Potential investors should consider carefully all of 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. Additional risks and uncertainties not presently known to us or that we currently deem immaterial could also materially harm our business, financial condition, results of operations and prospects. If any of the possible events described below materialises, our business, financial condition, results of operations and prospects could be materially and adversely affected and the market price of the Offer Shares could fall significantly.

RISKS RELATING TO OUR BUSINESS

We rely heavily on our *361°* brand. Failure to effectively promote or maintain our *361°* brand may materially and adversely affect our future success

As of the Latest Practicable Date, we only sold our products under our *361°* brand, from which we derived substantially all of our revenues during the Track Record Period. Our revenues from sales of our *361°* products were approximately RMB261.6 million, RMB368.6 million, RMB1,308.5 million and RMB2,422.0 million, representing approximately 99.5%, 98.7%, 99.3% and 99.9% of the total revenues, for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. Therefore, our *361°* brand is critical for our success as we believe that market perception and consumer acceptance of a brand is a determining factor for consumers in making purchasing decisions for sportswear products. We have established and maintained our *361°* brand as sportswear products that aim to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity, targeting primarily the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 16 and 25. We spent approximately RMB8.7 million, RMB34.2 million, RMB84.0 million and RMB225.7 million on our advertising and marketing activities for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. These amounts represented approximately 3.3%, 9.1%, 6.4% and 9.3% of total revenues for such periods, respectively. If we are unsuccessful in promoting our *361°* brand or fail to maintain our brand position, market perception and consumer acceptance of our *361°* brand may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, as we promote our *361°* brand and image through the endorsement of athletes, we are dependent on market perception and consumer acceptance of these athletes, over which we have no control. Any negative publicity or disputes regarding our *361°* brand, products, athletes who endorse our *361°* brand or management or the loss of any award or accreditation associated with our *361°* brand or products such as "China Well-Known Trademark" (中國馳名商標) and "China Famous Brand" (中國名牌) could materially and adversely affect our business, financial condition, results of operations and prospects.

Our *361°* brand has a limited history in the branded sportswear industry and our new exclusive distributorship business model has a short track record

Our *361°* brand, which was first introduced to the market in January 2004, has a limited history upon which you can evaluate its prospects, and we have a limited operating history in the branded sportswear industry. In addition, we shifted our business model in the beginning of 2008. Under the new business model, we sell our *361°* products exclusively to our distributors, who in turn sell our *361°* products to authorised retailers within the exclusive geographic areas assigned to them pursuant to annual distributorship agreements. The authorised retailers then sell our *361°* products to consumers in *361°* authorised retail outlets. Since the adoption of our new business model, we ceased entering into new purchase contracts with customers who are not our distributors. However, since we continued to honour our obligations under the purchase contracts entered into prior to 2008 up to December 2008, approximately 4.6% and 0.4% of our *361°* product sales during the six months ended 30 June 2008 and the nine months ended 31 March 2009, respectively, were made to these customers pursuant to such purchase contracts. No sales have been made to such customers who are not our distributors since January 2009. Our exclusive distributorship business model is new and has a short track record. As such, it is difficult to identify the difficulties that our Group may encounter in the different stages of developing and implementing this new business model, and we cannot assure you that the significant growth since the adoption of our new business model in 2008 will be sustainable or achieved at all in the future. 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 a new distributorship business model, and should not rely on our past results as an indication of our future performance. Any new sub-brands that we may launch in the future also may not achieve anticipated growth, or could fail. We also may not be able to successfully integrate future sub-brands into our existing operations. If we are unable to successfully address these risks, difficulties and challenges, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Consumer sales of our *361°* products are conducted by authorised retailers over whom we have no direct control

Prior to 2008, substantially all of our revenues were generated from sales of our *361°* products to our customers who were primarily wholesalers and authorised retailers (including department stores) and either resold our *361°* products to authorised retailers or sold our *361°* products at their self-operated authorised retail outlets. We shifted our business model in the beginning of 2008. Under the new business model, we sell our *361°* products exclusively to our distributors, who in turn sell our *361°* products to authorised retailers. The authorised retailers then sell our *361°* products to consumers in *361°* authorised retail outlets. Since the adoption of our new business model, we ceased entering into new purchase contracts with customers who are not our distributors. However, since we continued to honour our obligations under the purchase contracts entered into prior to 2008 up to December 2008, approximately 4.6% and 0.4% of our *361°* product sales during six months ended 30 June 2008 and the nine months ended 31 March 2009, respectively, were made to these customers pursuant to such purchase contracts. No sales have been made to such customers who are not our distributors since January 2009. Under the new business model, we do not have direct contractual relationships with our authorised retailers and we rely on our distributors to oversee the authorised retailers. As we have no direct control over the authorised retailers, our ability to ensure their adherence to our policies, such as operational requirements, exclusivity, customer service, store image and pricing, is limited. Our authorised retailers' failure to comply with our policies or aggressive discounting of the retail prices of our products for various reasons could result in the erosion of goodwill, a decrease in the market value of our *361°* brand and an unfavourable public perception about the quality of our products, thereby resulting in a material adverse effect on our business, financial condition, results of operations and prospects.

