


OUR HISTORY

Our business development

We primarily manufacture and sell our 361° products. From 2004 to 2007, substantially all of our revenues were generated from sales of our 361° products to customers who were primarily wholesalers and authorised retailers (including department stores) of sportswear products pursuant to purchase contracts which were entered into for each season's order. These customers either resold our 361° products to authorised retailers or sold our 361° products at self-operated authorised retail outlets. We began to expand the distribution network of our 361° products aggressively in 2005 by venturing into the fast-growing cities and provincial capitals in the PRC to tap their large consumer market potential. The authorised retailers-owned retail network reached 432 361° authorised retail outlets as of 30 June 2005. Catering to customer demand, we also started to introduce athletic apparel in our product portfolio in February 2005. In the same year, our brand was selected by World Brand Laboratory (世界品牌實驗室) as the "China's 500 Most Valuable Brands" (中國500最具價值品牌), with an estimated value exceeding RMB2 billion. We were also awarded the "Top 100 Businesses with Great Potential in China" (中國潛力一百榜) by Forbes China in 2005 and 2006, respectively.

We continued to build our brand while expanding our national footprint. In 2006, we focused on developing our brand strategy and developed sponsorship and co-marketing arrangements with sporting events in the PRC to increase our brand awareness on a national basis. Our 361° brand was named a "China Famous Brand" (中國名牌) (for 361° sports footwear) in 2005 by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局), and a "China Well-Known Trademark" (中國馳名商標) in 2005 (for the "" logo) and in 2008 (for the "361°" trademark) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局). Our athletic footwear was granted an exemption from quality inspection by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) for the period from December 2006 to December 2009.

Starting in September 2007, we further expanded our product line by introducing branded accessories to the market. We also introduced new store concepts to elevate our brand status and to convey 361° as a premium sports brand in the PRC market. We started launching large format flagship stores in major cities in the PRC through our distributors and authorised retailers to showcase our comprehensive product portfolio and generate market awareness in 2007. To meet growing demand for our products, in August 2007, we began the construction of new production facilities in Wuli Industrial Park Phase One to expand our production capabilities. We also expanded our brand enhancing sponsorship activities, such as selecting Ms. Zhang Ning (張寧) and Mr. Lin Dan (林丹) who are Olympic badminton gold medallists as our spokespersons for 2008, and sponsoring the Xiamen International Marathon (廈門國際馬拉松賽) from 2006 to 2008.

As of 30 June 2007, we had successfully expanded the distribution network of our 361° products to 3,126 361° authorised retail outlets. To better manage our growth, enhance our market penetration in retail channels and focus our resources on overall brand building and product design and development, 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. We have also formalised our management, merchandising, financial and operation requirements for distributors and 361° authorised retail outlets via annual distributorship agreements. Through such distributorship agreements, we have made significant progress in improving our operation infrastructure and expanding the retail presence of our 361° brand.

We have received a number of awards and accreditations since our establishment in the PRC. In recognition of our stringent quality control standards, our production facilities were granted ISO 9001:2000 certification

in 2007. We received the “2006 China Sports Brand Top Ten Marketing Enterprise Award” (2006 中國體育品牌十大營銷企業獎) from the China Association for Development and Promotion of International Brand (中國國際品牌發展促進會) and the China Sports Brand Research Centre (中國體育品牌研究中心) in 2006. We were also awarded “Best Innovative Marketing of the Year” (年度最佳創意營銷獎) of “Impact on China” (影響中國) by QQ.com (騰訊網) in 2006.

Our PRC Subsidiaries

Sanliuyidu Fujian

Establishment

On 25 December 2002, Mr. Ting Tong Bun (the father-in-law of one of our Controlling Shareholders, Mr. Ding Huirong), Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhaio entered into an agreement (the “**Sanliuyidu Fujian Trust Agreement**”) pursuant to which Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhaio agreed to jointly establish a new company to engage in the sportswear business under the name of 361° and contribute capital in the proportion of 24%, 51% and 25%, respectively, and Mr. Ting Tong Bun agreed to act as the shareholder and legal representative of this new company but would not contribute any share capital, would have no dividend rights and would not be involved in the management of this new company. The parties entered into the Sanliuyidu Fujian Trust Agreement because they held the view that entrusting Mr. Ting Tong Bun, a Hong Kong resident, to hold the interest in Sanliuyidu Fujian, a company incorporated in the PRC, would facilitate the establishment of Sanliuyidu Fujian’s business as a foreign-invested and international enterprise. Mr. Ting Tong Bun was chosen as the nominee shareholder because he was the father-in-law of Mr. Ding Huirong and a relative of Mr. Ding Huihuang and Mr. Ding Wuhaio. Mr. Ting Tong Bun agreed to enter into the Sanliuyidu Fujian Trust Agreement solely because of his family relationship with Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio, and he did not receive any consideration or benefit for entering into the same. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that the Sanliuyidu Fujian Trust Agreement did not violate any PRC laws and regulations and was valid and enforceable among the parties involved.

