility were approximately 98%, 100% and 83% for the three years ended 31 December 2005, 2006 and 2007, respectively, and the utilisation rate of our apparel production facility was approximately 100% for the year ended 31 December 2007.

While we believe that our current production facilities are cost competitive, we are constantly trying to refine and improve our production facilities and production lines to improve production rates, reduce stoppages and improve quality control. As at 30 April 2008, our 12 footwear production lines and 12 apparel production lines were staffed with a total of approximately 4,848 production staff.

We commenced our own apparel production at the end of 2007 and, in line with our outsourcing strategy, we intend to continue to outsource some of our apparel production to sub-contractors and contract manufacturers. In order to meet the increasing growth of this product segment, produce products that adhere to our strict quality requirements, control costs and respond rapidly to changing conditions in the market trends and preferences, we plan to apply approximately HK\$200 million of the proceeds from the Global Offering to increase our apparel annual production capacity from approximately one million to approximately 10 million pieces by establishing a new apparel production facility and increasing our apparel production lines from 12 to approximately 120. We expect this facility to commence production in 2010.

We also plan to enhance production efficiencies at our existing production facilities and production lines by allocating a portion of the proceeds from the Global Offering to capital expenditures for the import of manufacturing testing facilities and advanced manufacturing testing technology, and to establish technically advanced laboratories for research and development.

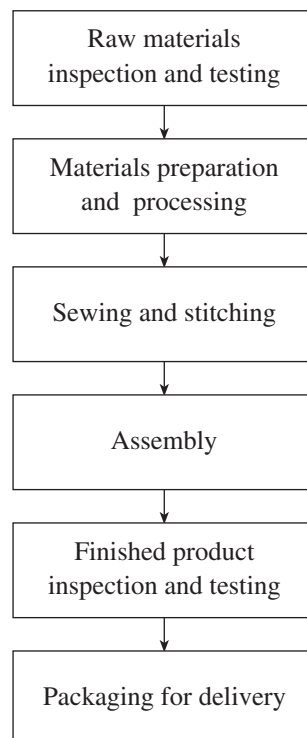
As a contingency plan to deal with electricity shortages and suspensions, we have installed five electricity generators with an aggregate installed capacity of approximately 2,200 kilowatt, which our Directors believe are capable of generating sufficient electricity for our production operations. We did not experience any material interruption of our production operations resulting from electricity shortages or suspensions during the Track Record Period.

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Manufacturing process

Footwear manufacturing process

Our footwear manufacturing process is divided into six main stages: (1) raw materials inspection and testing; (2) materials preparation and processing; (3) sewing and stitching; (4) assembly; (5) finished product inspection and testing; and (6) packaging. The following diagram outlines our manufacturing process for our footwear products:

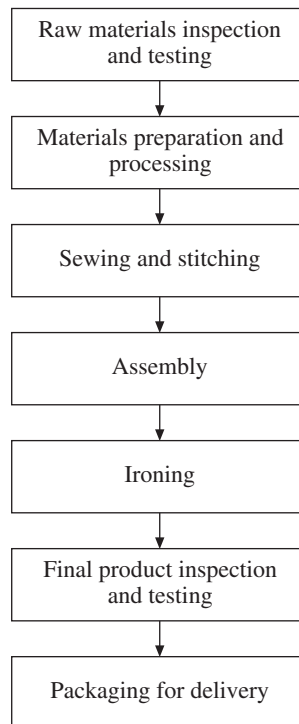


The main raw materials used in producing footwear are fabrics, soles, rubber, plastics and nano-silver anti-bacterial chemicals. Raw materials are generally inspected and tested before being cut and trimmed into individual components of the desired shape. Raw materials that pass our quality control tests are then processed in preparation for sewing and stitching. Preparation and processing of materials include the spraying of nano-silver anti-bacterial chemicals and fragrance. Individual components of different shapes and materials are then sewn and stitched together. The next process is the assembly of the semi-finished footwear components. Inspection and testing are carried out at each stage of the manufacturing process to ensure high-quality. Finally, the finished footwear is given a final inspection by our quality control staff members before it is packaged and prepared for delivery.

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Apparel manufacturing process

Our apparel manufacturing process is divided into seven main stages: (1) raw materials inspection and testing; (2) materials preparation and processing; (3) sewing and stitching; (4) assembly; (5) ironing; (6) finished product inspection and testing; and (7) packaging. The following diagram outlines our manufacturing process for our apparel products:



The main raw materials used in producing apparel are fabrics. Fabrics and other materials are generally inspected and tested before being cut and trimmed into individual components of the desired shape. Raw materials that pass our quality control tests are then processed in preparation for sewing and stitched together. The next process is the assembly of individual components such as sleeves, front and back to form the finished products. Ironing might be necessary to preserve the shape and appearance of the apparel products. Finished products will be packed and prepared for delivery after final inspection by our quality control staff members to ensure high quality of products.

Production outsourcing

During the Track Record Period, we outsourced the production of a portion of our footwear products to various sub-contractors and contract manufacturers to produce certain footwear products. Sub-contractors are engaged to perform all or certain of the production steps where we supply them with the relevant raw materials or parts. Contract manufacturers are engaged to perform the entire production process and will be responsible for procuring the relevant raw materials. Before we commenced our own apparel production, we outsourced the production of all of our apparel products for the two years ended 31 December 2005 and 2006. We commenced our own apparel production at

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the end of 2007 and in line with our outsourcing strategy, we intend to continue to outsource some of our apparel production to sub-contractors and contract manufacturers. Ever since we began to sell accessory products in 2006, we have outsourced and will continue to outsource the production of all of our accessory products. We believe the use of internal and outsourced production for the manufacture of our products has allowed us to adjust our product and business mix in a timely manner without the need for significant capital investment. The cost of outsourced production amounted to approximately 2.4%, 4.2% and 36.2% of our total cost of sales for the years ended 31 December 2005, 2006 and 2007, respectively.

The following table sets out a breakdown between our Group's self-production and outsourced production in terms of production volume for each product category during the Track Record Period:

	For the year ended 31 December		
	2005	2006	2007
Footwear:			
- Self-production	97.4%	100%	68.8%
- Outsourced production	2.6%	—	31.2%
Apparel:			
- Self-production	—	—	5.5%
- Outsourced production	100%	100%	94.5%
Accessories:			
- Self-production	—	—	—
- Outsourced production	100%	100%	100%

During the year ended 31 December 2007, we engaged approximately 42 footwear, 73 apparel and 14 accessory product sub-contractors and contract manufacturers in the PRC which are sportswear processing factories located mainly in Fujian and Guangdong provinces. We engaged their services on a contract basis after obtaining sales orders during our sales fairs. For each order, we entered into separate purchase contracts which set out the terms regarding, among others, the price, purchase quantity, delivery terms, confidentiality obligations on designs and specifications of our products and settlement terms with the sub-contractors and contract manufacturers. We did not restrict all of our sub-contractors or contract manufacturers from manufacturing products for other brands; therefore, some of our sub-contractors and contract manufacturers also performed manufacturing services for other companies. Below sets out the salient terms of the purchase contracts entered into between sub-contractors/contract manufacturers and us:

- Confidentiality obligation — sub-contractors and contract manufacturers are obliged under the purchase contracts not to disclose such confidential information to outsiders or use the same for their own products or any purposes other than the exclusive purpose permitted by us.

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- Quality — sub-contractors and contract manufacturers shall produce products in accordance with the quality standard required by us.
- Delivery — sub-contractors and contract manufacturers shall deliver such quantity and quality of products at the time as agreed with us, failing which will result in penalty. The sub-contractors and contract manufacturers shall indemnify us against any losses suffered a result of cancellation of orders by our customers or claims initiated by our customers due to unsatisfactory quality of products produced by the sub-contractors and contract manufacturers.
- Intellectual property rights — copying of technical information in whole or in any part is not permitted without our prior consent. All rights (including but not limited to the intellectual property rights) in connection with manufacturing equipment or materials provided by us as well as all products (including logos) produced under the purchase contracts belong to us.
- Defective or excessive products — all sub-contractors and contract manufacturers are not permitted to retain or, within the PRC, without our prior consent deal with all products of defective quality or produced in excess of the quantity stipulated under the purchase contracts and shall indemnify against us for all losses suffered by us as a result of any breach of the aforesaid obligations.

We carefully select our sub-contractors and contract manufacturers and require each to satisfy certain evaluation and assessment criteria. We require our contract manufacturers to have an annual production capacity of over 400,000 pairs of footwear products. We also carefully evaluate the sub-contractors' and contract manufacturers' overall track record, financial strength, experience, reputation, ability to produce high-quality products and quality control effectiveness. To ensure that high-quality and low-cost raw materials are used, we provide the designs and specifications of our products to our sub-contractors and contract manufacturers for their production as we see fit and they are obliged under the purchase contracts not to disclose such confidential information to outsiders or use the same for their own products or any purposes other than the exclusive purpose permitted by us. We also provide the relevant raw materials and parts to our sub-contractors. To ensure the high production quality of our sub-contractors and contract manufacturers, we arrange for our quality control staff members to conduct on-site inspections every day when such sub-contractors and contract manufacturers operate and produce products for us. Each of our contract manufacturers is also subject to our annual evaluation and assessment in terms of product quality and timeliness of product delivery.

INFORMATION SYSTEM

We believe that a comprehensive information system is important in improving our efficiency in product design and development, supply chain management, quality and inventory control, logistics and sales. In 2007, we began using the distribution resource planning (“DRP”) system provided by UFIDA Software Co., Ltd. (a leading domestic software company in the PRC) that will allow us to track inventory levels and movement of our products at our warehouses and certain retail outlets

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operated by us, our distributors and third-party retailers. With this information, our product design and research and development teams are able to analyse market demands and preferences more efficiently, and we can more closely manage our distributors. The DRP system also links up the production, inventory and finance systems.

Further, we plan to invest a portion of the proceeds from the Global Offering to upgrade our information system. We believe that a robust information system will help us by enhancing the exchange of information among our various functional departments, strengthening our supply chain and distribution network management, and shortening our response time to changes in market demands, including the facilitation of movements in inventory from one retailer to another.

INVENTORY CONTROL AND LOGISTICS

Our inventory policy is to maintain low levels of raw materials and finished goods inventory while assisting the retail outlets (whether operated by us, our distributors or third-party retailers) to maintain sufficient levels of sellable products. We do not have a general inventory provision policy based on our current business model, we generally procure raw materials and commence production after having confirmed purchase orders with our distributors following our seasonal sales fairs. Our distributors are not allowed to cancel any confirmed purchase orders. In addition, we did not receive any cancelled purchase orders during the Track Record Period.

We closely monitor our inventories, including inventory levels and inventory age. To further minimise the risk of building up aged inventories, it is our policy to regularly review the obsolescence of inventories based on the expected future saleability and the age of the inventories. We also carry out physical stock counts from time to time to identify obsolete or damaged goods. If the market conditions are less favourable than those projected by the management and our inventories remain unsold longer than we anticipated, specific provision will be made on an item-by-item basis and we record a provision against certain inventories if the estimate of the net realisable value is below the corresponding costs of such inventories. During the Track Record Period, we did not make any provisions for inventories as all the ending inventories as at 31 December 2005, 2006 and 2007 were subsequently consumed or sold above the costs of the inventories.

According to our policy, we require our distributors to provide us with their monthly inventory and sales reports and we carry out random on-site inspections of our distributors to track their inventories. The purpose of tracking the inventory level is mainly to allow us to gather sufficient information and data regarding the market acceptance of our products so that we can reflect the consumers' preferences on the design of our products in the next season. The tracking of inventory level also provides useful information to us as to the market recognition of our products in a particular region so that we could realign our marketing strategy if needed. This information will also assist us and our distributors to determine the amount and frequency of our products to be delivered to each distributor and if necessary, we will coordinate with our distributors to reallocate products to regions where demand is present. Our distributors will negotiate between themselves to determine whether to implement stock reallocation suggested by us and we are not a party to the negotiation, sales and purchases of our products as a result of any such reallocation and, accordingly, no accounting treatment will be made to our Group's consolidated financial statements. We believe that this system

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will effectively reduce production inefficiency and inventory buildup at our distributors. Our Directors confirm that none of the products sold to the distributors during the Track Record Period and up to the Latest Practicable Date were subsequently reallocated to the retail outlets operated by our Group.

For the three years ended 31 December 2005, 2006 and 2007, the balance of our inventory as at 31 December 2005, 2006 and 2007 accounted for approximately 43.7%, 36.5% and 25.0%, respectively, of our total current assets, while our average inventory turnover days were 156, 133 and 68, respectively. We are able to reduce our average inventory turnover days because of our increased use of contract manufacturers, improved production planning procurement control, and enhanced production lines. The Directors confirm that to their best knowledge and belief, the significant increase in sales of our branded products during the Track Record Period was not as a result of the accumulation of inventories at the level of our distributors or their third-party retailers. Please refer to “Inventory Analysis” in the section headed “Financial Information” of this prospectus.

Raw materials supplied by our suppliers are delivered to us at their own cost and their own risk. Almost all of the finished products supplied by our contract manufacturers are directly delivered to our warehouse at the cost of the contract manufacturers, depending on the terms of the relevant purchase contract. We deliver our products to our customers through logistics companies who bear the risks and losses associated with the delivery of our products. We currently engage nine logistics companies (who are Independent Third Parties) and we did not experience any material loss in the delivery of our products during the Track Record Period.

QUALITY MANAGEMENT SYSTEM

We have developed a comprehensive and effective quality management system which is evidenced by our being among the first in our industry in the PRC to obtain the ISO 9001:2000 quality management system certification issued by China Quality Certification Centre in July 2003. Our finished products have also been recognised by the State General Administration of the PRC for Quality Supervision and Inspection and Quarantine as the “產品質量免檢 (Product Exemption From Quality Surveillance Inspection)” and “出口商品免驗 (Exemption of Export Commodities From Inspection)” since 2003 and 2006, respectively. The high quality of our products was also recognised by various media in the PRC as “中國質量 500 強企業 (China Top 500 Elite Enterprises)”.

We have adopted quality control standards which exceed those required at the national level. To enhance our quality management system, we established a quality control centre in 2006, which is equipped with constant-temperature laboratories and test laboratories that meet standards imposed at the provincial level. We plan to apply a portion of the proceeds from the Global Offering to upgrade our laboratories so that we can maintain quality control standards that exceed the national level. As at 30 April 2008, we had approximately 82 quality control staff.

Our quality control process starts early in the design and development stage when we consider the functionality and qualities of materials to be used for manufacturing. At the raw material purchasing stage, we employ strict criteria in selecting our suppliers and conduct tests on substantially all of the raw materials and other components by appearance and characteristics inspections as well as testing equipment to ensure that they meet our quality standards. At each stage of the manufacturing

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process, we arrange for our quality control staff members to conduct on-site inspections of all semi-finished components at our production facilities and those of our contract manufacturers. After the assembly stage, our quality control staff members conduct sample tests on some of the finished products manufactured at our own production facilities and on substantially all of the finished products manufactured by our contract manufacturers to assess their functionality and quality before they are delivered to our customers. We also conduct detailed statistical analyses of failing samples in order to improve our production performance and to minimise the numbers of defect products.

RAW MATERIALS AND SUPPLIERS

The principal raw materials used in the production of our footwear products are fabrics, soles, rubber, plastics and nano-silver anti-bacterial chemicals while the principal raw materials used in the production of our apparel products are fabrics. All these materials can be obtained from domestic suppliers in the PRC, and we source most of our major raw materials from suppliers located in Fujian province.

Our production facilities are strategically located in Quanzhou, Fujian province, which is considered to be a hub city of the PRC sportswear industry, with many of our raw material providers located in this area. Further, we have developed long-term relationships with our key suppliers and providers. We generally procure raw materials after having confirmed purchase orders with our distributors following each seasonal sales fair. Given the large volume of purchases made by us, we are able to negotiate competitive prices for our raw materials and are able to be flexible in maintaining raw material inventory, with purchases being made only when our manufacturing needs dictate, as suppliers generally make it a priority to supply our needs, and the delivery time is minimal given the proximity of such suppliers to our facilities. In recent years, we started to arrange with our suppliers for multiple deliveries of a large-volume order for raw materials. The purpose of this arrangement is to decrease our inventory and reduce our storage costs while still enabling us to enjoy competitive prices for raw materials due to the bulk purchases at the same time.

Our suppliers include suppliers of raw materials as well as sub-contractors and contract manufacturers to whom we outsource the production of our footwear, apparel and accessory products. We are granted credit periods of an average of 60 to 90 days by our suppliers. For the three years ended 31 December 2005, 2006 and 2007, our five largest suppliers accounted for approximately 21.1%, 28.7%, and 26.3%, respectively, of the aggregate amount payable to all suppliers, and our largest supplier accounted for approximately 6.7%, 7.0% and 7.6%, respectively, of the aggregate amount payable to all suppliers.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our Group's top five suppliers during the Track Record Period.

COMPETITION

The demand for sportswear in the PRC has been growing steadily in recent years, in line with economic growth. Participants in the sportswear industry in the PRC market include international and domestic brands. Market participants compete on, among other things, brand loyalty, product variety,

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product design, product quality, marketing and promotion, price, and the ability to meet delivery commitments to retailers. We have also seen severe competition for distribution and retail channels. Competition has led to industry consolidation, whereby smaller and less profitable brands or enterprises may be acquired by enterprises with surplus capital seeking to expand.

We face competition from international and domestic brands in the sportswear retail market in the PRC. Although we are a relatively young brand and do not have as much market share as some of the long-standing and well-recognised international brands, we believe that as the leading PRC fashion sportswear enterprise in the PRC, we have a competitive advantage over our direct international competitors in the fashion sportswear market in the PRC in terms of pricing, network, knowledge of PRC consumer tastes and market, and ability to respond to market and fashion trends in a timely manner through immediate support from our dedicated design teams and own production facilities.

We believe we are uniquely positioned in the industry as the owner of all rights to our Xtep brand and we are currently mainly competing with our major competitors in the PRC market, through positioning our own branded sportswear products with a fashion and trendy focus in addition to functionality and utility, as well as implementing the multi-brand strategy. Because of our comparatively late entrance, we currently do not have as much market share as some of our competitors. Some of our competitors may also have more extensive financial, technical and personnel resources than we do. However, we believe our unique market positioning of the Xtep, Disney Sport and Koling brands has allowed us to achieve significant growth in the recent years and capture a defined and fast-growing customer base. We also believe that we are able to maintain our competitiveness over domestic sportswear brands because our fashion sportswear products are able to enjoy premium pricing and higher gross margins than other domestic sportswear brands which are purely function-focused. Our brands are also competitive in terms of innovative and multi-faceted marketing capabilities, product quality and design, location of retail outlets and customer service quality.

EMPLOYEES

As at 30 April 2008, our Group had a total of 6,188 full-time employees in the PRC. The following table shows a breakdown of our employees by departments as at 30 April 2008:

	<u>Number of employees</u>	<u>Percentage of total employees</u>
Management and administration, finance and quality control	648	10.5%
Manufacture and production	4,848	78.3%
Product design, research and development	372	6.0%
Sales and marketing	<u>320</u>	<u>5.2%</u>
Total	<u>6,188</u>	<u>100.0%</u>

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We provide introduction programmes and continuous training to our employees to enhance their industrial, technical and product knowledge as well as their knowledge of industry quality standards and work safety standards.

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that we comply with all statutory social insurance obligations applicable to us under the PRC laws. In accordance with the applicable PRC laws and regulations on social insurance, we contribute to various social insurance plans such as pension contribution plans, medical insurance plans, work-related injury insurance plans and unemployment insurance plans as well as housing accumulation funds for our employees.

We believe that we maintain a good working relationship with our employees, and we have not experienced significant problems with our employees or disruption to our operations due to labour disputes.

Labour and safety matters

We are subject to various labour and safety laws and regulations in the PRC including 中華人民共和國勞動法 (the PRC Labour Law), 中華人民共和國勞動合同法 (the PRC Labour Contract Law), 中華人民共和國安全生產法 (the PRC Production Safety Law), 工傷保險條例 (the Regulation of Insurance for Labour Injury), 失業保險條例 (the Unemployment Insurance Law), 企業職工生育保險試行辦法 (the Provisional Insurance Measures for Maternity of Employees), 社會保險登記管理暫行辦法 (the Interim Provisions on Registration of Social Insurance), 社會保險費徵繳暫行條例 (the Interim Regulation on the Collection and the Payment of Social Insurance Premiums) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in the PRC.

According to 中華人民共和國勞動法 (the PRC Labour Law) and 中華人民共和國勞動合同法 (the PRC Labour Contract Law) (the “New Labour Law”), labour contracts shall be concluded if labour relationships are to be established between our employees and members of our Group. We must provide wages which are no lower than local minimum wage standards to our employees. We are required to establish a system for labour safety and sanitation, strictly abide by State rules and standards and provide relevant education to our employees. We are also required to provide our employees with safe and sanitary labour conditions that meet State rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations.

Our Directors believe that the New Labour Law, which became effective on 1 January 2008, calls for much stricter requirement in human resources management in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economical compensation as well as social security premiums. We are requested to take a variety of intensified measurements to improve our employment relationship management and practically fulfill our statutory obligations accordingly. In addition, we shall also choose the forms of employment in accordance with the new law, particularly on worker service dispatches. The legal interpretation in this regard made by the competent central government authority provides that the term of worker service dispatch shall not exceed six months or otherwise the employer shall hire workers through ordinary employment. As for dispatch provided by the New Labour Law, the accepting entity is required to provide the corresponding working conditions and labour protection,

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pay overtime remuneration and performance bonuses and provide benefits relevant to the position. The accepting entity should not in turn dispatch the workers to any other employer. The New Labour Law provides that the accepting entity and the dispatching entity shall bear joint and several liability of compensation if any damage is caused to the legitimate right and interests of workers dispatched. Therefore the New Labour Law strengthens the protection for dispatched workers. In general, we believe that the New Labour Law will help us to establish a more stable and harmonious labour relationship between our employees and us.

中華人民共和國安全生產法 (the PRC Production Safety Law) requires us to maintain safe production conditions as provided in 中華人民共和國安全生產法 (the PRC Production Safety Law) and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities. We are required to offer education and training programmes to our employees regarding production safety. In order to comply with applicable national or industrial standards, the design, manufacture, installation, use, checking and maintenance of our safety equipment is required. In addition, we are required to provide our employees with labour protection equipments that meet the national or industrial standards and to supervise and educate them to wear or use such equipments according to the prescribed rules.

As required under 工傷保險條例 (the Regulations of Insurance for Labour Injury), 企業職工生育保險試行辦法 (the Provisional Insurance Measures for Maternity of Employees), 社會保險費徵繳暫行條例 (the Interim Regulation on the Collection and Payment of Social Insurance Premiums) and 社會保險登記管理暫行辦法 (the Interim Provisions on Registration of Social Insurance), we are obliged to provide our employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

We make efforts to ensure the safety of our employees. Our Directors confirm that the design, installation, use and maintenance of our equipment all meet national and industrial standards. We implement safety guidelines and operating procedures for our production processes, and provide employees with occupational safety education and training to enhance their awareness of safety issues. We provide and require our employees to wear suitable protective devices to ensure their safety. We also provide our employees with free annual medical check-ups.

As confirmed by the relevant PRC authorities, our Company has fully paid social securities including health, insurance, accidents, safety under PRC laws and regulations. There are no other specific measures needed to be taken by our Company to comply with applicable laws and regulations. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that, during the Track Record Period and up to 12 May 2008, we complied with all applicable labour and safety laws and regulations, including but not limited to the New Labour Law, which became effective on 1 January 2008, in all material respects, and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major accident in the course of their employment and we have never been subject to disciplinary actions with respect to the labour protection issues.

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Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that our Group will not be responsible for breach of laws, rules and regulations by our contract manufacturers and suppliers. Furthermore, our Directors have confirmed that our Group has not been held liable for breach of laws, rules and regulations by our contract manufacturers and suppliers during the Track Record Period. See “Production outsourcing” above.

INTELLECTUAL PROPERTY RIGHTS

We currently use the Xtep brand, Disney Sport brand and Koling brand for the marketing and sales of our sportswear products.

Xtep and Koling

As at the Latest Practicable Date, we have the right to use some of our Xtep and Koling trademarks which have been registered by us in Hong Kong, the PRC and other places.

We are also in the process of applying for registration in the PRC and other places of some other Xtep and Koling trademarks. Some of these applications are still under review by, in the case of the PRC applications, the Trademarks Office of State Administration for Industry and Commerce of the PRC which, as advised by our PRC legal adviser, we have the right to use while applications have been made for the registration. To our best knowledge and so far as our PRC legal adviser is aware, there are no legal impediments to the applications. Our Directors confirm that there is no adverse impact on our Group’s operation if any of pending trademark applications cannot be registered.

We were also granted irrevocable license by Mr. Ding and Ms. Ding Ming Fang to use certain trademarks (whether registered in the PRC or overseas) relating to the sportswear products of our Group at nil consideration pending completion of the transfer.

Details of our intellectual property rights are set forth in the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this prospectus.

Patents and domain names

As part of the Corporate Reorganisation, we were also granted an irrevocable license by Mr. Ding to use certain patents relating to the sportswear products of our Group at nil consideration pending completion of the transfer. We currently own our domain names. For details, please refer to the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this prospectus.

Disney Sport

We entered into the Disney License Agreement whereby we were granted a license to design, create, manufacture or source, and sell a range of footwear, apparel and accessory products in the PRC under the Disney Sport brand, using certain Disney trademarks (i.e., “Disney”, “Disney Sport”, “迪士尼” and “迪士尼运动系列”) and certain Disney standard characters (i.e., Mickey Mouse, Minnie Mouse, Donald Duck, Daisy Duck, Goofy and Pluto). The Disney License Agreement also permits us

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to operate physical retail stores that are free-standing or located within shopping malls using the name “Disney Sport” and “迪士尼运动系列” and to sell Disney Sport products to consumers in those stores. For details of the Disney License Agreement, please refer to the paragraph headed “Brands and Products — Disney Sport” in this section of the prospectus.

Protection of Intellectual Property rights

We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. We recognise the importance of protecting and enforcing intellectual property rights. During the Track Record Period, we encountered incidents of infringement of our designs and we have taken legal action against the infringers. Save as disclosed above, as at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. As at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the infringement of any intellectual property rights of third parties.

PROPERTIES

As at the Latest Practicable Date, we had a total area of 85,188.1 sq.m. of land and a total gross floor area of 140,973.8 sq.m. of buildings, all of which are situated in the PRC.

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that we hold valid land use right certificates with respect to all of our land. Out of the 140,973.8 sq.m. of buildings, according to our PRC legal adviser, we hold valid building ownership certificates with respect to a gross floor area of 125,036.1 sq.m. of our buildings, representing approximately 89% of the total gross floor areas of all of our buildings. We do not currently hold valid building ownership certificates with respect to a gross floor area of 15,937.7 sq.m. of our buildings, out of which:

- 12,288.7 sq.m. of our buildings are used by us as warehouses, representing approximately 21% of the total gross floor area of all of our buildings used by us as warehouses.
- 3,649 sq.m. of our buildings are used as dormitories, representing approximately 9% of the total gross floor area of all of our buildings used as dormitories.

Our Company believes that warehouses and dormitories are not crucial to the operations of our Group. However, in the interests of our Group, our Company has undertaken, and the Controlling Shareholders have undertaken to procure our Company, to use its reasonable endeavours to obtain the relevant building ownership certificate, as soon as practicable.

Given that the costs of all our buildings can be measured reliably and all our buildings are currently used by our Group for the storage and residential purposes, our Group is enjoying the economic benefits generated from these buildings. On this basis, our buildings fulfill the recognition criteria for property, plant and equipment of our Group in accordance with HKAS 16 “Property, Plant and Equipment” and sufficient disclosure in relation to those buildings without building ownership certificates as at 31 December 2007 has been made in Appendix I to this prospectus.

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We may be required to cease occupation and usage of the above buildings in respect of which no valid building ownership certificates have been issued, in which case we will have to relocate the staff members currently residing in the dormitories and the inventory stored at the storage area, as the case may be. If our Group is required to vacate these properties, our Directors estimate that additional costs of approximately RMB1 million may be incurred, including relocation expenses, and it may take up to approximately one month to complete the relocation. Our Directors confirm that suitable properties in appropriate areas could be identified for relocation, if needed, and any such relocation is not expected to have any material adverse effect on the overall financial conditions and operations of our Group. Also, although the building ownership certificates have yet been obtained for these buildings, based on the inspection reports prepared by the construction company after the construction of the relevant buildings was concluded, we believe that the risk of accidents resulting of the lack of the certificates is low as we believe such buildings are structurally sound.

Our Controlling Shareholders have undertaken to indemnify us for all costs and losses suffered by us as a result of the lack of valid title certificates for the above buildings, including relocation costs and expenses.

In addition, we have licensed a parcel of land to 泉州電業局清濛供電公司 (Quanzhou Power Bureau Qing Meng Power Supply Company) to construct and operate a transformer sub-station with a gross area of 310 sq.m. According to a confirmation letter from 泉州電業局清濛供電公司 (Quanzhou Power Bureau Qing Meng Power Supply Company), the transformer sub-station is not our Group's property, therefore, we are not required to apply for any building ownership certificates or other approvals with respect to such transformer sub-station.

As at the Latest Practicable Date, we also lease an office premises in Hong Kong with a total gross floor area of 170.6 sq.m.

Details of the properties are set out in the section headed "Group I — Property interests held and occupied by our Group in the PRC" in Appendix IV to this prospectus.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC), 中華人民共和國水污染防治法 (Law of the PRC on the Prevention and Control of Water Pollution), 中華人民共和國大氣污染防治法 (Law of the PRC on the Prevention and Control of Atmospheric Pollution), 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Pollution From Environmental Noise) and 中華人民共和國固體廢物污染環境防治法 (Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

Under the current PRC national and local environmental protection laws and regulations, any enterprise which discharges wastewater, waste products and polluted air is required to seek approval from the relevant environmental protection authorities as part of the approving process for setting up such enterprise in the PRC. The relevant PRC laws and regulations also require any such enterprise

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to have wastewater, waste products and polluted air treatment facilities that meet the relevant environmental standards and to have the pollutants treated before being discharged. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and fines for the discharge of pollutants which are insufficiently treated. The relevant laws and regulations also empower relevant governmental authorities to close down any enterprise that causes serious pollution.

According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public health hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Companies are also required to carry out an environmental impact assessment before commencing construction of production facilities, to install pollution treatment facilities which meet the relevant environmental standards and to treat pollutants before discharge. During the Track Record Period, Xtep (China), our PRC subsidiary, received an administrative penalty notice on 6 February 2007 from the Quanzhou Environmental Protection Bureau that ordered a certain production facility to cease production immediately and to pay a fine of RMB50,000 because we had not reported the expansion of such production facility before commencing production as a result of negligence. This incident has been fully settled by Xtep (China) paying the said fine and reporting the expansion of such production facility. Quanzhou Environmental Protection Bureau approved the expansion of such production facility, which then commenced production on 18 April 2007. The aforesaid suspension was only related to certain newly added production facilities, rather than our Group's entire existing production facilities at that time. Consequently, at no time during the aforesaid suspension period did we suspend our normal production and as such no financial loss was suffered by our Group. Save as disclosed above, we have fully complied with all relevant environmental laws and regulations during the Track Record Period. We have carried out the relevant environmental impact assessments before commencing construction of our production facilities and have obtained all the required permits and environmental approvals for our production facilities.

We were granted an environmental compliance certificate from the Quanzhou Environmental Protection Bureau for complying with its environmental protection standards. Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that save as disclosed above, during the Track Record Period, (i) we fully complied with the relevant environmental rules and regulations and have obtained all the required permits and environmental approvals for our production facilities, (ii) no environmental pollution incident was discovered, and (iii) no penalty of any kind was imposed on any member of our Group.

As we do not produce material quantities of industrial waste in our production and our Directors do not anticipate that our production would produce any material quantities of industrial waste in the future, other than the expenses that will be incurred for compliance with the current environmental laws and regulations, we have not allocated additional resources to new technology or to conducting research and development to reduce our impact on the environment.

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Our Directors confirm that we comply with the relevant requirements under the PRC laws and regulations for waste water treatment. We do not produce material waste during our production. Currently, neither our customers nor we impose any environmental compliance requirements as conditions for placing orders with us or with our contract manufacturers. See “Production outsourcing” above.

Our Directors believe that our production process does not substantially create polluting materials and that our operation is not subject to any future environmental risk. In order to ensure that we comply with the relevant PRC environmental laws and regulations, we have appointed our legal staff, Mr. Wang Jia Seng, to be the person-in-charge of our environmental protection team comprised of 5 staff and be responsible for environmental compliance matters. He graduated from 仰恩大學 (Yang-En University) with a bachelor degree in law in July 2007. He joined our Group in March 2007 and has been the person-in-charge of our environmental protection team and responsible for the legal matters of our Group. We will ensure compliance with applicable environmental laws and regulations in the future by (i) empowering the environment protection team to oversee and ensure our compliance with environmental protection policies, (ii) providing both regular trainings on annual basis and special trainings upon the promulgation of new environmental laws and regulations to our environmental protection team in respect of the latest PRC environmental laws and regulations, and encouraging our team staff to attend the trainings organised by the local environmental protection authorities, (iii) conducting on-site inspection every week, (iv) providing relevant training to our staff (including but not limited to providing training to our Directors in respect of the compliance with PRC environmental laws and regulations), (v) immediately reporting to our Directors any incident or non-compliance with the relevant PRC environmental laws and regulations, and (vi) immediately reporting to and coordinating with competent authorities in the case any incident or non-compliance arises.

INSURANCE

Our insurance coverage includes employee social insurance and property insurance (which includes loss and theft of, and damage to property such as our fixed assets and inventories in all our warehouses and factories). Our Directors confirm that our insurance coverage is in line with the general practice in the industry and is adequate for our operations. As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. We have made contributions in relation to the retirement of our employees in accordance with applicable laws and regulations in the PRC which requires contribution by both our employees and us at a fixed percentage of the salaries of our employees.

We are not required under PRC law to maintain, and we do not maintain, general product liability insurance for any of our products. During the Track Record Period, we did not receive any material claim from customers and/or consumers relating to any liability arising or relating to the use of our products.

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LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operation results or financial condition.

Save as disclosed in the paragraphs headed “We are exposed to environmental liability. Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in China may cause us to incur additional capital expenditure” and “Our owned properties in the PRC may be subject to legal irregularities” under the section headed “Risk Factors — Risks Relating to Our Group’s Business” and the paragraphs headed “Properties” and “Environmental Matters” under the section headed “Business” in the prospectus, our PRC legal adviser, Jingtian & Gongcheng, has confirmed that we have complied with the relevant laws and regulations in all material aspects, including laws and regulations relating to environmental protection, safety, labour and social security, and have obtained all licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC. As confirmed by our PRC legal adviser, Jingtian & Gongcheng, under PRC laws and regulations, foreign-invested enterprises which sell goods not produced by them will be deemed as conducting foreign investments in commercial fields and are required to obtain approvals from the Ministry of Commerce. As confirmed by Xtep (China) and our PRC legal adviser, Jingtian & Gongcheng, since the two retail outlets operated by us are located in Xtep (China)’s registered address and only sell products produced by our Group, and that Xtep (China) has obtained all licenses, approvals and permits for its operation in the PRC including approvals from the Ministry of Commerce, therefore no separate business licenses or approvals from the Ministry of Commerce are required for the operation of the two retail outlets by us.

EXEMPTED CONTINUING CONNECTED TRANSACTION

Certain member of our Group have entered into a transaction with parties who are Connected Persons of our Company and the transaction will continue after the Listing, thereby constituting an exempted continuing connected transaction of our Company under the Listing Rules. A summary of this exempted continuing connected transaction is set out below:

<u>Type of Transaction</u>	<u>Term</u>	<u>Applicable Listing Rule</u>	<u>Waiver Sought</u>
1. License of trademarks and patents by Mr. Ding and Ms. Ding Ming Fang	from 7 May 2008 until the completion of the transfer of trademarks and patents to our Group	Rule 14A.33(3)	None (De minimis transaction)

BUSINESS

Connected Persons

The relevant Connected Persons, with whom certain member of our Group have entered into the exempted continuing connected transaction, are as follows:

- (a) *Mr. Ding*: Mr. Ding is our executive Director and is therefore a Connected Person under Rule 14A.11 of the Listing Rules.
- (b) *Ms. Ding Ming Fang*: Ms. Ding Ming Fang is an associate of Mr. Ding, who is our executive Director, and is therefore a Connected Person under Rule 14A.11 of the Listing Rules.

Exempted Continuing Connected Transaction

The following connected transaction will constitute an exempted continuing connected transaction for our Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. The transaction is undertaken on an arms-length basis and on normal commercial terms or terms more favourable to our Group and the percentage ratio (other than the profit ratio) of the transaction on an annual basis is less than 0.1% or if more than 0.1% is less than 2.5% and the annual consideration is less than HK\$1.0 million.

1. *License of trademarks and patents by Mr. Ding and Ms. Ding Ming Fang*

As part of the Corporate Reorganisation, Mr. Ding and Ms. Ding Ming Fang agreed to transfer all of their trademarks and patents (whether registered in the PRC or overseas) relating to the sportswear products to our Group. As at the Latest Practicable Date, the transfers of these trademarks and patents were in progress but are not expected to be completed on or before the completion of the Global Offering and as a transitional arrangement, Mr. Ding and Ms. Ding Ming Fang have granted an irrevocable license to us to use such trademarks and patents. Please refer to the paragraph headed "Intellectual Property Rights of our Group" in the section headed "Statutory and General Information" in Appendix VI to this prospectus for details of these trademarks and patents.

On 7 May 2008, Mr. Ding, Ms. Ding Ming Fang and our Company entered into a trademark and patent license agreement pursuant to which Mr. Ding and Ms. Ding Ming Fang agreed to grant an irrevocable license to our Company and its subsidiaries to use all of their trademarks and patents (whether registered in the PRC or overseas) relating to the sportswear products at nil consideration from 7 May 2008 until the date of completion of the transfer of these trademarks and patents to our Group. The license was granted at nil consideration because the costs of registering the relevant trademarks and patents and the promotion of the Xtep and Koling brands had been paid by us.

Our Directors, including the independent non-executive Directors, consider that the above mentioned trademark license agreement is on normal commercial terms and in the interests of our shareholders as a whole.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering, the Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised). Save and except for their respective interests in Group Success, Henley Hope, our Company and its subsidiaries, none of the Controlling Shareholders nor any of their respective associate had interests in any other companies as at the Latest Practicable Date which include any other companies that (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganisation; or (ii) may, directly or indirectly, compete with our Group's business.

NON-COMPETE UNDERTAKING

Each of the Controlling Shareholders has entered into the Deed of Non-compete in favour of our Company, pursuant to which each of the Controlling Shareholders has undertaken to our Company (for itself and for the benefit of its subsidiaries) that it or he or she would not, and would procure that its or his or her associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "**Restricted Business**").

Such non-compete undertaking does not apply to:

- (a) any interests in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the Controlling Shareholders and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholders and their respective associates in aggregate; or
 - (iii) the Controlling Shareholders and/or their respective associates do not have the control over the board of such company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The “restricted period” stated in the Deed of Non-compete refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; and (ii) in relation to each Controlling Shareholders, it or he or she or its or his or her associate holds an equity interest in our Company and (iii) the relevant Controlling Shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

DIRECTORS

Each of the Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their service agreements, executive Directors shall not at any time during his or her term of service with our Group without the prior written consent of the Board be or become a director of any company (other than our Company or any other member of our Group) or be engaged concerned or interested directly or indirectly in any other business, trade or occupation.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by the Controlling Shareholders under the Deed of Non-compete;
- (ii) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-compete;
- (iii) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-compete in the annual reports of our Company; and
- (iv) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-compete in the annual report of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters set described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering:

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Two directorships of our executive Directors are held by Mr. Ding and Ms. Ding Mei Qing, our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company.

Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

As part of the Corporate Reorganisation, Mr. Ding and Ms. Ding Ming Fang transferred all trademarks and patents registered in their respective names or for which they were applying for registration relating to our business to us at nil consideration. Because the administrative procedures for the transfer of all trademarks related to our business from Mr. Ding and Ms. Ding Ming Fang to us were not expected to be completed prior to the Listing, Mr. Ding and Ms. Ding Ming Fang granted us an irrevocable license to use all trademarks and patents registered in their respective names at nil consideration pending completion of the administrative procedures for the transfers. Please refer to the paragraph headed “Exempted Continuing Connected Transaction” under the section headed “Business” of this prospectus for details of the license. Since the license is irrevocable and is only an interim measure pending completion of the relevant transfers to us, our Directors consider that our operations do not rely on Mr. Ding or Ms. Ding Ming Fang for the rights to use such trademarks and patents.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. Our Directors confirm that as at the Latest Practicable Date, guarantees provided by our Controlling Shareholders to our Group have been released in full. Our Group confirmed that the amount due to a director as stated in Note 26 of the accountants’ report set out in Appendix I to this prospectus will be fully repaid to the director before the Listing. Therefore, there is no financial dependence on our Controlling Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 37, is the founder of our Group. He is also the Chairman and chief executive officer of our Company. Mr. Ding has over 20 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of our Group. Prior to his establishment of Sanxing Sports in 1999, Mr. Ding was an entrepreneur in the sportswear industry in the PRC. He has been the chairman of the Board of Directors of Sanxing Sports since it was established in 1999. From 1999 to 2007, he was appointed as the chairman of the Board of Directors of Xtep Jinjiang, Koling (Fujian) and Xtep (China), respectively. He was also appointed as presidents of Xtep (China) and Koling (Fujian) since their establishments in 2002 and 2007, respectively and was responsible for the overall corporate strategies, planning and business development of the two companies. Mr. Ding is currently a member of 中國人民政治協商會議福建省泉州市第十屆委員會委員 (The 10th Quanzhou City Fujian Provincial Committee of the Chinese People's Political Consultative Conference) and 泉州市鞋業商會第三屆理事會會長 (the chairman of the 3rd Executive Committee Quanzhou Footwear Chamber). He was named as the title of one of 泉州市優秀青年企業家 (The Outstanding Young Entrepreneurs in Quanzhou).

Since Mr. Ding founded our Group in 1999, he has adopted and implemented a number of strategic plans to expand and promote the business of our Group. We believe we have achieved our leading market position due to in part his high-level strategic planning and management. Mr. Ding participated in entrepreneurship programmes offered by 北京大學 (Peking University) and 清華大學 (Tsinghua University) in 2004 and 2006, respectively. These programmes were two-week training programmes jointly organised by our Company and 北京大學 (Peking University) and 清華大學 (Tsinghua University), respectively. The programmes provided trainings in areas such as managerial and marketing skills. He is currently enrolled in an EMBA programme offered by 廈門大學 (Xiamen University). Mr. Ding is the son of Mr. Ding Jin Chao (one of our Controlling Shareholders with no management role in our Group), the husband of Ms. Ding Ming Fang (a vice president and head of accounting and financial department of Xtep (China)), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and a brother-in-law of Mr. Lin Zhang Li. Ms. Ding Ming Fang resigned as the director of Xtep (China) on 15 August 2007 to focus on the financial management aspects of Xtep (China).

Ms. Ding Mei Qing (丁美清), aged 35, is our executive Director and a vice president of our Company. Ms. Ding has over 10 years of experience in the sportswear industry and is primarily responsible for the management of footwear operation of our Group. She is also responsible for the design and technology development of our Group and has led our design team to create a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. She joined our Group as a deputy general manager of Sanxing Sports on 3 February 1999 when our Group was founded. She was appointed as a Director and a vice president of Xtep (China) in 2002. Prior to joining our Group, she was an entrepreneur in the sportswear industry in the PRC. Ms. Ding participated in an entrepreneurship programme offered by 清華大學 (Tsinghua University) in 2006. Ms. Ding is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding and Mr. Ding Ming Zhong, the wife of Mr. Lin Zhang Li and a sister-in-law of Ms. Ding Ming Fang.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Lin Zhang Li (林章利), aged 36, is our executive Director and a vice president of our Company. Mr. Lin has over 10 years of experience in the sportswear industry and is primarily responsible for the management of apparel business of our Group. He joined our Group as a director and a vice president of Sanxing Sports on 3 February 1999 when our Group was founded. He was appointed as a vice president of Xtep (China) in 2002. He resigned as the directors of Koling (Fujian) and Sanxing Sports on 30 November 2007 to focus on the operation of apparel business of our Group. Prior to joining our Group, he was an entrepreneur in the sportswear retail industry in the PRC. Mr. Lin participated in an entrepreneurship programme offered by 清華大學 (Tsinghua University) in 2006. Mr. Lin is the husband of Ms. Ding Mei Qing, a son-in-law of Mr. Ding Jin Chao, and a brother-in-law of Mr. Ding Shui Po, Ms. Ding Ming Fang and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 31, is our executive Director and a vice president of our Company. Mr. Ding Ming Zhong has over 10 years of experience in the sportswear industry and is primarily responsible for the management of accessories business of our Group. He joined our Group as a deputy general manager of Sanxing Sports on 3 February 1999 when our Group was founded. He was appointed as a Director and a vice president of Xtep (China) in 2002. He resigned as the director of Xtep (China) on 30 November 2007 to focus on the operation of accessories business of our Group. Prior to joining our Group, he worked as an entrepreneur in the sportswear industry in the PRC. Mr. Ding Ming Zhong participated in entrepreneurship programmes offered by 北京大學 (Peking University) and 清華大學 (Tsinghua University) in 2004 and 2006, respectively. Mr. Ding Ming Zhong is a son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing, and a brother-in-law of Ms. Ding Ming Fang and Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊), aged 50, is our executive Director and a vice president of Xtep (China). Mr. Ye has over 16 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of our Group. He also assist our chairman with the overall corporate strategies planning and business development of our Group. He joined our Group as a vice president of Xtep (China) on 12 July 2004. Prior to joining our Group, he worked for a number of leading domestic sportswear companies. Mr. Ye graduated from 西南大學 (South West University) with a bachelor's degree in chemical science in January 1982. He obtained a master's degree in philosophical science from 華東師範大學 (East China Normal University) in July 1988 and a master's degree in business administration from 中歐國際工商學院 (China Europe International Business School) in 2003.

Non-executive Directors

Mr. Xiao Feng (肖楓), aged 35, was appointed as a non-executive Director of our Company on 24 January 2008. He joined our Company in September 2007. Mr. Xiao is a director of Carlyle focused on growth capital investments in China. Prior to joining Carlyle, Mr. Xiao was a Vice President at China International Capital Corporation, a leading investment bank in China, where he had been deeply involved in the restructuring and listing of a number of leading Chinese companies. Mr. Xiao received his MBA from 中歐國際工商學院 (China Europe International Business School). He holds a B.E. in computer science and a B.A. in English from 清華大學 (Tsinghua University). He also holds a Lawyer's Qualification Certificate in China since June 1997.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Independent non-executive Directors

Mr. Sin Ka Man (冼家敏), aged 40, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 16 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. Mr. Sin is currently a vice-president who is responsible for the accounting and financial management of China Agri-Products Exchange Limited, a company listed on the Main Board of the Stock Exchange. Mr. Sin holds a bachelor degree in Social Sciences from the University of Hong Kong, a master degree in Finance from the University of Strathclyde, the United Kingdom and a master degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is an independent non-executive director of LeRoi Holdings Limited, Chinese People Holdings Company Limited (both companies are listed on the main board of the Stock Exchange) and Sino Haijing Holdings Limited (a company listed on the Growth Enterprise Market (“**GEM Board**”) of the Stock Exchange). Mr. Sin was previously an independent non-executive director of Shine Software (Holdings) Limited (a company listed on the GEM Board).

Mr. Sin was a director of Smart-player.com Limited, a private company incorporated in Hong Kong providing internet services until his resignation on 31 August 2002. Mr. Sin played a role of financial controller of Smart-player.com Limited in charge of day-to-day accounting without substantive decision-making. On 2 April 2003, a winding-up petition was filed against Smart-player.com Limited and Smart-player.com Limited was resolved to wind up on 28 May 2003 under the High Court Winding Up Order #380 (2003). To the best knowledge of Mr. Sin and based on the public record available with regard to the winding-up petition of Smart-player.com Limited, it was a compulsory winding-up petition filed by the creditor of Smart-player.com Limited for its failure to settle the indebtedness owed by Smart-player.com Limited to its creditor. Mr. Sin confirmed that he was not involved in or related to the winding-up petition of Smart-player.com Limited. No evidence has been brought to the attention of our Directors that the integrity and competence of Mr. Sin as the director of our Company has ever been questioned. Our Directors believe that Mr. Sin is appropriate to serve as an independent non-executive Director of our Company under Rules 3.08 and 3.09 of the Listing Rules and our Company will benefit from his professional and directorship experience for a number of both public and private companies.

Mr. Xu Peng Xiang (許鵬翔), aged 60, was appointed as our independent non-executive Director on 24 January 2008. He joined our Company in January 2008. Mr. Xu is an economist and has over 10 years of industry experience in footwear and apparel industries. He has been the Standing Vice Chairman of 泉州市總商會 (Quanzhou General Chambers of Commerce) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of 泉州市經濟委員會 (Enterprise Department at the Quanzhou Economy Committee) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in Quanzhou Economy Committee. Mr. Xu graduated from Fuzhou University.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Dr. Gao Xian Feng (高賢峰), aged 45, was appointed as our independent non-executive Director on 24 January 2008. He joined our Company in January 2008. Dr. Gao is currently the executive officer of 北京大學人本管理研究中心 (Human Resources Management Research Centre at the Peking University), specialising in economics, enterprise management, human resources management, leadership and politics. He also serves as a part-time researcher of 北京大學政治發展與政府管理研究所 (Political Development and Government Management Research Centre of Peking University), a Deputy Head of 北京大學政治發展與政府管理研究所諮詢與培訓中心 (Consulting and Training Centre of Political Development and Governmental Management Institute of Peking University) and a visiting professor of entrepreneurship programmes at 北京大學 (Peking University), 清華大學 (Tsinghua University), 中央黨校 (Party School of the Central Committee of Communist Party of China) and 復旦大學 (Fudan University). Dr. Gao previously serves as an associate professor, a lecturer and a teaching assistant at 山東經濟學院 (Shandong Economic University). Dr. Gao holds a doctor of law degree from the 北京大學 (Peking University).

SENIOR MANAGEMENT

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 42, is the chief financial officer, investor relations officer and authorised representative of our Company. He is also the company secretary and qualified accountant of our Company. He has over 18 years of experience in finance and accounting and is primarily responsible for our overall financial and accounting affairs and investor relations. Mr. Ho graduated from University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. He joined our Group on 1 September 2007. Prior to joining our Group, he was a chief financial officer, company secretary and authorised representative of GST Holdings Limited from April 2005 to August 2007 and was a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to March 2005, both of which are companies listed on the Main Board of the Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. Mr. Ho was an associate member of both the institute of Chartered Accountants in England and Wales and the HKICPA.

Mr. Wang Jia Ye (王家業), aged 32, is a vice president of Xtep (China). He has over 10 years of experience in the apparel industry and is primarily responsible for design, research and development and manufacturing of apparel products in our Group. He joined our Group as a general director of apparel business centre in 2004 and was promoted to be a vice president of Xtep (China) in January 2008. Prior to joining our Group, Mr. Wang worked for a domestic apparel company 廣州麥特體育用品有限公司 (Guangzhou Menten Sports Co., Ltd.). He graduated from 天津工業大學 (Tianjin Polytechnic University), previously known as 天津紡織工學院 (Tianjin Textile Industry College) with a bachelor's degree in apparel in 1996.

Mr. Chen Jian Jun (陳建軍), aged 44, is the financial controller of Xtep (China). He has over 24 years of experience in financial, operations, business management and enterprise listing and is primarily responsible for the financial management and capital planning of Xtep (China). He joined our Group on 1 January 2008. Prior to joining our Group, he was the financial controller of Centron

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Telecom International Holding Limited from 2003 to 2007, a company listed on the Main Board of the Stock Exchange. He has completed the courses of master of business administration conducted by Hong Kong International Business College from February 2006 to July 2007. He holds a China Certified Public Accountant certificate.

Mr. Wu Lian Yin (吳聯銀), aged 33, is a vice president of Xtep (China). He has over eight years of experience in providing consulting services to enterprises of information technology management and is primarily responsible for building up and managing our overall enterprise information resources. He joined our Group as a vice president of Xtep (China) on 7 May 2007. Prior to joining our Group, he worked for a consulting group as a senior manager from 2003 to 2007 with participation in several projects to provide consulting and training services to a number of PRC companies involving information technology management. He worked for 上海全富漢得軟件技術有限公司 (HAND Enterprise Solutions Company Ltd.) as an Oracle CRM senior consultant from 2001 to 2003. Mr. Wu won 傑出管理諮詢獎 (an Outstanding Management Consulting Award) in 2007. Mr. Wu graduated from 西安交通大學 (Xi'an Jiaotong University) with a bachelor's degree in engineering in 1996 and a doctor's degree in engineering in 2001.

Mr. Liu Qing Xian (劉慶先), aged 40, is a vice president of our Xtep (China). Mr. Liu has over 17 years of experience in human resources management and is primarily responsible for the overall human resources management of our Group. He joined our Group as a vice president of Xtep (China) on 23 March 2005. Prior to joining our Group, he worked for an arts and crafts company as a general manager. Mr. Liu is currently a director of 福建省青年企業家協會 (the Young Entrepreneurs Association of Fujian Province), a standing director of 泉州市青年政治家協會 (the Young Politician Association of Quanzhou City) and 泉州市青年商會 (the Youth Chamber of Commerce of Quanzhou City), respectively. Mr. Liu graduated from 首都對外經濟貿易大學 (Capital University of Economics and Business) with a bachelor's degree in international trade. He also obtained a master's degree in human resources management from 北京大學 (Peking University) in January 2006. He participated in an entrepreneurship programme offered by 清華大學 (Tsinghua University) in 2006.

Mr. Huang Hai Qing (黃海清), aged 49, is a vice president of Xtep (China). He has over 18 years of experience in administrative management and is primarily responsible for our overall administrative management. He joined our Group as a vice president of Sanxing Sports on 3 February 1999 when our Group was founded. Prior to joining our Group, he was a teacher of a middle school. He was appointed as a vice president of Xtep (China) in 2002.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 42, is the company secretary and qualified accountant as well as the chief financial officer, investor relations officer and authorised representative of our Company. His biographical details are set out above under the paragraph headed "Senior Management".

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business operations and production facilities of our Group are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, Mr. Ho Yui Pok, Eleutherius, the company secretary and qualified accountant of our Company, is ordinarily resident in Hong Kong but none of the executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. Our Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12. For details of the waiver, please see the paragraph headed “Management Presence” under the section headed “Waiver from compliance with the Listing Rules” in this prospectus.

OUR GROUP’S RELATIONSHIP WITH EMPLOYEES

We recognise the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We continue to provide training to our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

Our Group offers our staff competitive remuneration packages. Our Group’s remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to our Group’s profitability, our Group may also provide a discretionary bonus to our employees as an incentive for their contribution to our Group. The primary goal of the remuneration policy with regard to the remuneration packages of our Group’s executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Group’s executive Directors remuneration packages include basic salaries, discretionary bonuses and housing benefits.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, Directors (excluding discretionary bonus and share-based payment compensation granted under the Pre-IPO Share Option Scheme) for the year ended 31 December 2008 will be approximately RMB3,480,000.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on 7 May 2008 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. At present, the audit committee of our Company consists of three members who are Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Sin Ka Man is the chairman of the audit committee.

Remuneration Committee

Our Company established a remuneration committee on 7 May 2008 with written terms of reference. The primary duties of the remuneration committee to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Xu Peng Xiang, Dr. Gao Xian Feng and Ms. Ding Mei Qing. Mr. Xu Peng Xiang is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on 7 May 2008. The nomination committee consists of three members, comprising Mr. Ding, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. The chairman of the nomination committee is Mr. Ding. The primary functions of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

COMPLIANCE ADVISER

Our Company will appoint Shenyin Wanguo Capital (H.K.) Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorised share capital:	HK\$
99,989,205,618 Shares ⁽²⁾	999,892,056.2
10,794,382 Series A Preferred Shares ⁽²⁾	<u>107,943.8</u>
	<u><u>1,000,000,000.0</u></u>

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:	HK\$	Approximate percentage of issued share capital (%)
112,359,550 Shares in issue as at the date of this prospectus ⁽³⁾	1,123,595.5	5.1
1,537,640,450 Shares to be issued under the Capitalisation Issue	15,376,404.5	69.9
<u>550,000,000</u> Shares to be issued under the Global Offering	<u>5,500,000.0</u>	<u>25.0</u>
<u>2,200,000,000</u> Share in total	<u>22,000,000.0</u>	<u>100.0</u>

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:	HK\$	Approximate percentage of issued share capital (%)
112,359,550 Shares in issue as at the date of this prospectus ⁽³⁾	1,123,595.5	4.9
1,537,640,450 Shares to be issued under the Capitalisation Issue	15,376,404.5	67.4
<u>632,500,000</u> Shares to be issued under the Global Offering and the Over-allotment Option	<u>6,325,000.0</u>	<u>27.7</u>
<u>2,282,500,000</u> Shares in total	<u>22,825,000.0</u>	<u>100.0</u>

Notes:

(1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

SHARE CAPITAL

- (2) Conditional on the fulfilment of certain conditions as mentioned in the section headed “Changes in share capital of our Company” in Appendix VI to this prospectus, the 10,380,417 and 413,965 Series A Preferred Shares respectively beneficially owned by the CAGP L.P. and CAGP III, L.P. as at the date of this prospectus will be converted, re-designated and re-classified as 10,380,417 and 413,965 Shares prior to the Listing. The shares resulted from such conversion shall rank pari passu in all respects with the shares then in issue so that immediately following such conversion, there will only be one class of shares in the issued and unissued share capital of our Company and our Company will have an authorised share capital of HK\$1,000,000,000 divided into 100,000,000,000 shares of HK\$0.01 each. The authorised and issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will consist of ordinary shares with a nominal value of HK\$0.01 each.
- (3) Assuming the conversion of the 10,380,417 and 413,965 Series A Preferred Shares into Shares has taken place.

Ranking

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus, save for the entitlement under the Capitalisation Issue.

The Pre-IPO Share Option Scheme and the Share Option Scheme

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. Under the Pre-IPO Share Option Scheme, certain persons were conditionally granted options immediately prior to the Listing Date to subscribe to Shares. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised in the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” respectively in Appendix VI to this prospectus.

General mandate to issue Shares

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company's shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed "Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008" in Appendix VI to this prospectus.

General mandate to repurchase Shares

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase of our own shares" in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company's shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed "Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity / Nature of interest	Number of Shares	Approximate percentage of shareholding
Group Success	Beneficial owner	1,418,059,500	64.5
Mr. Ding ⁽¹⁾	Interest in a controlled corporation	1,418,059,500	64.5
Ms. Ding Mei Qing ⁽²⁾ . . .	Interest in a controlled corporation	1,418,059,500	64.5

Note:

- (1) Mr. Ding is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Mr. Ding. Ms. Ding Ming Fang, the wife of Mr. Ding, is deemed to be interested in her husband's interests in Group Success.
- (2) Ms. Ding Mei Qing is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing. Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and the executive Director, is deemed to be interested in his wife's interests in Group Success.

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Group's financial condition and results of operations together with the consolidated financial information of our Group as at and for the years ended 31 December 2005, 2006 and 2007 and the balance sheet of our Company as at 31 December 2007 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are the leading domestic fashion sportswear enterprise in the PRC, and our Xtep brand is the largest domestic fashion sportswear brand in terms of revenue for 2007, according to Euromonitor International. We are primarily engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed to us in the PRC pursuant to the Disney License Agreement entered into on 1 November 2006, as amended on 1 January 2007.

Our business began in 1999 as an OEM enterprise which manufactured sports footwear products for various international brands. As we believe that branded sportswear products offer greater business potential and higher profit margins than OEM products, we began to rebuild our business model to develop our own brands starting with our Xtep brand in 2002. In 2007, we launched the Disney Sport products and our Koling brand.

We distribute our branded products through an extensive nationwide distribution network covering all 31 provinces, autonomous regions and municipalities in the PRC. We use a combination of our own production facilities, sub-contractors and contract manufacturers to produce our products, and generally sell our branded products on a wholesale basis to our network of distributors.

We grew rapidly during the Track Record Period. Our revenue increased from RMB297.4 million for the year ended 31 December 2005 to RMB483.6 million for the year ended 31 December 2006, and to RMB1,364.9 million for the year ended 31 December 2007, representing a CAGR of approximately 114.2%. The significant growth of our revenue over the Track Record Period reflects our strategic decision to focus on the sales of our branded products, which grew from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,259.1 million in 2007, representing 23.6%, 40.9% and 92.2% of our total revenue in 2005, 2006 and 2007, respectively. Our net profit also grew significantly from RMB8.2 million in 2005 to RMB50.1 million in 2006, and to RMB221.9 million in 2007. Our revenue and net profit grew substantially during the Track Record Period, primarily as a result of our focus on the sales of our branded products, our successful brand promotion, the rapid expansion of our nationwide distribution network and expansion of our range of product offerings.

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BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Corporate Reorganisation as more fully described in the section headed “History and Corporate Structure” in this prospectus and in Appendix VI “Statutory and General Information” to this prospectus, our Company became the holding company of the subsidiaries now comprising our Group on 19 September 2007.

The Corporate Reorganisation involved business combinations of entities under common control and our Group is regarded and accounted for as a continuing group. The financial information of our Group (which includes the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of our Group for the years ended 31 December 2005, 2006 and 2007, the consolidated balance sheets of our Group as at 31 December 2005, 2006 and 2007 and the balance sheet of our Company as at 31 December 2007) has been prepared on a combined basis by applying the principles of merger accounting.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of our Group include the results of operations and cash flows of the subsidiaries now comprising our Group and have been prepared as if the current group structure had been in existence as at the beginning of the Track Record Period, or since the respective dates of their incorporation or establishment, where this is a shorter period. The consolidated balance sheets of our Group as at 31 December 2005, 2006 and 2007 have been prepared to present the assets and liabilities of our Group as at the respective dates as if the current group structure had been in existence at those dates.

All significant intra-group transactions and balances have been eliminated on consolidation.

FACTORS AFFECTING THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OUR GROUP

Our Group’s financial condition and results of operations have been and will continue to be affected by a number of factors, including those factors discussed below, some of which are beyond our control.

General economic conditions in the PRC and the growth in disposable income of residents of the PRC

We believe that our financial condition and results of operations are and will continue to be affected by the general economic conditions in the PRC and the growth in disposable income of residents of the PRC. We also believe that the increase in the purchasing power of PRC residents will drive sentiment towards the purchase of branded sportswear products, which will positively affect our results of operations. According to statistics published by the PRC General Administration of Sport, there is a general correlation between increasing income levels and the rising popularity of sports. In addition to the major metropolitan cities in the PRC such as Beijing, Shanghai and Guangzhou, we believe that a key to the growth of our business is to further enhance our distribution network in the fast-growing medium to large size cities and municipalities throughout the PRC, including, among others, Changsha, Xiamen, Wuxi and Shenyang.

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Level of consumer demand for sportswear and changes in consumption patterns in the PRC

Consumer demand for sportswear in the PRC is one of the key drivers of our revenue. The success of our business also depends in large part on consumption patterns in the PRC. Our growth depends on the existence and the continuation of consumer spending preferences in the PRC for lifestyle enhancing products, such as entertainment, leisure and fashionable apparel and footwear. Based on data from Euromonitor International, China's sportswear market has experienced double-digit growth in recent years with a total size of approximately RMB32.8 billion in 2006. According to Euromonitor International, China's sportswear market is expected to quadruple in size between 2006 and 2012 to RMB131.2 billion, representing a CAGR of 26.0%. We also expect there will be a growth in interest in sports among the PRC consumers as a result of, amongst others, the Beijing 2008 Olympic Games, the 2009 East Asian Games in Hong Kong and the 16th Asian Games in Guangzhou in 2010. Changes in the consumption patterns in the PRC may affect our financial condition and results of operations.

Our ability to design and produce high quality, innovative and trendy products that meet consumers' expectations

We believe that the sportswear industry is highly competitive in the PRC and will continue to be so for the foreseeable future. Many of our competitors have greater financial resources, brand recognition and operational experience than we do. We must continue to meet these competitive challenges by working with our product design and research and development teams to design and produce high quality, innovative and trendy products that meet consumers' expectations in a cost efficient manner.

Our ability to continuously enhance our brand name

Our financial condition and results of operations will also be affected by our ability to continue to implement our multi-brand strategy by enhancing our brand name across all of our branded products and develop, market and sell new products. In particular, we believe that our success will depend on our ability to differentiate ourselves from our competitors through the implementation of our innovative marketing and distribution strategy and introduction of trendy products tailored for distinct age and socio-economic segments of our customer base. We believe that we must continue to enhance our brand name and grow sales of our Xtep branded products to consumers across the PRC, as well as increase market awareness and acceptance of the recently introduced Disney Sport and Koling branded products.

Our ability to expand and optimise our distribution network

Substantially all of our sales of our branded products are made to our network of distributors. Our financial condition and results of operations will also be affected by our ability to work closely with our distributors to increase and improve our marketing programmes, our ability to expand and optimise our network of distributors, and also the ability of our distributors and third-party retailers to further enhance the network of retail outlets operated by them.

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Our product mix

We offer a wide range of branded products for both men and women, including footwear, apparel and accessory products. We continuously monitor our product mix and develop new products that we believe will generate higher customer demand to increase our revenue. During the Track Record Period, we underwent a shift in the mix of revenue generated from our different product categories and increased the proportion of our revenue derived from sales of apparel products from 3.7% of our branded products revenue for the year ended 31 December 2005 to 39.5% of our branded products revenue for the year ended 31 December 2007. We will continue to adjust our product mix and enhance our product positioning in an effort to increase our revenue and gross profit. As we adjust our product mix, our gross profit will be affected both by any change in revenue attributable to, and any change in the gross profit margin of, each product category.

Cost of raw materials for our footwear and apparel products

The principal raw materials used in the production of our footwear products are fabrics, soles, rubber, plastics and nano-silver anti-bacterial chemicals while the principal raw materials used in the production of our apparel products are fabrics. For the three years ended 31 December 2005, 2006 and 2007, the cost of our raw materials accounted for approximately 82.2%, 79.4% and 54.7%, respectively, of our cost of sales. The cost of our raw materials excludes those procured by our contract manufacturers to whom we outsourced the production of most of our apparel and all of our accessories in 2007. It is important for us to obtain from our suppliers sufficient quantities of good quality materials in a timely manner and at competitive prices for our internal production. The cost of some of our key raw materials is affected by several factors such as fluctuations in commodity prices, purchase volume and availability of substitute materials. We do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our principal raw materials and our ability to pass on any increase in raw material costs to our customers will affect our cost of sales and our gross profit margins. For further details, please refer to “Fluctuations in the price, availability and quality of raw materials could cause production delays and increase production costs” in the section headed “Risk Factors — Risks Relating to Our Group’s Business” of this prospectus.

Our ability to maintain strong production capability and our flexibility to make effective use of contract manufacturers

We produce the majority of our footwear products and some of our apparel products at our own production facilities located in Quanzhou, Fujian province, China. As at the Latest Practicable Date, we operated 12 footwear production lines with capacity of approximately 11.5 million pairs of footwear per annum and 12 apparel production lines with capacity of approximately one million pieces of apparel per annum. We plan to increase our apparel production capacity to approximately 10 million pieces of apparel per annum by establishing a new apparel production facility and increasing our apparel production lines from 12 to approximately 120. We may also outsource to contract manufacturers the production of certain of our products to support our periodic need for additional capacity. Our financial condition and results of operations will be affected by our ability to maintain strong production capability and our flexibility in making effective use of contract manufacturers.

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Seasonality

Our results of operations are subject to seasonality. Our branded products typically achieve higher sales when we sell summer and autumn seasonal products to our distributors. We generally sell and distribute our summer and autumn seasonal products from April to August, and our winter and spring seasonal products from September to March of the following year. Unexpected and abnormal changes in climate may also affect the sales of our products that are timed for release during a particular season. For example, a warm winter may affect the sales of our down jackets and other winter products, while a cool summer may affect the sales of T-shirts and other summer products. As a result, we believe that comparisons of our operating results and net income over any interim periods may not be meaningful and such comparisons may not be an accurate indicator of our future performance.

Level of income tax and preferential tax treatment

Our profit attributable to equity holders is affected by the level of income tax that we pay and the preferential tax treatment that we are entitled to. On 16 March 2007, the National People's Congress of the PRC promulgated 中華人民共和國企業所得稅法 (the Enterprise Income Tax Law of the PRC) (“**New Tax Law**”), which came into effect on 1 January 2008. The implementation of the New Tax Law has an effect on the level of income tax that we pay and the preferential tax treatment that we are entitled to.

According to the then income tax law of the PRC for foreign-invested enterprises and foreign enterprises and as approved by relevant PRC tax authorities, Xtep (China), a foreign-invested enterprise, was exempted from the enterprise income tax for its first two profitable years, commencing from 1 January 2005, and thereafter is entitled to a 50% reduction in the enterprise income tax for the subsequent three years. Under the New Tax Law, we expect that Xtep (China) will continue to be entitled to a 50% reduction of the phased-in enterprise income tax rate of 25% for the two years from 2008 to 2009, and will thereafter be subject to a 25% tax rate from 2010 onwards. Koling (Fujian), being a foreign-invested enterprise engaged in the manufacturing business and incorporated before the New Tax Law's promulgation, is entitled to an enterprise income tax exemption for its first two profitable years and a 50% tax reduction for the following three consecutive years under the New Tax Law. Under the New Tax Law, Koling (Fujian) can enjoy such tax exemption for the two years from 2008 to 2009 and a 50% reduction of the phased-in enterprise income tax rate of 25% for the three years from 2010 to 2012. We expect that other considerations aside our Group's tax payment will increase upon the expiry of the respective preferential tax treatment enjoyed by Xtep (China) and Koling (Fujian).

Under the New Tax Law, if an enterprise incorporated outside the PRC has its “effective management” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. We cannot rule out the possibility that members of our Group which are not incorporated in the PRC may in the future be recognised as PRC tax resident enterprises according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the short history of the New Tax Law, it remains unclear as to the detailed qualification requirements for

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such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents. Our financial performance will be adversely affected if such dividends are subject to enterprise income tax. For additional information, please refer to “Risks Relating to Conducting Business in the PRC — Any change in our tax treatment, including an unfavourable change in preferential corporate tax rates in the PRC, may have a negative impact on our operating results” in the section headed “Risk Factors” of this prospectus.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial information included in the Accountants’ Report in Appendix I to this prospectus have been prepared in accordance with HKFRS and accounting principles generally accepted in Hong Kong. All HKFRS effective for the accounting periods commenced from 1 January 2005, 2006 and 2007, together with the relevant transitional provision, have been adopted by our Group in the preparation of the financial information throughout the Track Record Period. The preparation of our financial information in accordance with HKFRS requires management to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, contingent liabilities, and revenue and expenses during the Track Record Period. The following sections discuss the principal accounting policies applied in preparing our financial information that our management believes are critical not only because they are important to the portrayal of our Group’s financial condition and results of operations, but also because the application and interpretation of these policies require both judgements and estimates of matters that are inherently uncertain and unknown. As a result, actual results may differ materially from our estimates. The following sets forth certain critical accounting policies that our management considers to be critical in the portrayal of our financial condition and results of operations.

Revenue recognition

We recognise revenue when it is probable that the economic benefits will flow to our Group and when the revenue can be reliably measured, on the following basis, depending on the source of such revenue: (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with the ownership, nor effective control over the goods sold, (b) interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset and (c) rental income, on a time proportion basis over the relevant lease term. With respect to the sale of goods, we generally recognise revenue when a sale is made and the above condition in (a) is met, which generally occurs when the product is sold and delivered to our exclusive distributors.

We recognise returns as a reduction in our revenue when such returns can be reliably estimated based on our previous experience and other relevant factors. We have not had any returns in the past and we, therefore, do not have a historical basis to make an estimate for such returns and have not historically reduced our revenue to account for such returns. Management will reassess as appropriate, whether or not such amounts need to be accounted for in future periods.

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Inventory

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal. We do not have a general inventory provision policy based on our current business model. We generally procure raw materials and commence production after having confirmed purchase orders with our distributors following our seasonal sales fairs. Our distributors are not allowed to cancel any confirmed purchase orders, and we did not receive any cancelled purchase orders during the Track Record Period. To further minimise the risk of building up aged inventories, we have a policy to regularly review the obsolescence of inventories based on the expected future saleability and the age of the inventories. We also conduct physical stock counts from time to time to identify obsolete or damaged goods. If the market conditions are less favourable than those projected by the management and our inventories remain unsold longer than we anticipated, specific provision will be made on an item-by-item basis and we record a provision against certain inventories if the estimate of the net realisable value is below the corresponding costs of such inventories. During the Track Record Period, we did not make any specific provisions for inventories, since all of the ending inventories as at 31 December 2005, 2006 and 2007 were subsequently consumed or sold above costs.

Useful lives and impairment of assets.

Property, Plant and Equipment. Property, plant and equipment (other than construction in progress) are recorded at cost less accumulated depreciation and are depreciated over the estimated useful lives of the related assets using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately, where practicable. Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate at each balance sheet date. Depreciation is recognised as starting when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Buildings are depreciated over the shorter of the relevant lease term and a 20-year period and manufacturing equipment, such as plant and machinery, is depreciated over a five- to ten-year period. Furniture, fixtures, motor vehicles and office equipment, consisting of computers, office equipment, machinery and software are depreciated over a five-year period. Leasehold improvement is also depreciated over the shorter of the relevant lease term and a five-year period. Construction in progress represents costs incurred for the design and construction of the production facility. Our Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and such estimates are based on historical experience of the actual useful lives of such property, plant and equipment, and where no historical experience is available, based on such property, plant and equipment used for similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously stated amounts based on the estimated life of such property, plant and equipment or will take write-offs or declare as obsolete or

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non-strategic assets that have been abandoned or sold. Impairment reviews are conducted as events or changes in circumstances indicating that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations, which require the use of judgement and estimates.

Financial assets. Financial assets in the scope of HKAS 39 “Financial Instruments: Recognition and Measurements” are classified as loans and receivables. When such financial assets are recognised initially, they are measured at fair value. Our Group considers whether a contract contains an embedded derivative when our Group first becomes a party to such contracts. The embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. Our Group determines the classification of our financial assets after initial recognition and where allowed and appropriate, as well as re-evaluates this designation at each balance sheet date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Our Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivable carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced either directly or through the recognition of an allowance account. The amount of impairment loss is recognised in the consolidated income statements of our Group. In relation to trade receivables, an impairment allowance is made when there is objective evidence, such as the probability of insolvency or significant difficulties of the debtor, that our Group will not be able to collect all of the amounts due under the original term of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account, and impaired debts are derecognised when they are assessed as uncollectible. The identification of impairment allowances of financial instruments and trade and other receivables requires management judgement and estimates.

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RESULTS OF OPERATIONS

Selected Consolidated Income Statements

The selected consolidated income statements presented below for the years indicated are derived from the accountants' report set out in Appendix I to this prospectus.

	For the year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Revenue	297,445	483,562	1,364,947
Cost of sales	<u>(237,731)</u>	<u>(347,474)</u>	<u>(921,804)</u>
Gross profit	59,714	136,088	443,143
Other income and gains	437	963	4,417
Selling and distribution costs	(29,251)	(56,153)	(119,414)
General and administrative expenses	(13,170)	(17,651)	(42,151)
Other operating expenses	(3,372)	(6,227)	(16,627)
Finance costs	<u>(5,270)</u>	<u>(6,948)</u>	<u>(14,179)</u>
Profit before tax	9,088	50,072	255,189
Tax	<u>(877)</u>	<u>(3)</u>	<u>(33,311)</u>
Profit for the year	<u>8,211</u>	<u>50,069</u>	<u>221,878</u>
Dividend	<u>—</u>	<u>—</u>	<u>129,455</u>
Earnings per Share attributable to equity holders of our Company			
— Basic (RMB cents)	<u>0.56</u>	<u>3.41</u>	<u>15.11</u>
— Diluted (RMB cents)	<u>N/A</u>	<u>N/A</u>	<u>14.52</u>

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Revenue, which is also our Group's turnover, represents the net invoiced value of goods sold during the Track Record Period, after allowances for returns and trade discounts. Our Group's operations and business and substantially all of its revenue are derived from the PRC and therefore, our Group considers itself to have one geographical segment.

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The following table sets forth the breakdown of our revenue by branded product and OEM sales during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
BRANDED						
PRODUCT SALES						
Xtep	70,330	23.6	197,606	40.9	1,199,231	87.9
Other brands	—	—	—	—	59,908	4.3
Subtotal	70,330	23.6	197,606	40.9	1,259,139	92.2
OEM SALES	<u>227,115</u>	<u>76.4</u>	<u>285,956</u>	<u>59.1</u>	<u>105,808</u>	<u>7.8</u>
Total	<u>297,445</u>	<u>100.0</u>	<u>483,562</u>	<u>100.0</u>	<u>1,364,947</u>	<u>100.0</u>

We began to reposition ourselves to develop our own brands and introduced our Xtep brand in 2002, and we introduced the Disney Sport and our Koling brands in 2007. Owing to our strategic decision to focus on the sales of branded products and also the increased market demand and improved PRC economic conditions, our revenue derived from the sales of our branded products grew rapidly from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,259.1 million in 2007, representing 23.6%, 40.9% and 92.2% of our total revenue for the years ended 31 December 2005, 2006 and 2007, respectively. In particular, our revenue derived from the sales from Xtep branded products increased from RMB70.3 million in 2005 to RMB197.6 million in 2006, and to RMB1,199.2 million in 2007.

Our Group's revenue from OEM sales was scaled down over the Track Record Period as we began to implement our strategy to emphasise and allocate more resources to our branded product sales. Revenue from OEM sales represented 76.4%, 59.1% and 7.8% of our total revenue for the years ended 31 December 2005, 2006 and 2007, respectively. We expect that revenue contribution from our OEM sales will scale down further in the future as we continue to expand our business through sales of branded products under the three brands, Xtep, Disney Sport and Koling.