Our sales depend on the popularity of our *361°* brand and the market perception and consumer acceptance of our *361°* products, which in turn depends on our ability to anticipate and respond in a timely manner to rapid changes in consumers' tastes

Our sales depend on the popularity of our *361°* brand and the market perception and consumer acceptance of our *361°* products, which are, in large part, dependent on our ability to cater to different consumer tastes. This requires continued anticipation and responsiveness to ever changing market and fashion trends. If we are unable to anticipate accurately and respond to market and fashion trends in a timely manner, demand for our *361°* products may decrease. As a result, our business, financial condition, results of operations and prospects could materially suffer.

A distributor's failure to perform its obligations under its distributorship agreement with us could materially and adversely affect the business of the authorised retailers of an entire geographic area, as well as our reputation, brand, image and future prospects

As each of our distributors has exclusive distribution rights over a certain geographic area, the failure by such distributor to perform its obligations under its distributorship agreement with us may result in a material adverse effect on the business of authorised retailers in such area. Most of our distributors are either granted exclusivity over one province, autonomous region or municipality, or one or more areas within a province. However, certain distributors are granted exclusivity over more than one province, autonomous region or municipality due to their local resources and business network in those provinces or areas. If any of our distributors becomes unable or unwilling to supply our products to authorised retailers in the geographic area over which such distributor has exclusive distribution rights, the business of the authorised retailers operating in such geographic area will be materially and adversely affected. Any such disruption in the distribution network of our *361°* products may materially and adversely affect our reputation, brand, image and future prospects. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We rely on a small number of customers for a significant portion of our sales; we rely on third-party distributors and authorised retailers for sales of our *361°* products and our failure to maintain good relationships with our distributors or failure by them to ensure that authorised retailers adhere to our retail policies may adversely affect our business

Our five largest customers accounted for approximately 32.9%, 33.4%, 35.1% and 47.5% of our total revenues for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively, and our largest customer accounted for approximately 14.0%, 14.0%, 11.9% and 17.0% of our total revenues for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. During the beginning of 2008, however, we changed our business model and began to sell our *361°* products exclusively to distributors under formal distributorship agreements which have a term of one year. As we do not have long-term agreements with our distributors, it is possible that their agreements with us will not be renewed on favourable terms or at all. If any of our distributors terminates or does not renew its distributorship agreement with us, we may not be able to replace such distributor with a new and effective distributor in a timely manner or on terms acceptable to us, or at all. Any new replacement distributor may not be able to oversee the same network of authorised retailers or any network of authorised retailers on a similar scale to the replaced distributor. Our distributors are required to meet minimum purchase targets. However, if our distributors do not place orders at historical levels or at all or, if any major distributor substantially reduces its volume of purchases from us or ceases its business relationship with us, our business, financial condition, results of operations and prospects could materially suffer.

We rely on our distributors to oversee authorised retailers and to expand the *361°* retail network

We do not have any interest in, or operate, any of the authorised retailers that were operating the 5,925 *361°* authorised retail outlets comprising the *361°* retail network as of the Latest Practicable Date. While we do not have direct contractual relationships with authorised retailers, our distributors enter into separate agreements with authorised retailers and require them to comply with our standard operating procedures, some of which include guidelines on the design and layout of *361°* authorised retail outlets, product pricing and customer service. If our distributors are not effective in enforcing our retail policies on the authorised retailers, the public's perception of our *361°* brand and our reputation may be materially and adversely affected. In addition, we rely on our distributors to expand the *361°* retail network by requiring each distributor to establish a minimum number of new *361°* authorised retail outlets during the term of the distributorship agreement. If our distributors fail to satisfy their expansion requirements, we will not be able to meet our expansion goals, which will result in our inability to achieve desired growth.

Our ability to accurately track the sales and inventory levels at our distributors and *361°* authorised retail outlets may be limited

Our ability to track the sales by our distributors to authorised retailers and the ultimate retail sales by the *361°* authorised retail outlets, and consequently their respective inventory levels, may be limited. We do not currently have in place an effective, comprehensive enterprise resource planning system. Our distributorship agreements require our distributors to provide us with an inventory report every month. Our distributors in turn track the sales and inventory levels at *361°* authorised retail outlets. Currently, we also have 18 regional sales managers who regularly conduct on-site inspections at randomly selected *361°* authorised retail outlets as well as provide us with local market condition reports from time to time. By tracking inventory levels of our distributors, we are able to gather information and data regarding the market acceptance of our products so that we can reflect consumers' preferences in the design and development of our products for the next season. It also provides other useful information, such as market recognition of our products in a particular region, so that we can adjust our marketing strategy if needed. However, the implementation of this 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 or collected by us. Due to the above reasons, we may not be able to accurately track the sales and inventory levels at our distributors and *361°* authorised retail outlets, or to identify or prevent any excessive inventory build-up at these *361°* authorised retail outlets. If our distributors or *361°* authorised retail outlets are not able to manage inventory levels, their future orders of our *361°* products may be reduced, which would materially and adversely affect our future business, financial condition, results of operations and prospects.

We may fail to execute our growth strategy or maintain our growth rate

Our rapid growth, including the expansion of the distribution network, 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 the distribution network of our *361°* products. In addition, rapid and significant growth may 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 authorised retailers and to oversee an increasing number of authorised retailers, as well as other third parties, including contract manufacturers, raw material suppliers, equipment providers, consultants and others. In addition, we plan to use part of the proceeds from the Global Offering to establish self-owned and operated flagship stores in prime locations in major and fast-growing cities of the PRC. As we lack experience in the establishment and operation of our self-owned and operated flagship stores, we may not be successful in the execution of these new business plans. 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 effectively manage our growth, including the rapid expansion of the distribution network, it may be difficult for us to execute our growth strategy and a decrease in the market demand for our products and the corresponding drop in the sales of our products could result in an accumulation of inventory at the distribution network and may materially and adversely affect our business, financial condition, results of operations and prospects. In addition, we may fail to execute our growth strategy due to such other factors as inability to obtain adequate funding and regulatory limitations, many of which are beyond our control.

We are dependent on a small number of contract manufacturers for the production of a portion of our footwear and all of our apparel and accessories

We began outsourcing a portion of our footwear production beginning in February 2007. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, we outsourced the production of approximately nil, 1.5%, 9.6% and 39.3% of our footwear in terms of production volume, respectively. The percentage of our outsourced footwear production increased significantly to approximately 39.3% for the nine months ended 31 March 2009 as our production capacity for the same period (approximately 10.2 million pairs of footwear) lagged behind the increasing demand of our footwear (approximately 14.3 million pairs of footwear sold during the period). Ever since we began selling apparel and accessories in February 2005 and September 2007, respectively, we have outsourced the entire production of our apparel and accessories. We rely principally on three contract manufacturers for our footwear outsourcing production. As we grow, our reliance on contract manufacturers may also grow as increases and any added efficiencies in our own production capacity may not be sufficient to keep pace with the increased production requirements driven by our growth. We may not be able to find sufficient additional contract manufacturers to manufacture our products on the same or similar terms as our existing contract manufacturers.

In addition, while we have historically engaged contract manufacturers from time to time after each sales fair, our existing contract manufacturers may determine not to accept our purchase orders on the same or similar terms, or at all in the future. If any of our major contract manufacturers rejects all or part of our purchase orders or terminates or alters its business relationship with us in a manner which is adverse to us, our financial condition and results of operations may be materially and adversely affected. In addition, as some of our contract manufacturers also produce products for other companies that compete with us, our contract manufacturers may not treat our purchase orders as a priority when allocating their production capacity to their various customers.

Difficulties or delays in the production facilities or process of our contract manufacturers could also result in delays or failures in delivery of products to us or the production of poor quality products. If such events occur, we may not be able to deliver products to our distributors on a timely basis or at all.

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

Our success and ability to expand our operations depend heavily on our ability to attract, retain and motivate qualified key personnel. In particular, we rely on the continued services of our president Mr. Ding Wuhao and our vice president Mr. Xia Youqun, amongst others, for their expertise in developing business strategies, product design and development, business operations and sales and marketing. Most of our key personnel have been part of our management team since the inception of our business. We do not maintain insurance with respect to the loss of any our key personnel. If we lose the services of any of these key personnel without securing adequate replacement in a timely manner, such event could limit our competitiveness and our business and prospects may be materially and adversely affected.

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

We have experienced revenue growth at a CAGR of over 123.8% for the financial years ended 30 June 2006, 2007 and 2008 due to the successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, which grew by 1,735 *361°* authorised retail outlets from 30 June 2006 to 30 June 2007, by 1,506 *361°* authorised retail outlets from 30 June 2007 to 30 June 2008 and by 911 *361°* authorised retail outlets from 30 June 2008 to 31 March 2009, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our growth. In addition, the 2008 Beijing Olympic Games (2008年北京奧運會), which increased the PRC public's interest in, and awareness of, sports and fitness, slightly contributed to our growth in 2008. We believe that our gross profit margins increased during the Track Record Period, primarily as a result of the increases in average wholesale selling price of our *361°* footwear and apparel, which together comprised the majority of our *361°* product sales, economies of scale with respect to internal manufacturing and outsourcing costs driven by increases in number of products sold, and the shift in our product mix towards *361°* apparel and accessories, which on average have a higher gross profit margin than our *361°* footwear. We may fail to maintain the expansion rate of the number of *361°* authorised retail outlets at historical levels. We may also fail to maintain our annual revenue growth if we are unable to sustain our brand recognition and a positive public perception of our brand or if we fail to continue to expand the distribution network of our *361°* products. Our profit margins may be materially and adversely affected if our cost structure increases as a result of, among other factors, increased labour, manufacturing (internal and external contract manufacturing), raw materials or transportation costs. Our profit margins may also be materially and adversely affected if we must, in the face of increasing competition, provide more favourable terms to our distributors, such as higher sales discounts.