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The following table sets out a breakdown of our revenue from the sales of Xtep branded products, which is our principal brand, during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
XTEP BRANDED						
PRODUCT SALES						
Footwear	67,702	96.3	155,992	78.9	725,347	60.5
Apparel	2,628	3.7	40,596	20.5	459,580	38.3
Accessories	—	—	1,018	0.6	14,304	1.2
Total	<u>70,330</u>	<u>100.0</u>	<u>197,606</u>	<u>100.0</u>	<u>1,199,231</u>	<u>100.0</u>

The significant growth of Xtep branded products revenue was mainly due to successful brand promotion and the rapid expansion of the retail network operated by our distributors and third-party retailers, which resulted in an increase in the number of pairs of footwear sold. While the total number of our distributors under the Xtep brand remained unchanged at 28 in 2005, 2006 and 2007, respectively, the number of the retail outlets operated by our distributors and third-party retailers in respect of our Xtep brand, in aggregate, grew rapidly from 739 in 2005 to 1,586 in 2006, and to 4,380 in 2007. 739, 847 and 2,824 new retail outlets for our Xtep brand were opened in 2005, 2006 and 2007, respectively. A total of 30 retail outlets for our Xtep brand were closed down in 2007. On the other hand, we allocated more resources to promote and design Xtep branded apparel products. Xtep branded apparel sales grew from RMB2.6 million in 2005 to RMB40.6 million in 2006 and RMB459.6 million in 2007 as the volume of apparel sold increased as a result of our expanding of our collections of branded apparel products designed around a common theme with better mass market appeal and leveraging our established nationwide distribution network.

Over the Track Record Period, our product mix has changed significantly as we began to focus not only on branded footwear, but also on branded apparel and accessory products. Sales of branded footwear continued to represent a majority of our branded products revenue over the Track Record Period, but sales of branded apparel increased quickly. We expect our revenue from branded apparel and accessory products to increase both in absolute terms and as a percentage of our total branded products revenue in the future.

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The following table sets out the breakdown of our revenue from the sales of our branded product by sales channel during the Track Record Period:

Revenue	For the year ended 31 December					
	2005		2006		2007	
	RMB '000	%	RMB '000	%	RMB '000	%
Distributors	23,705	33.7	164,742	83.4	1,175,236	93.3
Group's direct sales						
customers	46,625	66.3	32,864	16.6	81,894	6.5
Group's retail outlets	—	—	—	—	2,009	0.2
Total	<u>70,330</u>	<u>100.0</u>	<u>197,606</u>	<u>100.0</u>	<u>1,259,139</u>	<u>100.0</u>

In 2006, we decided to revise our sales strategy to emphasise selling our products through distributors rather than through direct sales customers because we believed that our wholesale business model would enable us to achieve growth in overall sales by leveraging the respective strengths and advantages of the distributors engaged under our distributorship arrangement. As a result, over the Track Record Period, the proportion of our sales made to direct sales customers decreased steadily and the proportion of our sales made through our distributors increased steadily. We expect these trends to continue and we will continue to decrease the proportion of our sales to direct sales customers in the future.

The following table sets out the number of units sold, the average selling prices and the average gross profit margin during the Track Record Period of our branded footwear and apparel products:

Total units sold, average selling prices ⁽¹⁾ and average gross profit margin	For the year ended 31 December								
	2005			2006			2007		
	Total	Average	Average	Total	Average	Average	Total	Average	Average
	units sold	selling price	gross profit margin	units sold	selling price	gross profit margin	units sold	selling price	gross profit margin
'000	RMB	%	'000	RMB	%	'000	RMB	%	
Branded products									
Footwear (number of pairs)									
Xtep	964	70.2	21.8	1,901	82.1	43.1	10,417	69.6	34.5
Other brands	—	—	—	—	—	—	198	90.8	35.8
Subtotal	964	70.2	21.8	1,901	82.1	43.1	10,615	70.0	34.6
Apparel (number of pieces)									
Xtep	19	138.3	11.9	410	99.0	41.7	8,758	52.5	34.4
Other brands	—	—	—	—	—	—	398	95.6	26.0
Subtotal	19	138.3	11.9	410	99.0	41.7	9,156	54.3	33.7

Note:

(1) Average selling prices represent the revenue for the year divided by the total units sold for the year.

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The total sales volume of our branded footwear products increased by approximately 97.2% for the year ended 31 December 2006 compared to the year ended 31 December 2005, and increased by approximately 458.4% for the year ended 31 December 2007 compared to the year ended 31 December 2006. These increases in the total sales volume of our branded footwear products were primarily due to successful brand promotion and the rapid expansion of our nationwide distribution network.

The average selling price of our branded footwear products increased by approximately 17.0% for the year ended 31 December 2006 compared to the year ended 31 December 2005, primarily because of increased brand recognition and the expansion of our range of product offerings, which allowed us to increase overall prices of our footwear products. The average selling price of our branded footwear products decreased by approximately 14.7% for the year ended 31 December 2007 compared to that for the year ended 31 December 2006, primarily because sales of summer footwear products, which generally have lower selling prices than sportswear footwear products, comprised a larger portion of our revenue for that year. In addition, we substantially reduced sales of our branded footwear products to direct sales customers which also contributed to the decrease in average selling price of our branded footwear products, because we generally sell our branded footwear products at higher prices to direct sales customers as compared to our distributors.

The total sales volume of our branded apparel products increased by more than 20 times for the year ended 31 December 2006 compared to the year ended 31 December 2005, and increased by more than 21 times for the year ended 31 December 2007 compared to the year ended 31 December 2006. These increases in the total sales volume of our branded apparel products were driven by our strategic decision to expand into the branded apparel market.

The average selling price of our branded apparel products decreased by approximately 28.4% for the year ended 31 December 2006 compared to that for the year ended 31 December 2005, primarily because while we sold our apparel products to direct sales customers in 2005, we began to sell our apparel products to distributors at lower wholesale prices in 2006 and at a larger sales volume compared to that in 2005. The average selling price of our branded apparel products decreased by approximately 45.2% for the year ended 31 December 2007 compared to that for the year ended 31 December 2006, primarily because we substantially reduced our sales to direct sales customers and broadened our apparel product offerings, which included a greater portion of summer apparel products compared to 2006. Our summer apparel products generally have lower selling prices than our winter apparel products.

Cost of sales

Our Group's cost of sales consists of raw materials costs, direct staff costs, outsourced production costs and others. In certain cases, we purchase and supply raw materials to the sub-contractors we engaged to produce our products. Outsourced production cost refers to the costs of the outsourced products and the processing fees we paid to our sub-contractors and contract manufacturers, excluding the raw materials we provided to sub-contractors. In the case of contract manufacturing, our contract manufacturers procure their own raw materials and our cost for such

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outsourced production would capture the cost of such raw materials. Direct staff costs consist of salaries and other compensation expenses. Other costs mainly includes depreciation of production facilities, operating lease expenses, royalties, costs associated with operating our facilities, such as electricity, water and maintenance costs, and other miscellaneous costs. The following table sets out a breakdown of our Group's cost of sales by production cost and the percentage of such cost of the total cost of sales during the Track Record Period:

Cost of sales	For the year ended 31 December					
	2005		2006		2007	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Raw materials	195,429	82.2	275,746	79.4	503,986	54.7
Outsourced production cost	5,772	2.4	14,685	4.2	333,583	36.2
Direct staff	28,309	11.9	47,989	13.8	65,009	7.1
Others	8,221	3.5	9,054	2.6	19,226	2.0
Total cost of sales . . .	<u>237,731</u>	<u>100.0</u>	<u>347,474</u>	<u>100.0</u>	<u>921,804</u>	<u>100.0</u>

During the Track Record Period, we experienced significant growth in cost of sales as a result of increased sales and production volume during each of the years in the Track Record Period. Each of the components of cost of sales increased during the Track Record Period. We experienced a growth in our total cost of raw materials primarily due to the increase in our production scale to meet the increased market demand for our products. We believe that we will be able to achieve better economies of scale as we expand our operations, which should enable us to strengthen our bargaining power to obtain raw materials at competitive prices. Outsourced production costs increased as we outsourced the production of all of our accessory products and certain of our footwear and apparel products (both OEM products and our branded products). Direct staff costs increased as we increased the number of our employees engaged in manufacturing operations and incurred additional salary expenses. Other costs increased as we expanded our manufacturing operations and increased royalty expenses.

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Gross profit and gross profit margin

Our gross profit, which is our Group's revenue for the relevant period less cost of sales was RMB59.7 million, RMB136.1 million and RMB443.1 million for the years ended 31 December 2005, 2006 and 2007, respectively. The following table sets out a breakdown of our gross profit and gross profit margin by branded product sales and OEM sales during the Track Record Period:

Gross profit and gross profit margin	For the year ended 31 December					
	2005		2006		2007	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
BRANDED PRODUCT SALES						
Xtep	15,077	21.4	84,727	42.9	414,093	34.5
Other brands	—	—	—	—	17,200	28.7
Subtotal	15,077	21.4	84,727	42.9	431,292	34.3
OEM SALES	44,637	19.7	51,361	18.0	11,851	11.2
Total	<u>59,714</u>	<u>20.1</u>	<u>136,088</u>	<u>28.1</u>	<u>443,143</u>	<u>32.5</u>

Gross profit margin for Xtep branded products increased from 21.4% for the year ended 31 December 2005 to 42.9% for the year ended 31 December 2006 because of the increased average selling price of our Xtep branded footwear products, which comprised 78.9% of our Xtep branded products revenue in 2006, due to increased brand recognition, improved product design and expansion of our range of product offerings. In addition, increased volume of products sold also resulted in economies of scale with respect to cost of sales.

Gross profit margin for Xtep branded products decreased from 42.9% for the year ended 31 December 2006 to 34.5% for the year ended 31 December 2007, primarily because we substantially reduced our sales to direct sales customers as a proportion of our branded products sales in 2007, which drove down average selling prices because we generally sell our branded products to direct sales customers at higher prices as compared to our distributors.

We introduced the Disney Sport and our Koling brands in August 2007 and May 2007, respectively. We believe that an analysis of the gross profit margin for Disney Sport and Koling brands is not meaningful in view of the fact that these two brands were both newly introduced to the market in 2007.

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The gross profit margin for OEM products decreased from 19.7% in 2005 to 18.0% in 2006, and to 11.2% in 2007. The decrease in gross profit margin for OEM products was due to increased outsourcing to third-party contract manufacturers as the outsourcing production cost per unit for our OEM products was generally higher than that for our internal production. We increased our outsourcing to third-party contract manufacturers because we needed to allocate more of our internal production capacity to manufacture our branded products to ensure products are of high quality.

The following table sets out a breakdown of our gross profit and gross profit margin by product category during the Track Record Period:

Gross profit and gross profit margin	For the year ended 31 December					
	2005		2006		2007	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
BRANDED PRODUCT SALES						
Footwear	14,763	21.8	67,179	43.1	256,926	34.6
Apparel	314	11.9	16,944	41.7	167,905	33.7
Accessories	—	—	604	59.3	6,461	35.5
Subtotal	15,077	21.4	84,727	42.9	431,292	34.3
OEM SALES						
Footwear	44,637	19.7	51,361	18.0	11,851	11.2
Total	<u>59,714</u>	<u>20.1</u>	<u>136,088</u>	<u>28.1</u>	<u>443,143</u>	<u>32.5</u>

For an analysis of the gross profit margin for our branded product sales by product category during the Track Record Period, please refer to “Period to period comparison of results of operations” in this section of the prospectus.

Other income and gains

Other income and gains primarily consist of income from bank interest, penalty against a supplier, interest received for loans advanced by our Group, rental income received for leases of real property and subsidy income from the PRC Government. Penalty against a supplier represented an one-off compensation from a supplier as a result of its delay in delivering raw materials to us. Other income and gains represented 0.1%, 0.2% and 0.3% of our revenue for the years ended 31 December 2005, 2006 and 2007, respectively.

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Selling and distribution costs

Selling and distribution costs were RMB29.3 million, RMB56.2 million and RMB119.4 million for the years ended 31 December 2005, 2006 and 2007, respectively, and consists primarily of costs and expenses incurred in connection with advertising and marketing. Selling and distribution costs represented approximately 9.8%, 11.6% and 8.7% of our revenue for the years ended 31 December 2005, 2006 and 2007, respectively.

General and administrative expenses

General and administrative expenses were RMB13.2 million, RMB17.7 million and RMB42.2 million for the years ended 31 December 2005, 2006 and 2007, respectively, and consist primarily of costs related to our Group's employees, including salaries, wages, pension scheme contributions, welfare and other benefits for our employees, depreciation expenses and others. General and administrative expenses represented approximately 4.4%, 3.7% and 3.1% of our revenue for the years ended 31 December 2005, 2006 and 2007, respectively.

Finance costs

Finance costs were RMB5.3 million, RMB6.9 million and RMB14.2 million for the years ended 31 December 2005, 2006 and 2007, respectively, and consist primarily of interest expenses on our Group's bank loans and other borrowings.

Tax

No provision for Hong Kong profits tax has been made as our Group did not generate any assessable profits arising in Hong Kong during the Track Record Period. Our Group is also not subject to any tax in the Cayman Islands and the BVI during the Track Record Period. However, our PRC subsidiaries are subject to PRC enterprise income tax. Set out below are the applicable PRC enterprise income rates during the Track Record Period for our PRC subsidiaries:

Applicable PRC enterprise income tax rate	For the year ended 31 December		
	2005	2006	2007
	%	%	%
Xtep (China) ⁽¹⁾	fully exempted	fully exempted	12
Sanxing Sports ⁽²⁾	24	24	24
Koling (Fujian) ⁽³⁾	N/A	N/A	N/A

Notes:

(1) Xtep (China) was entitled to full exemption from the PRC enterprise income tax in 2005 and 2006, as well as a 50% reduction of the previous PRC enterprise income tax rate of 24% in 2007. Under the New Tax Law, we expect that Xtep (China) will be entitled to a 50% reduction of the phased-in PRC enterprise income tax rate of 25% for the two years from 2008 to 2009.

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- (2) *Sanxing Sports was exempted from the enterprise income tax for its first two profitable years, commencing from 1 January 2000, and thereafter was entitled to a 50% reduction in the enterprise income tax for the subsequent three years from 1 January 2002 to 31 December 2004. The applicable PRC enterprise income tax rate for Sanxing Sports was 24% from 1 January 2005 onwards and under the New Tax Law, the applicable PRC enterprise income tax rate for Sanxing Sports became 25% from 1 January 2008 onwards.*
- (3) *Koling (Fujian) was incorporated in 2006 and did not generate any assessable profits in 2006 and 2007, therefore it was not required to pay any PRC enterprise income tax in 2006 and 2007. As approved by the relevant tax authority, Koling (Fujian) can enjoy full exemption from PRC enterprise income tax for its first two profitable years and a 50% tax reduction for the following three consecutive years. Under the New Tax Law, Koling (Fujian) can continue to enjoy two-years full exemption from PRC enterprise income tax followed by three-years 50% tax reduction, commencing from 1 January 2008.*

On 16 March 2007, the National People's Congress of the PRC promulgated the New Tax Law, which came into effect on 1 January 2008. The New Tax Law imposes a unified enterprise income tax rate of 25% for both domestic enterprises and foreign-invested enterprises in the PRC. The implementation of the New Tax Law has an effect on the preferential tax treatment that our PRC subsidiaries are entitled to. Xtep (China) and Koling (Fujian) enjoyed preferential tax rates prior to the promulgation of the New Tax Law.

According to the then income tax law of the PRC for foreign-invested enterprises and foreign enterprises and as approved by relevant PRC tax authorities, Xtep (China), being a foreign-invested enterprise engaged in the manufacturing business, is entitled to an enterprise income tax exemption for two years commencing from its first profit-making year (after offsetting all tax losses carried forward from previous years), and a 50% tax reduction for the following three consecutive years. Xtep (China) enjoyed a full exemption from state enterprise income tax in 2005 and 2006, as well as a 50% reduction of its current state enterprise income tax rate of 24% in 2007, which had a significant positive effect on our profit after tax during the years ended 31 December 2005, 2006 and 2007. Under the New Tax Law, we expect that Xtep (China) will continue to be entitled to a 50% reduction of the phased-in enterprise income tax rate of 25% for the two years from 2008 to 2009, and will thereafter be subject to a 25% tax rate from 2010 onwards. We expect that upon the expiry of the partial exemption from enterprise income tax previously enjoyed by Xtep (China), other considerations aside our Group's tax payment will increase from 2010 onwards.

Koling (Fujian), being a foreign-invested enterprise engaged in the manufacturing business and incorporated before the New Tax Law's promulgation, is also entitled to the above enterprise income tax exemption for its first two profitable years and a 50% tax reduction for the following three consecutive years. Under the New Tax Law, we expect that Koling (Fujian) will enjoy such exemption for the two years from 2008 to 2009 and a 50% reduction of the phased-in enterprise income tax rate of 25% for the three years from 2010 to 2012. We expect that upon the expiry of the full exemption from enterprise income tax currently enjoyed by Koling (Fujian), other considerations aside our Group's tax payment will increase from 2010 onwards and will further increase from 2012 following the expiry of the above preferential tax treatment.

See "Factors affecting the financial condition and results of operations of our Group — Level of income tax and preferential tax treatment" in this section of the prospectus for additional details.

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Dividend

In the year ended 31 December 2007, we declared an interim dividend of RMB129.5 million to our registered shareholders on 17 September 2007. According to the Articles of Association, we may declare and pay dividends out of our realised or unrealised profits. We had sufficient reserves at the time when we declared the said interim dividend. We incurred losses after the dividend was declared and our accumulated loss will be replenished by dividends declared to us by our subsidiaries in the future.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Revenue

Revenue increased by approximately 182.2%, from RMB483.6 million for the year ended 31 December 2006 to RMB1,364.9 million for the year ended 31 December 2007, primarily as a result of the following.

Sales of branded footwear products

Revenue from sales of branded footwear products increased by approximately 376.5%, from RMB156.0 million for the year ended 31 December 2006 to RMB743.3 million for the year ended 31 December 2007, primarily as a result of the increase in the number of pairs of our branded footwear products sold, which were driven by the introduction of our theme-oriented collections of our branded footwear and the opening of additional retail outlets in major metropolitan and medium to large size cities throughout the PRC from 1,586 in 2006 to 4,380 in 2007. The effect of those factors was partially offset by a decrease in average selling prices of our branded footwear products over the same period. The number of pairs of our branded footwear products sold increased by approximately 8.7 million pairs of footwear, or approximately 457.9%, from 1.9 million pairs of footwear in 2006 to 10.6 million pairs of footwear in 2007. The average selling price of our branded footwear products decreased by approximately 14.7%, from RMB82.1 per pair in 2006 to RMB70.0 per pair in 2007, because sales of summer footwear products comprised a larger portion of our revenue in 2007 as we broadened our product offerings substantially reduced our sales of branded footwear products to direct sales customers as a proportion of our branded product sales. Our growth in sales of branded footwear was largely attributable to the significant growth in our sales of Xtep branded footwear product revenue, mainly due to our successful brand promotion and the rapid expansion of our nationwide distribution network.

Sales of branded apparel products

Revenue from sales of branded apparel products increased significantly by RMB457 million, from RMB40.6 million for the year ended 31 December 2006 to RMB497.6 million for the year ended 31 December 2007, primarily as a result of the substantial increase in the sales volume for our branded apparel products attributable to our strategic decision to expand into the branded apparel market. In addition, the broadening of our branded apparel product offerings and the opening of additional retail

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outlets by our distributors throughout the PRC also contributed to the increase in revenue from sales of branded apparel products. The effect of those factors was partially offset by a decrease in average selling prices of our branded apparel products over the same period. The average selling price of our apparel products decreased by approximately 45.2%, from RMB99.0 per piece in 2006 to RMB54.3 per piece in 2007, as a result of sales of summer apparel products comprising a greater portion of our apparel sales in 2007 as we broadened our product offerings and because we substantially reduced our sales of branded apparel products to direct sales customers as a proportion of our branded apparel products sales.

Sales of branded accessory products

Revenue from sales of branded accessory products increased significantly by RMB17.2 million, from RMB1.0 million for the year ended 31 December 2006 to RMB18.2 million for the year ended 31 December 2007, primarily as a result of an increase in volume of units sold, increased retail outlets and broadened product offerings.

Sales of OEM products

Revenue from our OEM sales decreased by approximately 63.0%, from RMB286.0 million for the year ended 31 December 2006 to RMB105.8 million for the year ended 31 December 2007, primarily as a result of our strategic decision to develop the branded sportswear market and to shift our focus away from OEM business. In 2007, we introduced the Disney Sport and Koling brands and allocated more of our resources to grow our branded sales business.

Cost of sales

Cost of sales increased by approximately 165.3%, from RMB347.5 million for the year ended 31 December 2006 to RMB921.8 million for the year ended 31 December 2007, primarily as a result of an increase in volume of units sold, increased raw materials costs, outsourced production costs and direct staff costs. Our raw materials costs increased as the number of pairs of footwear and pieces of apparel produced and sold significantly increased during this period. Outsourced production cost increased by RMB318.9 million, from RMB14.7 million in 2006 to RMB333.6 million in 2007, as we outsourced the production of most of our apparel and all of our accessories. Direct staff costs increased by approximately 35.4%, from RMB48.0 million in 2006 to RMB65.0 million in 2007, primarily as a result of an increase in the number of employees engaged in our manufacturing operations to support the growth of our business. Our other costs of production also increased by approximately 111.0% from RMB9.1 million in 2006 to RMB19.2 million in 2007 as we expanded our manufacturing operations.

Gross profit and gross profit margin

Gross profit increased by approximately 225.6%, from RMB136.1 million for the year ended 31 December 2006 to RMB443.1 million for the year ended 31 December 2007, primarily as a result of the significant increase in sales volume of our branded products. Overall gross profit margin also increased as a result of the shift in our product mix towards our branded products, which on average

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have a higher gross profit margin than our OEM products. Our percentage of revenue derived from the sales of our branded products increased from 40.9% in 2006 to 92.2% in 2007. In addition, we also experienced a shift in our product mix towards our apparel products. Our percentage of revenue derived from the sales of our apparel products increased from 20.5% in 2006 to 38.3% in 2007.

Gross profit and gross profit margin for branded footwear products

Gross profit for branded footwear products increased by approximately 282.3%, from RMB67.2 million for the year ended 31 December 2006 to RMB256.9 million for the year ended 31 December 2007, primarily as a result of the significant increase of approximately 458.4% in sales volume of our branded footwear products, even though this increase was offset by a decrease of approximately 14.7% in average selling prices of our branded footwear products. Our gross profit margin for our branded footwear products decreased to 34.6% in 2007 as compared to 43.1% in 2006, primarily because we substantially reduced our sales of our branded footwear products to direct sales customers as a proportion of our branded footwear product sales.

Gross profit and gross profit margin for branded apparel products

Gross profit for branded apparel products increased significantly by RMB151 million, from RMB16.9 million for the year ended 31 December 2006 to RMB167.9 million for the year ended 31 December 2007, primarily as a result of a significant increase of more than 21 times in sales volume during the period. Our gross profit margin for branded apparel products decreased to 33.7% in 2007 as compared to 41.7% in 2006, primarily because we significantly reduced selling our apparel products to direct sales customers as a proportion of our apparel branded product sales.

Gross profit and gross profit margin for branded accessory products

Gross profit for branded accessory products increased by RMB5.9 million, from RMB0.6 million for the year ended 31 December 2006 to RMB6.5 million for the year ended 31 December 2007, primarily as a result of the increase in sales volume during the period. Our gross profit margin for branded accessory products decreased to 35.5% for the year ended 31 December 2007 as compared to 59.3% for the year ended 31 December 2006 because of the broadening of our accessory product offerings to include products with relatively lower gross profit margin.

Gross profit for OEM products

Gross profit for OEM product decreased by approximately 76.8%, from RMB51.4 million for the year ended 31 December 2006 to RMB11.9 million for the year ended 31 December 2007, primarily as a result of our scaling down of OEM sales and a reduction in our ability to take advantage of economies of scale with respect of cost of sales.

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Other income and gains

Other income and gains increased by approximately 340%, from RMB1.0 million for the year ended 31 December 2006 to RMB4.4 million for the year ended 31 December 2007, primarily as a result of increases in rental income, bank interest income, interest income from loan receivables and subsidy income from the PRC Government.

Selling and distribution costs

Selling and distribution costs increased by approximately 112.5%, from RMB56.2 million for the year ended 31 December 2006 to RMB119.4 million for the year ended 31 December 2007, primarily as a result of the increase in advertising and promotion expenses and our decision to hold quarterly sales fairs instead of semi-annual sales fairs. Selling and distribution costs represented approximately 8.7% of our revenue for the year ended 31 December 2007, as compared to approximately 11.6% of our revenue for the year ended 31 December 2006, primarily as a result of the economies of scale in our advertising and promotion activities.

General and administrative expenses

General and administrative expenses increased by approximately 138.4%, from RMB17.7 million for the year ended 31 December 2006 to RMB42.2 million for the year ended 31 December 2007, primarily as a result of increases in salaries and welfare payments.

Other operating expenses

Other operating expenses increased by approximately 167.7%, from RMB6.2 million for the year ended 31 December 2006 to RMB16.6 million for the year ended 31 December 2007, primarily as a result of increased research and development costs.

Finance costs

Finance costs increased by approximately 105.8%, from RMB6.9 million for the year ended 31 December 2006 to RMB14.2 million for the year ended 31 December 2007, primarily as a result of a substantial increase in our bank borrowings in late 2006.

Tax

Income tax increased by approximately RMB33.3 million from RMB3,000 for the year ended 31 December 2006 to RMB33.3 million for the year ended 31 December 2007, primarily as a result of the increase in profits before tax of Xtep (China), which was subject to PRC tax, from RMB55.4 million in 2006 to RMB263.2 million in 2007, as well as the expiration of tax holiday of Xtep (China) in 2006.

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We were required to record the imputed interest expenses (being the amortisation charges of the transaction costs related to the issuance of the preferred shares) as a result of our issuance of preferred shares in 2007 and such interest expenses were not tax-deductible. However, the issuance of our preferred shares did not affect the amount of our income tax as our Company (on an unconsolidated basis) did not generate any assessable profit after adjusting for the non-tax-deductible interest expenses on preferred shares, and we therefore did not make any tax provision for 2007.

Profit for the year

Net profit from operations increased by approximately 342.9%, from RMB50.1 million for the year ended 31 December 2006 to RMB221.9 million for the year ended 31 December 2007, as a result of the factors described above. Our net profit margin increased to 16.3% in 2007 as compared to 10.4% in 2006, primarily because we shifted our product mix towards our branded products and realised economies of scale in our sales, marketing and administrative activities.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

Revenue

Having begun our business as an OEM enterprise, we began to develop our own fashion sportswear brands and reduce our OEM business. For the years ended 31 December 2005 and 2006, OEM sales comprised a majority of our total revenue. Revenue increased by approximately RMB186.2 million, or approximately 62.6%, from RMB297.4 million for the year ended 31 December 2005 to RMB483.6 million for the year ended 31 December 2006 as a result of the following.

Sales of branded footwear products

Revenue from sales of branded footwear products increased by approximately 130.4%, from RMB67.7 million for the year ended 31 December 2005 to RMB156.0 million for the year ended 31 December 2006, primarily as a result of the increase in our Xtep branded footwear products from RMB67.7 million in 2005 to RMB156.0 million in 2006 and the increase in OEM sales from RMB227.1 million in 2005 to RMB286.0 million in 2006. In addition, the average selling prices of our footwear increased because we began to change our business strategy from OEM sales to developing our own branded products. The average selling price of our branded footwear products increased by approximately 17.0%, from RMB70.2 per pair in 2005 to RMB82.1 per pair in 2006, primarily because of increased brand recognition and expansion of our range of product offerings. The total pairs of footwear products sold increased by 90%, from one million pairs of footwear in 2005 to 1.9 million pairs of footwear in 2006, primarily as a result of the increase in the number of retail outlets selling our branded products from 739 in 2005 to 1,586 in 2006.

Sales of branded apparel products

Revenue from sales of branded apparel products increased by RMB38 million, from RMB2.6 million for the year ended 31 December 2005 to RMB40.6 million for the year ended 31 December 2006, primarily as a result of the increase in sales volume for branded apparel products, which was offset in part by a decrease in average selling prices for apparel products over this period. The growth

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in sales of our apparel products was a result of increased focus on marketing and sales of apparel products, and the introduction of new apparel products in 2006. The total pieces of apparel products sold increased by more than 20 times, from approximately 19,000 pieces in 2005 to approximately 410,000 pieces in 2006. The average selling price for our apparel products decreased by approximately 28.4%, from RMB138.3 per piece in 2005 to RMB99.0 per piece in 2006, because we reduced selling our apparel products to direct sales customers and increased selling to distributors at typically lower prices.

Sales of branded accessory products

Our Group commenced sales of branded accessory products in 2006 and revenue from sales of accessory products in 2006 was RMB1.0 million. We decided to begin sales of accessory products because we believed that accessory products complement our Group's product mix and provide our customers with a variety of additional products.

Cost of sales

Cost of sales increased by approximately 46.2%, from RMB237.7 million for the year ended 31 December 2005 to RMB347.5 million for the year ended 31 December 2006, primarily as a result of increased raw materials costs, outsourced production costs and direct staff costs. Raw materials costs increased by approximately 41.1%, from RMB195.4 million in 2005 to RMB275.7 million in 2006, in line with our growth in sales volume during the same period. Outsourced production cost increased by approximately 153.4%, from RMB5.8 million in 2005 to RMB14.7 million in 2006 as we increased our outsourced production, primarily due to an increase in the sales of our branded apparel products the production of which was mostly outsourced and our added need to outsource the production of our footwear products as our production capacity of our footwear products reached its full limit. Direct staff costs increased by approximately 69.6%, from RMB28.3 million in 2005 to RMB48.0 million in 2006 as a result of the growth of our business and the increase in the volume of products sold over the same period, which in turn resulted in an increase in the number of employees engaged in our manufacturing operations from 3,428 persons in 2005 to 4,452 persons in 2006. Other costs of production increased slightly by approximately 11.0%, from RMB8.2 million in 2005 to RMB9.1 million in 2006 as we increased our manufacturing operations.

Gross profit and gross profit margin

Gross profit increased by approximately 128.0%, from RMB59.7 million in 2005 to RMB136.1 million in 2006, primarily as a result of increased economies of scale resulting from the increase in sales volume of our products and as a result of our ability to negotiate more competitive prices for our raw materials as we purchased in higher volume over this period. Overall gross profit also increased as a result of the increase in sales of our Xtep branded footwear products, which on average have a higher gross profit margin than our OEM footwear.

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Gross profit and gross profit margin for branded footwear products

Gross profit for branded footwear products increased by approximately 354.1%, from RMB14.8 million in 2005 to RMB67.2 million in 2006, primarily as a result of increased sales volume during this period because we began to change our business strategy from OEM sales to developing our own branded products. We also increased efficiencies in our manufacturing processes and were able to obtain raw materials at more competitive prices as we increased our purchase volumes. We did not incur any outsourcing costs for footwear products in 2006 compared with 2005 as we manufactured all of our footwear products at our facilities, which we believe is more efficient and cost competitive. Our gross profit margin for branded footwear products increased by approximately 97.7%, from 21.8% in 2005 to 43.1% in 2006, because our average selling price increased, we manufactured our footwear products at our own facilities and we took advantage of economies of scale with respect to raw materials costs.

Gross profit and gross profit margin for branded apparel products

Gross profit for branded apparel products increased by RMB16.6 million, from RMB0.3 million in 2005 to RMB16.9 million in 2006, primarily as a result of increased sales volume during the period combined with cost savings realised from economies of scale due to increased production volume and volume discounts we received from our suppliers. Our change in business strategy from OEM sales to developing our own branded products and to adjust our product mix to increase apparel sales also contributed to the increase in gross profit for branded apparel products. Our gross profit margin for branded apparel products increased to 41.7% in 2006 as compared to 11.9% in 2005 also as a result of the costs savings from economies of scale as a consequence of increasing production from an insignificant amount in 2005 to a substantial amount in 2006 and broadened range of apparel product offerings.

Other income and gains

Other income and gains increased by approximately 120.4%, from RMB437,000 for the year ended 31 December 2005 to RMB963,000 for the year ended 31 December 2006, primarily as a result of an increase in rental income, bank interest income and subsidy income from the PRC Government. The increase in rental income was due to rental income received from Independent Third Parties for leases of real property. The increase in bank interest income was due to an increase during the period in bank deposits relating to our settlement process which requires that we have on deposit with our banks a certain percentage of the bills that we pay. The increase in PRC Government subsidies was due to an increase in electricity subsidies that we received.

Selling and distribution costs

Selling and distribution costs increased by approximately 91.8%, from RMB29.3 million in 2005 to RMB56.2 million in 2006. The increase was primarily due to increases in advertising and salary costs, and costs related to the commercial and trade conferences that we organised and participated in, including the annual seasonal sales fairs. Advertising costs increased from RMB22.8 million in 2005 to RMB41.7 million in 2006, and salary costs increased from RMB2.3 million in 2005 to

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RMB2.9 million in 2006, both as a result of the increased production volume and increased sales. Selling and distribution costs represented approximately 11.6% of our revenue for the year ended 31 December 2006, as compared to approximately 9.9% of our revenue for the year ended 31 December 2005, primarily as a result of increased advertising and promotion efforts.

General and administrative expenses

General and administrative expenses increased by approximately 34.1%, from RMB13.2 million in 2005 to RMB17.7 million in 2006, primarily as a result of increases in office administration expenses, depreciation and amortisation expenses, increases in salaries and increases in donation amounts. Depreciation costs increased from RMB2.5 million in 2005 to RMB2.7 million in 2006 as a result of increased consumption of office assets resulting from increases in number of employees engaged in office administration. Salary costs increased from RMB2.7 million in 2005 to RMB3.3 million in 2006 as a result of increases in number of employees engaged in office administration. Donation amounts increased from RMB0.3 million in 2005 to RMB2.4 million in 2006 as a result of the increase in the number of charitable activities we participated in.

Other operating expenses

Other operating expenses increased by approximately 82.4%, from RMB3.4 million for the year ended 31 December 2005 to RMB6.2 million for the year ended 31 December 2006, primarily as a result of increased research and development costs.

Finance costs

Finance costs increased by approximately 30.2%, from RMB5.3 million for the year ended 31 December 2005 to RMB6.9 million for the year ended 31 December 2006, primarily as a result of an increase in our bank borrowings.

Tax

Tax decreased from RMB0.9 million for the year ended 31 December 2005 to RMB3,000 for the year ended 31 December 2006, primarily because significant portion of the profit of our Group for the year ended 31 December 2006 was generated by Xtep (China), which was entitled to tax exemption in 2006. The tax charges in 2005 were related to our operation of Sanxing Sports.

Profit for the year

Net profit from operations increased by approximately RMB41.9 million from RMB8.2 million for the year ended 31 December 2005 to RMB50.1 million for the year ended 31 December 2006, primarily as a result of the factors described above. Our net profit margin increased to 10.4% in 2006 as compared to 2.8% in 2005, primarily because we began to reduce our OEM business in 2006 and decreased the proportion of our total revenue contributed by our OEM business from 76.4% in 2005 to 59.1% in 2006.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through the debt financing in the form of bank loans from local banking institutions and from our cash flow from operating activities, other than 2007 during which we met our capital requirements principally from cash provided through the investment by the Carlyle Investment Funds.

We had net operating cash outflows for the years ended 31 December 2005 and 2006, primarily because of the increase in our trade and bills receivables. Please refer to the risk factor headed “We recorded negative operating cash flow in 2005 and 2006 and positive operating cash flow in 2007, and we cannot assure you that we will record positive operating cash flow again in the future” under the section “Risk Factors — Risks Relating to Our Group’s Business” for the relevant disclosure.

The following table is a condensed summary of our audited consolidated cash flow statements for the periods indicated:

	For the year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	(13,671)	(62,938)	12,892
Net cash used in investing activities	(43,284)	(42,186)	(9,971)
Net cash generated from financing activities	63,729	112,931	189,881
Net increase in cash and cash equivalents .	6,774	7,807	192,802
Cash and cash equivalents at beginning of year	7,635	14,409	22,216
Cash and cash equivalents at end of year .	14,409	22,216	215,018

Cash Flow from Operating Activities

We derive our cash inflow from operations principally from the receipt of payments for the sale of our products. Our cash outflow from operations is principally for purchases of raw materials and production outsourcing, salary payments and advertising expenses.

For the year ended 31 December 2007, we had net cash inflows from operating activities before changes in working capital but after adjustments for non-cash expenses and income of RMB277.5 million and a net cash inflow of RMB12.9 million. The difference of RMB264.6 million was primarily attributable to an increase in prepayments, deposits and other receivables of RMB101.5 million, which was primarily due to an increase in deposits that we paid to our contract manufacturers relating to our purchases of outsourced products to meet the anticipated significant growth in demand for our

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products in 2008, an increase in trade and bills receivables of RMB46.4 million due to increased sales and an increase in inventories of RMB42.1 million due to increased purchases of raw materials. Such outflows were partially offset by an increase in deposits received, and other payables and accruals of RMB10.3 million, as a result of increases in our accrued salaries and deposits received from our distributors.

For the year ended 31 December 2006, we had net cash inflows from operating activities before changes in working capital but after adjustments for non-cash expenses and income of RMB63.0 million. After accounting for changes in working capital, interest income, interest paid and overseas taxes received, our net cash outflows from our operating activities for the year ended 31 December 2006 was RMB62.9 million, which was primarily due to an increase in trade and bills receivables of RMB86.4 million, an increase in inventories of RMB48.9 million and an increase in prepayments, deposits and other receivables of RMB27.6 million, partially offset by an increase in trade and bills payables of RMB51.1 million. The increase in trade and bills receivables was primarily due to increased sales. The increase in prepayments, deposits and other receivables was primarily due to increased purchases of raw materials. The increase in inventories was primarily due to increased purchases of raw materials and outsourced products from our contract manufacturers in anticipation of future sales in early 2007 and to meet significant growth in demand for our products. The increase in trade and bills payables was due to the increase in purchase of raw materials in the fourth quarter of 2006 in order to meet the production demand in early 2007.

For the year ended 31 December 2005, we had net cash inflows from operating activities before changes in working capital but after adjustments for non-cash expenses and income of RMB19.4 million. After accounting for changes in working capital, interest income, interest paid and overseas taxes paid, our net cash outflows from our operating activities for the year ended 31 December 2005 was RMB13.7 million, which was primarily due to an increase in trade and bills receivables of RMB78.6 million and a decrease in deposits received, other payables and accruals of RMB33.8 million, partially offset by a decrease in prepayments, deposits and other receivables of RMB43.1 million. The increase in trade and bills receivables was primarily due to increase in sales. The decrease in deposits received, and other payables and accruals was primarily due to decrease in deposits received in advance as a result of fewer unfulfilled sales orders as at 31 December 2005. The decrease in prepayments, deposits and other receivables was primarily due to the decrease in advances and the rapid settlement of other receivables.

Cash Flow from Investing Activities

We derive our cash inflow from investing activities principally from proceeds of disposals of property, plant and equipment. Our cash outflow from operations is principally for purchases of property, plant and equipment, increase in pledged time deposits relating to our settlement process which requires that we have on deposit with our banks a certain percentage of the bill that we pay, deposits paid for purchases of land use rights and additions to prepaid land lease payments.

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For the year ended 31 December 2007, we had net cash outflows from investing activities of RMB10.0 million, which was primarily due to payment of RMB33.2 million for purchase of a property to be used as our warehouse, partially offset by a decrease in loan receivables of RMB15 million.

For the year ended 31 December 2006, we had net cash outflows used in investing activities of RMB42.2 million, which was primarily due to payment of RMB27.4 million for purchases of property to be used as our warehouse and office building, an increase of RMB5.4 million in pledged time deposits relating to our settlement process which requires us to deposit with our banks a certain percentage of the bill that we pay, a decrease in loan receivables of RMB5.0 million and payment of RMB4.0 million as deposits for purchases of land use rights to construct our Group's new apparel production facility.