We rely on a small number of suppliers for certain raw materials. Unfavourable fluctuations in the price, availability and quality of raw materials could cause material production delays and materially increase our production costs

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, soles and plastics. We obtain all of these materials from domestic suppliers in the PRC. We purchase most of our major raw materials from suppliers located in the Fujian Province, the PRC and rely principally on four suppliers for the supply of our leather and synthetic leather needs. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, our five largest raw material suppliers accounted for approximately 51.5%, 65.5%, 40.3% and 43.5%, respectively, of the aggregate amounts of raw materials we purchased, and our largest raw material supplier accounted for approximately 35.4%, 39.5%, 23.6% and 15.4%, respectively, of the aggregate amounts of raw materials we purchased. We do not enter into long-term agreements with our raw material suppliers and generally procure the raw materials that we require through purchase orders issued by us from time to time which set out the terms regarding the price, purchase quantity, delivery terms and settlement terms, amongst others. To the extent our suppliers do not continue to supply us with the raw materials we need to produce our products at favourable or similar prices or at all, our reputation, business, results of operations, financial condition and prospects could materially suffer. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers by increasing the suggested retail prices of our products or increasing the sale price to our distributors may materially and adversely affect our cost of sales and our gross profit margins.

Prices of our products are subject to factors beyond our control

The prices at which our distributors or consumers are willing to purchase our products are driven mainly by various factors such as internal and outsourcing production costs, our competitors' pricing strategies, consumers' purchasing power in the PRC and general economic conditions in the PRC, many of which are beyond our control. Further, the distributorship agreements entered into with our distributors do not impose a minimum purchase price at which they must purchase our products. Under our new distributorship business model, we sell our *361°* products to all of our distributors at a uniform discount to the suggested retail price of the products. Our distributors then sell our *361°* products to their respective authorised retailers at a uniform discount to the suggested retail price which has been approved by us. If we are unsuccessful in implementing the suggested retail pricing system or if we are unable to maintain selling prices of our products at desired levels, the market value of our *361°* brand could be eroded and the public perception of our brand may deteriorate, which could have a material adverse effect on our business, financial condition, 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 fire or natural disasters such as hurricanes, severe winter storms or earthquakes would severely affect our ability to continue our operations. As of the Latest Practicable Date, we did not carry any business interruption insurance and our insurance policies may not be sufficient to compensate us for the actual cost of replacing such buildings, equipment and infrastructure. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material adverse effect on our business, financial condition, results of operations and prospects.

If our distributors do not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected

Since the adoption of our new business model in the beginning of 2008, we sold the majority of our *361°* products to our distributors, who are generally granted a credit period between 30 and 180 days, the exact terms of which are determined based on such factors as past sales performance, credit history and their expansion plans. Prior to 2008, we generally granted our customers a credit period between 30 and 90 days. As of 30 June 2006, 2007 and 2008 and 31 March 2009, approximately 71.9%, 64.8%, 47.7% and 20.7% of our trade and bill receivables were overdue as they exceeded their respective credit periods. In addition, there were instances when we granted payment extensions to certain of our distributors or customers, which resulted in payments being made to us more than 180 days after the date of delivery of our *361°* products. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, out of a total of 494, 614 and 595 distributors and pre-2008 customers, and 30 distributors[(1)] we granted such payment extension to 82, 69 and 22

Note:

(1) No sales have been made to pre-2008 customers who are not our distributors since January 2009.

distributors and pre-2008 customers and 8 distributors, respectively. We perform ongoing credit evaluations of our distributors' financial condition and generally require no collateral from them to secure their payment obligations. As our sales increase, the amount of accounts receivable from our distributors will increase. In addition, as we implement our expansion plans and require our distributors to increase the number of authorised retailers, we may determine to lengthen the credit periods we grant to our distributors. If any distributor does not pay us for its purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected.

We recorded negative operating cash flow for the two financial years ended 30 June 2006 and 2007, and recorded positive operating cash flow for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, and may not be able to continue to record positive operating cash flow in the future

We recorded negative operating cash flow of approximately RMB39.9 million and RMB52.5 million for the two financial years ended 30 June 2006 and 2007, respectively, and recorded positive operating cash flow of RMB4.7 million and RMB162.5 million, respectively, for the financial year ended 30 June 2008 and the nine months ended 31 March 2009. The main reason for our historical negative operating cash flow was an increase in trade and other receivables and inventories primarily due to increased sales volume. We cannot give any assurance that we will continue to record positive operating cash flow in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow become negative, and we can give no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all. For details about our indebtedness and liquidity, financial resources and capital expenditure, please refer to the section headed "Financial Information—Liquidity and Capital Resources" in this prospectus.

The registration in the PRC of certain patents are still pending and may not be approved

We have obtained licences from the State Intellectual Property Office of the PRC (國家知識產權局) for various patents which are under application. For further details, please see the section headed "Statutory and General Information—Intellectual Property Rights of Our Group" in Appendix VI to this prospectus. We have been advised by our PRC legal advisers, Tian Yuan Law Firm, that under PRC law, patents must be registered with the relevant government authority in the PRC for a person or entity to become its registered owner so as to be protected by the relevant patent law. We were advised by our intellectual property agent, Fujian Longge Intellectual Property Service Co., Ltd. (福建省龍格知識產權事務有限公司), that as of the Latest Practicable Date, no objection has been received from the relevant PRC authority or from any third parties in respect to such applications or our use of those patents, and neither our intellectual property agent, Fujian Longge Intellectual Property Service Co., Ltd. (福建省龍格知識產權事務有限公司), as far as we have been informed by them, nor our Directors are aware of any threatened or pending claims by any third parties against our Company for use of such patents. However, our Group might not successfully register these patents under application, and the continued use of the patents might infringe upon intellectual property rights of third parties. Should our Group fail to secure the registration of any of the patents under application or we are held by any court or tribunal to be infringing upon or have infringed upon any patents or intellectual property rights of others, our reputation and brand image could be materially and adversely affected, which could in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We may not be able to adequately protect our intellectual property rights, which could harm our *361°* brand 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 our *361°* brand as well as patents for certain technologies. As of the Latest Practicable Date, we applied for the registration of certain trademarks for a number of logos and patents for certain technologies. The success of these applications depends upon a number of factors, and we may not be successful in registering trademarks and obtaining patents for technologies currently under application or which we may develop in the future. We depend, in large part, on PRC laws to protect our trademarks, patents and other intellectual property rights. Although we rely on the registration of trademarks and patents to protect our intellectual property, this measure may not be sufficient to prevent any misappropriation of our intellectual property or to prevent our competitors from independently developing 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 the United Kingdom. Third parties may infringe upon our intellectual property rights. We have discovered counterfeit versions of our products on the market, and have in the past had to, and may in the future have to, initiate legal or administrative proceedings in order to safeguard our intellectual property rights. Our efforts to enforce or defend our intellectual property rights may not be adequate, may require significant attention from our management and may be costly. The outcome of any legal actions to protect our intellectual property rights is uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

We may face claims from time to time that our products infringe upon the intellectual property rights of third parties, including our competitors. If any legal proceeding against us for infringement of intellectual property rights is successful, and if we are unable to obtain a licence for the usage of such intellectual property right on acceptable 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 case, we may experience a material adverse effect on our business and reputation, and this type of proceeding and its consequences could divert management's attention from our business, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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 shareholder advances, capital contributions and bank loans from local banking institutions and from operating cash flows. 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, including our plan to establish self-owned and operated flagship stores in prime locations in major and fast-growing cities of the PRC. 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, as well as financial, economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising any required capital on reasonable terms and at required times, or at all. Further, equity financings may have a further dilutive effect on our Shareholders. 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 or if new capital funding costs are higher than our prior capital funding costs, our business operations and our development programmes may be materially and adversely impacted, with similar effects on our results of operations and financial condition.

Labour disputes could significantly affect our operations

Labour disputes, work stoppages or slowdowns at our production facilities or any of our contract manufacturers or raw material 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 and adversely affect our operations or 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 materially and adversely affect our reputation and business

As of the Latest Practicable Date, all of our products were sold in the PRC. We may be exposed to product liability claims 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. We may not have effective or sufficient control over the quality of our products, and we cannot give assurance that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against us. We do not maintain any product liability insurance. In addition, we do not maintain third-party liability insurance against claims for property damage, personal injury or environmental liabilities. 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 we may be fined or sanctioned, which could materially and adversely affect our reputation, business, prospects, financial condition and results of operations. Any losses or liabilities that are not covered by our current insurance policies may have a material adverse effect on our business, financial condition results of operations and prospects.