For the year ended 31 December 2005, we had net cash used in investing activities of RMB43.3 million, which was primarily due to payment of additions to prepaid land lease payments in the amount of RMB14.2 million relating to the land use rights of our Group's buildings in Quanzhou, purchases of property, plant and equipment in the amount of RMB13.8 million relating to building of RMB10.5 million, and an increase of RMB2.5 million in pledged time deposits relating to our settlement process which requires us to deposit with our banks a certain percentage of the bill that we pay, which were partly offset by proceeds from sale of equipment of RMB3.2 million, which equipment was transferred from Sanxing Sports to an Independent Third Party.

Cash Flow from Financing Activities

We derive our cash inflow from financing activities principally from increase in paid-in capital of subsidiaries and new bank loans and through financings in the form of issuance of convertible bonds and preferred shares.

For the year ended 31 December 2007, we had net cash inflow from financing activities of RMB189.9 million, which was primarily due to our issuance of certain Series A Preferred Shares to Carlyle for a total subscription price of RMB180 million and the issuance of a convertible loan of an aggregate principal amount of approximately RMB40 million to Carlyle, which were partially offset by repayment of bank loans of RMB81 million.

For the year ended 31 December 2006, we had net cash generated from financing activities of RMB112.9 million, which was primarily due to new bank loans of RMB107.8 million and increase in paid-in capital of subsidiaries of RMB5.2 million.

For the year ended 31 December 2005, we had net cash generated from financing activities of RMB63.7 million, which was primarily due to increase in paid-in capital of subsidiaries of RMB54.5 million and new bank loans of RMB9.3 million.

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CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on land, property, plant and equipment. Our Group expects to continue to make significant capital expenditures in 2008 to purchase a property in Quanzhou, Fujian province, China for our new production facility. The following table sets forth our Group's historical capital expenditures for the last three financial years, and our Group's projected capital expenditures during the current year.

The following table sets out our Group's historical capital expenditures during the Track Record Period:

Historical capital expenditures	For the year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	13,805	25,410	32,490
Construction in progress	—	1,945	708
Land use rights	14,176	254	—
Intangible assets	—	197	—
Total	<u>27,981</u>	<u>27,806</u>	<u>33,198</u>

Our Group's capital expenditures for the years ended 31 December 2005, 2006 and 2007 principally consisted of expenditures on construction in progress for office and factory buildings, and purchases of plant and equipment for our Jinjiang production facilities.

The following table sets out our Group's projected capital expenditures for the year ending 31 December 2008:

Projected capital expenditures	For the year ending 31 December
	2008
	RMB'000
Office renovation and equipment	20,000
Construction in progress (property, plant & equipment).	<u>100,000</u>
Total	<u>120,000</u>

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COMMITMENTS

The following table sets forth the aggregate amounts of our Group's contractual obligations on a consolidated basis as at 31 December 2005, 2006 and 2007:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Contracted for commitment in respect of its wholly foreign-owned investments in the PRC:			
Xtep Jinjiang	38,490	38,490	—
Xtep (China).....	22,118	16,937	7,952
Contracted for commitment in respect of:			
Construction of new factory buildings ..	—	5,000	67
Acquisition of land use rights.....	8,667	4,667	4,667
Advertising and promotional expenses ..	<u>12,403</u>	<u>33,661</u>	<u>41,820</u>
Total	<u>81,678</u>	<u>98,755</u>	<u>54,506</u>

For the period from 1 November 2006 to 31 December 2009, our Group is also obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the product for these years.

The contractual commitments as at 31 December 2007 were primarily related to the purchase of advertising and promotional materials. We expect to finance the above capital expenditures primarily with the cash generated from our operating activities and a portion of the net proceeds from the Global Offering.

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NET CURRENT ASSETS

Details of our current assets and liabilities at each of the balance sheet date during the Track Record Period are as follows:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Current assets			
Inventories	102,427	151,362	193,505
Trade and bills receivables	101,526	187,959	234,383
Prepayments, deposits and other receivables	12,876	45,427	131,984
Pledged deposits	2,500	7,880	—
Cash and bank balances	14,409	22,216	215,018
Tax recoverable	286	74	—
	<u>234,024</u>	<u>414,918</u>	<u>774,890</u>
Current liabilities			
Trade and bills payables	44,513	95,571	55,859
Deposits received, other payables and accruals	10,572	30,800	41,102
Interest-bearing bank borrowings	89,250	197,000	116,000
Due to a director	15,635	3,521	32,874
Due to related parties	23,843	8,143	—
Dividend payable	—	—	129,455
Tax payables	—	—	30,518
	<u>183,813</u>	<u>335,035</u>	<u>405,808</u>
Net current assets	<u>50,211</u>	<u>79,883</u>	<u>369,082</u>

Our net working capital improved during the year from 31 December 2005 to 31 December 2006. We recorded a net current assets position of RMB79.9 million as at 31 December 2006, compared to a net current assets position of RMB50.2 million as at 31 December 2005. This improvement was primarily due to an increase in our working capital resources resulting from improvement in our business performance in 2006 and an increase in the paid-up capital of subsidiaries contributed by shareholders, partially offset by our capital expenditure in 2006.

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Our net working capital improved by approximately 362.0% during the period from 31 December 2006 to 31 December 2007. We recorded a net current assets position of RMB369.1 million as at 31 December 2007, compared to a net current assets position of RMB79.9 million as at 31 December 2006. This improvement was primarily due to the further improvement in our business performance in 2007, an increase in our trade and bills receivables, prepayments, deposits and other receivables and an increase in our cash and bank balances as a result of the investment by the Carlyle Investment Funds. For further details about the investment by the Carlyle Investment Funds, please see the section headed “Investment by Carlyle” in this prospectus.

As at 31 March 2008, we had net current assets of RMB522.3 million. Our current assets as of 31 March 2008 were comprised of inventories of RMB262.3 million, trade and bills receivables of RMB320.2 million, prepayments, deposits and other receivables of RMB199.6 million, and cash and bank balances of RMB446.9 million. Our current liabilities as of 31 March 2008 were comprised of trade and bills payables of RMB265.0 million, deposits received, other payables and accruals of RMB78.8 million, dividend payable of RMB129.5 million, interest-bearing bank borrowings of RMB183.0 million, tax payable of RMB21.2 million and amount due to a director of RMB29.2 million.

INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the principal components of our current assets. It is imperative that we manage and control our level of inventories. The value of our inventories accounted for approximately 43.7%, 36.5% and 25.0% of our total current assets as at 31 December 2005, 2006 and 2007, respectively.

The following table is a summary of our balance of inventories at each of the balance sheet dates during the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Inventories			
Raw materials	81,026	98,700	77,777
Work in progress	6,485	3,237	28,853
Finished goods	<u>14,916</u>	<u>49,425</u>	<u>86,875</u>
Total	<u>102,427</u>	<u>151,362</u>	<u>193,505</u>

Our inventories increased by approximately 47.9%, from RMB102.4 million as at 31 December 2005 to RMB151.4 million as at 31 December 2006, primarily due to an increase of RMB34.5 million in our finished goods and RMB17.7 million in our raw materials, as a result of increased purchases of raw materials and outsourced products from our contract manufacturers in anticipation of future sales in early 2007 and to meet significant growth in demand for our products.

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Our inventories increased by approximately 27.8%, from RMB151.4 million as at 31 December 2006 to RMB193.5 million as at 31 December 2007, primarily due to an increase of RMB37.5 million in our finished goods and RMB25.6 million in our work in progress, in order to meet significant growth in demand for our products.

The following table sets out our average inventory turnover days for the Track Record Period:

	For the year ended 31 December		
	2005	2006	2007
Average inventory turnover days ⁽¹⁾	156	133	68

Note:

(1) Average inventory turnover days is equal to the average inventory divided by costs of sales and multiplied by 365 days.

We experienced a significant decline in our average inventory turnover days during the Track Record Period primarily as a result of our increased use of contract manufacturers, which carried the raw materials and work in progress as their inventories. In addition, our improved production planning, procurement control and logistics management also reduced the level of raw material inventories kept by us and therefore contributed to the decline in our average inventory turnover days. For the year ended 31 December 2007, our enhanced production lines also enable us to produce our products in smaller batches which reduced the work in progress, and to deliver our finished goods to customers more frequently. Up to 31 March 2008, 99.6% of inventories at 31 December 2007 was sold or consumed, and accordingly we made no provision for inventories during the Track Record Period. Inventories were stated at cost as at 31 December 2005, 2006 and 2007.

The Directors confirm that to their best knowledge and belief, the significant increase in sales of our branded products during the Track Record Period was not as a result of the accumulation of inventories at the level of our distributors or third-party retailers.

The following table sets out a summary of the balance of inventories kept by the distributors of our branded products at each of the balance sheet dates, respectively:

	As at 31 December		
	2005	2006	2007
	RMB million	RMB million	RMB million
Total inventories	1.2	21.0	32.4

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The following table sets out the average inventory turnover days of the distributors of our branded products as at 31 December 2005, 2006 and 2007, respectively:

	For the year ended 31 December		
	2005	2006	2007
Average inventory turnover days ⁽¹⁾	<u>10</u>	<u>28</u>	<u>10</u>

Note:

(1) Average inventory turnover days is equal to average inventory divided by costs of sales of distributors and multiplied by 365 days.

Based on the information provided by our distributors which are Independent Third Parties, our Directors believe the main factors affecting our distributors' inventory level during the Track Record Period are distributors' confidence in our products, the range of our product offering and the efficiency of the delivery system. The average inventory turnover days of our distributors was 10 days in 2005, primarily because we began to change our business model in 2005 from selling our branded products to direct sales customers to selling the majority of our branded products to distributors which maintained relatively short inventory turnover days to minimise their risks involved in their new business with us in that year. The average inventory turnover days of our distributors increased to 28 days in 2006, primarily because, as our business model became mature in 2006, our distributors were more confident about our products and tended to purchase relatively more goods from us. In addition, we substantially broadened our product offering in 2006 particularly with the introduction of our branded apparel products and our distributors therefore increased the level of inventory they kept, which resulted in longer inventory turnover days in that year. The average inventory turnover days of our distributors decreased from 28 days in 2006 to 10 days in 2007, primarily because we sold significantly more of our products in 2007 and therefore were able to deliver our products to our distributors more frequently, and our distributors also sold and delivered the products to their third-party retail outlets more frequently. The above analysis are given by our Directors based on information provided by the relevant distributors which are Independent Third Parties. We have not independently verified or audited the accuracy of such information.

The differences between our average inventory turnover days and those of our distributors are due to the fact that we and our distributors are at different levels of the supply chain. We are the manufacturer of the goods and therefore will need to keep larger number of stock keeping units, or SKUs, to satisfy orders from all of our distributors. On the other hand, our distributors have more control over their inventory levels because, with respect to sales to third-party retailers, goods are delivered to such retailers as soon as our distributors receive them from us.

The above information relating to the balance of inventory kept by, and average inventory turnover days of, the distributors of our branded products were provided by the relevant distributors which are Independent Third Parties, and have not been independently verified or audited by us. For more details, please refer to "Information relating to the balance of inventory kept by, and average inventory turnover days of, the distributors of our branded products contained in this prospectus have not been independently verified or audited" in the section headed "Risk Factors — Risks Relating to Our Group's Business" of this prospectus.

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TRADE RECEIVABLES ANALYSIS

The following table sets out the aging analysis of our trade receivables for the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Aging analysis of trade receivables			
Within 90 days	69,156	139,978	100,546
91 to 180 days	8,046	10,035	67,861
181 to 360 days	15,013	9,024	19,049
Over 360 days	<u>9,311</u>	<u>28,922</u>	<u>1,129</u>
Trade receivables	<u>101,526</u>	<u>187,959</u>	<u>188,585</u>
Bills receivables	<u>—</u>	<u>—</u>	<u>45,798</u>
Trade and bills receivables	<u><u>101,526</u></u>	<u><u>187,959</u></u>	<u><u>234,383</u></u>

Our distributors are invoiced at the time when such products are delivered. We generally grant credit periods of two to three months to our distributors based on their credit history and historical sales performance. Up to 31 March 2008, 97.7% of trade receivables at 31 December 2007 was settled and accordingly, we made no impairment allowance for trade receivables as at 31 December 2005, 2006 and 2007.

The following table sets out our average trade receivables turnover days for the Track Record Period:

	For the year ended 31 December		
	2005	2006	2007
Average trade receivables turnover days ⁽¹⁾	<u>80</u>	<u>109</u>	<u>56</u>

Note:

(1) Average trade receivables turnover days is equal to the average trade receivables divided by revenue and multiplied by 365 days.

The increase in the average trade receivables turnover days for the year ended 31 December 2006, compared with the year ended 31 December 2005, was predominantly due to the granting of more favourable credit terms to all of our customers in order to promote our Xtep branded products. Such more favourable credit terms were granted to all and not just some of our customers.

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The decrease in the average trade receivables turnover days for the year ended 31 December 2007, compared with the year ended 31 December 2006, was predominantly due to the strengthening of our bargaining position that enable us to tighten our credit control policy.

TRADE AND BILLS PAYABLES ANALYSIS

Our trade and bills payables primarily relate to the purchase of raw materials from our suppliers, and are non-interest-bearing with credit terms of 60 to 90 days.

The following table sets out the aging analysis of our trade payables for the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Aging analysis of trade payables			
Within 90 days	44,377	68,093	54,413
91 to 180 days	—	452	1,179
181 to 360 days	106	—	263
Over 360 days	30	126	4
Total trade payables	44,513	68,671	55,869
Bills payables	—	26,900	—
Total trade and bills payables	44,513	95,571	55,859

The following table sets out our average trade and bills payables turnover days for the Track Record Period:

	For the year ended 31 December		
	2005	2006	2007
Average trade and bills payables turnover days ⁽¹⁾	70	74	30

Note:

(1) Average trade and bills payables turnover days is equal to the average trade and bills payables divided by cost of sales and multiplied by 365 days.

The increase in the average trade and bills payables turnover days for the year ended 31 December 2006, compared with the year ended 31 December 2005, was predominantly due to the increase in the use of bills payable to settle purchases from suppliers.

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The decrease in the average trade and bills payables turnover days for the year ended 31 December 2007, compared with the year ended 31 December 2006, was predominantly due to our relationship with our suppliers that allows us to place relatively smaller orders for raw materials provided that we agree to settle those purchases in a shorter credit period. The purpose of this arrangement is to decrease our inventories and reduce our storage costs. We also settle our trade payables in a timely manner and in some cases, pay deposits for our purchases of inventories to ensure prompt and on-time delivery by our suppliers.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES ANALYSIS

Prepayments, deposits and other receivables primarily consist of prepayments to suppliers, contract manufacturers and subcontractors, prepaid advertising and promotional expenses and loan receivables.

The following table sets out our Group's prepayments, deposits and other receivables at each of the balance sheet date during the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Deposits paid to suppliers and contract manufacturers	1,412	12,286	80,670
Prepaid subcontracting fee	980	6,283	26,328
Prepaid advertising and promotional expenses	—	11,374	16,560
Loan receivables	10,000	15,000	—
Prepaid professional fees for listing	—	—	6,624
Others	484	484	1,802
	12,876	45,427	131,984

Our prepayments, deposits and other receivables increased by RMB32.5 million, from RMB12.9 million as at 31 December 2005 to RMB45.4 million as at 31 December 2006, primarily due to the increase in our spending on advertising and promotional activities to build and promote our brand, which contributed to the increase in our prepaid advertising and promotional expenses. We were also required to make prepayments for our advertising and promotional activities.

Our prepayments, deposits and other receivables increased by RMB86.6 million, from RMB45.4 million as at 31 December 2006 to RMB132.0 million as at 31 December 2007, primarily due to the increase in sales orders of our sportswear, which in turn increased the deposits paid to suppliers, contract manufacturers and subcontractors for the raw materials and outsourcing the production of our sportswear products.

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Loan receivables represented funds advanced to an Independent Third Party, a personal friend of Mr. Ding who was in urgent need of money. The loan receivables were RMB10 million and RMB15 million as at 31 December 2005 and 2006, respectively. Such amounts were fully repaid in October 2007, and we have not made any such advances since then. Such loan advances were made pursuant to the loan agreements entered into with the Independent Third Party and our Directors confirmed that these loan agreements were properly approved. However, as confirmed by our PRC legal adviser, Jingtian & Gongcheng, such lending activities contravened certain provisions of the Lending General Provisions (《貸款通則》) promulgated by the PBOC in 1996. According to the Lending General Provisions, the maximum penalty that may be imposed on our Group by the PBOC for such contravention is a total fine of approximately RMB8.6 million. The Controlling Shareholders have agreed to indemnify our Group for any losses or damages suffered by our Group as a result of any penalty imposed on us by the PBOC arising from the said advances made. The Directors confirm that such advances were terminated in October 2007 upon its repayment in full by the Independent Third Party borrower and will not continue after the Listing.

In order to ensure such loan advancing activities will not recur in the future, regular training will be given to all of our Directors and senior management by our company secretary or compliance adviser who are fully qualified in advising the requirements of the Listing Rules. Monthly internal reporting mechanisms relating to discloseable transactions or transactions not in the course of ordinary business will be in place and our Directors and senior management will review the transactions to ensure their legality. We will continue to engage legal advisers to advise us on Hong Kong and PRC related regulatory and compliance matters as necessary in due course.

DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS ANALYSIS

Deposits received, other payables and accruals mainly comprise deposits received from our distributors, payables for construction in progress and value-added tax, accruals liabilities, and other payables. Accrued liabilities primarily relate to accrued salaries.

The following table sets out our Group's deposits received, other payables and accruals at each of the balance sheet date during the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Deposits received	5,151	6,088	23,121
Accrued liabilities	4,532	6,832	15,959
Construction cost payables	500	9,305	—
Value-added tax payables	150	6,896	(1,368)
Other payables	239	1,679	3,390
	<u>10,572</u>	<u>30,800</u>	<u>41,102</u>

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Our deposits received increased by 17.3%, from RMB5.2 million as at 31 December 2005 to RMB6.1 million as at 31 December 2006, and increased by RMB17 million, from RMB6.1 million as at 31 December 2006 to RMB23.1 million as at 31 December 2007. The primary reason for the increase in our deposits received during the Track Record Period was due to increased sales volume and as a result, our distributors placed more deposits with us according to their increased sales orders.

Our accrued liabilities increased by 51.1%, from RMB4.5 million as at 31 December 2005 to RMB6.8 million as at 31 December 2006, and increased by 135.3%, from RMB6.8 million as at 31 December 2006 to RMB16.0 million as at 31 December 2007. The primary reason for the increase in our accrued liabilities during the Track Record Period was the increase in our staff costs as a result of our business expansion.

Our construction cost payables increased by RMB8.8 million, from RMB0.5 million as at 31 December 2005 to RMB9.3 million as at 31 December 2006, and reduced to nil as at 31 December 2007. The construction cost payables in 2005 and 2006 related to our payables to contractors for the construction work of our factory and warehouse located in Quanzhou. We did not record any construction cost payables as at 31 December 2007 as our construction works were completed by the end of 2007.

Our value-added tax payables increased by RMB6.7 million, from RMB0.2 million as at 31 December 2005 to RMB6.9 million as at 31 December 2006, primarily due to increase of sales in 2006. We had a value-added tax recoverable of RMB1.4 million as at 31 December 2007, because we made more purchases of raw materials for producing our 2008 spring season sportswear in late 2007.

DEPOSIT PAID ANALYSIS

Pursuant to a sale and purchase agreement (the “**Agreement**”) dated 10 September 2003 between a predecessor company of ours and 福建省晉江市工業園區開發建設有限公司 (Fujian Jinjiang Industrial Zone Development and Construction Co., Ltd.) (the “**Vendor**”), an Independent Third Party, the rights and obligations of which were transferred to our Group on 15 July 2006, we agreed to purchase of a piece of land located at Jinjiang Wuli Industrial Zone, Fujian Province (the “**Land**”). We planned to develop and use for the location of our new apparel production facility. The balance of deposits paid in relation to the Agreement as at 31 December 2005, 2006 and 2007 were RMB6 million, RMB10 million and RMB10 million, respectively. As our Group did not receive a confirmation date for the completion of the Agreement from the Vendor, our Group decided to seek remedies to recover such outstanding deposit. On 25 January 2008, an agreement was made between our Group and 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.), an Independent Third Party, who agreed to pay our Group a cash consideration of RMB10 million, representing the amount of the deposit paid by our Group. In return, 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.) replaced our Group as a party to the Agreement and our Group terminated its interests in the Agreement. The consideration of RMB10 million was fully settled by 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.) in March 2008.

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INDEBTEDNESS

Borrowings

The following table sets forth our indebtedness as at each of the balance sheet dates during the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Current			
Bank loans — secured	47,250	177,000	101,000
Bank loans — unsecured	42,000	20,000	15,000
	89,250	197,000	116,000

The following table sets forth the maturity profile of our bank loans as at each of the balance sheet dates during the Track Record Period:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable within one year. . .	89,250	197,000	116,000

As at 31 March 2008, the latest practicable date for determining our indebtedness, our Group's total indebtedness amounted to RMB373 million, consisting of short-term secured bank loans of RMB164 million, short-term unsecured bank loans of RMB19 million and preferred shares issued to Carlyle Investment Funds of RMB190 million. We confirm that there has not been any material change in our indebtedness since 31 March 2008.

The above bank loans are all denominated in RMB. The bank loans bear fixed interest rates ranging from 5.022% to 6.138% per annum for the year ended 31 December 2005, ranging from 5.022% to 6.12% per annum for the year ended 31 December 2006, ranging from 5.508% to 6.561% per annum for the year ended 31 December 2007, and ranging from 5.508% to 7.47% per annum for the three months ended 31 March 2008. Because of the short maturity, the carrying amounts of current bank loans approximate to their fair values.

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The bank loans of RMB47.25 million as at 31 December 2005 were secured by:

- (i) corporate guarantee from Xtep (China) and Sanxing Sports; and
- (ii) mortgages over certain land use rights and buildings of our Group situated in the PRC.

The bank loans of RMB177 million as at 31 December 2006 were secured by:

- (i) corporate guarantee from Xtep (China) and Sanxing Sports;
- (ii) corporate guarantee of RMB15 million from an Independent Third Party, namely 福建晉江安普鞋業有限公司 (Fujian Jinjiang An Pu Footwear Co., Ltd.);
- (iii) mortgages over certain land use rights and buildings of our Group situated in the PRC; and
- (iv) personal guarantee of RMB66 million from Mr. Ding and Ms. Ding Ming Fang.

The personal guarantee from Mr. Ding and Ms. Ding Ming Fang and the corporate guarantee from 福建晉江安普鞋業有限公司 (Fujian Jinjiang An Pu Footwear Co., Ltd.) (“**An Pu Footwear**”), an Independent Third Party, expired on 28 June 2007 and 10 August 2007, respectively. The corporate guarantee was provided by An Pu Footwear in response to the request by the lending bank for a corporate guarantee from an Independent Third Party acceptable to them, as we increase our bank borrowings in 2006 to support our rapid business expansion. We and/or our connected persons did not provide any cross-guarantee and/or counter-guarantee to An Pu Footwear. The lending bank did not request us to continue to secure such a corporate guarantee from an Independent Third Party after its expiry in 10 August 2007, primarily due to our improved creditworthiness as a result of our continuous business expansion in 2007.

The bank loans of RMB101 million as at 31 December 2007 were secured by:

- (i) corporate guarantee from Sanxing Sports and Koling (Fujian); and
- (ii) mortgages over the land use rights and buildings of our Group situated in the PRC.

The bank loans of RMB164 million as at 31 March 2008 were secured by:

- (i) corporate guarantee from Sanxing Sports and Koling (Fujian); and
- (ii) mortgages over the land use rights and buildings of our Group situated in the PRC.

On 13 June 2007, the Carlyle Investment Funds made its a first tranche of investment to our Company through the subscription of convertible bonds with a principal amount of approximately RMB40,000,000 (the “Convertible Bonds”). The Convertible Bonds bear interest at 5% per annum and have a term of 6 months. On the maturity date, the Carlyle Investment Funds could request for the repayment or convert all or part of the Convertible Bonds into our Series A Preferred Shares at a predetermined valuation.

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On 18 September 2007, the Carlyle Investment Funds made its second tranche of investment by subscribing to 10,112,360 Series A Preferred Shares of our Company at a consideration of approximately RMB180,000,000. In addition, the Carlyle Investment Funds converted the Convertible Bonds into 2,247,190 Series A Preferred Shares of our Company. In aggregate, the Carlyle Investment Funds held 12,359,550 Series A Preferred Shares as at 18 September 2007, being the issuance date, and as at 31 December 2007.

On 21 March 2008, the Carlyle Investment Funds converted a total of 1,565,168 Series A Preferred Shares into 1,565,168 ordinary Shares of our Company, represented approximately 1.5% of our Company total ordinary Shares in issue at that date after the conversion. The Carlyle investment Funds held 10,794,382 Series A Preferred Shares as at 31 March 2008.

Save as disclosed above, and apart from intra-group liabilities, our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 31 March 2008.

Gearing ratios

Our gearing ratio was 40.7%, 39.9% and 40.6% as at 31 December 2005, 2006 and 2007, respectively. Gearing ratio is derived by dividing the debts incurred in the ordinary course of business by total assets.

Our gearing ratio decreased from 40.7% as at 31 December 2005 to 39.9% as at 31 December 2006 due to the repayment of amounts due to a director and related parties. Our gearing ratio then increased from 39.9% as at 31 December 2006 to 40.6% as at 31 December 2007, as we increased our long term liabilities as a result of the investments by the Carlyle Investment Funds in our Group, partially offset by the repayment of certain bank loans.

WORKING CAPITAL

Our Directors believe that after taking into account the net proceeds available to us from the Global Offering and our operating cash flow, we will have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any off-balance sheet transactions.

CONTINGENT LIABILITIES

As at 31 December 2007, our Group did not have significant contingent liabilities. Our Group is currently not involved in any material legal proceedings, nor is our Group aware of any pending or

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potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.

PROFIT FORECAST

Our Directors believe that, in the absence of unforeseen circumstances and on the basis and assumption as set out in “Appendix III — Profit Forecast,” our Group’s profit after taxation for the year ending 31 December 2008 is unlikely to be less than HK\$520 million.

On a pro forma fully diluted basis and on the assumption that our Group had been listed since 1 January 2008 and a total of 2,200,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the forecast earnings per Share for the year ending 31 December 2008 is unlikely to be less than HK\$23.64 cents, representing a price/earnings multiple of 17.1 times and 23.3 times if the Offer Price is HK\$4.05 per Share and HK\$5.50 per Share, respectively.

The texts of letters from the reporting accountants of our Group, and from the Joint Sponsors in respect of the profit forecast are set out in “Appendix III — Profit Forecast”.

DISTRIBUTABLE RESERVES

As at 31 December 2007, our Group had distributable reserves of RMB229.2 million, which is available for distribution to the equity holders of our Group.

DIVIDEND AND DIVIDEND POLICY

We declared a dividend of RMB129,455,000 to our registered shareholders on 17 September 2007 and we confirm that such dividend has been fully settled. Apart from the said dividend, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board, or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

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Subject to the factors described above, the Board of Directors currently intends to recommend at the next annual shareholders meeting of our Company an annual dividend of no less than 30% of our net profit available for distribution to our shareholders after the Global Offering.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of 31 March 2008 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB133.4 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties and prepaid land lease payments as reflected on the audited consolidated financial information as at 31 December 2007 as set out in Appendix I to this prospectus with the valuation of these properties and lease prepayments as at 31 March 2008 as set out in Appendix IV to this prospectus.

	RMB'000	RMB'000
Valuation of properties (including the prepaid land lease payments) owned by our Group as at 31 March 2008 as set out in the property valuation report in Appendix IV to this prospectus		133,402
Net book value of the following properties as at 31 December 2007 as set out in Appendix I to this prospectus:		
— Buildings	54,553	
— Prepaid land lease payments	22,271	
Net book value as at 31 December 2007	76,824	
Add: Additions of prepaid land lease payments during the period from 1 January 2008 to 31 March 2008 (unaudited)	579	
Less: Depreciation of buildings for the three months ended 31 March 2008 (unaudited)	(731)	
Less: Amortisation of prepaid land lease payments for the three months ended 31 March 2008 (unaudited)	(125)	
Net book value as at 31 March 2008 (unaudited)		76,547
Net valuation surplus		56,855

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DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had our Group been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2007 and there is no event since 31 December 2007 that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is for illustration purposes only. It may not give a true picture of the net tangible assets of our Group following the Global Offering. The following unaudited pro forma adjusted net tangible assets is set out here to illustrate the effect of the Global Offering on the net tangible assets of our Group as at 31 December 2007 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountants' report.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2007⁽¹⁾⁽⁴⁾	Estimated net proceeds from Offer Shares⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets value per Share⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$4.05 per Share	279,507	1,864,547	2,144,054	0.97	1.08
Based on an Offer Price of HK\$5.50 per Share	279,507	2,551,476	2,830,983	1.28	1.43

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2007 is arrived at after deducting intangible assets of RMB289,000 from the audited consolidated net assets of our Group attributable to equity holders of our Company of RMB279,796,000 as at 31 December 2007.*
- (2) The estimated net proceeds from the Offer Shares is based on the Offer Price of HK\$4.05 (equivalent to RMB3.65) or HK\$5.50 (equivalent to RMB4.96) per Share assuming that the Over-allotment Option is not exercised, after deduction of the underwriting fees and related expenses payable by our Company and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme.*

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- (3) *The pro forma adjusted consolidated net tangible assets value per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 2,200,000,000 Shares in issue immediately following completion of the Share Offer.*
- (4) *The property interests of our Group as at 31 March 2008 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of our Group amounting to RMB56,855,000. The revaluation surplus will not be incorporated in our Group's financial statements for the year ending 31 December 2008. If the revaluation surplus was recorded in our Group's financial statements, the annual depreciation of our Group for the year ending 31 December 2008 would be increased by approximately RMB2,330,000.*

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest Rate Risk

Our Group does not have any significant exposure for risk of changes in market interest rates as our Group's debt obligations were all with fixed interest rates.

Foreign Currency Risk

Our Group mainly operates in the PRC with most of the transactions settled in RMB. Our Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. Our Group has not used any forward contract or currency borrowing to hedge our exposure as foreign currency risk is considered to be minimal.

Credit Risk

Our Group trades only with recognised and creditworthy customers. It is our Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant.

Since our Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of our Group's other financial assets which comprise cash and cash balances, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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Commodity price risk

The major raw materials used in the production of our Group's products included rubber and plastics. Our Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our Group's financial performance. Our Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. Our Group does not have any significant exposure to liquidity risk as our Group was in a net current asset position as at 31 December 2005, 2006 and 2007.

Effects of Inflation

According to the China Statistical Bureau, China's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 1.8%, 1.8% and 4.8% in the years ended 31 December 2005, 2006 and 2007, respectively. The inflation rate in China has been subject to an upward trend since 2007. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business during the past three years. As at the Latest Practicable Date, our Group's business have not been materially affected by any inflation or deflation.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms are not less favourable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK\$2,451 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$4.78 per Share, being the mid-point of the proposed Offer Price range of HK\$4.05 to HK\$5.50 per Share. We intend to use such net proceeds as follows:

- Approximately HK\$539 million (equivalent to approximately 22% of our total estimated net proceeds) towards media advertising (such as television commercials and sponsorship of television programmes) and brand promotional activities (such as appointment of entertainment celebrities as our brand and image representatives, sponsorship of major sports leagues and events and organising seasonal sales fairs);
- Approximately HK\$417 million (equivalent to approximately 17% of our total estimated net proceeds) towards expanding and improving the coverage of our distribution network in the areas of Hunan, Fujian, Heilongjiang, Jilin, Liaoning, Jiangsu, Guangdong, Zhejiang and Sichuan provinces;
- Approximately HK\$466 million (equivalent to approximately 19% of our total estimated net proceeds) towards expanding our apparel production facilities by increasing our apparel production lines from 12 to approximately 120, and upgrading our production machinery to further improve production efficiency;
- Approximately HK\$588 million (equivalent to approximately 24% of our total estimated net proceeds) towards acquiring brands. We will consider various factors such as market, sales potential and distribution network. At present, we have not identified any specific investment targets;
- Approximately HK\$172 million (equivalent to approximately 7% of our total estimated net proceeds) towards recruiting professional designers, engaging design and consultancy firms and upgrading our laboratories for enhancing our design and technology capabilities;
- Approximately HK\$195 million (equivalent to approximately 8% of our total estimated net proceeds) towards working capital and other general corporate purposes; and

FUTURE PLANS AND USE OF PROCEEDS

- Approximately HK\$74 million (equivalent to approximately 3% of our total estimated net proceeds) towards upgrading our current information management system to improve efficiency.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK\$381 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$2,827 million, assuming an Offer Price of HK\$4.78 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK\$438 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

UNDERWRITING

HONG KONG UNDERWRITERS

J.P. Morgan Securities (Asia Pacific) Limited
UBS AG acting through its business group UBS Investment Bank
BOCOM International Securities Limited
Core Pacific-Yamaichi International (H.K.) Ltd.
First Shanghai Securities Limited
VC Brokerage Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong at the Offer Price on, and subject to, the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued pursuant to the conversion of the Series A Preferred Shares, the Capitalisation Issue, the Pre-IPO Share Option Scheme and the Share Option Scheme and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Joint Global Coordinators (on behalf of the Underwriters) and we agreeing the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), if, at any time prior to 8:00 am on the Listing Date:

- (1) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, economic sanction, strikes, lock-outs, fire, explosion, flooding,

UNDERWRITING

epidemic (including SARS or H5N1 avian flu or any related or mutated forms thereof), civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, accident or interruption or delay in transportation or acts of terrorism or any state of emergency or calamity or crisis in or affecting Hong Kong, the PRC, the United States, the United Kingdom, Ireland, France, Germany, Italy, Netherlands, Switzerland or Japan or any other jurisdiction where any member of our Group is incorporated (the “Relevant Jurisdictions”); or

- (ii) any change or development involving a prospective change, or any event or series of events, likely to result in any change or prospective change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or any monetary or trading settlement system and/or disaster (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, imposition or declaration of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currencies, or any moratorium on banking activities or disruption in commercial banking activities or foreign exchange or securities settlement or clearance services or procedures in or affecting any of the Relevant Jurisdictions ; or
- (iii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC or any other jurisdiction relevant to any member of our Group, or there is a material disruption in commercial banking or securities settlement or clearance services in those places; or
- (iv) any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by, or for any of the Relevant Jurisdictions; or
- (vi) a change or development occurs involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in any of the Relevant Jurisdictions adversely affecting an investment in the Shares; or

UNDERWRITING

- (vii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (viii) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of our Company vacating his or her office in circumstances where the operations of our Group may be materially and adversely affected; or
- (x) the commencement by any regulatory or political body or organisation of any action against any Director or an announcement by any regulatory or political body or organisation that it intends to take any such action; or
- (xi) a contravention by any member of our Group of the Companies Ordinance, the SFO, or any of the Listing Rules; or
- (xii) a prohibition on our Company for whatever reason from allotting or selling the Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (xiii) non-compliance of this Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xiv) other than with the approval of the Joint Global Coordinators and the Hong Kong Underwriters, the issue or requirement to issue by our Company of a supplementary Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules; or
- (xv) a petition is presented or an order is made for the winding up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xvi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (xvii) any loss or damage sustained by any member of the member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

UNDERWRITING

which in any such case and in the sole opinion of the Joint Global Coordinators:

- (a) is or is likely or will or may individually or in the aggregate have a material adverse effect on the business, financial, trading position or other condition or prospects of our Group as a whole; or
 - (b) is or is likely or has or will have or may have a material adverse effect on the success of the Hong Kong Public Offer or Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
 - (c) is or will or is likely to make it inadvisable or inexpedient or impracticable for Hong Kong Public Offer and/or the Global Offering to proceed or to market the Hong Kong Public Offer and/or the Global Offering; or
 - (d) would or is or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement or the International Underwriting Agreement or the Global Offering (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (2) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in this Prospectus, the Application Forms, the Formal Notice and any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecasts, expressions of opinion, intention or expectation expressed in this Prospectus, the Application Forms, the Formal Notice and/or any announcements issued by our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) are not fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus and having not been disclosed in this Prospectus, constitute a material omission therefrom; or
 - (iii) any material breach of any of the obligations imposed upon our Company, our Controlling Shareholders and the executive Directors of our Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (iv) any event, act or omission which gives or is reasonably likely to give rise to any material liability of any of the Indemnifying Parties (as defined in the Hong Kong Underwriting Agreement) pursuant to the Hong Kong Underwriting Agreement; or

UNDERWRITING

- (v) any material adverse change or development involving a prospective material adverse change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of our Group; or
- (vi) any breach of, or any event rendering untrue or incorrect in any respect, any of the representations and warranties under the Hong Kong Underwriting Agreement; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws the Prospectus (and any other documents used in connection with the contemplated subscription and sale of the Shares) or the Global Offering.

Undertakings to the Stock Exchange under the Listing Rules

By us

We have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing) without the prior consent of the Stock Exchange, except:

- (a) in the circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering and the Over-allotment Option; or
- (c) any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

By Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that he or she shall not and shall procure that the relevant register holder shall not, without the prior written consent of the Stock Exchange:

- (a) at any time during the period commencing from the Latest Practicable Date and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of us in respect of which it is shown by this prospectus to be the beneficial owner; or

UNDERWRITING

- (b) at any time during the six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our controlling shareholder.

Each of the Controlling Shareholders has also undertaken to the Stock Exchange and us that, it will, within the period commencing on the Latest Practicable Date and ending on the date which is 12 months after the Listing Date, immediately inform us of:

- (a) any pledges or charges of any of the Shares or securities of our Company beneficially owned by it in favour of any authorised institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by it, either verbal or written, from any pledgee or chargee of any of the Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by any of the Controlling Shareholders.

Undertakings to the Underwriters

By us

We have undertaken with each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the conversion of Series A Preferred Shares and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme, it will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of First Six-month Period offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of our share capital or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or offer or agree to announce any intention to do any of the foregoing.

UNDERWRITING

By the Controlling Shareholders

Each of the Controlling Shareholders has, jointly and severally, undertaken with the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement, none of the Controlling Shareholders will, without the prior written consent of the Joint Global Coordinators, at any time during the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the First Six-month Period:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause our Company to repurchase any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly by the Controlling Shareholders (including holding as a custodian) or with respect to which any of the Controlling Shareholders has beneficial ownership (collectively the “**Lock-up Shares**”); the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

Additionally, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), the Controlling Shareholders will not enter into any of the foregoing transactions in (a), (b) or (c) above or contract to or publicly announce any intention

UNDERWRITING

to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders will cease to be our controlling shareholder.

Commission and expenses

We will pay to the Joint Global Coordinators (for itself and on behalf of the Hong Kong Underwriters) an underwriting commission at the rate of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer, out of which the Hong Kong Underwriters will pay all (if any) sub-underwriting commissions. The International Underwriters will receive an underwriting commission of 2.5% of the Offer Price of the International Offer Shares initially offered under the International Placing. In addition, we will pay to the Joint Global Coordinators (for their account only) an incentive fee of 1% of the Offer Price multiplied by the total number of Offer Shares. A further incentive fee of 1% of the Offer Price multiplied by the total number of Offer Shares will be paid to the Joint Global Coordinators (for their account only) by us upon fulfilment of certain conditions. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

Indemnity

We and Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our Company or any of our subsidiaries.

International Placing

International Underwriting Agreement

In connection with the International Placing, it is expected that we will, on or about 27 May 2008, shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally and not jointly agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares. Potential investors shall be reminded that in the event that the International Underwriting agreement is not entered into, the Global Offering will not proceed.

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Under the International Underwriting Agreement, our Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at the sole and absolute discretion of the Joint Global Coordinators for up to 30 days after the last day for lodging applications under the Hong Kong Public Offer, to require us to allot and issue up to an aggregate of 82,500,000 additional Shares representing, in aggregate, 15.0% of the maximum number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Placing, if any.

We will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the US Securities Act and the US Exchange Act.

Total Commission and Expenses

Assuming an Offer Price of HK\$4.78 per Share (being the midpoint of the stated offer price range of HK\$4.05 to HK\$5.50 per Share), the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.004%, Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$178 million in total (assuming the Over-allotment Option is not exercised). For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offer of 55,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— The Hong Kong Public Offer”; and
- the International Placing of 495,000,000 Shares (subject to adjustment and over-allocation as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong), in offshore transaction in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

J.P. Morgan Asia Pacific and UBS are the Joint Global Coordinators and the Joint Sponsors while J.P. Morgan and UBS are the Joint Bookrunners and the Joint Lead Managers of the Global Offering.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Placing respectively may be subject to reallocation as described in “— Pricing and Allocation”.

Reference in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offer.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 27 May 2008 and in any event, before 2 June 2008.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will be not more than HK\$5.50 per Offer Share and is expected to be not less than HK\$4.05 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with our consent) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer on 26 May 2008, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offer and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. Applicants under the Hong Kong Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range.

The Shares to be offered in the Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators, effected in accordance with the “book-building” process and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of us and our shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The net proceeds from the issue of new Shares are estimated to be approximately HK\$2,451 million. The estimated net proceeds from the issue of new Shares are calculated assuming an Offer Price of HK\$4.78 per Share (being the midpoint of the stated offer price range of HK\$4.05 to HK\$5.50 per Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering assuming that the Over-allotment Option is not exercised.

The applicable Offer Price, level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Placing, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on 2 June 2008 through a variety of channels as described in the manner set out in “How to Apply for Hong Kong Offer Shares — Publication of Results”.

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offer will be conditional on:

- (a) the granting by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be sold pursuant to the exercise of the Over-allotment Option);
- (b) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (c) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 am on 3 June 2008.

If for any reason, the Offer Price is not agreed before 2 June 2008 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a Notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFER

We are initially offering 55,000,000 new Shares at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offer will represent approximately 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Shares in the International Placing.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offer.

The Offer Price will be not more than HK\$5.50 and is expected to be not less than HK\$4.05. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum offer price of HK\$5.50 per Share plus 1.0% brokerage, 0.004% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$5.50, being the maximum Offer Price, we will refund the respective difference (including the brokerage, the SFC transaction levy, and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares”.

For allocation purposes only, the 55,000,000 Shares initially being offered for subscription under the Hong Kong Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offer and the International Placing) will be divided equally into two pools: Pool A comprising 27,500,000 Hong Kong Offer Shares and Pool B comprising 27,500,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 55,000,000 Shares initially comprised in the Hong Kong Public Offer (that is, 27,500,000 Hong Kong Offer Shares) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

The allocation of Shares between the Hong Kong Public Offer and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Hong Kong Public Offer, the total number of Shares available under the Hong Kong Public Offer will be increased to 165,000,000, 220,000,000 and 275,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deems appropriate, and such additional Shares will be allocated to Pool A and Pool B. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

THE INTERNATIONAL PLACING

The number of Shares to be initially offered for subscription or sale under the International Placing will consist of 495,000,000 new Shares to be offered by us, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. The International Placing is subject to the Hong Kong Public Offer being unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Hong Kong Public Offer. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require the allotment and issue by the Company of an aggregate of 82,500,000 additional Shares representing in aggregate 15% of the initial Offer Shares, at the Offer Price. See “Information About this Prospectus and the Global Offering — Over-Allocation and Stabilisation”.

STRUCTURE OF THE GLOBAL OFFERING

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 am in Hong Kong on 3 June 2008, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 am on 3 June 2008.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about 27 May 2008, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may either (i) use a **yellow** or **white** Application Form; (ii) apply online through the designated website of the White Form eIPO Service Provider, referred to herein as the “**White Form eIPO**” service (www.eipo.com.hk); or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Forms or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

I. APPLYING BY USING AN APPLICATION FORM

Which Application Form to Use

Use a **white** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.

Note: The Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as “associate” is defined in the Listing Rules) or to a connected person (as defined in the Listing Rules) of our Company or to legal or natural persons of the PRC or United States persons who or which will not be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to Collect the Application Forms

You can collect a **white** Application Form and a prospectus during normal business hours from 9:00 am on Wednesday, 21 May 2008 until 12:00 noon on Monday, 26 May 2008 from:

Any of the following addresses of the Hong Kong Underwriters:

J.P. Morgan Securities (Asia Pacific) Limited

27/F, Chater House

8 Connaught Road

Central

Hong Kong

or

UBS AG

52/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

or

Core Pacific — Yamaichi International (H.K.) Limited
36/F, COSCO Tower
Grand Millennium Plaza, 183 Queen's Road Central
Hong Kong

or

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

or

VC Brokerage Limited
28/F The Centrium
60 Wyndham Street, Central
Hong Kong

or any of the following branches of the Receiving Bankers:

or any of the following branches of Hang Seng Bank Limited:

Hong Kong Island	Head Office	83 Des Voeux Road Central
	Central District Branch	Basement Central Building, Pedder Street
	Wanchai Branch	200 Hennessy Road
	Quarry Bay Branch	989 King's Road
Kowloon	Hankow Road Branch	4 Hankow Road
	Yaumati Branch	363 Nathan Road
	Mongkok Branch	677 Nathan Road
	Hoi Yuen Road Branch	55 Hoi Yuen Road
New Territories	Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of Bank of China (Hong Kong) Limited:

Hong Kong Island	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
New Territories	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II
	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long

You can collect a **yellow** Application Form and a prospectus during normal business hours from 9:00 am on Wednesday, 21 May 2008 until 12:00 noon on Monday, 26 May 2008 from:

- (1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, or
- (2) Your stockbrokers, who may have such application forms and this prospectus available.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

- **instruct** and **authorise** us and/or the Joint Global Coordinators (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our articles of association and otherwise to give effect to the arrangements described in this prospectus and the relevant application form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our articles of association;
- **represent, warrant and undertake** that the Shares have not been and will not be registered under the US Securities Act and you are outside the United States when completing the application form and are not a United States person (as defined in Regulation S under the US Securities Act);
- **confirm** that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and will not rely on any other information or representation save as set out in any supplement to this prospectus;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk);
- **(if the application is made by an agent on your behalf) warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) **warrant** that the application is the only application which will be made for the benefit of that other person on a **white** or **yellow** application form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk), **and that you are duly authorised to sign the application form or to give electronic application instruction** as that other person's agent;
- **undertake and confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Offer Shares in the International Placing, nor otherwise participate in the International Placing;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **undertake** and **agree** to accept the Shares applied for, or any lesser number allocated to you under the application;
- **authorise** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application form by ordinary post at your own risk to the address stated on your application form (except if you have applied for 500,000 Hong Kong Offer Shares or more and have indicated in your application form your wish to collect your refund cheque and Share certificates (where applicable) in person);
- **understand** that these declarations and representations will be relied upon by our Company, the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with us and each of our Shareholder that our Shares are freely transferable by the holder thereof; and
- **authorise** us to enter into a contract on your behalf with each of our Directors and officers whereby each such director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in our articles of association;
- **agree** that we, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus;
- **agree** to disclose to us, our registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and their respective advisers and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application.
- **agree** with the Company, and each Shareholder of the Company, and the Company agrees with each Shareholder, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **agree** that the processing of your application, including the dispatch of refund cheque(s) (if any), may be done by any of the Company's receiving bankers and is not restricted to the bank at which your application was lodged.

In order for the **yellow** Application Forms to be valid:

You, as the applicants, must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
- (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
- (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
 - (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) **If the application is made by a joint individual CCASS Investor Participant:**
- (i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and
 - (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) **If the application is made by a corporate CCASS Investor Participant:**
- (i) the Application Form must contain the corporate CCASS Investor Participant's company name and Hong Kong Business Registration number; and
 - (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) other similar matters may render the application invalid.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application is made through a duly authorised attorney, we and the Joint Global Coordinators as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Members of the Public — Time for Applying for Hong Kong Offer Shares

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Monday, 26 May 2008, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of Hang Seng Bank Limited and Bank of China (Hong Kong) Limited listed under the section headed “How to Apply for Hong Kong Offer Shares — Where to Collect the Application Forms” above at the following times:

Wednesday, 21 May 2008 — 9:00 am to 4:30 pm
Thursday, 22 May 2008 — 9:00 am to 4:30 pm
Friday, 23 May 2008 — 9:00 am to 4:30 pm
Saturday, 24 May 2008 — 9:00 am to 12:30 pm
Monday, 26 May 2008 — 9:00 am to 12:00 noon

The application lists will be open from 11:45 am to 12:00 noon on Monday, 26 May 2008.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until the closing of the application lists. No allotment of any of the Hong Kong Offer Shares will be made later than Friday, 20 June 2008.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at anytime between 9:00 am and 12:00 noon on Monday, 26 May 2008. Instead they will open between 11:45 am and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 am and 12:00 noon.

If the application lists of the Hong Kong Public Offer do not open and close on Monday, 26 May 2008 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Publication of Results

We expect to announce the Offer Price, the level of indication of interest in the International Placing, the level of applications of the Hong Kong Public Offer and the results of applications under the Hong Kong Public Offer on Monday, 2 June 2008 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offer will be available from our designated results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Monday, 2 June 2008 to 12:00 midnight on Sunday, 8 June 2008. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 2 June 2008 to Thursday, 5 June 2008;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Monday, 2 June 2008 to Wednesday, 4 June 2008, at all the receiving bank branches and sub-branches at the addresses set out in the section headed “How to Apply for Hong Kong Offer Shares — Where to Collect the Application Forms”.

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Placing, the level of applications of the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares will be published by us on Monday, 2 June 2008 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese).

Dispatch/Collection of Share Certificates and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” or if any application is revoked or any allotment pursuant

HOW TO APPLY FOR HONG KONG OFFER SHARES

thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose share certificates will be deposited into CCASS as described below); and/or
- (b) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms are expected to be posted on or before Monday, 2 June 2008. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white Application Form:

If you have applied for 500,000 Hong Kong Offer Shares or more and you have elected on your **white** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road

HOW TO APPLY FOR HONG KONG OFFER SHARES

East, Wanchai, Hong Kong from 9:00 am to 1:00 pm on Monday, 2 June 2008. If you are an individual, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 500,000 Hong Kong Offer Shares or above and have not indicated on your application forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 500,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage, Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Monday, 2 June 2008 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Hong Kong Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Monday, 2 June 2008, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants’ applications together with the results of the Hong Kong Public Offer in the manner described in “How to Apply for Hong Kong Offer Shares — Publication of Results” on Monday, 2 June 2008. You should check the announcement to be released by us and report any discrepancies to HKSCC before 5:00 pm on Monday, 2 June 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees. You can also check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for 500,000 Hong Kong Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 500,000 Hong Kong Offer Shares or above and have not indicated on your application forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 500,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offer” in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Monday, 2 June 2008 by ordinary post and at your own risk.

II. APPLYING BY MEANS OF WHITE FORM eIPO

Who Can Apply for Hong Kong Offer Shares

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service (www.eipo.com.hk) you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

General

If you are an individual and meet the criteria set out in paragraph above entitled “Who can apply for Hong Kong Offer Shares” under this section, you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Shares will be issued in your own name.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.

If you give electronic application instructions through the designated website at www.eipo.com.hk, you will have authorised the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

In addition to the terms and conditions set out in this Prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our registrars.

You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Offer Shares to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **white** Application Form. See the paragraph entitled “How many Applications may you make by means of White Form eIPO”.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the paragraph entitled “Refund of Application Monies”.

Members of the Public — Time for Applying for Hong Kong Offer Shares by means of White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Wednesday, 21 May 2008 until 11:30 a.m. on Monday, 26 May 2008 or such later time as described under the paragraph headed “Effects of Bad Weather Conditions on the Opening of the Applications Lists” above (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 26 May 2008, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “Effect of Bad Weather on the Opening of the Applications Lists” above.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Monday, 26 May 2008, or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists”, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

How many Applications may you make by means of White Form eIPO

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at www.eipo.com.hk and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Dispatch/Collection of Share Certificates and Refund Cheques by means of White Form eIPO

If you apply for 500,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 2 June 2008, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/refund cheques.

If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 500,000 Hong Kong Offer Shares, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk on Monday, 2 June 2008 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out above in the paragraph entitled "Additional Information".

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road
Central Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Application for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (b) HKSCC Nominees does the following things on behalf of each such person:
 - (i) agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on that person's behalf or that person's CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Placing;
 - (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

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- (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- (vi) understands that the above declaration will be relied upon by us, our Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- (vii) authorises us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that neither our Company, our Directors, the Joint Global Coordinators, the Underwriters, the Joint Sponsors, or any of the parties involved in the Global Offering will have any liability for any such other information or representation;
- (x) agrees that we, the Directors and any person who has authorised this prospectus, are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (xi) agrees to disclose that person's personal data to us, our registrar, receiving banker, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents and any information which they may require about that person for whose benefit the application is made;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before Friday, 20 June 2008, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong

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Offer Shares to any person before Tuesday, 27 May 2008 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Friday, 20 June 2008 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer to be released by us;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
- (xvi) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, and the related brokerage, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given

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such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum Application Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 500 Hong Kong Offer Shares. Such instructions in respect of more than 500 Hong Kong Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 21 May 2008 — 9:00 am to 8:30 pm⁽¹⁾
Thursday, 22 May 2008 — 8:00 am to 8:30 pm⁽¹⁾
Friday, 23 May 2008 — 8:00 am to 8:30 pm⁽¹⁾
Saturday, 24 May 2008 — 8:00 am to 1:00 pm⁽¹⁾
Monday, 26 May 2008 — 8:00 am to 12:00 noon⁽¹⁾

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 am on Wednesday, 21 May 2008 until 12:00 noon on Monday, 26 May 2008 (24 hours daily, except the last application day).

Effect of Bad Weather on the Last Application Day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 26 May 2008, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at anytime between 9:00 am and 12:00 noon on Monday, 26 May 2008, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 am and 12:00 noon on such day.

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If the application lists of the Hong Kong Public Offer do not open and close on Monday, 26 May 2008 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made in such event.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Monday, 2 June 2008 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, if supplied) and your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) in the manner described in “How to Apply for Hong Kong Offer Shares — Publication of Results” on Monday, 2 June 2008. You should check the announcement to be released by us and report any discrepancies to HKSCC before 5:00 pm on Monday, 2 June 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, 2 June 2008. Immediately following the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies

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to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Offer Share paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 2 June 2008. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us, our registrar, receiving banker, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 26 May 2008.

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IV. HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk);
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk), and that you are duly authorised to sign the Application Form or give **electronic application instruction** as that other person’s agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- **both apply (whether individually or jointly) on one white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk); or

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- **apply on one white or yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk) **for more than 50% of the Hong Kong Offer Shares initially being offered for sale under the Hong Kong Public Offer as more particularly described in the section headed “Structure of the Global Offering — The Hong Kong Public Offer”**; or
- **have indicated an interest for or have been or will be placed Offer Shares under the International Placing.**

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

V. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service you agree that your application or the application made by HKSCC Nominees or the

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White Form eIPO Service Provider on your behalf may not be revoked before Friday, 20 June 2008. Such agreement to take effect as a collateral contract with us and to become binding when you lodge your application form or submit your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. However, your application or the application made by HKSCC Nominees on your behalf may be revoked on or before Friday, 20 June 2008 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Tuesday, 27 May 2008 except by means of one of the procedures referred to in this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or our or their respective agents to reject or accept:

We, the Joint Global Coordinators or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(d) **You will not receive any allotment if:**

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing. By filling in any of the Application Forms or submitting electronic application instructions, you agree not to apply for or indicate an interest for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- your Application Form is not filled in correctly in accordance with the instruction as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional;
- either of the Underwriting Agreements is terminated in accordance with its respective terms;
- your application is for more than 100% of the Hong Kong Offer Shares initially available for public subscription in either pool A or pool B; or
- our Company believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdictions in which your application is completed and/or signed.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

VI. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK\$5.50 per Hong Kong Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 500 Hong Kong Offer Shares, you will pay HK\$2,777.75. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for. Your application must be for a minimum of 500 Shares and up to a maximum of 27,500,000. Applications must be in one of the numbers set out in the tables in the Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You must pay the maximum offer price and related brokerage, SFC transaction levy, and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this prospectus.

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange, the SFC transaction levy, and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy collected by the Stock Exchange on behalf of the SFC).

VII. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Offer Share (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest.

All such interest accrued prior to the date of dispatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Monday, 2 June 2008 in accordance with the various arrangements as described above.

VIII. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 3 June 2008.

The Shares will be traded in board lots of 500 each. The stock code of the Shares is 1368.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IX. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

21 May 2008

The Directors

Xtep International Holdings Limited
J.P. Morgan Securities (Asia Pacific) Limited
UBS AG

Dear Sirs,

We set out below our report on the financial information regarding Xtep International Holdings Limited (formerly known as Xtep International Holdings Ltd.), (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2005, 2006 and 2007 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 21 May 2008 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”).

The Company was incorporated in the Cayman Islands on 10 April 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation, as more fully explained in the section headed “History and Corporate Structure” in the Prospectus and in Appendix VI “Statutory and General Information” to the Prospectus (the “Group Reorganisation”), the Company became the holding company of the subsidiaries now comprising the Group, the particulars of which are as set out in note 18 under Section II “Notes to Financial Information” below, on 19 September 2007.

The Company’s principal activity is investment holding. The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories, in the People’s Republic of China (the “PRC”). The Company and its subsidiaries have adopted 31 December as their financial year end date.

As the date of this report, no audited financial statements of Xtep International Development Limited have been prepared since its date of incorporation as it is not subject to the statutory audit requirements in its jurisdiction of incorporation.

The statutory financial statements of Xtep (China) Co., Ltd. (“Xtep (China)”) were prepared in accordance with the applicable accounting principles and financial regulations applicable to PRC enterprises and were audited by 廈門永瑞恒信會計師有限公司 (Xiamen Yong Rui Heng Xin Accountants Office Co., Ltd.*) and 泉州華天有限責任會計師事務所 (Quanzhou Huatian Certified Public Accountants, Ltd.*), registered in the PRC, for the year ended 31 December 2005 and for each of the two years ended 31 December 2006 and 2007, respectively. The statutory financial statements of Sanxing Sports Goods Co., Ltd. Quanzhou (“Sanxing Sports”) were prepared in accordance with the applicable accounting principles and financial regulations applicable to PRC enterprises and were audited by 廈門永瑞恒信會計師有限公司 (Xiamen Yong Rui Heng Xin Accountants Office Co., Ltd.*), and 泉州華天有限責任會計師事務所 (Quanzhou Huatian Certified Public Accountants, Ltd.*), registered in the PRC, for each of the two years ended 31 December 2006, and for the year ended 31 December 2007, respectively. The statutory audited financial statements of Koling (Fujian) Garment Co., Ltd. (“Koling Fujian”) were prepared in accordance with the applicable accounting principles and financial regulations applicable to PRC enterprises and were audited by 泉州華天有限責任會計師事務所 (Quanzhou Huatian Certified Public Accountants, Ltd.*), registered in the PRC, for the period from 5 February 2007 (date of establishment) to 31 December 2007.

No statutory audited financial statements have been prepared for Xtep Sports Goods Co., Ltd. Jinjiang (“Xtep Jinjiang”) and 廈門特步投資股份有限公司 (“Xtep Xiamen”) since their dates of establishment as Xtep Jinjiang and Xtep Xiamen have not yet been involved in any significant business transactions since their dates of establishment.

For the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) on the management accounts of these companies which were prepared in accordance with HKFRSs, (which also include Hong Kong Accounting Standards and Interpretations) issued by HKICPA and generally accepted accounting principles in Hong Kong.

We acted as the auditors of Koling (HK) Development Co., Limited and Xtep (Hong Kong) Enterprise Limited since their dates of incorporation on 13 September 2006 and 27 March 2007, respectively.

The financial information which includes the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the Relevant Periods, the consolidated balance sheets of the Group as at 31 December 2005, 2006 and 2007 and the balance sheet of the Company as at 31 December 2007 (collectively referred to as the “Financial Information”) set out in this report has been prepared based on the audited financial statements or where appropriate, the management accounts of the companies now comprising the Group and are prepared on the basis set out in note 1 under Section II “Notes to Financial Information” below.

* For identification only

The audited financial statements and the management accounts are the responsibilities of the directors of the respective companies who approve their issuance. The directors of the Company are responsible for the contents of the Prospectus, including preparation of the Financial Information. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and consistently applied, that the judgements and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion, based on our examination, solely on the Financial Information and to report our opinion to you.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with HKSAs issued by the HKICPA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion in respect of the Relevant Periods

In our opinion, on the basis of presentation set out in note 1 under Section II "Notes to Financial Information" below, the Financial Information together with the notes thereto gives, for the purpose of this report, a true and fair view of the consolidated state of affairs of the Group as at 31 December 2005, 2006 and 2007, the state of affairs of the Company as at 31 December 2007, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

The consolidated results of the Group for the Relevant Periods, prepared on the basis set out in note 1 under Section II below are as follows:

	Notes	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Revenue	5	297,445	483,562	1,364,947
Cost of sales		(237,731)	(347,474)	(921,804)
Gross profit		59,714	136,088	443,143
Other income and gains	5	437	963	4,417
Selling and distribution costs		(29,251)	(56,153)	(119,414)
General and administrative expenses		(13,170)	(17,651)	(42,151)
Other operating expenses		(3,372)	(6,227)	(16,627)
Finance costs	6	(5,270)	(6,948)	(14,179)
Profit before tax	7	9,088	50,072	255,189
Tax	9	(877)	(3)	(33,311)
Profit for the year		<u>8,211</u>	<u>50,069</u>	<u>221,878</u>
Dividend	12	<u>—</u>	<u>—</u>	<u>129,455</u>
Earnings per share attributable to equity holders of the Company	13			
— Basic (RMB cents)		<u>0.56</u>	<u>3.41</u>	<u>15.11</u>
— Diluted (RMB cents)		<u>N/A</u>	<u>N/A</u>	<u>14.52</u>

CONSOLIDATED BALANCE SHEETS

The consolidated balance sheets of the Group as at 31 December 2005, 2006 and 2007, prepared on the basis set out in note 1 under Section II below, are as follows:

	Notes	31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	14	53,015	74,844	96,585
Prepaid land lease payments	15	22,718	22,277	21,763
Deposit paid	16	6,000	10,000	10,000
Intangible assets	17	173	363	289
		<u>81,906</u>	<u>107,484</u>	<u>128,637</u>
Current assets				
Inventories	19	102,427	151,362	193,505
Trade and bills receivables	20	101,526	187,959	234,383
Prepayments, deposits and other receivables		12,876	45,427	131,984
Pledged deposits	21	2,500	7,880	—
Cash and bank balances	22	14,409	22,216	215,018
Tax recoverable		286	74	—
		<u>234,024</u>	<u>414,918</u>	<u>774,890</u>
Current liabilities				
Trade and bills payables	23	44,513	95,571	55,859
Deposits received, other payables and accruals	24	10,572	30,800	41,102
Interest-bearing bank borrowings	25	89,250	197,000	116,000
Due to a director	26	15,635	3,521	32,874
Due to related parties	27	23,843	8,143	—
Dividend payable		—	—	129,455
Tax payable		—	—	30,518
		<u>183,813</u>	<u>335,035</u>	<u>405,808</u>
Net current assets		<u>50,211</u>	<u>79,883</u>	<u>369,082</u>
Total assets less current liabilities		132,117	187,367	497,719
Non-current liabilities				
Preferred shares	28	—	—	216,599
Derivative component of preferred shares	28	—	—	1,324
Total non-current liabilities		—	—	217,923
Net Assets		<u>132,117</u>	<u>187,367</u>	<u>279,796</u>
Equity				
Equity attributable to equity holders of the Company				
Issued share capital	29	117,812	122,993	936
Reserves	30(a)	14,305	64,374	278,860
Total equity		<u>132,117</u>	<u>187,367</u>	<u>279,796</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in note 1 under Section II below, are as follows:

	Attributable to equity holders of the Company							
	Issued share capital	Capital reserve	Statutory surplus funds	Exchange fluctuation reserve	Retained profits	Total reserves	Minority interest	Total equity
	RMB'000 (note 29)	RMB'000 (note (i))	RMB'000 (note (ii))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	63,333	—	—	—	6,094	6,094	—	69,427
Profit for the year	—	—	—	—	8,211	8,211	—	8,211
Total income and expenses for the year -	—	—	—	—	8,211	8,211	—	8,211
Increase in paid-in capital of a subsidiary	54,479	—	—	—	—	—	—	54,479
Transfer to statutory surplus fund	—	—	1,653	—	(1,653)	—	—	—
At 31 December 2005 and 1 January 2006	117,812	—	1,653	—	12,652	14,305	—	132,117
Profit for the year	—	—	—	—	50,069	50,069	—	50,069
Total income and expenses for the year	—	—	—	—	50,069	50,069	—	50,069
Increase in paid-in capital of a subsidiary	5,181	—	—	—	—	—	—	5,181
Transfer to statutory surplus fund	—	—	9,066	—	(9,066)	—	—	—
At 31 December 2006 and 1 January 2007	122,993	—	10,719	—	53,655	64,374	—	187,367
Exchange realignment	—	—	—	3,463	—	3,463	—	3,463
Total income and expenses directly recognised in equity	—	—	—	3,463	—	3,463	—	3,463
Profit for the year	—	—	—	—	221,878	221,878	—	221,878
Total income and expenses for the year	—	—	—	3,463	221,878	225,341	—	225,341
Increase in paid-in capital of subsidiaries	34,701	—	—	—	—	—	—	34,701
Issue of shares of the Company	936	—	—	—	—	—	—	936
Capital contribution from minority interest	—	—	—	—	—	—	17,500	17,500
Acquisition of minority interest	—	—	—	—	—	—	(17,500)	(17,500)
Acquisition of subsidiaries pursuant of the Group Reorganisation	(157,694)	157,694	—	—	—	157,694	—	—
Acquisition of subsidiaries by cash pursuant to the Group Reorganisation	—	(39,094)	—	—	—	(39,094)	—	(39,094)
Transfer to statutory surplus fund	—	—	35,397	—	(35,397)	—	—	—
Dividend declared during the year	—	—	—	—	(129,455)	(129,455)	—	(129,455)
At 31 December 2007	<u>936</u>	<u>118,600</u>	<u>46,116</u>	<u>3,463</u>	<u>110,681</u>	<u>278,860</u>	<u>—</u>	<u>279,796</u>

Notes:

- (i) The capital reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the Group Reorganisation over the consideration paid for acquiring these subsidiaries.
- (ii) In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their statutory annual profits after tax (after offsetting any prior year's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus fund may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in note 1 under Section II below, are as follows:

	Notes	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:		9,088	50,072	255,189
Adjustments for:				
Interest income	5,7	(82)	(270)	(2,276)
Finance costs	6	5,270	6,948	14,179
Loss on write-off of items of property, plant and equipment	7	17	—	—
Loss on disposal of items of property, plant and equipment	7	—	—	1,891
Depreciation	7	4,805	5,526	8,017
Amortisation of intangible assets	7	44	7	74
Amortisation of prepaid land lease payments	7	282	695	490
Fair value gain on derivative component of preferred shares	7	—	—	(27)
		<u>19,424</u>	<u>62,978</u>	<u>277,537</u>
Increase in inventories		(2,152)	(48,935)	(42,143)
Increase in trade and bills receivables		(78,564)	(86,433)	(46,424)
Decrease/(increase) in prepayments, deposits and other receivables		43,126	(27,551)	(101,533)
Increase/(decrease) in trade and bills payables		(1,888)	51,058	(39,712)
Increase/(decrease) in deposits received, other payables and accruals		(33,840)	20,228	10,302
Increase/(decrease) in amount due to a director		23,893	(12,114)	(22,576)
Increase/(decrease) in amounts due to related parties		<u>23,843</u>	<u>(15,700)</u>	<u>(8,143)</u>
Cash generated from/(used in) operations		(6,158)	(56,469)	27,308
Interest income	5,7	82	270	2,276
Interest paid	6	(5,270)	(6,948)	(13,973)
Overseas taxes refunded/(paid)		<u>(2,325)</u>	<u>209</u>	<u>(2,719)</u>
Net cash inflow/(outflow) from operating activities		<u>(13,671)</u>	<u>(62,938)</u>	<u>12,892</u>

	Notes	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	14	(13,805)	(27,355)	(33,198)
Increase in deposit paid		(6,000)	(4,000)	—
Proceeds from disposal of an item of property, plant and equipment		3,197	—	1,549
Additions to prepaid land lease payments	15	(14,176)	(254)	—
Additions to intangible assets	17	—	(197)	—
Decrease/(increase) in pledged deposits		(2,500)	(5,380)	7,880
Decrease/(increase) in loan receivables		(10,000)	(5,000)	15,000
Exchange realignment		—	—	(1,202)
Net cash used in investing activities		<u>(43,284)</u>	<u>(42,186)</u>	<u>(9,971)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in paid-in capital of subsidiaries		54,479	5,181	34,701
Capital contribution from a minority shareholder		—	—	17,500
New bank loans		9,250	107,750	—
Repayment of bank loans		—	—	(81,000)
Issue of convertible bonds	28	—	—	40,000
Issue of preferred shares	28	—	—	180,000
Transaction costs for issuing preferred shares	28	—	—	(2,256)
Issue of ordinary shares	29	—	—	936
Net cash inflow from financing activities		<u>63,729</u>	<u>112,931</u>	<u>189,881</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,774	7,807	192,802
Cash and cash equivalents at beginning of year		<u>7,635</u>	<u>14,409</u>	<u>22,216</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>14,409</u>	<u>22,216</u>	<u>215,018</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		<u>14,409</u>	<u>22,216</u>	<u>215,018</u>

BALANCE SHEET

The balance sheet of the Company as at 31 December 2007 is as follows:

	Notes	<u>31 December 2007</u> RMB'000
Non-current assets		
Interests in subsidiaries	18	<u>229,787</u>
Current assets		
Due from a subsidiary		129,455
Prepayment		3,472
Cash and bank balances	22	<u>12,383</u>
		<u>145,310</u>
Current liabilities		
Accruals	24	3
Due to a director	26	27,579
Dividend payable		<u>129,455</u>
		<u>157,037</u>
Net current liabilities		<u>(11,727)</u>
Total assets less current liabilities		218,060
Non-current liabilities		
Preferred shares	28	216,599
Derivative component of preferred shares	28	<u>1,324</u>
		<u>217,923</u>
Net assets		<u>137</u>
Equity		
Issued share capital	29	936
Reserve	30(b)	<u>(799)</u>
Total equity		<u>137</u>

II. NOTES TO FINANCIAL INFORMATION**1. CORPORATE INFORMATION AND BASIS OF PRESENTATION**

The Company is a limited liability company incorporated in the Cayman Islands. The Company's registered office is located at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Pursuant to the Group Reorganisation as more fully described in the section headed "History and Corporate Structure" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 19 September 2007.

The Group Reorganisation involved business combination of entities under common control and the Group is regarded and accounted for as a continuing group. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group include the results of operations and cash flows of the subsidiaries now comprising the Group and have been prepared as if the current group structure had been in existence as at the beginning of the Relevant Periods, or since the respective dates of their incorporation or establishment, where this is a shorter period. The consolidated balance sheets of the Group as at 31 December 2005, 2006 and 2007 have been prepared to present the assets and liabilities of the Group as at the respective dates as if the current group structure had been in existence at those dates.

All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interest represents the interest of an outside shareholder not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interest is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.1 PRINCIPAL ACCOUNTING POLICIES**Basis of preparation**

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the HKICPA and generally accepted accounting principles in Hong Kong. All HKFRSs effective for the accounting periods commencing from 1 January 2005, 2006 and 2007, together with the relevant transitional provision, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for the derivative component of preferred shares which is measured at fair value, in accordance with the accounting policies set out below which conform with HKFRSs and is presented in Renminbi ("RMB") with all values rounded to the nearest thousand except when otherwise indicated.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Company that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statements in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years/periods. A reversal of such impairment loss is credited to the consolidated income statements in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated

income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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 on disposal or retirement recognised in the consolidated income statements in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and trademarks

Patents and trademarks are stated at cost, less any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of five years.

Research and development costs

All research costs are charged to the consolidated income statements as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Financial assets

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurements" are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statements.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statements, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, an impairment allowance is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statements.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and bills payables, interest-bearing borrowings and other monetary liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statements when the liabilities are derecognised as well as through the amortisation process.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statements on the straight-line basis over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounting for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statements on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statements on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statements.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statements, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets 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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) dividend income, when the shareholder's rights to receive payment has been established.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Borrowing costs

Borrowing costs are recognised as expenses in the consolidated income statements in the period in which they are incurred.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the consolidated income statements by way of a reduced depreciation charge.

Employee benefits*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Foreign currencies

These Financial Information are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries established in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statements. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statements.

For the purpose of the consolidated cash flow statements, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Convertible bonds and preferred shares

Convertible bond, which is convertible into preferred shares, is classified as a current liability on initial recognition based on the maturity date of the instrument. In subsequent periods, the convertible bond is carried at amortised cost using the effective interest method.

Preferred shares with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes. On issuance of the preferred shares, the fair value of the derivative component is determined based on valuation; and this amount is carried as a non-current liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is remeasured at each balance sheet date and any gains or losses arising from change in fair value are recognised in the consolidated income statements.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 2 Amendment	<i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ²
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ²
HK(IFRIC)-Int 11	<i>HKFRS 2 — Group and Treasury Share Transactions</i> ³
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i> ⁵
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ⁴
HK(IFRIC)-Int 14	<i>HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> ⁵

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 July 2008

⁵ Effective for annual periods beginning on or after 1 January 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

Judgement and estimates

In the process of applying the Group's accounting policies, management has made judgement, apart from those involving estimates, which has an effect on the amounts recognised in the Financial Information.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal to the related actual results. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year including those judgements made which have the most significant effect on the amounts recognised in the Financial Information, are discussed below.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets not held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Accounting treatment of preferred shares

The Group recognised a financial liability during the year ended 31 December 2007 in respect of the obligation to repay Carlyle Investment Funds (as defined in note 28) pursuant to a redemption option granted to Carlyle Investment Funds to demand the Company to repurchase all of the preferred shares held by Carlyle Investment Funds pursuant to the Agreements (as defined in note 28). The Group's management has assessed the terms of the Agreements and the facts and circumstance, and concluded that in respect of the funds contributed by Carlyle Investment Funds, a financial liability shall be recognised as at 31 December 2007. The financial liability is recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, the financial liability is measured at amortised cost using the effective interest method.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at each balance sheet date.

Impairment allowances for trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at each balance sheet date.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis in business or geographical segment is presented.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the Relevant Periods, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Revenue			
Manufacture and sale of sportswear:			
Footwear	294,817	441,948	849,135
Apparel	2,628	40,596	497,635
Accessories	—	1,018	18,177
	<u>297,445</u>	<u>483,562</u>	<u>1,364,947</u>
Other income and gains			
Interest income	82	270	2,276
Penalty charged to suppliers	—	—	830
Rental income	40	345	345
Subsidy income from the PRC government *	275	316	900
Fair value gain on derivative component of preferred shares	—	—	27
Others	40	32	39
	<u>437</u>	<u>963</u>	<u>4,417</u>
	<u>297,882</u>	<u>484,525</u>	<u>1,369,364</u>

* *There are no unfulfilled conditions or contingencies relating to these subsidies.*

6. FINANCE COSTS

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Interests on bank loans repayable within five years	5,270	6,948	13,973
Interest expense on preferred shares	—	—	206
	<u>5,270</u>	<u>6,948</u>	<u>14,179</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2005	2006	2007
		RMB'000	RMB'000	RMB'000
Cost of inventories sold*		237,731	347,474	921,804
Depreciation	14	4,805	5,526	8,017
Amortisation of intangible assets**	17	44	7	74
Employee benefits expenses (including directors' remuneration — note 8):				
Wages and salaries		35,574	55,802	107,756
Pension scheme contributions***		<u>1,765</u>	<u>2,877</u>	<u>5,591</u>
		<u>37,339</u>	<u>58,679</u>	<u>113,347</u>
Auditors' remuneration		29	180	160
Amortisation of prepaid land lease payments	15	282	695	490
Loss on write-off of items of property, plant and equipment		17	—	—
Loss on disposal of items of property, plant and equipment		—	—	1,891
Research and development costs****		3,372	6,227	16,627
Fair value gain on derivative component of preferred shares	28	—	—	(27)
Rental income		(40)	(345)	(345)
Interest income		<u>(82)</u>	<u>(270)</u>	<u>(2,276)</u>

* The cost of inventories sold includes approximately RMB31,886,000, RMB52,380,000 and RMB83,239,000 for each of the three years ended 31 December 2005, 2006 and 2007, respectively, relating to direct staff cost, depreciation of the manufacturing facilities and amortisation of prepaid land lease payments, which are also included in the respective total amounts disclosed above for each of these types of expenses.

** The amortisation of intangible assets for the Relevant Periods is included in "General and administrative expenses" on the face of the consolidated income statements.

*** As at 31 December 2005, 2006 and 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

**** Research and development costs for the Relevant Periods are included in "Other operating expenses" on the face of the consolidated income statements.

8. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) Directors' remuneration

Details of directors' and senior executives' remuneration are as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, bonuses, allowances and benefits in kind . . .	244	567	660
Pension scheme contributions	12	15	15
	<u>256</u>	<u>582</u>	<u>675</u>

	Year ended 31 December 2005			
	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Ding Shui Po	—	62	3	65
Ding Mei Qing	—	47	3	50
Lin Zhang Li	—	51	3	54
Ding Ming Zhong	—	52	3	55
Ye Qi	—	32	—	32
	<u>—</u>	<u>244</u>	<u>12</u>	<u>256</u>
<i>Non-executive director:</i>				
Xiao Feng	—	—	—	—
<i>Independent non-executive directors:</i>				
Sin Ka Man	—	—	—	—
Xu Peng Xiang	—	—	—	—
Gao Xian Feng	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Year ended 31 December 2006

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Ding Shui Po	—	185	3	188
Ding Mei Qing	—	105	3	108
Lin Zhang Li	—	56	3	59
Ding Ming Zhong	—	97	3	100
Ye Qi	—	124	3	127
	<u>—</u>	<u>567</u>	<u>15</u>	<u>582</u>
<i>Non-executive director:</i>				
Xiao Feng	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Independent non-executive directors:</i>				
Sin Ka Man	—	—	—	—
Xu Peng Xiang	—	—	—	—
Gao Xian Feng	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Year ended 31 December 2007

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors:</i>				
Ding Shui Po	—	177	3	180
Ding Mei Qing	—	117	3	120
Lin Zhang Li	—	87	3	90
Ding Ming Zhong	—	60	3	63
Ye Qi	—	219	3	222
	<u>—</u>	<u>660</u>	<u>15</u>	<u>675</u>
<i>Non-executive director:</i>				
Xiao Feng	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Independent non-executive directors:</i>				
Sin Ka Man	—	—	—	—
Xu Peng Xiang	—	—	—	—
Gao Xian Feng	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) **Five highest paid individuals**

The five highest paid employees during each of the Relevant Periods included five, three, and two directors, respectively, details of whose remuneration are set out in note 8(a) above. Details of the remuneration of the remaining nil, two and three non-director, highest paid employees for each of the Relevant Periods are as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind . . .	—	225	697
Pension scheme contributions	—	6	10
	<u>—</u>	<u>231</u>	<u>707</u>

All the non-director, highest paid employees had remunerations fell within the band of nil to RMB1,000,000.