RISKS RELATING TO THE PRC SPORTSWEAR INDUSTRY

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

The ever-evolving sportswear industry in the PRC is highly competitive. Participants in the sportswear industry in the PRC market include international and domestic brands which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments to distributors and authorised retailers. This competition has led to leading brands continuing to gain market share at the expense of less established, lower-end brands. We may not 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 our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors and increase capital expenditures, which may in turn materially and adversely affect our profit margins and other results of operations. See also “Industry Overview” and “Business—Competition”.

In addition, the PRC’s accession to the World Trade Organisation 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 import tariffs may be reduced significantly. Significant changes in international distribution channels or in the pricing of imported competing products could materially and adversely affect our business, financial condition, results of operations and prospects.

Our sales are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate

Our industry has historically experienced seasonality, which we expect to continue. Our *361°* products typically achieve higher sales when we sell our *361°* products for the spring and summer seasons to our distributors due to seasonality of demand for sportswear and the lower average wholesale selling price of spring and summer products as compared to autumn and winter products. We generally sell and distribute our spring and summer seasonal products from February to August, and our autumn and winter seasonal products from September to January. Consumer sales are also affected by seasonal shopping patterns during the Chinese New Year in early spring, the National Labour Day holiday in early May, the summer months, the National Day holiday in early October and other PRC national holidays. In addition, weather conditions, such as unusual weather or temperatures, may affect our sales, which are dependent on the sales of our distributors and authorised retailers. Our quarterly results of operations may fluctuate from period to period based on consumer demand and the seasonality of consumer spending on sportswear products. Therefore, any comparison of our results of operations 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

Substantially all of our assets are located in the PRC and all of our revenues are derived from our operations in the PRC. As a result, our assets and operations 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 macroeconomic conditions in the PRC may significantly affect our business, financial condition, results of operations and prospects

All of our revenues have been generated in the PRC. Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, which in turn depend significantly on worldwide economic conditions and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions and may remain depressed for the near 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 of the PRC (國家統計局) to have grown at a CAGR of approximately 22.3% from 2004 to 2008. The failure of the PRC to continue to grow at historical or anticipated rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending, may materially and adversely affect our business, financial condition, results of operations and prospects.

Our business may be materially and adversely impacted by recent financial difficulties and economic conditions in the United States, Europe and elsewhere

Recent financial difficulties and economic conditions in the United Sates, Europe and other regions may materially and adversely impact our business, financial condition, results of operations and prospects in a number of ways, including:

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;
- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession, may cause our distributors to delay, defer or cancel their purchases from us, including decisions previously made;
- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of our sportswear products;
- financing and other sources of liquidity may not be available on reasonable terms or at all; and
- the trading price of our Shares may experience increased volatility.

These risks may be exacerbated in the event of a prolonged economic downturn or financial crisis.

Changes in the laws, regulations and policies adopted by the PRC Government, including in relation to the environment, labour and taxation, may materially and adversely affect our business, financial condition, results of operations and prospects

The political, economic 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 these economic reforms and measures could have a positive effect on the PRC's overall and long-term development, the resulting changes also may have a material adverse effect on our current or future business, financial condition, results of operations and prospects. Despite these economic reforms and measures, the PRC Government continues to play a significant role in regulating industrial development, the allocation of natural resources and 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.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macroeconomic and other market conditions and credit availability from lending institutions. 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 give assurance 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 materially and adversely affect our future results of operations or profitability.

Demand for our products and our business, financial condition, results of operations and prospects may be materially and 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 Company

At present, the RMB is not freely convertible to other foreign currencies, and the 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 are licensed to engage in 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 structure, our Company's source of funds will primarily consist of dividend payments by its subsidiaries in the PRC denominated in RMB. We cannot give any assurance that we will be able to meet all of our foreign currency obligations or to remit profit out of China. If our 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 and adversely affected.

We are a holding company that heavily relies on dividend payments from our subsidiaries for funding

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in the PRC. Therefore, the availability of funds to us to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs and International Financial Reporting Standards. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

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

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

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

Any change in our tax treatment, including an unfavourable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations

On 16 March 2007, the National People's Congress of the PRC (全國人民代表大會) promulgated the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the **"New Tax Law"**), which came into effect on 1 January 2008 and supersedes both the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) and the Provisional Regulations on Enterprise Income Tax of the PRC (中華人民共和國企業所得稅暫行條例) (the **"Old Tax Regime"**). 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 enterprises.

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.

Under the Old Tax Regime and as approved by the relevant tax authorities, Sanliuyidu Fujian, a foreign-invested enterprise, was exempted from the enterprise income tax for its first two profitable years commencing from 1 January 2004, and thereafter was entitled to a 50% reduction in the enterprise income tax for the subsequent three years until 31 December 2008. Sanliuyidu Fujian enjoyed a full exemption from enterprise income tax in 2004 and 2005 as well as a 50% reduction of its enterprise income tax rate of 24% in 2006 and 2007, which had a significant positive effect on our profit after taxation during the financial years ended 30 June 2006 and 2007. Under the New Tax Law, Sanliuyidu Fujian continued to enjoy a 50% reduction of the phased-in enterprise income tax rate of 25% until 31 December 2008 and has thereafter been subject to a 25% tax rate.

Under the New Tax Law, Sanliuyidu China is exempted from the enterprise income tax for its first two profitable years commencing from 1 January 2008 and thereafter is entitled to a 50% reduction in the phased-in enterprise income tax rate of 25% for the subsequent three years until 31 December 2012. We expect that upon the expiry of the full exemption from the enterprise income tax currently enjoyed by Sanliuyidu China, the tax rate applicable to Sanliuyidu China will increase from 2010 onwards and will further increase from 2013 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. Our members that 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 limited 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 our members 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 materially and adversely affected if such dividends are subject to PRC enterprise income tax.

Gains on the sales of our Shares and dividends on our Shares may be 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, and capital gains realised by foreign Shareholders from sales of our Shares and dividends on our Shares payable to foreign Shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in our Shares may be materially and adversely affected.

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

Substantially all of our Directors and senior management members reside in the PRC and substantially all of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process on any of these persons or to enforce judgements obtained outside of the PRC against us or any of these persons, 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.

Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditures

Our business operation in the PRC is subject to the environmental laws and regulations issued by the PRC Government. The relevant environmental laws and regulations may be revised by the PRC Government from time to time to reflect the latest environmental needs or policies. We incurred approximately RMB6,000, RMB61,000, RMB75,000 and RMB106,000 in respect of regulatory compliance with applicable environmental protection requirements in the PRC for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. Any changes to such regulations and guidelines may materially increase our cost and regulatory exposure in complying with them.

Further, our current footwear production facilities and the new footwear and apparel production facilities at the Wuli Industrial Park Phase One and Phase Two, part of which we expect will commence production in or around December 2009, are subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing that may create environmental waste to adopt effective measures to control and properly dispose of this waste. If any failure to comply with such laws or regulations results in pollution, the administrative department for environmental protection can levy fines. Moreover, the PRC Government has the discretion to cease or close any operation if the failure to comply with such laws or regulations is serious. The PRC Government, in addition, may impose additional or stricter laws or regulations in the future. Compliance with any of these additional or stricter laws or regulations may cause us to incur additional material capital expenditure, the cost of which we may be unable to pass on to our customers through higher prices for our products.

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 materially and 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, snowstorms and droughts. Our business, financial condition, results of operations and prospects may be materially and adversely affected if such natural disasters occur in places where we operate or indirectly sell our products. 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 authorised retailers and our markets, any of which could materially and adversely affect our sales, cost of sales, overall results of operations 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 such as the H1N1 flu (swine flu) could cause a slowdown in the levels of economic activity generally, which could in turn materially and adversely affect our results of operations and the price of our Shares.

On 12 May 2008 at 2:28 p.m., an earthquake with a magnitude of 8.0 struck the Wenchuan County of Sichuan Province, the PRC. Many other cities and provinces in the country were affected. The retail operations at six of the *361°* authorised retail outlets located in the Sichuan Province were affected. Such *361°* authorised retail outlets, in aggregate, contributed indirectly approximately RMB2.5 million and RMB5.2 million, representing approximately 0.2% and 0.2%, of the total revenue of our Group for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, respectively. Accordingly, the impact on our Group's revenue and financial position as a result of the earthquake was immaterial, and no provision for inventory and bad debts was made as a result of the earthquake.

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

On 21 October 2005, the SAFE issued a public circular which became effective on 1 November 2005. The circular requires PRC residents to register with the local SAFE branch before establishing or controlling any company, referred to in the circular as a "offshore special purpose vehicle", 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 offshore special purpose vehicle 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 materially and adversely affect our business operations.

Increases in labour costs and other costs of production in the PRC could materially and adversely affect our profitability

The sportswear manufacturing industry is labour intensive. Labour costs in the PRC have been increasing recently. If labour costs in the PRC continue to increase, our production and administrative costs, including both our internal production costs and our outsourcing costs, will also increase. If we are unable to identify and employ other appropriate means to reduce our costs of production or to pass on the increased labour and other costs of production to our customers by selling our products at higher prices, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

As of the Latest Practicable Date, we had 4,817 employees in the PRC. On 29 June 2007, the PRC Government promulgated a new labour law, namely the Labour Contract Law of the PRC (中華人民共和國勞動合同法) (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 materially and 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 materially and adversely affected. We also could incur additional material compliance costs in connection with the New Labour Law.

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 give assurance that an active or liquid public market for our Shares will develop or be sustained if developed. The initial Offer Price range and the Offer Price of our Shares will be determined through negotiations between us and the Sole Global Coordinator (on its behalf and the Underwriters), and they may not necessarily be indicative of the market price of our Shares after the Global Offering is completed. An investor who purchases our 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 four business day (as defined in the Listing Rules) gap between the pricing and trading of our 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 adverse events affecting our Company.