During the Relevant Periods, no remuneration was paid by the Group to any of the directors of the Company or any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

The Group offers its staff competitive remuneration packages. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's executive directors remuneration packages include basic salaries, discretionary bonuses and housing benefits.

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during each of the Relevant Periods. Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Current tax — Mainland China			
Charge for the year	<u>877</u>	<u>3</u>	<u>33,311</u>

According to the then income tax law of the PRC for foreign invested enterprises and foreign enterprises and as approved by relevant PRC tax authorities, Xtep (China), a foreign-invested enterprise, was exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2005, and thereafter is entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years from 1 January 2007 to 31 December 2009.

Sanxing Sports, a foreign-invested enterprise, was also exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2000, and thereafter is entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years from 1 January 2002 to 31 December 2004. With effect from 1 January 2005, the applicable tax rate is 24%.

Koling (Fujian), a foreign-invested enterprise, was also exempted from the PRC enterprise income tax for its first two profitable years and thereafter is entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years.

Under the new Enterprise Income Tax Law of the PRC ("New Tax Law") and its implementation rules (effective on 1 January 2008), the PRC enterprise income tax rate for domestic-invested and foreign-invested enterprises is unified to 25%. Also, a foreign-invested enterprise established before the New Tax Law was promulgated, which is entitled to foreign-invested enterprise income tax holiday, can continue to enjoy the existing tax holiday until its expiry subject to a 5-year period restriction. Consequently, Xtep (China) can continue to enjoy the 50% reduction in the new unified PRC enterprise income tax rate of 25% for the years ending 31 December 2008 and 2009. Koling (Fujian) will enjoy exemption from the PRC enterprise income tax for the years ending 31 December 2008 and 2009 and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years. The applicable tax rate for Sanxing Sports will be 25% for the year ending 31 December 2008 and onwards.

No provision for the PRC enterprise income tax has been made for other PRC companies comprising the Group during each of the Relevant Periods as they have not yet commenced business operations.

A reconciliation of the tax expense applicable to profit before tax using the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are operated to the tax expense at the effective tax rates are as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Profit before tax	9,088	50,072	255,189
Tax at the applicable rates	2,454	13,519	68,977
Lower tax rate due to tax holidays	(1,577)	(13,516)	(36,497)
Expenses not deductible for tax	—	—	691
Tax losses not recognised	—	—	140
Tax charge at the Group's effective rate	877	3	33,311

The Group has tax losses arising in Hong Kong of approximately RMB800,000 for the year ended 31 December 2007 that are available indefinitely for offsetting against future taxable profits of the companies in which it arose. Deferred tax asset has not been recognised as at 31 December 2007 in respect of the tax losses as the directors of the Company consider that it is uncertain to the extent that future taxable profit will be available against which tax losses can be utilised in the foreseeable future.

There was no unprovided deferred tax in respect of each of the Relevant Periods and as at the balance sheet date of 2005, 2006 and 2007.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the each of the three years ended 31 December 2005, 2006 and 2007 includes a loss of nil, nil and approximately RMB799,000, which has been dealt with in the financial information of the Company (note 30(b)).

11. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the Relevant Periods:

- (a) During the year ended 31 December 2007, the Group paid subcontracting fees of RMB6,695,000 to a related company (the "Subcontractor") owned by the directors of the Company, namely Lin Zhang Li and Ding Mei Qing, for footwear production services. The directors of the Company are of the opinion that the above transaction was conducted on normal commercial terms and in the ordinary course of business. Deposit of RMB2,616,000 was paid to the Subcontractor for the subcontracting services as at 31 December 2007 which was included under prepayments, deposits and other receivables in the consolidated balance sheets. Subsequent to the balance sheet date, on 17 January 2008, Lin Zhang Li and Ding Mei Qing transferred their interests in the Subcontractor to unrelated parties of the Group, namely Yang Sheng Li and Yang Mei Jing, at a consideration of RMB8,000,000, which was equal to the paid-in capital of the Subcontractor at the time of transfer and was approximated to the net asset value of the Subcontractor of RMB7.9 million as at 31 December 2007. The directors of the Company confirm that the transaction with the Subcontractor will continue after the Listing but no disclosure in the aspect of related party transaction will be made after the disposal of the interest in the Subcontractor to Yang Sheng Li and Yang Mei Jing as they are not related parties to the Group.
- (b) Ding Shui Po, a director of the Company, and Ding Ming Fang, the spouse of Ding Shui Po, have guaranteed certain bank loans made available to the Group up to RMB66,000,000 during the year ended 31 December 2006, as further detailed in note 25 to the Financial Information. The above transaction was discontinued upon expiry of the guarantee on 28 June 2007.
- (c) Upon establishment on 5 January 2007, Xtep Xiamen was a non-wholly owned subsidiary of the Group and has not yet commenced business operation since then and up to date of this report. On 21 October 2007, the Group acquired 35% equity interest in Xtep Xiamen from Lin Zhang Li at a consideration of RMB17,500,000, which was equivalent to 35% portion of paid-in capital contributed by Zhang Li. Therefore, no goodwill arose from the above acquisition. Thereafter, Xtep Xiamen became a wholly-owned subsidiary of the Group (note 18(vi)). The above transaction was completed as at 31 December 2007.
- (d) Ding Shui Po and Ding Ming Fang agreed to transfer to the Group certain trademarks and patents, which are in relation to the Group's operations and in the process of registration with the relevant PRC authorities, at nil consideration. The Group will have proper title over the said trademarks and patents once the registration with the relevant PRC authorities is completed. Upon completion of the registration process of the trademarks and patents, the transaction will be discontinued after the Listing.

- (e) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the Financial Information:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Short term employee benefits	244	567	660
Post-employment benefits	12	15	15
Total compensation paid to key management personnel	<u>256</u>	<u>582</u>	<u>675</u>

- (f) Details of the outstanding balances with a director and related parties as at the end of each of the Relevant Periods are disclosed in notes 26 and 27 to the Financial Information, respectively.

12. DIVIDEND

An interim dividend of RMB129,455,000 was declared by the Company to its registered shareholders on 17 September 2007 and the directors of the Company confirm that such dividend will be settled before the Listing.

Apart from the above, no dividend was paid by the Company's subsidiaries to their then shareholders during each of the two years ended 31 December 2005 and 2006.

The rates of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful for the purpose of this report.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts for each of the Relevant Periods is based on the profit for the year attributable to equity holders of the Company for each of the Relevant Periods and on the assumption that 1,468,500,007 ordinary shares had been issued throughout the Relevant Periods, comprising the 100,000,000 ordinary shares in issue at 31 December 2007 and the corresponding 1,368,500,007 ordinary shares to be issued pursuant to the capitalisation issue.

There is no diluted earnings per share amounts presented for the two years ended 31 December 2005 and 2006 as there were no diluting events existed during each of these years. The calculation of diluted earnings per share amount for the year ended 31 December 2007 is based on the consolidated profit attributable to the equity holders of the Company of RMB221,878,000 adjusted to reflect the imputed interest expense on preferred shares of RMB206,000 and the fair value gain on derivative component of preferred shares of RMB27,000. The weighted average number of ordinary shares of 1,529,482,193 used in the calculation is the number of ordinary shares in issue at 31 December 2007 and the corresponding ordinary shares to be issued pursuant to the capitalisation issue, as used in the basic earnings per share amounts calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of the convertible bonds and 12,359,550 preferred shares and the corresponding 169,140,443 ordinary shares to be issued pursuant to the capitalisation issue.

The total ordinary shares of 1,537,640,450 to be issued pursuant to the capitalisation issue are described more fully in the paragraph headed "Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008" in Appendix VI to the Prospectus.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Plant and machinery</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
As at 1 January 2005 . . .	29,599	—	28,098	275	1,916	—	59,888
Additions	10,482	—	548	183	2,592	—	13,805
Written-off	—	—	—	—	(50)	—	(50)
Disposals	—	—	(3,451)	—	—	—	(3,451)
As at 31 December 2005 and 1 January 2006 . .	40,081	—	25,195	458	4,458	—	70,192
Additions	11,760	—	8,161	2,549	2,940	1,945	27,355
As at 31 December 2006 and 1 January 2007 . .	51,841	—	33,356	3,007	7,398	1,945	97,547
Additions	11,239	977	12,745	2,398	5,131	708	33,198
Disposals	—	—	(4,725)	—	—	—	(4,725)
Transfers	1,469	—	—	—	1,184	(2,653)	—
As at 31 December 2007 .	64,549	977	41,376	5,405	13,713	—	126,020
Accumulated depreciation:							
As at 1 January 2005 . . .	3,788	—	8,355	10	506	—	12,659
Provided during the year .	1,640	—	2,647	123	395	—	4,805
Written-off	—	—	—	—	(33)	—	(33)
Disposals	—	—	(254)	—	—	—	(254)
As at 31 December 2005 and 1 January 2006 . .	5,428	—	10,748	133	868	—	17,177
Provided during the year .	1,973	—	2,529	260	764	—	5,526
As at 31 December 2006 and 1 January 2007 . .	7,401	—	13,277	393	1,632	—	22,703
Provided during the year .	2,595	—	3,265	579	1,578	—	8,017
Disposals	—	—	(1,285)	—	—	—	(1,285)
As at 31 December 2007 .	9,996	—	15,257	972	3,210	—	29,435
Net carrying amount:							
As at 31 December 2005 .	<u>34,653</u>	<u>—</u>	<u>14,447</u>	<u>325</u>	<u>3,590</u>	<u>—</u>	<u>53,015</u>
As at 31 December 2006 .	<u>44,440</u>	<u>—</u>	<u>20,079</u>	<u>2,614</u>	<u>5,766</u>	<u>1,945</u>	<u>74,844</u>
As at 31 December 2007 .	<u>54,553</u>	<u>977</u>	<u>26,119</u>	<u>4,433</u>	<u>10,503</u>	<u>—</u>	<u>96,585</u>

The Group's buildings were situated in Mainland China and was held under medium term leases.

As at 31 December 2005, 2006 and 2007, certain of the Group's buildings with net book values of approximately RMB10,755,000, RMB10,134,000 and RMB9,513,000, respectively, were pledged to secure general banking facilities granted to the Group (note 25).

Building ownership certificate in respect of a warehouse with net book value of approximately RMB2,891,000 as at 31 December 2007 and included in the Group's buildings have not been obtained by the Group. In addition, the Group is still in the process of applying for the building ownership certificates in respect of warehouses and dormitories with net book value of approximately RMB3,128,000 as at 31 December 2007. Having consulted with the Company's legal adviser in Mainland China, the directors of the Company consider that the Group will own the legal title of these properties when the building ownership certificates are issued by the relevant PRC authority.

15. PREPAID LAND LEASE PAYMENTS

Group

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	9,308	23,202	22,761
Additions	14,176	254	—
Recognised during the year	(282)	(695)	(490)
Carrying amount at 31 December	23,202	22,761	22,271
Current portion included in prepayments, deposits and other receivables	(484)	(484)	(508)
Non-current portion	<u>22,718</u>	<u>22,277</u>	<u>21,763</u>

The Group's prepayment of land use rights premiums was for medium term leasehold land located in Mainland China.

As at 31 December 2005, 2006 and 2007, land use rights with carrying values of approximately RMB9,220,000, RMB9,045,000 and RMB8,842,000, respectively, were pledged to secure general banking facilities granted to the Group (note 25).

16. DEPOSIT PAID

The deposit was paid for land use right over a parcel of land in Jinjiang, Fujian Province, the PRC. The Group has not yet obtained the land use rights certificates up to 31 December 2007. Subsequent to the balance sheet date, on 25 January 2008, a sales and purchase agreement was entered into between the Group and 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.*), an independent third party, for the transfer of the right arising from the aforesaid deposit paid at a consideration of RMB10,000,000. The consideration of RMB10,000,000 was fully paid by 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.*) to the Group in March 2008.

* For identification only

17. INTANGIBLE ASSETS

Group	Patent and trademark
	RMB'000
Cost:	
As at 1 January 2005, 31 December 2005, and 1 January 2006	221
Additions	197
As at 31 December 2006, 1 January 2007 and 31 December 2007	418
Accumulated amortisation:	
As at 1 January 2005	4
Amortised during the year	44
As at 31 December 2005 and 1 January 2006	48
Amortised during the year	7
As at 31 December 2006 and 1 January 2007	55
Amortised during the year	74
As at 31 December 2007	129
Net carrying amount:	
As at 31 December 2005	173
As at 31 December 2006	363
As at 31 December 2007	289

18. INTERESTS IN SUBSIDIARIES

Company	31 December 2007
	RMB'000
Unlisted shares, at cost	7
Due from a subsidiary	229,787
Due to a subsidiary	(7)
	229,787

The amounts due from/to subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, the advance to the subsidiary is considered as a quasi-equity loan to the subsidiary.

Particulars of the principal subsidiaries as at the date of the report are set out as follows:

Name	Place and date of incorporation or establishment/operation	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Indirect	Direct	
Xtep International Development Limited (formerly known as Able Great Enterprises Limited) ("Xtep Development")	British Virgin Islands ("BVI") 9 February 2007	US\$50,000	—	100	Investment holding
Xtep (China) (notes (i) and (ii))	PRC/Mainland China 7 February 2002	HK\$280,000,000	100	—	Manufacture and sale of sportswear
Sanxing Sports (notes (i) and (iii))	PRC/Mainland China 3 February 1999	HK\$36,800,000	100	—	Manufacture and sale of sportswear
Koling (Fujian) (notes (i) and (iv))	PRC/Mainland China 5 February 2007	HK\$8,000,000	100	—	Manufacture and sale of sportswear
Xtep Jinjiang (formerly known as Fujian Xingte Shoes & Garments Co., Ltd.) (notes (i) and (v))	PRC/Mainland China 1 November 2004	US\$6,000,000	100	—	Has not yet commenced business
Xtep Xiamen (formerly known as 廈門特步投資有限公司) (notes (i) and (vi))	PRC/Mainland China 5 January 2007	RMB50,000,000	100	—	Has not yet commenced business
Koling (HK) Development Co., Limited ("Koling (HK)")	Hong Kong 13 September 2006	HK\$10,000	100	—	Investment holding
Xtep (Hong Kong) Enterprise Limited (formerly known as Leader Gain Investments Limited) ("Xtep Enterprise")	Hong Kong 27 March 2007	HK\$10,000	100	—	Investment holding

Notes:

- (i) These entities are wholly foreign-owned enterprises and limited liability companies established in the PRC.
- (ii) The registered capital of Xtep (China) is HK\$280,000,000 and was fully paid up as at the date of this report. The unpaid registered capital as at the end of each of the Relevant Periods was set out in note 34(a) of the report.
- (iii) The registered capital of Sanxing Sports is HK\$36,800,000 and was fully paid up as at the date of this report.
- (iv) The registered capital of Koling (Fujian) is HK\$8,000,000 and was fully paid up as at the date of this report.
- (v) The registered capital of Xtep Jinjiang is US\$6,000,000 and was fully paid up as at the date of this report. The unpaid registered capital as at the end of each of the Relevant Periods was set out in note 34(a) of the report.
- (vi) The registered capital of Xtep Xiamen is RMB50,000,000 and was fully paid up as at date of the report. Since establishment, Xtep Xiamen was 65% and 35% owned by Xtep (China) and Lin Zhang Li, respectively. On 21 October 2007, Xtep (China) entered into an agreement with Lin Zhang Li to acquire his 35% equity interest in Xtep Xiamen at a consideration of RMB17,500,000 which was equivalent to his portion of the paid-in capital. The acquisition was completed on 15 November 2007 and Xtep Xiamen became a wholly-owned subsidiary of the Group since then (note 11(c)).

19. INVENTORIES

Group

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Raw materials	81,026	98,700	77,777
Work in progress	6,485	3,237	28,853
Finished goods	14,916	49,425	86,875
	<u>102,427</u>	<u>151,362</u>	<u>193,505</u>

20. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of two to three months to its customers.

An aged analysis of the Group's trade receivables at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within 90 days	69,156	139,978	100,546
91 to 180 days	8,046	10,035	67,861
181 to 360 days	15,013	9,024	19,049
Over 360 days	9,311	28,922	1,129
Trade receivables	<u>101,526</u>	<u>187,959</u>	<u>188,585</u>
Bills receivables	—	—	45,798
Trade and bills receivables	<u>101,526</u>	<u>187,959</u>	<u>234,383</u>

The carrying amounts of trade and bills receivables approximate to their fair values.

An analysis of trade receivables at the end of each of the Relevant Periods, that were past due but not impaired, is as follows:

	Past due but not impaired					
	Neither past due nor impaired	Less than 91 days	91 days to 270 days	Over 270 days	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2005	69,156	8,046	15,013	9,311	32,370	101,526
2006	139,978	10,035	9,024	28,922	47,981	187,959
2007	<u>100,546</u>	<u>67,861</u>	<u>19,049</u>	<u>1,129</u>	<u>88,039</u>	<u>188,585</u>

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PLEDGED DEPOSITS

The pledged deposits of the Group were used to secure the banking facilities granted to the Group by the banks (note 23).

22. CASH AND BANK BALANCES

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB14,409,000, RMB22,216,000 and RMB207,867,000 as at 31 December 2005, 2006 and 2007, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and bank balances approximate to their fair values.

23. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade payables at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within 90 days	44,377	68,093	54,413
91 to 180 days	—	452	1,179
181 to 360 days	106	—	263
Over 360 days	<u>30</u>	<u>126</u>	<u>4</u>
Trade payables	<u>44,513</u>	<u>68,671</u>	<u>55,859</u>
Bills payables	—	26,900	—
Trade and bills payables	<u>44,513</u>	<u>95,571</u>	<u>55,859</u>

The trade payables are non-interest-bearing and are normally settled on 60 to 90-day terms. The carrying amounts of trade and bills payables approximate to their fair values.

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

Group

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Deposits received	5,151	6,088	23,121
Accrued liabilities	4,532	6,832	15,959
Construction cost payables	500	9,305	—
Value-added tax payables	150	6,896	(1,368)
Other payables	239	1,679	3,390
	<u>10,572</u>	<u>30,800</u>	<u>41,102</u>

Company

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Accrued liabilities	—	—	3
	<u>—</u>	<u>—</u>	<u>3</u>

Other payables and value-added tax payables are non-interest bearing and have an average term of three months. The carrying amounts of the monetary liabilities included in deposits received, other payables and accruals category above approximate to their fair values.

25. INTEREST-BEARING BANK BORROWINGS

Group

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Current			
Bank loans — secured	47,250	177,000	101,000
Bank loans — unsecured	42,000	20,000	15,000
	<u>89,250</u>	<u>197,000</u>	<u>116,000</u>

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable within one year	<u>89,250</u>	<u>197,000</u>	<u>116,000</u>

The above bank loans were all denominated in RMB. The bank loans bore fixed interest rates ranging from 5.022% to 6.138% per annum for the year ended 31 December 2005, ranging from 5.022% to 6.120% per annum for the year ended 31 December 2006, and ranging from 5.508% to 6.561% per annum for the year ended 31 December 2007. Because of the short maturity, the carrying amounts of current bank loans approximate to their fair values.

The bank loans of RMB47,250,000 as at 31 December 2005 were secured by:

- (i) corporate guarantees from Xtep (China) and Sanxing Sports; and
- (ii) mortgages over certain buildings and land use rights of the Group situated in Mainland China (notes 14 and 15).

The bank loans of RMB177,000,000 as at 31 December 2006 were secured by:

- (i) corporate guarantees from Xtep (China) and Sanxing Sports;
- (ii) corporate guarantee of RMB15,000,000 from an independent third party, namely 福建晉江安普鞋業有限公司 (Fujian Jinjiang An Pu Footwear Co., Ltd.*);
- (iii) mortgages over certain buildings and land use rights of the Group situated in Mainland China (notes 14 and 15); and
- (iv) personal guarantees of RMB66,000,000 from Ding Shui Po and Ding Ming Fang (note 11(b)).

The personal guarantees from Ding Shui Po and Ding Ming Fang, and the corporate guarantee from an independent third party expired on 28 June 2007 and 10 August 2007, respectively.

The bank loans of RMB101,000,000 as at 31 December 2007 were secured by:

- (i) corporate guarantees from Sanxing Sports and Koling (Fujian); and
- (ii) mortgages over certain buildings and land use rights of the Group situated in Mainland China (notes 14 and 15).

26. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and is repayable on demand. The director of the Company considers that the carrying amount of the amount due to a director at 31 December 2005, 2006 and 2007 approximates to its fair values because of its short maturity. The Group confirmed that the amount will be fully repaid to the director before the Listing.

* For identification only

27. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties as at 31 December 2005 and 2006 included the amounts due to Ding Ming Fang and Ding Jin Chao, who are the spouse and father of Ding Shui Po, respectively. The amounts were unsecured, interest-free and were fully repaid in 2007. Their carrying amounts as at 31 December 2005 and 2006 approximate to their fair values because of their short maturity.

28. CONVERTIBLE BONDS AND PREFERRED SHARES

Carlyle Asia Growth Partners III, L.P. and Carlyle Asia Growth Partners III Co-Investment, L.P. (collectively the "Carlyle Investment Funds") entered into a series of convertible loan agreements, investment agreement and two supplemental agreements with the Group (collectively the "Agreements") on 13 June 2007, 24 August 2007 and 17 September 2007, respectively. Pursuant to the Agreements, the Carlyle Investment Funds agreed to subscribe the convertible bonds and preferred shares of the Company at a total consideration of approximately RMB220,000,000 and was injected into the Group by two tranches.

On 13 June 2007, the Carlyle Investment Funds made its first tranche of investment to the Company through the subscription of convertible bonds with principal amount of approximately RMB40,000,000 (the "Convertible Bonds"). The Convertible Bonds bear interest at 5% per annum and have a term of 6 months. On the maturity date, the Carlyle Investment Funds could request for the repayment or convert all or part of the Convertible Bonds into the Company's preferred shares at a valuation predetermined in the Agreements.

On 18 September 2007, the Carlyle Investment Funds made its second tranche of investment by subscribing 10,112,360 preferred shares of the Company at a consideration of approximately RMB180,000,000. In addition, the Carlyle Investment Funds converted the Convertible Bonds into 2,247,190 preferred shares of the Company. In aggregate, the Carlyle Investment Funds held 12,359,550 preferred shares as at 18 September 2007, being the issuance date, and as at 31 December 2007.

Pursuant to the Agreements, the preferred shares (the "Preferred Shares"):

- (i) are convertible at the option of the Carlyle Investment Funds into the ordinary shares of the Company at any time on an one-to-one basis (the "Conversion Ratio"). The Conversion Ratio may be adjusted to reflect the effect of the share adjustment mechanism as mentioned in the Agreements.
- (ii) will be converted automatically into ordinary shares of the Company at the Conversion Ratio immediately upon the completion of the global offering of the Group as defined in the Agreements.
- (iii) are redeemable at the option of the Carlyle Investment Funds if one of the following events occurs:
 - (1) the Group's audited consolidated profit for the year ended 31 December 2006 was less than RMB30,000,000;
 - (2) the Group's audited consolidated profit for the year ended 31 December 2007 was less than RMB100,000,000;
 - (3) any event has occurred giving rise to a right to terminate the Agreements; or
 - (4) the initial public offering of the Company has not occurred before the fifth anniversary of the initial issuance of the Preferred Shares.

The redemption price for each Preferred Share shall be equal to the sum of the issue price for each Preferred Share, plus 15% of the issue price for each Preferred Share compounded annually in accordance with the terms as stated in the Agreements.

The Convertible Bonds, which were convertible into preferred shares and designated as liabilities, were classified as current liabilities on initial recognition based on the maturity date of the instrument. In subsequent periods, the Convertible Bonds were carried at amortised cost using the effective interest method.

The Preferred Shares with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes. On issuance of the Preferred Shares, the fair value of the derivative component was determined based on valuation; and this amount is carried as a derivative component of a liability until extinguished on conversion or redemption. The remainder of the proceeds was allocated to the liability component and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is remeasured at each balance sheet date and any gains or losses arising from change in fair value are recognised in the consolidated income statements.

The fair values of the derivative component of the Preferred Shares at the issuance date and at 31 December 2007 are estimated by the directors with reference to a valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent professional business and financial services valuer, located at 17th Floor, Champion Building, No. 287-291 Des Voeux Road, Central, Hong Kong, using the Black-Scholes option pricing model. Changes in fair value of that component between the issuance date and the balance sheet date is recognised in the consolidated income statements. Details of the net proceeds received from the issue of the Convertible Bonds and Preferred Shares are analysed as follows:

Convertible Bonds	RMB'000
Nominal value of the Convertible Bonds issued on 13 June 2007	40,000
Converted into 2,247,190 Preferred Shares	<u>(40,000)</u>
At 31 December 2007	<u>—</u>
Preferred Shares	RMB'000
Nominal value of 2,247,190 Preferred Shares issued upon the conversion of the Convertible Bonds	40,000
Nominal value of 10,112,360 Preferred Shares issued during the year	180,000
Transaction costs related to the liability component	(2,256)
Derivative component at the issuance date	<u>(1,351)</u>
Liability component at the issuance date	216,393
Imputed interest expense	<u>206</u>
Liability component at 31 December 2007	<u>216,599</u>
Derivative component at the issuance date	1,351
Fair value adjustment	<u>(27)</u>
Derivative component at 31 December 2007	<u>1,324</u>

Subsequent to the balance sheet date, on 21 March 2008, pursuant to the Agreements, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into the 1,565,168 ordinary shares of the Company, represented approximately 1.5% of the Company's total ordinary shares in issue at that date after the conversion.

Subsequent to the balance sheet date, on 7 May 2008, pursuant to the Agreements, the Carlyle Investment Funds converted a total of 10,794,382 Preferred Shares into the Company's ordinary shares based on the Conversion Ratio.

Further details of the above conversions were disclosed in Section III "Subsequent events" below.

29. SHARE CAPITAL

The share capital as at 31 December 2005 and 2006 represented the aggregate amount of paid-in capitals of the companies now comprising the Group.

The share capital as at 31 December 2007 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

	HK\$'000	RMB'000
Authorised:		
99,987,640,450 ordinary shares of HK\$0.01 each	999,876	935,513
12,359,550 preferred shares of HK\$0.01 each	<u>124</u>	<u>116</u>
	<u>1,000,000</u>	<u>935,629</u>
Issued and fully paid:		
100,000,000 ordinary shares of HK\$0.01 each	<u>1,000</u>	<u>936</u>

A summary of the transactions from 10 April 2007 (date of incorporation) to 31 December 2007 with reference to below movements in the Company's authorised and issued ordinary and preferred shares capital is as follows:

(a) Authorised share capital

	<i>Notes</i>	Number of ordinary and preferred shares of HK\$0.01 each	Nominal value of ordinary and preferred shares HK\$'000	Nominal value of ordinary and preferred shares RMB'000
Authorised:				
Upon incorporation:				
— ordinary shares	(i)	38,000,000	380	356
Increase in:				
— ordinary shares	(ii)	99,949,640,450	999,496	935,157
— preferred shares	(ii)	<u>12,359,550</u>	<u>124</u>	<u>116</u>
At 31 December 2007		<u>100,000,000,000</u>	<u>1,000,000</u>	<u>935,629</u>

Notes:

- (i) The Company was incorporated in the Cayman Islands on 10 April 2007 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.
- (ii) Pursuant to written resolutions of the sole shareholder of the Company passed on 17 September 2007, the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of an additional 99,949,640,450 ordinary shares of HK\$0.01 each and 12,359,550 preferred shares ranking pari passu in all respects with the existing shares.

(b) Issued ordinary shares

		Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$'000	Nominal value of ordinary shares RMB'000
Issued:				
Upon incorporation				
— issued nil paid	(i)	1	—	—
Allotment of shares				
— on 27 June 2007	(ii)	99	—	—
— on 17 September 2007	(iii)	<u>99,999,900</u>	<u>1,000</u>	<u>936</u>
At 31 December 2007		<u>100,000,000</u>	<u>1,000</u>	<u>936</u>

Notes:

- (i) On 10 April 2007, one ordinary share of the Company was allotted and issued at par as nil paid to the initial subscriber and was immediately transferred to Ding Shui Po. On 28 May 2007, Group Success Investments Limited ("Group Success"), a company incorporated in the BVI and is beneficially owned by Ding Shui Po, acquired the one ordinary share of the Company from Ding Shui Po.
- (ii) On 27 June 2007, an additional 99 ordinary shares of the Company were allotted at par and credited as nil paid to Group Success.
- (iii) On 17 September 2007, an additional 99,999,900 ordinary shares of the Company were allotted at par and credited as fully paid to Group Success.

(c) Issued preferred shares

The preferred shares are presented as a non-current liability in the consolidated balance sheets and the related movement is set out in note 28 to the Financial Information.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity under Section I of the Financial Information.

(b) Company

	<u>Accumulated loss</u> RMB'000
Upon incorporation	—
Profit for the period	128,656
Dividend declared during the period	<u>(129,455)</u>
At 31 December 2007	<u>(799)</u>

31. NOTES TO THE CASH FLOW STATEMENTS

Major non-cash transactions

(a) Acquisition of a minority interest of Xtep Xiamen

On 21 October 2007, the Group entered into an agreement with Lin Zhang Li to acquire his entire 35% equity interest in Xtep Xiamen at a consideration of RMB17,500,000. The consideration was determined with reference to the 35% paid-in capital of Xtep Xiamen contributed by Lin Zhang Li. The acquisition was completed on 15 November 2007 and Xtep Xiamen became a wholly-owned subsidiary of the Group since then. Lin Zhang Li has assigned the right to such consideration receivable to Ding Shui Po on 31 December 2007. The consideration has not been paid by the Group and was included in the amount due to a director as at 31 December 2007.

(b) Group Reorganisation — Sanxing Sports

Pursuant to the Group Reorganisation, the Group acquired the entire equity interest in Sanxing Sports from Ding Shui Po at a consideration of HK\$36,800,000 (equivalent to approximately RMB34,429,000). The consideration was determined with reference to the paid-in capital of Sanxing Sports at the time of transfer. The consideration has not been settled by the Group and was included in the amount due to a director as at 31 December 2007. The above acquisition was accounted for in accordance with the principles of merger accounting as set out in note 1 under Section II "Notes to Financial Information" above.

32. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group and the Company did not have any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its production facilities and office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 3 to 5 years.

At the end of each of the Relevant Periods, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within one year	—	—	1,703
In the second to fifth years, inclusive	—	—	5,062
	—	—	6,765
	<u>—</u>	<u>—</u>	<u>6,765</u>

Company

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Within one year	—	—	1,063
In the second to fifth years, inclusive	—	—	2,502
	<u>—</u>	<u>—</u>	<u>3,565</u>

34. COMMITMENTS

(a) At the end of each of the Relevant Periods, the Group had the following commitments:

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Contracted for capital commitment in respect of its wholly-foreign-owned investments in the PRC:			
— Xtep Jinjiang	38,490	38,490	—
— Xtep (China)	22,118	16,937	7,952
Contracted for commitment in respect of:			
— construction of new factory buildings	—	5,000	67
— acquisition of land use rights	8,667	4,667	4,667
— advertising and promotional expenses	12,403	33,661	41,820
	<u>81,678</u>	<u>98,755</u>	<u>54,506</u>

(b) For the period from 1 November 2006 to 31 December 2009, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the product for these years.

As at 31 December 2007, the Company did not have any significant commitment.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at 31 December 2005, 2006 and 2007 are as follows:

Group**31 December 2005**

Financial assets

	Loans and receivables
	RMB'000
Trade and bills receivables	101,526
Financial assets included in prepayments, deposits and other receivables	10,000
Pledged deposits	2,500
Cash and bank balances	14,409
	<u>128,435</u>

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	44,513
Financial liabilities included in other payables and accruals (<i>note 24</i>)	739
Interest-bearing bank borrowings	89,250
Due to a director	15,635
Due to related parties	23,843
	<u>173,980</u>

31 December 2006

Financial assets

	Loans and receivables
	RMB'000
Trade and bills receivables	187,959
Financial assets included in prepayments, deposits and other receivables	15,000
Pledged deposits	7,880
Cash and bank balances	22,216
	<u>233,055</u>

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	95,571
Financial liabilities included in other payables and accruals (<i>note 24</i>)	10,984
Interest-bearing bank borrowings	197,000
Due to a director	3,521
Due to related parties	8,143
	<u>315,219</u>

31 December 2007

Financial assets

	Loans and receivables
	RMB'000
Trade and bills receivables	234,383
Cash and bank balances	<u>215,018</u>
	<u>449,401</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss - held for trading	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	55,859	55,859
Financial liabilities included in other payables and accruals (<i>note 33</i>)	—	3,390	3,390
Interest-bearing bank borrowings	—	116,000	116,000
Due to a director	—	32,874	32,874
Dividend payable	—	129,455	129,455
Preferred shares	—	216,599	216,599
Derivative component of preferred shares	<u>1,324</u>	—	<u>1,324</u>
	<u>1,324</u>	<u>554,177</u>	<u>555,501</u>

Company

31 December 2007

Financial assets

	Loans and receivables
	RMB'000
Due from a subsidiary	129,455
Cash and bank balances	<u>12,383</u>
	<u>141,838</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss - held for trading	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Due to a director	—	27,579	27,579
Dividend payable	—	129,455	129,455
Preferred shares	—	216,599	216,599
Derivative component of preferred shares	1,324	—	1,324
	<u>1,324</u>	<u>373,633</u>	<u>374,957</u>

The Group's principal financial instruments, comprise bank borrowings, convertible bonds, preferred shares and cash and bank balances with the main purpose of raising finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the Relevant Periods, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors review and agree policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, pledged deposits and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Interest rate risk

The Group does not have any significant exposure to risk of changes in market interest rates as the Group's debt obligations were all with fixed interest rates.

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2005, 2006 and 2007 based on contractual undiscounted payments.

31 December 2005	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings . . .	—	8,750	80,500	—	89,250
Other financial liabilities	39,478	739	—	—	40,217
Trade and bills payables	—	44,513	—	—	44,513
	<u>39,478</u>	<u>54,002</u>	<u>80,500</u>	<u>—</u>	<u>173,980</u>
31 December 2006	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings . . .	—	40,000	157,000	—	197,000
Other financial liabilities	11,664	10,984	—	—	22,648
Trade and bills payables	—	95,571	—	—	95,571
	<u>11,664</u>	<u>146,555</u>	<u>157,000</u>	<u>—</u>	<u>315,219</u>
31 December 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings . . .	—	—	116,000	—	116,000
Preferred shares (including derivative component)	—	—	—	220,000	220,000
Other financial liabilities	32,874	3,390	—	—	36,264
Trade and bills payables	—	55,859	—	—	55,859
Dividend payable.	129,455	—	—	—	129,455
	<u>162,329</u>	<u>59,249</u>	<u>116,000</u>	<u>220,000</u>	<u>557,578</u>

Commodity price risk

The major raw materials used in the production of the Group's products included rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the Relevant Periods.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio, which is calculated as the net debt divided by adjusted capital. During the Relevant Periods, the debt-to-adjusted capital ratios at the end of each of the Relevant Periods were as follows:

	As at 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	89,250	197,000	116,000
Preferred shares	—	—	216,599
Derivative component of preferred shares	—	—	1,324
Less: Cash and bank balances	<u>(14,409)</u>	<u>(22,216)</u>	<u>(215,018)</u>
Net debt	<u>74,841</u>	<u>174,784</u>	<u>118,905</u>
Total equity	132,117	187,367	279,796
Add: Amount due to a director	<u>15,635</u>	<u>3,521</u>	<u>32,874</u>
Adjusted capital	<u>147,752</u>	<u>190,888</u>	<u>312,670</u>
Debt-to-adjusted capital ratio	0.5	0.9	0.4

36. DIRECTORS' REMUNERATION

Save as disclosed in note 8 to the Financial Information, no remuneration has been paid or is payable in respect of any of the Relevant Periods by the Company, or any of the other companies now comprising the Group, to the directors of the Company. Further details of the estimated amount of directors' fees and other remuneration payable to the directors of the Company for the year ending 31 December 2008 under the directors' service contracts are set out in the paragraph headed "Further information about the directors" in Appendix VI to the Prospectus.

III. SUBSEQUENT EVENTS

Subsequent to 31 December 2007, the following significant events occurred:

- (a) On 25 January 2008, an agreement was made between the Group and 泉州市通力模具有限公司 (Quanzhou Tongli Moulding Co., Ltd.*), an independent third party, who agreed to pay the Group a cash consideration of RMB10,000,000, which was subsequently settled in full in March 2008, representing the amount of the deposit paid by the Group for the purchase of a parcel of land located in Jinjiang Wuli Industrial Zone, Fujian province, the PRC. Further details of the above transaction were disclosed under the section “Financial Information” of the Prospectus.
- (b) On 21 March 2008, pursuant to the Agreements, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into 1,565,168 ordinary shares of the Company, represented approximately 1.5% of the Company’s total ordinary shares in issue at that date after the conversion. These ordinary shares were then transferred to Group Success Investment Limited, a company owned by Ding Shui Po and Ding Mei Qing, who are considered as the controlling shareholders of the Company, at a consideration of US\$1. After the conversion, the Carlyle Investment Funds hold a total of 10,794,382 Preferred Shares.
- (c) Pursuant to a written resolution of the Shareholders and holders of Series A Preferred Shares of the Company passed on 7 May 2008, the Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in the paragraph headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” in Appendix VI to the Prospectus.

Up to the date of this report, 19,000,000 options were granted by the Company under the Pre-IPO Share Option Scheme and no options were granted under the Share Option Scheme.
- (d) On 7 May 2008, the Carlyle Investment Funds exercised the conversion rights to the effect that conditional upon satisfaction of the conditions to the Listing as set out in the paragraph headed “Written resolutions of our shareholders and holders of Series A Preferred Shares passed on 7 May 2008” in Appendix VI to the Prospectus, the 10,794,382 Preferred Shares are converted into the Company’s ordinary shares based on the Conversion Ratio as stated in the Agreements.
- (e) On 7 May 2008, Ding Shui Po and Ding Ming Fang agreed to grant to the Group an irrevocable licence to use all of their trademarks and patents relating to sportswear products at nil consideration from 7 May 2008 until the completion of the transfer of these trademarks and patents. Further details of this transaction are set out in the paragraph headed “Exempted Continuing Connected Transactions” in the “Business” section of the Prospectus.