The liquidity, trading volume and trading price of our Shares may be volatile

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 condition and results of operations;
- 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;
- 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 and investors' perception of us and our future business plans;
- 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, including most recently as a result of the recent financial difficulties and economic conditions in the United States, Europe and elsewhere. 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 materially and 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 materially and adversely affect the market price of our Shares and could materially and adversely impair our future ability to raise capital through offerings of our Shares. The total number of Shares issued immediately after the Global Offering will be 2,000,000,000, assuming the Underwriters do not exercise their Over-allotment Option and no outstanding share options are exercised prior to the Listing 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 such Shares 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 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 declared a dividend of RMB45.3 million in December 2008 and a dividend of RMB31.4 million in June 2009. All such dividends were paid out prior to the Listing. Save as above, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period. 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 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 constitutive documents and the Companies 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 "Risk Factors—Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to our Company" and "Risk Factors—We are a holding company that heavily relies on dividend payments from our subsidiaries for funding" above. For further details of the dividend policy of our Company, please see the section headed "Financial Information—Dividend and 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 our Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, our other Shareholders' best interests

Hui Rong International and its beneficial owner Mr. Ding Huirong, Ming Rong International and its beneficial owner Mr. Ding Huihuang and Dings International and its beneficial owner Mr. Ding Wuhao will remain as our Controlling Shareholders and together control the exercise of 54.75% of the voting rights 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). Accordingly, our Controlling Shareholders will continue to be able to exercise controlling influence over our operations and business strategy through their ability to effect actions without the approval of our other Shareholders. Subject to our Company's Memorandum and Articles of Association as well as the Companies Law, our Controlling Shareholders will also be able to control the election of our Directors and senior management, adjust our capital structure, make amendments to our Company's Memorandum and Articles of Association, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with our Controlling Shareholders. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control of our Company. Our Controlling Shareholders may cause us to take actions that are not in, or may conflict with, the interests of us or those of our other Shareholders. In the case where the interests of our Controlling Shareholders conflict with those of our other Shareholders, or if our 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 initiated by our Controlling Shareholders and the price of the Shares could be materially and adversely affected.

Investors will experience immediate dilution in net tangible asset value per Share and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares will be higher than the net tangible asset value per Share immediately prior to the Global Offering. As a result, investors will experience immediate dilution in our net tangible asset value per Share of HK$2.52, assuming an Offer Price of HK$3.75 (being the mid-point of the indicative Offer Price range). If the International Underwriters exercise the Over-allotment Option or if we issue additional Shares in the future, purchasers of our Shares may experience further dilution. In addition, we may need to raise additional funds through the issuance of new Shares or equity-linked securities of our Company in the future to finance business expansion, and if we do so our Shareholders' interests in our Company may be materially diluted accordingly.

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

We have adopted the Pre-IPO Share Option Scheme pursuant to which we have conditionally granted to our employees and business partners (as set forth in Appendix VI to this prospectus) options to subscribe for Shares.

Such options, if exercised in full, will represent approximately 1.019% of the issued share capital of our Company immediately after completion of the Capitalisation and the Global Offering (assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised).

The value of the options granted under the Pre-IPO Share Option Scheme will be recognised as an expense and amortised on a straight line basis over the vesting period and hence may materially and adversely affect our results of operations. 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 and the net asset value per Share.

We have also adopted the Share Option Scheme pursuant to which we will in the future grant to our employees and business partners options to subscribe for Shares. No options have been granted pursuant to the Share Option Scheme as of the Latest Practicable Date.

The fair value of the options at the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may materially and adversely affect 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 our Shareholders and the net asset value per Share.

Based on our valuer's valuation, the fair value of the options granted under our Pre-IPO Share Option Scheme as of the grant date is approximately HK$17.5 million. 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 grant date to the end of vesting period and hence, there will be an impact on our profit and loss accounts for the financial years 2009 and 2010. We estimate that there may be an impact of approximately RMB0.5 million and RMB8.5 million on our profit and loss accounts for the financial years ending 30 June 2009 and 2010, respectively.

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.

You should not rely on any information contained in press articles or other media regarding our Group and the Global Offering

Prior to the publication of this prospectus, there has been certain press and media coverage (including but not limited to Apply Daily, Hong Kong Economic Times, Ming Pao Daily News, Oriental Daily News and The Sun on 9 June 2009, Headline Daily, Hong Kong Commercial Daily, Oriental Daily News and am730 on 10 June 2009, Ming Pao Daily News on 11 June 2009 as well as Hong Kong Economic Times and Ming Pao Daily News on 12 June 2009) regarding our Group and the Global Offering which included certain financial information, industry comparison, profit forecasts and other information about our Group that does not appear in this prospectus. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.