Save as disclosed above, no other significant events took place subsequent to 31 December 2007.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants' report prepared by the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about (i) how the Listing might have affected the consolidated net tangible assets after completion of the Global Offering; and (ii) how the Listing might have affected the forecast earnings per share of the Group for the year ending 31 December 2008 as if the Global Offering had taken place on 1 January 2008. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerns.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which is based on the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2007 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the financial position of the Group.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2007 ⁽¹⁾⁽⁴⁾	Estimated net proceeds from Offer Shares ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets value per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$4.05 per Share	279,507	1,864,547	2,144,054	0.97	1.08
Based on an Offer Price of HK\$5.50 per Share	279,507	2,551,476	2,830,983	1.28	1.43

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2007 is arrived at after deducting intangible assets of RMB289,000 from the audited consolidated net assets of the Group attributable to equity holders of the Company of RMB279,796,000 as at 31 December 2007.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) *The estimated net proceeds from the Offer Shares is based on the Offer Price of HK\$4.05 (equivalent to RMB3.65) or HK\$5.50 (equivalent to RMB4.96) per Share, assuming that the Over-allotment Option is not exercised, after deduction of the underwriting fees and related expenses payable by the Company and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme.*
- (3) *The pro forma adjusted consolidated net tangible assets value per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 2,200,000,000 Shares in issue immediately following completion of the Share Offer.*
- (4) *The property interests of the Group as at 31 March 2008 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of the Group amounting to RMB56,855,000. The revaluation surplus will not be incorporated in the Group's financial statements for the year ending 31 December 2008. If the revaluation surplus was recorded in the Group's financial statements, the annual depreciation of the Group for the year ending 31 December 2008 would be increased by approximately RMB2,330,000.*

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending 31 December 2008 have been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on 1 January 2008. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

**Forecast for the year ending
31 December 2008**

Forecast consolidated profit attributable to equity holders of the Company ⁽¹⁾	not less than RMB468 million
Unaudited pro forma forecast earnings per Share ⁽²⁾⁽³⁾	RMB21.27 cents (HK\$23.58 cents)

Notes:

- (1) *The forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 is extracted from the profit forecast as set out in the subsection headed "Profit forecast" under the section headed "Financial information". The bases and assumptions on which the above profit forecast for the year ending 31 December 2008 are summarised in "Profit Forecast" Appendix III to this prospectus.*
- (2) *The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast profit attributable to equity holders of the Company for the year ending 31 December 2008 and on the assumptions that the Company has been listed since 1 January 2008 and that a total number of 2,200,000,000 Shares were in issue during the year ending 31 December 2008. The forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 has not taken into account any interest income that would have been earned if the proceeds from the Offer Shares had been received by the Company on 1 January 2008.*
- (3) *Solely for your convenience, this amount has been converted into Hong Kong dollars at the People's Bank of China rate of HK\$1.00 to RMB0.9019 on 31 March 2008. You should not construe such conversion as a representation that the RMB amounts could actually be converted into HK dollar amounts at the rate indicated, or at all.*

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

**(C) LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

21 May 2008

The Board of Directors
Xtep International Holdings Limited

Dear Sirs,

Xtep International Holdings Limited (the “Company”) and its subsidiaries (the “Group”)

We report on the statements of unaudited pro forma financial information of adjusted consolidated net tangible assets and forecast earnings per Share (the “Unaudited Pro Forma Financial Information”) set out in the sections (A) and (B) of Appendix II to the prospectus of the Company dated 21 May 2008 (the “Prospectus”) in connection with the global offering of 550,000,000 Shares of HK\$0.01 each in the Company, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed public offering might have affected the relevant financial information of the Group presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards and practices generally accepted in the United States of America or Auditing Standards of the Public Company Accounting Oversight Board (United States) and, accordingly, should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2007 or any future dates; or
- the earnings per share of the Group for the year ending 31 December 2008 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 is set out in the paragraph headed “Profit forecast” in the section headed “Financial information” in this prospectus.

(1) Bases and assumptions

The forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 prepared by the Directors is based on the unaudited management accounts of our Group for the 3 months ended 31 March 2008 and a forecast of the consolidated results of our Group for the remaining 9 months ending 31 December 2008. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of our Group in Hong Kong, in the PRC, or any other place in which our Group operates or in which any member of our Group is incorporated; and
- (c) there will be no material adverse changes in the foreign currency exchange rates and interest rates from those currently prevailing.

(2) Letters

Set out below are texts of letters received by the Directors from (i) the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong, and (ii) the Joint Sponsors prepared for the purpose of incorporation in this prospectus in connection with the profit forecast of our consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008.

(i) Letter from Ernst & YoungThe logo for Ernst & Young, featuring a stylized 'EY' symbol followed by the company name in a bold, serif font.

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

21 May 2008

The Board of Directors
Xtep International Holdings Limited
J.P. Morgan Securities (Asia Pacific) Limited
UBS AG

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of Xtep International Holdings Limited (the “Company”) in respect of the Company and its subsidiaries (hereafter collectively referred to in this letter as the “Group”) for the year ending 31 December 2008 (the “Profit Forecast”) as set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in the prospectus of the Company dated 21 May 2008 (the “Prospectus”), for which you as directors of the Company (the “Directors”) are solely responsible.

We conducted our work in accordance with the Auditing Guideline 3.341 on “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the unaudited consolidated results of the Group for the 3 months ended 31 March 2008 and a forecast of the consolidated results of the Group for the 9 months ending 31 December 2008.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in section 1 of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in the accountants' report dated 21 May 2008, the text of which is set out in Appendix I to the Prospectus.

This letter is being issued in connection with the listing of the securities on The Stock Exchange of Hong Kong Limited and is not be used in connection with the offering pursuant to Rule 144A of the Securities Act of 1933 (as amended) in the United States of America.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) *Letter from the Joint Sponsors*



28th Floor
Chater House
8 Connaught Road
Central, Hong Kong



52nd Floor
Two International Finance Center
8 Finance Street
Central, Hong Kong

The Directors of Xtep International Holdings Limited

21 May 2008

Dear Sirs,

We refer to the forecast of the combined profit after taxation of Xtep International Holdings Limited (the "Company") and its subsidiaries for the year ending 31 December 2008 (the "Profit Forecast") as set out in the prospectus issued by the Company dated 21 May 2008 (the "Prospectus").

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 21 May 2008 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
Charles Li
Managing Director

For and on behalf of
UBS AG
Samantha Hon **Tim Cen**
Managing Director *Executive Director*

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 March 2008 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
22nd Floor Siu On Centre
188 Lockhart Road
Wanchai Hong Kong
tel +852 2169 6000 fax +852 2169 6001

21 May 2008

The Board of Directors
Xtep International Holdings Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Xtep International Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2008 (the “date of valuation”).

Our valuations of the property interests represent the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests in Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement costs of the property interest are subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal adviser — Jingtian & Gongcheng, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services, etc, for any development thereon. Our valuation is prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 25 years' experience in the valuation of properties in the PRC and 28 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I — PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

No. Property	Capital value in existing state as at 31 March 2008 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2008 <i>RMB</i>
1. 3 parcels of land, 10 buildings and various structures located at No. 431 Detai Road Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	58,740,000	100%	58,740,000
2. A parcel of land, 3 buildings and various structures located at No. 429 Detai Road Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	41,283,000	100%	41,283,000
3. A parcel of land and 3 buildings located at the western side of Qingmeng Yuanqu Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	33,379,000	100%	33,379,000
Sub-total:	<u>133,402,000</u>		<u>133,402,000</u>

**GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE
PRC AND HONG KONG**

No. Property	Capital value in existing state as at 31 March 2008 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2008 <i>RMB</i>
4. 2 buildings located at the western side of Qingmeng Yuanqu Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	No commercial value		No commercial value
5. Suite 2401-2402, Shui On Centre Nos. 6-8, Harbour Road Wanchai Hong Kong	No commercial value		No commercial value
	Sub-total:		Nil
	Total:		Nil
	<u>133,402,000</u>		<u>133,402,000</u>

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2008 RMB
1.	3 parcels of land, 10 buildings and various structures located at No. 431 Detai Road Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	<p>The property comprises 3 parcels of adjoining land with a total site area of approximately 38,112.4 sq.m. and 10 buildings and various ancillary structures erected thereon completed in various stages between 2000 and 2004.</p> <p>The buildings have a total gross floor area of approximately 72,152.59 sq.m.</p> <p>The buildings mainly include 2 industrial buildings, 5 dormitories, an office building and 2 warehouses.</p> <p>The structures mainly comprise boundary fences, roads and gates.</p> <p>The land use rights of the 3 parcels of land were granted for various terms of 40 years and 50 years with the expiry dates between 4 August 2039 and 20 August 2047 for commercial and industrial uses.</p>	<p>The property is currently occupied by the Group for production, office, storage, dormitory and ancillary purposes except for a portion of land with a total site area of approximately 980.88 sq.m. is leased to an independent third party. (see note 4)</p>	<p>58,740,000</p> <p>100% interest attributable to the Group: 58,740,000</p>

Notes:

- Sanxing Sports Goods Co., Ltd. Quanzhou ("Sanxing Sports") is a wholly-owned subsidiary of the Company.
- Pursuant to 3 State-owned Land Use Rights Transfer Contracts — Quan Qing Zhuan (1999) He Zi Di Nos. 10, 3 and 27 dated 5 August 1999, 26 May 1999 and 24 December 1999 respectively entered into between Quanzhou Qingmeng Technological Industry Zone Construction Development Co., Ltd. (an independent third party) and Sanxing Sports, the land use rights of the property were transferred to Sanxing Sports for terms of 40 years and 50 years with the expiry dates between 4 August 2039 and 20 August 2047 for commercial and industrial uses. The total land premium is RMB7,714,588.
- Pursuant to 3 State-owned Land Use Rights Certificates - Quan Guo Yong (99) Zi Di Nos. 100083 and 100065 and Quan Guo Yong (2000) Zi Di No. 100007 dated 15 September 1999, 23 July 1999 and 24 January 2001 respectively issued by the Bureau of Land Management of Quanzhou, the land use rights of 3 parcels of land with a total site area of approximately 38,112.4 sq.m. were granted to Sanxing Sports for terms of 40 years and 50 years respectively with the expiry dates between 4 August 2039 and 20 August 2047 for commercial and industrial uses.
- Pursuant to a Lease Agreement dated 1 January 2008 entered into between Sanxing Sports and Huang Lei (an independent third party), a portion of land of the property with a total site area of approximately 980.88 sq.m. is leased to Huang Lei at an annual rental of RMB344,800.

5. As advised by the Group, there is an ancillary building with a gross floor area of approximately 310 sq.m. erected on the land mentioned above, which was built by Quanzhou Power Bureau Qingmeng Power Supply Company for modulating electricity supply to the property and the building nearby. We have excluded the building from our valuation.
6. Pursuant to 8 Building Ownership Certificates - Quan Fang Quan Zheng Qing Meng (Qing) Zi Di Nos. 00011 to 00016 and Quan Fang Quan Zheng Kai (Kai) Zi Di Nos. 200715416 to 200715417 dated 8 January 2001 and 29 December 2007 respectively issued by Quanzhou Construction Committee and Quanzhou Real Estate Management Bureau respectively, the 8 buildings with a total gross floor area of approximately 66,049.88 sq.m. are owned by Sanxing Sports.
7. For the remaining one warehouse and one dormitory with a total gross floor area of approximately 4,331.1 sq.m. and an extension portion with a gross floor area of approximately 1,771.61 sq.m. on Level 4 of a 4-storey warehouse, the Group has not obtained any Building Ownership Certificates. As advised by the Group, the warehouse and the extension portion of warehouse are vacant.
8. In the valuation of this property, we have attributed no commercial value to the 2 buildings and the extension portion of the warehouse mentioned in note 7 with a total gross floor area of approximately 6,102.71 sq.m. which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the capital value of the 2 buildings and the extension portion of the warehouse (excluding the land element) as at the date of valuation would be RMB4,144,000 assuming all relevant title ownership certificates had been obtained and them could be freely transferred.
9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a) Pursuant to a loan contract entered into between Sanxing Sports and China Construction Bank of Quanzhou, Qingmeng Branch (the "Bank"), 6 buildings (Quan Fang Quan Zheng Qing Meng (Qing) Zi Di Nos. 00011 to 00016) and the land are subject to a mortgage in favour of the Bank for a term commencing from 16 August 2006 and expiring on 16 August 2008;
 - b) The land use rights of the property are legally owned by the Group and can be freely occupied, used, transferred, sublet or remortgaged by the Group upon obtaining the approval of the Bank;
 - c) The building ownership rights of the 6 buildings mentioned above are legally owned by the Group and can be freely occupied, used, transferred, sublet or remortgaged by the Group upon obtaining the approval of the Bank;
 - d) Pursuant to a consent letter, the Bank has approved Sanxing Sports to lease the portion of land to Huang Lei;
 - e) The building ownership rights of the remaining 2 buildings are legally owned by the Group and can be freely occupied, used, transferred, sublet or mortgaged by the Group; and
 - f) The buildings without proper title certificates can not be preserved by the PRC law.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2008 RMB
2.	A parcel of land, 3 buildings and various structures located at No. 429 Detai Road Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 8,883.1 sq.m. and 3 buildings and various ancillary structures erected thereon completed in about 2003.</p> <p>The buildings have a total gross floor area of approximately 27,519.98 sq.m.</p> <p>The buildings mainly include a residential building, an office building and a warehouse.</p> <p>The structures mainly comprise boundary fences and roads.</p> <p>The land use rights of the property were granted for a term of 50 years expiring on 20 August 2047 for commercial and residential uses.</p>	<p>The property is currently occupied by the Group for office, dormitory and storage purposes except for portions of the property which are currently leased to various independent third parties. (see note 5)</p>	<p>41,283,000</p> <p>100% interest attributable to the Group: 41,283,000</p>

Notes:

1. Xtep (China) Co., Ltd. ("Xtep (China)") is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Transfer Contract — Quan Qing Zhuan (2005) He Zi Di No. 1 dated 13 January 2005 entered into between Xtep (China) and Quanzhou Economic Technological Development Zone Qingmeng Construction Development Co., Ltd. (an independent third party), the land use rights of the property were transferred to Xtep (China) for a term of 50 years expiring on 20 August 2047 for residential use. The land premium is RMB3,619,750.
3. Pursuant to a State-owned Land Use Rights Certificate - Quan Guo Yong (2005) Zi Di No. 100066 dated 5 May 2005 issued by The Land And Resources Department of Quanzhou, the land use rights of a parcel of land with a site area of approximately 8,883.1 sq.m. were granted to Xtep (China) for a term of 50 years expiring on 20 August 2047 for commercial and residential uses.
4. Pursuant to 4 Building Ownership Certificates - Quan Fang Quan Zheng Kai (Kai) Zi Di Nos. 200715418 to 200715421 dated 29 December 2007 issued by Quanzhou Real Estate Management Bureau, the 3 buildings with a total gross floor area of approximately 27,519.98 sq.m. are owned by Xtep (China).
5. Pursuant to 7 Lease Agreements, 7 commercial units of the property with a total leased area of approximately 545.8 sq.m. are leased to various independent third parties for various terms with various expiry dates between 30 June 2008 and 30 October 2010 at a total annual rental of RMB219,600.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a) The land use rights of the property are legally owned by the Group and can be freely occupied, used, transferred, sublet or mortgaged by the Group in accordance with the valid term in the land use rights certificates;
 - b) The building ownership rights of the buildings are legally owned by the Group and can be freely occupied, used, transferred, sublet or mortgaged by the Group.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2008 RMB
3.	A parcel of land and 3 buildings located at the western side of Qingmeng Yuanqu Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 38,192.6 sq.m. and 3 buildings erected thereon completed in about 2007.</p> <p>The buildings have a total gross floor area of approximately 41,301.2 sq.m.</p> <p>The buildings mainly include an industrial building, a dormitory and a warehouse.</p> <p>The land use rights of the property were granted for a term of 50 years expiring on 29 June 2057 for industrial use.</p>	The property is currently occupied by the Group for storage and dormitory purposes.	<p>33,379,000</p> <p>100% interest attributable to the Group: 33,379,000</p>

Notes:

1. Xtep (China) Co., Ltd. ("Xtep (China)") is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Grant Contract - Quan Di [2007] Z He No. 111905 dated 30 June 2007 entered into between Xtep (China) and The Land And Resource Department of Quanzhou, the land use rights of the property were granted to Xtep (China) for a term of 50 years expiring on 29 June 2057 for industrial use. The land premium is RMB10,922,320.
3. Pursuant to a State-owned Land Use Rights Certificate — Quan Guo Yong 2007 Di No. 100124, the land use rights of a parcel of land with a site area of approximately 38,192.6 sq.m. were granted to Xtep (China) for a term of 50 expiring on 29 June 2057 for industrial use.
4. Pursuant to a Building Ownership Certificate — Quan Fang Quan Kai (Kai) Zi Di No. 200802791 dated 4 March 2008 issued by Quanzhou Real Estate Management Bureau, the building with a gross floor area of approximately 31,466.2 sq.m. are owned by Xtep (China).
5. As advised by the Group, the dormitory and the warehouse with a total gross floor area of approximately 9,835 sq.m. are temporary facilities.
6. In the valuation of this property, we have attributed no commercial value to the buildings which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the capital value of the buildings (excluding the land element) with a total gross floor area of approximately 9,835 sq.m. as at the date of valuation would be RMB5,095,000 assuming all relevant title certificates had been obtained and the buildings could be freely transferred.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
 - a) The land use rights of the property are legally owned by the Group and can be freely occupied, used, transferred, sublet or mortgaged by the Group in accordance with the valid term in the land use rights certificates;
 - b) The building ownership rights of the building (mentioned in note 4) are legally owned by the Group and can be freely occupied, used, transferred, sublet or mortgaged by the Group; and
 - c) The remaining temporary facilities (mentioned in note 5) have not been obtained any proper title certificates, they can not be preserved by the PRC law.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC AND HONG KONG

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2008 RMB
4.	2 buildings located at the western side of Qingmeng Yuanqu Economic and Technological Development Zone Quanzhou City Fujian Province The PRC	<p>The property comprises a 5-storey dormitory and a 3-storey industrial building completed in about 2007.</p> <p>The property has total leased area of approximately 9,943.83 sq.m.</p> <p>The property is leased to Koling (Fujian) Garment Co., Ltd. from Quanzhou Ouyawanji Sports Goods Co., Ltd. for a term of 6 years commencing from 18 February 2007 and expiring on 12 February 2012, at a total annual rental of RMB640,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for production and dormitory purposes.	No commercial value

Notes:

1. Koling (Fujian) Garment Co., Ltd. (“Koling (Fujian)”) is a wholly-owned subsidiary of the Company.
2. Pursuant to a Lease Agreement entered into between Koling (Fujian) and Quanzhou Ouyawanji Sports Goods Co., Ltd. (泉州歐亞萬吉體育用品有限公司) (an independent third party), 2 buildings with a total leased area of approximately 9,943.83 sq.m. are leased to Koling (Fujian) for a term of 6 years at a total annual rental of RMB640,000 for industrial building and dormitory, exclusive of management fees, water and electricity charges.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, *inter alia*, the following:
 - a) Quanzhou Ouyawanji Sports Goods Co., Ltd. (“the Landlord”) has legally and validly obtained the building ownership certificates, and the Landlord can legally sublet the buildings (mentioned in note 2) to the Group; and the Lease Agreement has been duly registered with the appropriate PRC authority;
 - b) The Lease Agreement is lawful and enforceable, and can be preserved by the PRC law; and
 - c) The leased buildings are not subject to mortgage or any other material encumbrances, and the existing uses of the buildings comply with their prescribed uses.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 March 2008 RMB
5.	Suite 2401-2402, Shui On Centre Nos. 6-8, Harbour Road Wanchai Hong Kong 322/14713 shares of and in Inland Lot No. 8633	The property comprises 2 units on the 24th floor of a 35-storey office and commercial building completed in about 1987. The units have a total leased area of approximately 170.57 sq.m. The property is leased to Xtep International Holdings Limited from Hang Lung Real Estate Agency Limited, as an agent for and on behalf of AP Success Limited, for a term of 3 years commencing from 28 December 2007 and expiring on 27 December 2010, at a monthly rental of HK\$103,284 from 28 December 2007 to 27 December 2008, HK\$108,720 from 28 December 2008 to 27 December 2009 and HK\$114,156 from 28 December 2009 to 27 December 2010, exclusive of rates, management fees and air-conditioning charges.	The property is currently occupied by the Group for office purpose.	No Commercial Value

Notes:

1. The registered owner of the property is AP Success Limited vide Memorial No. UB5945676 dated 17 February 1994.
2. The property is subject to a Deed of Mutual Covenant and Management Agreement vides Memorial No. UB5948380 dated 17 February 1994.
3. According to a Tenancy Agreement entered into between Hang Lung Real Estate Agency Limited (an independent third party) and Xtep International Holdings Limited, the property is leased to Xtep International Holdings Limited for a term of 3 years commencing from 28 December 2007 and expiring on 27 December 2010, at a monthly rental of HK\$103,284 from 28 December 2007 to 27 December 2008, HK\$108,720 from 28 December 2008 to 27 December 2009 and HK\$114,156 from 28 December 2009 to 27 December 2010, exclusive of rates, management fees and air-conditioning charges.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of our Company and of certain aspects of the Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 April 2007 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have full power and authority to carry out any object not prohibited by the Companies Law. In view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 7 May 2008. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

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The board may issue warrants conferring the right upon the holders thereof to subscribe to any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

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(v) Disclosure of interests in contracts with our Company or any of its subsidiaries.

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;

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- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

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Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director. The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit. The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

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A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

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Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of

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the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled. Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

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A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have

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been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

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Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;

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(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share

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and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

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Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled

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to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

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(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of

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different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe to shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company. No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

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(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

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In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

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The undertaking for our Company is for a period of twenty years from 1 May 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

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For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 April 2007. Our Company has been registered as an overseas company under Part XI of the Companies Ordinance on 14 January 2008 and our Company's principal place of business in Hong Kong is at Suite 2401-2, 24/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. Mr. Ho Yui Pok, Eleutherius of Unit B, 4th Floor, Sutherland Court, Ville de Cascade, 2-4 Lai Wo Lane, Fotan, Shatin, New Territories, Hong Kong, a Hong Kong resident, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and articles of association. A summary of certain provisions of the Memorandum and the Articles of our Company and of certain aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company, its authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

- (a) On 10 April 2007, one Share of HK\$0.01 of our Company was allotted and issued credited as fully paid to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Ding on the same day.
- (b) On 28 May 2007, Group Success acquired from Mr. Ding one Share of our Company at its par value.
- (c) On 27 June 2007, 99 Shares of our Company were allotted and issued credited as fully paid to Group Success.
- (d) On 17 September 2007, our Company issued and allotted an additional 99,999,900 new Shares credit as fully paid to Group Success.
- (e) On 18 September 2007, pursuant to the Convertible Loan Agreement (as amended), the Carlyle Convertible Loan was converted into 2,161,010 Series A Preferred Shares and 86,180 Series A Preferred Shares which were held by CAGP L.P. and CAGP III, L.P., respectively.
- (f) On 18 September 2007, pursuant to the Investment Agreement (as amended), CAGP L.P. and CAGP III, L.P. subscribed for 9,724,551 and 387,809 Series A Preferred Shares, respectively, at an aggregate consideration of approximately RMB180,000,000.

- (g) On 22 December 2007, in consideration of Mr. Ding Jin Chao transferring the entire interest held by him in Group Success to Mr. Ding and Ms. Ding Mei Qing respectively, Group Success, at the directions of Mr. Ding and Ms. Ding Mei Qing, transferred 5,000,000 Shares held by it in our Company to Henley Hope, a BVI company wholly-owned by Mr. Ding Jin Chao.
- (h) On 21 March 2008, pursuant to the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended), CAGP L.P. and CAGP III, L.P. converted 1,505,144 and 60,024 Series A Preferred Shares previously held by each of them respectively into 1,505,144 and 60,024 Shares of our Company and transferred the said converted Shares of our Company to Group Success as beneficial owner free from all encumbrances at US\$1.00.

Conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the conversion of the Series A Preferred Shares, the Capitalisation Issue, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in the Prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, in each case, at or before 8:00 a.m. on 3 June 2008 (or such other date and time as may be agreed between the Joint Global Coordinators and our Company in writing), the 10,380,417 and 413,965 Series A Preferred Shares respectively beneficially owned by CAGP L.P. and CAGP III, L.P. as at the date of this Prospectus will be converted, re-designated and re-classified as 10,380,417 and 413,965 ordinary Shares which shall rank *pari passu* in all respects with the existing Shares in issue so that immediately following such conversion, there will only be one single class of Shares in the share capital of our Company and our Company will have an authorised share capital of HK\$1,000,000,000 divided into 100,000,000,000 Shares. Accordingly, the authorised and issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will consist of ordinary Shares in the share capital of our Company, with a nominal value of HK\$0.01 each.

Assuming that the Global Offering becomes unconditional, the conversion of the Series A Preferred Shares, the issue of the Offer Shares and the issue of Shares pursuant to the Capitalisation Issue mentioned herein are made, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and/or the exercise of subscription rights under any options to be granted under the Pre-IPO Share Option Scheme and/or the Share Option Scheme, the authorised share capital of our Company will be HK\$1,000,000,000 divided into 100,000,000,000 Shares, of which 2,200,000,000 Shares will be issued fully paid or credited as fully paid, and 97,800,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008" in this Appendix and pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Xtep Development

- (a) Xtep Development, a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the BVI on 9 February 2007;
- (b) on 10 April 2007, one share of HK\$1.00 in Xtep Development was allotted and issued credited as fully paid to our Company for a consideration of HK\$1.00.

Xtep Enterprise

- (a) Xtep Enterprise, an indirect wholly-owned subsidiary of our Company, was incorporated as a limited liability company in Hong Kong on 27 March 2007;
- (b) on 27 March 2007, one share of HK\$1.00 in Xtep Enterprise was allotted and issued credited as fully paid to Harefield Limited for a consideration of HK\$1.00;
- (c) on 10 April 2007, Mr. Ding acquired from Harefield Limited one share of HK\$1.00 in Xtep Enterprise for a consideration of HK\$1.00 and nine shares of HK\$1.00 in Xtep Enterprise were allotted and issued credited as fully paid to Xtep Development for a consideration of HK\$9.00;
- (d) on 11 April 2007, Xtep Development acquired from Mr. Ding one share of HK\$1.00 in Xtep Enterprise for a consideration of HK\$1.00;
- (e) on 27 June 2007, an additional 990 shares of HK\$1.00 in Xtep Enterprise were allotted and issued credited as fully paid to Xtep Development for a consideration of HK\$990, equivalent to the par value of those shares.

Koling (HK)

- (a) Koling (HK), an indirect wholly-owned subsidiary of our Company, was incorporated as a limited liability company in Hong Kong on 13 September 2006;
- (b) on 13 September 2006, two shares of HK\$1.00 each in Koling (HK) were allotted and issued credited as fully paid to Mr. Ding and Ms. Ding Ming Fang, on trust for Mr. Ding for the considerations of HK\$1.00 each, respectively;
- (c) on 23 January 2007, Mr. Cai Hui Ting and Ms. Ding Ru Nan acquired from Mr. Ding and Ms. Ding Ming Fang two shares of HK\$1.00 each in Koling (HK) for an aggregate consideration of HK\$2.00. Each of the said shares in Koling (HK) was held on trust by Mr. Cai Hui Ting and Ms. Ding Ru Nan respectively for Mr. Ding;

- (d) on 14 May 2007, Mr. Ding acquired from Mr. Cai Hui Ting and Ms. Ding Ru Nan the legal interest in two shares of HK\$1.00 each in Koling (HK) for an aggregate consideration of HK\$2.00;
- (e) on 13 June 2007, Xtep Development acquired from Mr. Ding two shares of HK\$1.00 each in Koling (HK) for a consideration of HK\$2.00.

Xtep (China)

- (a) On 22 May 2007, Xtep Enterprise entered into an equity transfer agreement with Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to acquire its 100% equity interests in Xtep (China) for a consideration of HK\$900;
- (b) on 15 October 2007, the registered capital of Xtep (China) was increased from HK\$100 million to HK\$280 million.

Sanxing Sports

On 19 September 2007, Xtep Enterprise entered into an equity transfer agreement with Mr. Ding to acquire his 100% equity interests in Sanxing Sports for a consideration of HK\$36.8 million.

Xtep Jinjiang

On 22 May 2007 and 7 June 2007, Xtep Enterprise entered into an equity transfer agreement and a supplemental agreement, respectively, with Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to acquire its 100% equity interests in Xtep Jinjiang for a consideration of HK\$90.

Koling (Fujian)

Koling (Fujian), an indirect wholly-owned subsidiary of our Company, was established by Koling (HK) as a wholly foreign-owned enterprise in the PRC on 5 February 2007 with a registered capital of HK\$8 million.

Xtep Xiamen

- (a) Xtep Xiamen, an indirect wholly-owned subsidiary of our Company, was established as a joint stock limited company in the PRC on 5 January 2007 with a registered capital of RMB50 million;
- (b) on 15 November 2007, Xtep (China) acquired from Mr. Lin Zhang Li 35% equity interests in Xtep Xiamen for a consideration of RMB17.5 million.

Save as set out above and in the paragraph headed “Corporate Reorganisation” under this section in this appendix, there has been no alteration in the share capital of any of our subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. **Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008**

Pursuant to the written resolutions of all our Shareholders and holders of Series A Preferred Shares entitled to vote at general meetings of our Company, which were passed on 7 May 2008:

- (a) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the conversion of the Series A Preferred Shares, the Capitalisation Issue, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in the prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, in each case, at or before 8:00 a.m. on 3 June 2008 (or such other date and time as may be agreed between the Joint Global Coordinators and our Company in writing):
- (i) the 10,380,417 and 413,965 Series A Preferred Shares beneficially owned by CAGP L.P. and CAGP III, L.P., respectively as at the date of this prospectus to be converted in accordance with the terms and conditions of the conversion notices served by each of CAGP L.P. and CAGP III, L.P. respectively on 7 May 2008 to 10,380,417 and 413,965 Shares immediately prior to the listing of the Shares on the date of the listing of the Shares on the Stock Exchange;
- (ii) the conversion shall be effected by the redemption of the Series A Preferred Shares to be converted followed by the issue and allotment of 10,380,417 Shares to CAGP L.P. and 413,965 Shares to CAGP III, L.P. receivable upon such conversion in accordance with the provisions of Article 7.3(d) of the amended and restated articles of association of our Company previously adopted by our Company on 17 September 2007 (the “**Amended and Restated Articles of Association**”);
- (iii) our Directors were authorised to effect the conversion of the 10,380,417 Series A Preferred Shares beneficially owned by CAGP L.P. and 413,965 Series A Preferred Shares beneficially owned by CAGP III, L.P. by redemption, and to be converted followed by the issue and allotment of 10,380,417 Shares to CAGP L.P. and 413,965 Shares to CAGP III, L.P. receivable upon such conversion in accordance with the provisions of Article 7.3(d) of the Amended and Restated Articles of Association, which shall rank *pari passu* in all respects with the existing Shares in issue; and
- (iv) all the Shares in the share capital of our Company shall upon conversion of all Series A Preferred Shares form one single class of Shares ranking *pari passu* in all respects with each other;
- (b) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the conversion of the Series A Preferred Shares, the Capitalisation Issue, the Over-allotment

Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, in each case, at or before 8:00 a.m. on 3 June 2008 (or such other date and time as may be agreed between the Joint Global Coordinators and our Company in writing):

- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
- (ii) the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed “Pre-IPO Share Option Scheme” in this Appendix were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe to Shares thereunder and to allot and issue Shares pursuant to the exercise of subscription rights under any options granted under the Pre-IPO Share Option Scheme and to take all such actions as they consider necessary and/or desirable to implement and give effect to the Pre-IPO Share Option Scheme;
- (iii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify or amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe to Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue (as defined below), or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Scheme or under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue

to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but before any exercise of the Over-allotment Option;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe to shares open for a period fixed by our Directors to holders of Shares in our Company on the register on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but before the exercise of the Over-allotment Option;
- (e) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the Global Offering and the Capitalisation Issue but before the exercise of the Over-allotment Option was approved;
- (f) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to allot and issue a total of 1,537,640,450 Shares, by way of capitalisation of the sum of HK\$15,376,404.5 standing to the credit of the share premium account of our Company, credited as fully paid at par to the Shareholders and holders of the Series A Preferred Shares as appearing on the register of members of our Company on the date of this prospectus, i.e. Group Success as to 1,321,494,332 Shares, Henley Hope as to 68,425,000 Shares, CAGP L.P. as to 142,056,007 Shares and CAGP III, L.P. as to 5,665,111 Shares; and
- (g) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering,

the conversion of the Series A Preferred Shares, the Capitalisation Issue, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in the Prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise; and (iii) the conversion of the Series A Preferred Shares on the terms thereof:

- (i) the authorised share capital of our Company of HK\$1,000,000,000 divided into 99,989,205,618 Shares of par value HK\$0.01 each and 10,794,382 Series A Preferred Shares of HK\$0.01 par value each be reclassified and redesignated to 100,000,000,000 Shares of par value HK\$0.01 each; and
- (ii) the Memorandum and the Articles be adopted in substitution for and to the exclusion of the amended and restated memorandum of association of our Company previously adopted by our Company on 17 September 2007 and the Amended and Restated Articles of Association with effect from the date on which the Shares are listed on the Stock Exchange.

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(1) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 7 May 2008 by all of our Shareholders and holders of Series A Preferred Shares, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following the completion of the Global Offering, details of which have been described above in the paragraph headed “Written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008”.

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(2) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our shareholders for our Directors to have general authority from the shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(3) *Funding of repurchases*

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company’s current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANISATION

The Corporate Reorganisation which was effected in preparation for the listing, whereby our Company became the holding company of our Group, included the following major steps:

- (a) Xtep Development was incorporated in the BVI on 9 February 2007 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.
- (b) Xtep Enterprise was incorporated in Hong Kong on 27 March 2007 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. As at 10 April 2007, Xtep Enterprise was held as to one share by Mr. Ding (10%) and nine shares by Xtep Development (90%).
- (c) On 10 April 2007, our Company was incorporated as an exempted company in the Cayman Islands to act as the ultimate holding company for the operating subsidiaries in our Group. At the time of its incorporation, our Company was wholly-owned by Mr. Ding.
- (d) On 10 April 2007, our Company subscribed for one share in Xtep Development, which became our wholly-owned subsidiary.
- (e) On 11 April 2007, Xtep Development acquired one share in Xtep Enterprise held by Mr. Ding for a consideration of HK\$1.00 and after the acquisition, Xtep Enterprise also became our wholly-owned subsidiary.

- (f) On 22 May 2007, Xtep Enterprise entered into an equity transfer agreement with Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to acquire the 100% equity interests in Xtep (China) for a consideration of HK\$900. After the acquisition, Xtep Enterprise holds 100% equity interests in Xtep (China).
- (g) On 22 May 2007 and 7 June 2007, Xtep Enterprise entered into an equity transfer agreement and a supplemental agreement, respectively, with Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) to acquire its 100% equity interests in Xtep Jinjiang for a consideration of HK\$90. Xtep Enterprise currently holds 100% equity interests in Xtep Jinjiang.
- (h) On 28 May 2007, Group Success acquired one share in our Company, which represented its entire issued share capital at that time, from Mr. Ding.
- (i) On 13 June 2007, Xtep Development acquired two shares in Koling (HK), which represented its entire issued share capital at that time, from Mr. Ding for a consideration of HK\$2.00 equivalent to the par values of these shares. Xtep Development currently holds 100% equity interests in Koling (HK). Pursuant to the same sale and purchase agreement, Xtep Development acquired the entire shareholder's loan of HK\$8,016,712 provided by Mr. Ding to Koling (HK) by the issue and allotment of an aggregate of 9,999 new shares of Xtep Development to our Company as directed by Mr. Ding.
- (j) On 13 June 2007, CAGP L.P. and CAGP III, L.P., both investment funds managed by entities within Carlyle, entered into the Convertible Loan Agreement and the Investment Agreement with, among others, Mr. Ding and our Company. The Investment Agreement and the Convertible Loan Agreement were subsequently amended on 24 August 2007, pursuant to the entering of the Supplemental Agreement and on 17 September 2007, pursuant to the entering of the Second Supplemental Agreement. Pursuant to the Convertible Loan Agreement, the Carlyle Investment Funds agreed to provide our Company with a convertible loan of an aggregate principal amount of approximately RMB40,000,000 convertible into certain Series A Preferred Shares.
- (k) On 27 June 2007, our Company issued and allotted an aggregate of 99 new Shares to Group Success and an additional 990 shares of HK\$1.00 in Xtep Enterprise was allotted and issued credited as fully paid to Xtep Development for a consideration of HK\$990, equivalent to the par value of those shares.
- (l) On 19 September 2007, Xtep Enterprise entered into an equity transfer agreement with Mr. Ding to acquire his 100% equity interests in Sanxing Sports for a consideration of HK\$36.8 million. The consideration was determined with reference to the registered capital of Sanxing Sports at the time of transfer. Xtep Enterprise currently holds 100% equity interests in Sanxing Sports.
- (m) On 17 September 2007, our Company issued and allotted an additional 99,999,900 new Shares credit as fully paid to Group Success.

- (n) On 18 September 2007, pursuant to the Convertible Loan Agreement (as amended), the Carlyle Convertible Loan was converted into 2,161,010 Series A Preferred Shares and 86,180 Series A Preferred Shares which were held by CAGP L.P. and CAGP III, L.P., respectively. Pursuant to the Investment Agreement (as amended), the Carlyle Investment Funds agreed to further subscribe to certain Series A Preferred Shares at an aggregate consideration of approximately RMB180,000,000 and our Company therefore issued 9,724,551 and 387,809 Series A Preferred Shares to CAGP L.P. and CAGP III, L.P., respectively, on 18 September 2007.
- (o) On 2 November 2007, Xtep Xiamen was converted from a joint stock limited company to a limited liability company incorporated under the laws of PRC. On 15 November 2007, Xtep (China) entered into an equity transfer agreement with Mr. Lin Zhang Li to acquire his 35% equity interests in Xtep Xiamen for a consideration of RMB 17.5 million. The consideration was determined with reference to the registered capital of Xtep Xiamen at the time of transfer. Xtep Enterprise currently indirectly holds 100% equity interests in Xtep Xiamen through Xtep (China).
- (p) On 22 December 2007, in consideration of Mr. Ding Jin Chao transferring the entire interest held by him in Group Success to Mr. Ding and Ms. Ding Mei Qing respectively, Group Success, at the directions of Mr. Ding and Ms. Ding Mei Qing, transferred 5,000,000 Shares held by it in our Company to Henley Hope, a BVI company wholly-owned by Mr. Ding Jin Chao.
- (q) On 21 March 2008, the numbers of Series A Preferred Shares held by CAGP L.P. and CAGP III, L.P. have been adjusted to 10,380,417 and 413,965 Series A Preferred Shares respectively based on the financial performance of our Group companies for the year ended 31 December 2007 with reference to the pre-determined share adjustment formula stipulated in the Convertible Loan Agreement (as amended) and the Investment Agreement (as amended). Based on such pre-determined adjustment formula, CAGP L.P. and CAGP III, L.P. converted 1,505,144 and 60,024 Series A Preferred Shares previously held by each of them respectively into 1,505,144 and 60,024 ordinary Shares of our Company and transferred the said converted ordinary Shares of our Company to Group Success as beneficial owner free from all encumbrances at US\$1.00.
- (r) Conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$15,376,404.5 will be capitalised and applied in paying up in full at par HK\$0.01, 1,321,494,332, 68,425,000, 142,056,007 and 5,665,111 Shares for allotment and issue to Group Success, Henley Hope, CAGP L.P. and CAGP III, L.P. and such Shares to be allotted and issued shall rank pari passu in all respects with the then existing issued Shares of our Company.

C. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of the Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:


- (a) An instrument of transfer dated 11 April 2007 entered into between Mr. Ding and Xtep Development (previously known as Able Great Enterprises Limited (鴻力企業有限公司)) for the transfer of one share in Xtep Enterprise (previously known as Leader Gain Investments Limited (昇安投資有限公司)) to Xtep Development (previously known as Able Great Enterprises Limited (鴻力企業有限公司)) in consideration of HK\$1.00;
- (b) A share transfer agreement in Chinese dated 22 May 2007 entered into between Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) and Xtep Enterprise (previously known as Leader Gain Investments Limited (昇安投資有限公司)) for transfer of 100% equity interests in Xtep (China) to Xtep Enterprise (previously known as Leader Gain Investments Limited (昇安投資有限公司)) in consideration of HK\$900;
- (c) A share transfer agreement in Chinese dated 22 May 2007 and its supplemental agreement in Chinese dated 7 June 2007 entered into between Hong Kong Xtep Sports Goods Co. (香港特步體育用品公司) and Xtep Enterprise (previously known as Leader Gain Investments Limited (昇安投資有限公司)) for transfer of 100% equity interests in Xtep Jinjiang to Xtep Enterprise (previously known as Leader Gain Investments Limited (昇安投資有限公司)) in consideration of HK\$90;
- (d) A sale and purchase agreement dated 13 June 2007 entered into between Mr. Ding and Xtep Development in relation to the transfer of the entire issued share capital of Koling (HK) to Xtep Development and the assignment of the shareholder's loan of HK\$8,016,712 to Xtep Development by the issue and allotment of an aggregate of 9,999 new shares of Xtep Development to our Company;
- (e) The Convertible Loan Agreement dated 13 June 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success;
- (f) The Investment Agreement dated 13 June 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success;
- (g) The Supplemental Agreement dated 24 August 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success;

- (h) The Second Supplemental Agreement dated 17 September 2007 between CAGP L.P., CAGP III, L.P., our Company, Xtep Development, Xtep Enterprise, Koling (HK), Xtep (China), Xtep Jinjiang, Koling (Fujian), Xtep Xiamen, Mr. Ding, Ms. Ding Mei Qing, Mr. Ding Jin Chao and Group Success;
- (i) A share transfer agreement in Chinese dated 19 September 2007 entered into between Xtep Enterprise and Mr. Ding for transfer of 100% equity interests in Sanxing Sports to Xtep Enterprise in consideration of HK\$36.8 million;
- (j) A share transfer agreement in Chinese dated 15 November 2007 entered into between Mr. Lin Zhang Li and Xtep (China) for transfer of 35% equity interests in Xtep Xiamen to Xtep (China) in consideration of RMB17.5 million;
- (k) A share transfer agreement in Chinese dated 22 December 2007 entered into between Mr. Ding Jin Chao, Mr. Ding and Ms. Ding Mei Qing for transfer of 500 shares held by Mr. Ding Jin Chao in Group Success to Mr. Ding and Ms. Ding Mei Qing in consideration of transfer of 5,000,000 Shares in our Company held by Group Success to Henley Hope;
- (l) A trademark and patent license agreement in Chinese dated 7 May 2008 between Mr. Ding, Ms. Ding Ming Fang and our Company pursuant to which Mr. Ding and Ms. Ding Ming Fang agreed to grant an irrevocable license to our Company and its subsidiaries to use all of their trademarks and patents (whether registered in the PRC or overseas) relating to the sportswear products at nil consideration;
- (m) the Deed of Non-compete;
- (n) A deed of indemnity dated 20 May 2008 entered into between the Controlling Shareholders and our Company for itself and as trustee for its subsidiaries, under which each of the Controlling Shareholders has given certain indemnities in favour of our Group containing, among others, the indemnities referred to the sub-paragraph headed “Estate Duty and Tax Indemnity” under the paragraph headed “Other Information” in this Appendix; and
- (o) The Hong Kong Underwriting Agreement dated 20 May 2008 entered into between our Company, our executive Directors, Group Success, Mr. Ding, Ms. Ding Mei Qing, Henley Hope, Mr. Ding Jin Chao, the Joint Global Coordinators, Joint Bookrunners, and the Hong Kong Underwriters.

2. Intellectual Property Rights of our Group










Trademarks

As at the Latest Practicable Date, we have the right to use the following trademarks:

<u>Trademark</u>	<u>Place of Registration</u>	<u>Class</u>	<u>Registration Number</u>	<u>Expiry Date</u>
	PRC	25	1497296	27 December 2010

Trademark	Place of Registration	Class	Registration Number	Expiry Date
	PRC	25	1942634	13 March 2016
	PRC	25	1942632	20 October 2012
	PRC	25	1935605	6 April 2015
XEP	PRC	25	1782012	6 June 2012
TEP	PRC	25	1782010	6 June 2012
XTEP	PRC	25	1782011	6 June 2012
特步	PRC	25	2014416	20 August 2012
特步	PRC	25	3013625	27 January 2013
 ⁽¹⁾	PRC	18	1810901	20 July 2012
特步				
 ⁽¹⁾	PRC	28	1941157	27 August 2012
特步				
	PRC	25	3106111	20 July 2013
特步				
风火	PRC	25	2006532	13 November 2012
	PRC	25	3000768	6 December 2013
	PRC	25	3000767	6 December 2013
KOLING ⁽²⁾	PRC	25	1408068	13 June 2010
	Hong Kong	25	12924/2002	16 August 2008
 ⁽³⁾	Japan	25	762830	15 July 2011













Trademark	Place of Registration	Class	Registration Number	Expiry Date
	Union of Myanmar	25	4/1343/2004	7 March 2014
	India	25	1262110	19 January 2014
	Singapore	25	T0407028H	4 May 2014
	The Islamic Republic of Iran	25	140627	11 June 2016
	Kingdom of Saudi Arabia	25	894/65	12 February 2016
	Israel	25	190127	16 May 2016
	United Arab Emirates	25	78572	3 June 2016
	Lao People's Democratic Republic	25	10569	4 March 2014
	Thailand	25	215126	8 December 2012
	South Korea	25	0626279	27 July 2015
	Philippines	25	4-2002-009061	20 March 2015
	Hong Kong	18, 25	300709173	25 August 2016
	Hong Kong	18, 25	300709182	25 August 2016
	Hong Kong	18, 25	300709191	25 August 2016
	Hong Kong	25	300275193	25 August 2014

Trademark	Place of Registration	Class	Registration Number	Expiry Date
	Hong Kong	25	300605952	22 March 2016
	Hong Kong	18	300683839	18 July 2016
	Taiwan	25	01154189	15 May 2015
	Taiwan	18	01154034	15 May 2015
 (4)	Taiwan	18	01272640	31 July 2017
 (4)	Taiwan	25	01272790	31 July 2017
 (4)	Taiwan	25	01266680	15 June 2017
 (4)	Taiwan	18	01266512	15 June 2017
 特步	Macau	25	N/022384	12 September 2013





Note:

- (1) Applications by us to acquire the above trademarks from Mr. Ding have been filed with and accepted by 中華人民共和國工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce). We were granted an irrevocable license to use the above trademarks by Mr. Ding, at nil consideration until the date of completion of the transfer of these trademarks to our Group.
- (2) Application by us to acquire the above trademark from Ms. Ding Ming Fang has been filed with and accepted by 中華人民共和國工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce). We were granted an irrevocable license to use the above trademark by Ms. Ding Ming Fang, at nil consideration until the date of completion of the transfer of these trademarks to our Group.
- (3) The International Bureau of the World Intellectual Property Organisation (WIPO) certifies trademark No. 762830 conform to the recordal made in the International Register of Marks maintained under the Madrid Agreement and Protocol.
- (4) Applications by us to acquire the above trademark from Ms. Ding Ming Fang have been filed with 中華人民共和國工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce). We were granted an irrevocable license to use the above trademarks by Ms. Ding Ming Fang, at nil consideration until the date of completion of the transfer of these trademarks to our Group.

As at the Latest Practicable Date, applications have been made for the registration of the following trademarks:

Trademark	Place of Application	Class	Application Number	Application Date
	PRC	25	4990234	9 November 2005
	PRC	25	5043141	5 December 2005
	PRC	25	4990229	9 November 2005
	PRC	25	4990232	9 November 2005
TEBU	PRC	25	4990231	9 November 2005
	PRC	25	4990230	9 November 2005
	PRC	28	6310422	8 October 2007
	PRC	18	6310423	8 October 2007
	PRC	18	6310413	8 October 2007
	PRC	28	6310414	8 October 2007
 ⁽¹⁾	PRC	18	4294056	30 September 2004
 ⁽¹⁾	PRC	28	4294047	30 September 2004
 ⁽¹⁾	PRC	18	4294469	30 September 2004
 ⁽¹⁾	PRC	28	4294460	30 September 2004
让德 德与血不同	PRC	28	6310416	8 October 2007
让德 德与血不同	PRC	25	6314085	9 October 2007

Trademark	Place of Application	Class	Application Number	Application Date
让魂魂与点不同	PRC	18	6310415	8 October 2007
KOLING ⁽²⁾	PRC	18	5362098	22 May 2006
KOLING ⁽²⁾	PRC	25	5362099	22 May 2006
KOLING ⁽²⁾	PRC	28	5362100	22 May 2006
KOLING ⁽²⁾	PRC	18	5386809	31 May 2006
KOLING ⁽²⁾	PRC	25	5386810	31 May 2006
KOLING ⁽²⁾	PRC	28	5442747	26 June 2006
 ⁽²⁾	PRC	18	5498249	24 July 2006
 ⁽²⁾	PRC	25	5498262	24 July 2006
 ⁽²⁾	PRC	28	5498264	24 July 2006
Seyports ⁽²⁾	PRC	28	5362101	22 May 2006
Seyports ⁽²⁾	PRC	18	5362102	22 May 2006
Seyports ⁽²⁾	PRC	25	5362113	22 May 2006
 ⁽²⁾	PRC	25	5386803	31 May 2006
 ⁽²⁾	PRC	25	5386804	31 May 2006
The call of living ⁽²⁾ — — — — —	PRC	25	5386805	31 May 2006
	Hong Kong	18, 25, 28	300683820	19 July 2006

<u>Trademark</u>	<u>Place of Application</u>	<u>Class</u>	<u>Application Number</u>	<u>Application Date</u>
	Kuwait	25	85211	28 April 2007
	Kingdom of Bahrain	25	48204	27 May 2006
	Pakistan	25	222629	25 May 2006
	Malaysia	25	06008550	22 May 2006

Notes:

- (1) These applications have been made by Mr. Ding. We have made applications to acquire the rights in the above trademark applications from Mr. Ding.
- (2) These applications have been made by Ms. Ding Ming Fang. We have made applications to acquire the rights in the above trademark applications from Ms. Ding Ming Fang.

Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

<u>Registrant</u>	<u>Domain Name</u>	<u>Date of Registration</u>
Sanxing Sports	tebu.com.cn	5 January 2005
Sanxing Sports	特步 .com	5 January 2005
Xtep (China)	特步鞋業 .com	3 November 2005

Patents

As at the Latest Practicable Date, we are the registered owner of the following patents:

<u>Type</u>	<u>Place of Registration</u>	<u>Patent Number</u>	<u>Effective Period</u>
Utility Model ⁽¹⁾	PRC	200620138545.X	15 September 2006 to 14 September 2016
Utility Model ⁽¹⁾	PRC	01259213.7	3 September 2001 to 2 September 2011

Type	Place of Registration	Patent Number	Effective Period
Design ⁽¹⁾	PRC	200630002727.X	4 January 2006 to 3 January 2016
Design ⁽¹⁾	PRC	20063002728.4	4 January 2006 to 3 January 2016
Design ⁽¹⁾	PRC	02333190.9	29 July 2002 to 28 July 2012
Design ⁽¹⁾	PRC	02332710.3	12 July 2002 to 11 July 2012
Design ⁽¹⁾	PRC	02330059.0	10 June 2002 to 9 June 2012
Design ⁽¹⁾	PRC	02307957.6	20 May 2002 to 19 May 2012
Design ⁽¹⁾	PRC	02307959.2	20 May 2002 to 19 May 2012
Design ⁽¹⁾	PRC	02307958.4	20 May 2002 to 19 May 2012
Design ⁽¹⁾	PRC	02307956.8	20 May 2002 to 19 May 2012
Design ⁽¹⁾	PRC	02307955.X	20 May 2002 to 19 May 2012
Design ⁽¹⁾	PRC	02300802.4	25 January 2002 to 24 January 2012
Design ⁽¹⁾	PRC	02300801.6	25 January 2002 to 24 January 2012
Design ⁽¹⁾	PRC	02300600.5	25 January 2002 to 24 January 2012
Design ⁽¹⁾	PRC	01323941.4	24 August 2001 to 23 August 2011
Design ⁽¹⁾	PRC	01322914.1	14 August 2001 to 13 August 2011
Design ⁽¹⁾	PRC	01321249.4	17 July 2001 to 16 July 2011
Design ⁽¹⁾	PRC	01318877.1	18 June 2001 to 17 June 2011

Note:

- (1) Applications by us to acquire the above patents from Mr. Ding have been filed with 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC). We were granted an irrevocable license to use the above patents by Mr. Ding, at nil consideration until the date of completion of the transfer of these patents to our Group.

As at the Latest Practicable Date, applications have been made for the registration of the following patent:

<u>Type</u>	<u>Place of Application</u>	<u>Application Number</u>	<u>Application Date</u>
Utility model	PRC	200720008462.3	11 October 2007

3. Further information about our PRC establishments

(a) Xtep (China)

- | | |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) nature of the company: | Wholly foreign-owned enterprise |
| (ii) term of business operation: | 10 years commencing on 7 February 2002 and expiring on 7 February 2012 |
| (iii) total investment: | HK\$600,000,000 |
| (iv) registered capital: | HK\$280,000,000 (fully paid) ⁽¹⁾ |
| (v) attributable interest of the company: | 100% |
| (vi) scope of business: | Manufacturing fabrics, apparel, leather accessory products, furnitures, ceramic sanitary wares, hardwares, sports equipment and related technology exchange and promotion |

(b) Xtep Jingjiang

- | | |
|-------------------------------------------|-----------------------------------------------------------------------------------|
| (i) nature of the company: | Wholly foreign-owned enterprise |
| (ii) term of business operation: | 10 years commencing on 1 November 2004 and expiring on 31 October 2014 |
| (iii) total investment: | US\$10,000,000 |
| (iv) registered capital: | US\$6,000,000 (fully paid) ⁽¹⁾ |
| (v) attributable interest of the company: | 100% |
| (vi) scope of business: | Manufacturing sports footwear, apparel, footwear materials and accessory products |

(c) Koling (Fujian)

- | | |
|-------------------------------------------|------------------------------------------------------------------------|
| (i) nature of the company: | Wholly foreign-owned enterprise |
| (ii) term of business operation: | 10 years commencing on 5 February 2007 and expiring on 4 February 2017 |
| (iii) total investment: | HK\$8,000,000 |
| (iv) registered capital: | HK\$8,000,000 (fully and timely paid) |
| (v) attributable interest of the company: | 100% |
| (vi) scope of business: | Manufacturing apparel, sports footwear, bags and hats |

(d) Sanxing Sports

(i) nature of the company:	Wholly foreign-owned enterprise
(ii) term of business operation:	10 years commencing on 3 February 1999 and expiring on 3 February 2009
(iii) total investment:	HK\$50,000,000
(iv) registered capital:	HK\$36,800,000 (fully paid) ⁽¹⁾
(v) attributable interest of the company:	100%
(vi) scope of business:	Manufacturing footwear and apparel product for exportation

(e) Xtep Xiamen

(i) nature of the company:	Limited liability company
(ii) term of business operation:	20 years commencing on 5 January 2007 and expiring on 4 January 2027
(iii) registered capital:	RMB50,000,000 (fully and timely paid)
(iv) attributable interest of the company:	100%
(v) scope of business:	Real estate investments, enterprise management advisory services, investment consultation, manufacturing sports goods, manufacturing and selling fabrics, sports equipment, apparel, sports footwear, footwear materials and chemical raw materials

Note:

- (1) Contribution of the initial registered capital was delayed but the subsequent contribution of the remaining registered capital was timely and fully. Our PRC Legal adviser, Jingtian & Gongcheng, has confirmed that the delay in the contribution of the initial registered capital has been rectified through the enterprise annual inspection conducted by the local governmental authority.

D. FURTHER INFORMATION ABOUT THE DIRECTORS**1. Directors' service contracts**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Our non-executive Director has entered into a service contract with us for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our independent non-executive Directors has entered into a service contract with us for an initial fixed term of two years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our executive Directors and independent non-executive Directors is entitled to the respective basic salary set out below. Our non-executive Director shall not be entitled to any director's fees. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all of our executive Directors in respect of any financial year of our Company may not exceed 5% of our audited consolidated net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of the Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of the executive Directors and independent non-executive Directors are as follows:

Name	Annual Amount
Mr. Ding	RMB960,000
Ms. Ding Mei Qing	RMB480,000
Mr. Lin Zhang Li.	RMB480,000
Ms. Ding Ming Zhong	RMB480,000
Mr. Ye Qi	RMB480,000
Mr. Sin Ka Man.	HK\$240,000
Mr. Xu Peng Xiang	RMB180,000
Mr. Gao Xian Feng	RMB180,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended 31 December 2005, 2006 and 2007, the aggregate of the remuneration paid (including salaries, bonuses, allowance, benefits in kind and pension scheme contributions) to our Directors by us and our subsidiaries was RMB256,000, RMB582,000 and RMB675,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2005, 2006 and 2007 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, Directors (excluding discretionary bonus and share-based payment compensation granted under the Pre-IPO Share Option Scheme) for the year ended 31 December 2008 will be approximately RMB3,480,000.

E. DISCLOSURE OF INTERESTS**1. Disclosure of Interests**

- (a) *Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering and Capitalisation Issue*

Immediately following completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and our associated corporations:

Long Positions in our Company

<u>Name of Director</u>	<u>Number of Shares</u>	<u>Number of Shares subject to options granted under the Pre-IPO Share Option Scheme</u>	<u>Approximate percentage of interest in our Company</u>
Mr. Ding ⁽¹⁾	1,418,059,500	—	64.5%
Ms. Ding Mei Qing ⁽²⁾	1,418,059,500	—	64.5%
Mr. Ye Qi ⁽³⁾	—	1,500,000	0.0676%

Note:

- (1) Mr. Ding is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Mr. Ding. Ms. Ding Ming Fang, the wife of Mr. Ding, is deemed to be interested in her husband's interests in Group Success.
- (2) Ms. Ding Mei Qing is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing. Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and the executive Director, is deemed to be interested in his wife's interests in Group Success.
- (3) 0.0676% is the percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in our shares and underlying shares:

Name	Capacity / Nature of interest	Number of Shares	Approximate percentage of shareholding
Group Success	Beneficial owner	1,418,059,500	64.5%
Mr. Ding ⁽¹⁾	Interest in a controlled corporation	1,418,059,500	64.5%
Ms. Ding Mei Qing ⁽²⁾	Interest in a controlled corporation	1,418,059,500	64.5%

Note:

- (1) Mr. Ding is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Mr. Ding. Ms. Ding Ming Fang, the wife of Mr. Ding, is deemed to be interested in her husband's interests in Group Success.
- (2) Ms. Ding Mei Qing is deemed to be interested in the Shares held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing. Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and the executive Director, is deemed to be interested in his wife's interests in Group Success.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or our chief executive) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme and the Capitalisation Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;

- (b) none of the Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. OTHER INFORMATION

1. Estate Duty and tax indemnity

Each of the Controlling Shareholders (together, the “**Indemnifiers**”) has entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (b) referred to in paragraph 8 of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong

Kong estate duty which might be incurred by any member of our Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands and the British Virgin Islands, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Under the deed of indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Global Offering and the Capitalisation Issue become unconditional.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that adequate provision has been made for such taxation in the consolidated audited accounts of our Company or the audited accounts of the relevant Group members up to 31 December 2007;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing after 31 December 2007 would not have arisen but for any act or omission of, or transaction voluntarily carried out or effected by, any of such members without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction carried out in the ordinary course of business or carried out, made or entered pursuant to a legally binding commitment created on or before the date on which the Global Offering and Capitalisation Issue become unconditional;
- (c) for which any of our Group members is primarily liable as a result of any events occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring or disposing of capital assets after the date on which the Global Offering and Capitalisation Issue become unconditional;
- (d) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date on which the Global Offering becomes unconditional or to the extent such claim arises or is increased by an increase in rates of taxation after such date with retrospective effect; or
- (e) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2007 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in

respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this item (e) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately HK\$160,000 and have been paid by us.

4. Joint Sponsors

The Joint Sponsors made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the conversion of the Series A Preferred Shares and the Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options that may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 December 2007 (being the date to which our latest audited consolidated financial statements were made up).

6. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Miscellaneous

(1) Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (g) we have no outstanding convertible debt securities.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

8. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
J.P. Morgan Asia Pacific and UBS	Licensed under the SFO for type 1 (dealing in securities, type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Jones Lang LaSalle Sallmanns Limited	Independent professional property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal counsel to our Company
LCH (Asia-Pacific) Surveyors Limited	Independent professional business and financial services valuer

9. Consents of experts

Each of J.P. Morgan Asia Pacific, UBS, Ernst & Young, Jones Lang LaSalle Sallmanns Limited, Conyers Dill & Pearman, Jingtian & Gongcheng and LCH (Asia-Pacific) Surveyors Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our Company or any of our subsidiaries.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

G. PRE-IPO SHARE OPTION SCHEME**Summary of Terms**

The purpose of the Pre-IPO Share Option Scheme is to give our employees an opportunity to have a personal stake in our Company and help motivate our employees to optimise their performance and efficiency, and also to retain our employees whose contributions are important to the long-term growth and profitability of our Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share under the Pre-IPO Share Option Scheme shall be at a 20% discount to the Offer Price;
- (b) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 19,000,000 Shares representing approximately 0.8636% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised);

- (c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

<u>Exercise period</u>	<u>Maximum percentage of options exercisable</u>
Anytime after the first anniversary of the Listing Date	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

- (d) save for the options which have been granted as at the Latest Practicable Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (e) each option granted under the Pre-IPO Share Option Scheme has a 10-year exercise period.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 19,000,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

Outstanding Options Granted

As at the date of this prospectus, options to subscribe to an aggregate of 19,000,000 Shares (representing approximately 0.8636% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised) at an exercise price equal to a 20% discount to the Offer Price have been conditionally granted to 59 participants by our Company at a consideration of HK\$1.00 under the Pre-IPO Share Option Scheme. All the options under the Pre-IPO Share Option Scheme were granted on 7 May 2008 and no further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to the long term growth and profitability of our Group. A total of 59 employees including one executive Director and six members of the senior management of our Group (set out in the section headed “Directors, Senior Management and Employees” of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

A full list of such grantees containing all the details in respect of each option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix I to the Listing Rules is set out below:

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
<i>Director</i>				
1.	Mr. Ye Qi executive Director of our Company and vice president of Xtep (China)	Room 404, Block 2, Xtep Dormitory Building, 431 Detai Road, Economic and Technical Development Zone, Quanzhou City, Fujian Province, PRC 362000	1,500,000	0.0676%
<i>Senior Management</i>				
2.	Mr. Ho Yui Pok, Eleutherius chief financial officer, company secretary, qualified accountant, investor relations officer and authorised representative of our Company	Unit B, 4th Floor, Sutherland Court, Ville de Cascade, 2-4 Lai Wo Lane, Fotan, Shatin, New Territories, Hong Kong	1,000,000	0.0451%
3.	Mr. Wang Jia Ye vice president of Xtep (China)	Room 301, Block 53, 3375 East Huangpu Road, Huangpu District, Guangzhou, Guangdong Province, PRC	800,000	0.0361%
4.	Mr. Chen Jian Jun financial controller of Xtep (China)	Room 092, 12th Group, Jiefang Street, Lufeng Town, Xupu County, Hunan Province, PRC	700,000	0.0315%
5.	Mr. Wu Lian Yin vice president of Xtep (China)	12F, 61 East Nanjing Road, Huangpu District, Shanghai, PRC	500,000	0.0225%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
6.	Mr. Liu Qing Xian vice president of Xtep (China)	Room 702, Feng Ze Hao Yuan, Fengze Street, Fengze District, Quanzhou City, Fujian Province, PRC	500,000	0.0225%
7.	Mr. Huang Hai Qing vice president of Xtep (China)	No. 18 Ding Bao, Gaokeng Village, Chengeng Town, Jinjiang City, Fujian Province, PRC	500,000	0.0225%
	<i>Other Employees</i>			
8.	Mr. Cai Hui Ting head of president office of Xtep (China)	43 South Xin Da Jie Road, Qingyang Town, Jinjiang City, Fujian Province, PRC	4,150,000	0.1870%
9.	Mr. Ye Shuang Quan supervisor of Disney Sport sales and marketing centre of Xtep (China)	56 Xishan Road, Xiaoxi Town, Pinghe County, Fujian Province, PRC	500,000	0.0225%
10.	Mr. Gao Shan supervisor of apparel production control centre of Xtep (China)	No. Jia-34 Li Shi Hu Tong, Dongcheng District, Beijing, PRC	350,000	0.0158%
11.	Mr. Hu Xiao Shan assistant to president of Xtep (China)	No. 22, 2nd Group, Gongxing Village, Gaogou Town, Lianshui County, Jiangsu Province, PRC	350,000	0.0158%
12.	Mr. Wu Gao Fa financial manager of Xtep (China)	No. 28 Bei Men Ba, Xingguo Town, Yangxin County, Wuhan City, Hubei Province, PRC	350,000	0.0158%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
13.	Ms. Zhang Shu chief apparel designer of Xtep (China)	Room 301, Block 53, 3375 East Huangpu Road, Huangpu District, Guangzhou, Guangdong Province, PRC	350,000	0.0158%
14.	Ms. Wu Tao Hong product manager of Xtep (China)	Room 602, Site 19, Yongheng New Village, Gulou District, Fuzhou, Fujian Province, PRC	350,000	0.0158%
15.	Mr. Chen Qing Quan manager of footwear design department of Xtep (China)	Jun Nei, Xishan Village, Heshi Town, Luojiang District, Quanzhou City, Fujian Province, PRC	350,000	0.0158%
16.	Mr. Xie Si Xing supervisor of footwear production centre of Xtep (China)	Pi Pa Shan Zu, Longjian Village Committee, Heng Shi Tang Town, Yingde City, Guangdong Province, PRC	250,000	0.0113%
17.	Ms. Ding Ming Yue supervisor of Koling branded apparel centre of Xtep (China)	Room B, 5th Floor, Site 4, Whampoa Garden II, Hung Hom, Kowloon, Hong Kong	250,000	0.0113%
18.	Ms. Zhao Jun assistant to vice-president of apparel department of Xtep (China)	Room 1117, 780 Qinzhou Road, Xuhui District, Shanghai, PRC	250,000	0.0113%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
19.	Mr. Chen Chang Man supervisor of quality control centre of Xtep (China)	No. 23, Block D1, Guangcai Grand Market, Tong An Road, Yixiu District, Anqing, Anhui Province, PRC	250,000	0.0113%
20.	Mr. Yao Ming Xing supervisor of footwear production control centre of Xtep (China)	17 Bei Zhu Tou, Pancuo Village, Jiangyin Town, Fuqing City, Fujian Province, PRC	250,000	0.0113%
21.	Ms. Zhang Rong manager of marketing department of Xtep (China)	Room 902, No. 6 Qing Yi Street, Xinfu New Village, Zhongcun Town, Fanyu District, Guangzhou, Guangdong Province, PRC	350,000	0.0158%
22.	Mr. Xu Cheng Min manager of direct sales department of Xtep (China)	Room 16, Block 67, No. 5 Tielu Village, Xihu District, Nanchang, Jiangxi Province, PRC	250,000	0.0113%
23.	Mr. Zhao Xin manager of apparel research and development department of Xtep (China)	Room 503, 52-1 Longzhou Road, Taicheng Town, Taishan City, Guangdong Province, PRC	200,000	0.0090%
24.	Mr. Liu Kui deputy manager of Disney Sport design department of Xtep (China)	900 West Yan An Road, Changning District, Shanghai, PRC	150,000	0.0068%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
25.	Ms. Liu Hai Ying chief designer of Disney Sport design department of Xtep (China)	104 Tianhe Road, Tianhe District, Guangzhou, Guangdong Province, PRC	150,000	0.0068%
26.	Ms. Guo Cai Yun manager of apparel product department of Xtep (China)	No. 99 Gui De Village, Huang Kou Xiang, Yong Chun County, Quanzhou City, Fujian Province, PRC	150,000	0.0068%
27.	Ms. Ding Xin Xin manager of accessories centre of Xtep (China)	168 South Xinzhen Road, Hua Ting Kou Village, Chen Geng Town, Jinjiang City, Fujian Province, PRC	150,000	0.0068%
28.	Mr. Zhou Wen Bin manager of Disney Sport development department of Xtep (China)	Shiyun Village, North Jian She Road, Yuanzhou District, Yi Chun City, Jiangxi Province, PRC	200,000	0.0090%
29.	Mr. Wang De Fu manager of Disney Sport design department of Xtep (China)	No. 10 Hong Hu Gou Tun, Yongqing Village, Huansheng Xiang, Anqing City, Heilongjiang Province, PRC	200,000	0.0090%
30.	Ms. Yang Ya Min manager of training department of Xtep (China)	Room 2, 7th Floor, Unit 6, Block 304, An Ju San Village, Bai Bu Ting Garden, Jiang An District, Wuhan, Hubei Province, PRC	200,000	0.0090%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
31.	Mr. Wang Chun manager of footwear development department of Xtep (China)	19 Haogeng Street, Dagan District, Anqing City, Anhui Province, PRC	200,000	0.0090%
32.	Mr. Yang Xin Jie chief designer of footwear design department of Xtep (China)	Beijing Institute of Fashion Technology, 2-Jia East Yinghua Street, Chaoyang District, Beijing, PRC	200,000	0.0090%
33.	Mr. Tang Kun Jun manager of information management department of Xtep (China)	Yuan Yi Chang, 25 Longwan Road, Longwan Town, Qianjiang City, Hubei Province, PRC	150,000	0.0068%
34.	Mr. Zhu Chuan Ming head of footwear production factory II of Xtep (China)	Shangtang Group, Jiming Village, Chenhan Xiang, Susong County, Anhui Province, PRC	150,000	0.0068%
35.	Ms. Li Ming Ya deputy manager of financial centre of Xtep (China)	129 Central Qi Yi Road, Chengeng Town, Jinjing City, Fujian Province, PRC	150,000	0.0068%
36.	Mr. Dai Yong head of footwear production factory I of Xtep (China)	002 Yan Xi Kou Street, Zhangjiang Town, Taoyuan County, Hunan Province, PRC	150,000	0.0068%
37.	Mr. Kang Jin Yue manager of sales department of Xtep (China)	Room 14, Unit 1, Block 1, 5 Hongyun Street, Wuhou District, Chengdu, Sichuan Province, PRC	150,000	0.0068%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
38.	Mr. Wang Yuan Fei manager of production process quality management department of Xtep (China)	Room 4-5, 10 Shanghe Road, Shibei District, Qingdao, Shandong Province, PRC	100,000	0.0045%
39.	Mr. Deng Hua Wen head of footwear production factory III of Xtep (China)	4-1 Shuangtan Village, Huilong Town, Xinning County, Hunan Province, PRC	100,000	0.0045%
40.	Ms. Wen Su Zhen manager of engineering department of Xtep (China)	2nd Group, Wang Jia Chang, Huang Jia Town, Shuang Liu County, Chengdu, Sichuan Province, PRC	100,000	0.0045%
41.	Mr. Xie Xin Chun manager of procurement department of Xtep (China)	21 Chen Bian, Yunshui Village, Duwei Town, Xianyou County, Fujian Province, PRC	100,000	0.0045%
42.	Mr. Zhuang Chao Hui manager of overseas business centre of Xtep (China)	225 Hou Tang, Jinjiang City, Fujian Province, PRC	150,000	0.0068%
43.	Mr. Lin Qing Hua assistant to deputy manager of Xtep (China)	Di Yi Cun Min Xiao Zu, Xiangshan Village, Qingyang Town, Jinjiang City, Fujian Province, PRC	150,000	0.0068%
44.	Ms. Huang Yin assistant to deputy manager of Xtep (China)	Room 301, Block A1, 121 Detai Road, Li Cheng Jiang Nan, Quanzhou City, Fujian Province, PRC	100,000	0.0045%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
45.	Ms. Dong Hong Mei assistant to deputy manager of Xtep (China)	137 Mao Xia Village, Gu Shan Town, Yongchun County, Quanzhou City, Fujian Province, PRC	100,000	0.0045%
46.	Ms. Tong Li Qin manager of human resources department of Xtep (China)	No. 15 Renming Xiang, Shuidong Street, Tingzhou Town, Changting County, Fujian Province, PRC	50,000	0.0023%
47.	Ms. Zhang Mei Qin president secretary of Xtep (China)	47 Zhong Zhi Xiang, Xuyang Village, Xiadao Town, Yanping District, Nanping City, Fujian Province, PRC	150,000	0.0068%
48.	Mr. Chen Tie Jun manager of sales department of Xtep (China)	3 Xie He Cuo, Yangzhong Village, Jingu Town, Anxi County, Quanzhou City, Fujian Province, PRC	100,000	0.0045%
49.	Mr. Wang Dong manager of sales department of Xtep (China)	6 Andong Road, Liancheng Town, Lianshui County, Jiangsu Province, PRC	100,000	0.0045%
50.	Mr. Hu Yi Bo manager of sales department of Xtep (China)	11 Huanshan Road, Bai Shi Shan Town, Jiaohe City, Jilin Province, PRC	100,000	0.0045%
51.	Ms. Ma Li Hua manager of operation department of Xtep (China)	57 Shoushan Road, Cangshan District, Fuzhou, Fujian Province, PRC	100,000	0.0045%

No.	Grantee and Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
52.	Ms. Chen Ren Qin manager of operation department of Xtep (China)	110 Yuanxia Road, Yuanzhuang Town, Xianyou County, Putian, Fujian Province, PRC	100,000	0.0045%
53.	Ms. Xia Qiao Na manager of apparel design department of Xtep (China)	Room 174, 27 West Weihai Road, Shuiji Sub-district Office, Laixi, Shandong Province, PRC	150,000	0.0068%
54.	Ms. Zhang Xiao Ling deputy manager of design department of Xtep (China)	2 Fangzhi Road, Guanshan Street, Hongshan District, Wuhan, Hubei Province, PRC	150,000	0.0068%
55.	Ms. Tang Juan Hong deputy manager of footwear research and development centre of Xtep (China)	No. 25 Miao Shan Xia, Xin Ping Village, Luyuan Town, Yanling County, Zhuzhou, Hunan Province, PRC	50,000	0.0023%
56.	Mr. Yao Cheng Zhong manager of administrative management department of Xtep (China)	10th Group, Yangliu Village, Madang Town, Pengze County, Jiangxi Province, PRC	50,000	0.0023%
57.	Mr. Wei Hai manager of brand department of Xtep (China)	Block 19, 70 Tian Tong An Road, Zhabei District, Shanghai, PRC	50,000	0.0023%
58.	Ms. Zhang Dan designer of Xtep (China)	No. 900 West Yan An Road, Changning District, Shanghai, PRC	150,000	0.0068%
59.	Mr. Liu Hui designer of Xtep (China)	1-205 Huanghai Li, Xueyuan Road, Hexi District, Tianjin, PRC	150,000	0.0068%
Total			<u>19,000,000</u>	<u>0.8562%</u>

Note:

1. Assuming that the Over-allotment Option is not exercised.

The options issued under the Pre-IPO Share Option Scheme represent approximately 0.8636% of our Company's enlarged issued share capital as at the Listing Date. If all options are exercised, this would have a dilutive effect on the shareholdings of our Shareholders of approximately 0.8562% and a dilutive effect of approximately 0.86% on earnings per Share such that the forecast earnings per Share for the year ending 31 December 2008 will be diluted from approximately HK\$23.58 cents to approximately HK\$23.38 cents. However, as the options are exercisable for a period of 10 years, any such dilution and impact on earnings per Share will be staggered over several years. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

Our Directors have undertaken to our Company that they will not exercise the Options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after the Global Offering and Capitalisation Issue will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

H. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a written resolution of our Shareholders and holders of Series A Preferred Shares passed on 7 May 2008 and adopted by a resolution of the Board on 7 May 2008. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to motivate Eligible Persons (as mentioned in the following paragraph) to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date (the "Approval Date") on which the following conditions are fulfilled:

- (a) the approval of all the shareholders of our Company for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme; and
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange.

3. Who may join

The Board may, at its absolute discretion, offer options (“**Options**”) to subscribe to such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Employee**”), any full-time or part-time Employee, or a person for the time being seconded to work fulltime or part-time for any member of our Group (“**Executive**”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the foregoing persons. (the persons referred above are the “**Eligible Persons**”)

4. Maximum number of Shares

- (a) The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10 per cent. of the Shares in issue as at the Listing Date (i.e. 220,000,000 Shares) (the “**Scheme Mandate Limit**”) provided that our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent. of the Shares in issue as at the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed.
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained.

- (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

5. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company's issued share capital from time to time.

6. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years after the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the Option in respect of all or some of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

7. Granting Options to Connected Persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a Director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by shareholders of our Company (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the Listing Rules. All Connected Persons of our Company must abstain from voting in favour at such general meeting.

Approval from the shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

8. Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK\$1.0 by way of consideration for the grant thereof is received by our Company on or before 30 days after the offer date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option.

9. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance

with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

10. Exercise price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

11. Exercise of Option

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the Grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given.
- (ii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.
- (iii) Subject as hereinafter provided:
 - (a) in the event that the Grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (b) in the event that the Grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by

resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

- (c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of our Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (i) the Option Period (in respect of any particular Option, the period commencing immediately after the Business Day on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by the Directors to each Grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
 - (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court,exercise in whole or in part his Option.
- (e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the

aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

12. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the reopening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date hereof shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

13. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

14. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in paragraph (e) of “Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgement, order or award outstanding against the Grantee or the Board has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or

- (e) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

15. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Schemes); and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

16. Cancellation of Options not Exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the Grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such Grantee.

19. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration

to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) the approval of all the shareholders of our Company for the adoption of the Share Option Scheme; and
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **white**, **yellow** and **green** Application Forms, the written consents referred to in the paragraph headed “Other Information — Consents of experts” in Appendix VI and copies of the material contracts referred to in the paragraph headed “Summary of Material Contracts” in Appendix VI.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP at 39th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 am to 5:00 pm up to and including the date which is 14 days from the dates of this prospectus:

- (1) our Memorandum and the Articles;
- (2) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements of the companies now comprising our Group for the three years ended 31 December 2005, 2006 and 2007;
- (4) the letter received from Ernst & Young on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;
- (7) the material contracts referred to in the paragraph headed “Summary of the Material Contracts” of Appendix VI to this prospectus;
- (8) the service contracts with Directors, referred to in the paragraph headed “Further Information about the Directors — Directors’ service contracts” of Appendix VI to this prospectus;
- (9) the written consents referred to in the paragraph headed “Other Information — Consents of experts” of Appendix VI to this prospectus;
- (10) the legal opinions prepared by Jingtian & Gongcheng, our legal adviser as to the PRC law, in respect of certain aspects of our Group and our the property interests;

APPENDIX VII**DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE FOR INSPECTION**

- (11) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;
- (12) the Companies Law;
- (13) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme; and
- (14) the valuation report relating to the valuation of the Series A Preferred Shares prepared by LCH (Asia-Pacific) Surveyors Limited and referred to in the paragraph headed “Convertible Bonds and Preferred Shares” in Appendix I to this prospectus.



特步國際控股有限公司
Xtep International Holdings Limited