Mr. Ting Tong Bun was never involved in the management or operations of Sanliuyidu Fujian during the Track Record Period, had no influence over Sanliuyidu Fujian’s business, did not have any control over Sanliuyidu Fujian and always exercised all his shareholder’s rights (including but not limited to the right of appointment of directors and supervisors and voting at shareholder’s meetings) and director’s rights in Sanliuyidu Fujian at the direction of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio. During the Track Record Period, there was no incidence where Mr. Ting Tong Bun did not vote at the direction of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio, and Mr. Ting Tong Bun also acted at the direction of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio in connection with all his activities (whether internal and external) concerning Sanliuyidu Fujian. Against such background, our Group was established in July 2003 by Mr. Ting Tong Bun through the incorporation of Sanliuyidu Fujian.

Pursuant to three loan agreements all dated 7 May 2003, Mr. Ting Tong Bun provided unsecured personal loans in the amount of HK\$40.8 million, HK\$19.2 million and HK\$20.0 million to Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio, respectively, without interest, because of his family relationship with Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio. Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio in turn applied such loans to pay up the registered capital of Sanliuyidu Fujian. Such loans were repayable within two years from the date of provision of the entire loan amount and it was never intended that Mr. Ting Tong Bun would acquire any equity interest in Sanliuyidu Fujian by providing such loans. Pursuant to an agreement dated 20 March 2009, the repayment term of all such loans, together with the HK\$160 million advanced by Mr. Ting Tong Bun under a loan agreement dated 15 March 2005 (as described below), was extended with HK\$95 million repayable prior to the Listing and the remaining HK\$40 million, HK\$40 million and HK\$65 million repayable during the first, second and third year after the Listing, respectively. It is expected that the source of repayment of these loans to Mr. Ting Tong Bun will primarily be future dividends to be distributed to Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhaio by our Company.

Land and buildings

At the initial stage of its operations, Sanliuyidu Fujian used the land and buildings owned by Bieke Fujian and Wanshile after they ceased their sportswear business operations in around June and July 2003 pursuant to (i) the agreement dated 26 July 2003 between Bieke Fujian and Wanshile (as described below) and (ii) the agreement dated 5 August 2003 between Sanliuyidu Fujian and Bieke Fujian (as described below). Bieke Fujian was wholly beneficially-owned by Mr. Ting Tong Bun. Mr. Ting Tong Bun confirmed that he would not continue or commence any other business which competes or would compete with our Group in future. Wanshile was beneficially owned as to 14.3% by Mr. Ding Wuhao and Mr. Ding Jiantong, who is the father of Mr. Ding Huirong and Mr. Ding Huihuang, through Fujian Jinjiang Chendai Jiangtou Huafeng Shoes Co., Ltd. (福建省晉江市陳埭江頭華豐鞋業有限公司) (“**Huafeng**”), a company owned as to 50% by each of them, and 85.7% by Mr. Zhuang Enzhong (莊恩忠), an Independent Third Party. Mr. Ding Wuhao and Mr. Ding Jiantong transferred all their interests in Huafeng in June 2008 to Mr. Lin Shanming (林山明), an Independent Third Party, at the total consideration of RMB500,000, which was determined on the basis of the capital contribution made by Mr. Ding Wuhao and Mr. Ding Jiantong at the time of transfer.

Pursuant to an agreement dated 26 July 2003 (the “**July 2003 Agreement**”) entered into between Bieke Fujian and Wanshile, Wanshile entrusted Bieke Fujian to negotiate with Sanliuyidu Fujian and agreed to grant Sanliuyidu Fujian the right to use Land B (as described below) and Property 1 (as described below) which was jointly owned by Wanshile and Bieke Fujian for a term of 5 years from 13 May 2003 to 13 May 2008, during which period Sanliuyidu Fujian was not required to pay any rent. To the best of the knowledge of our Directors, Bieke Fujian and Wanshile were of the view that it would be easier in terms of administration for one party, i.e., Bieke Fujian, to act on behalf of both of them to deal with our Group. As a result, Sanliuyidu Fujian was not a party to the July 2003 Agreement.

Pursuant to an agreement dated 5 August 2003 (the “**August 2003 Agreement**”) entered into between Sanliuyidu Fujian and Bieke Fujian, Bieke Fujian agreed to grant Sanliuyidu Fujian the right to use Land A, Land C, Property 2 (as described below), and Property 1 which was jointly owned by Wanshile and Bieke Fujian (as described below and based on the July 2003 Agreement) for a term of five years from 13 May 2003 to 13 May 2008 during which Sanliuyidu Fujian was not required to pay any rent, and Sanliuyidu Fujian agreed to acquire such land and properties within such five year period at a consideration to be determined by reference to a mutually acceptable valuation. As further set out in the August 2003 Agreement, the parties agreed that (i) Sanliuyidu Fujian would pre-pay part of the consideration at the request of Bieke Fujian; (ii) when Sanliuyidu Fujian acquired such land and properties, the consideration for the land and properties would include compensation for the grant of the right to use the land and properties. Accordingly, Sanliuyidu Fujian pre-paid to Bieke Fujian a total of RMB4.4 million, RMB18.0 million and RMB21.5 million during the financial years ended 30 June 2006, 2007 and 2008, respectively, as part of the transfer price prior to the formal transfer of the above land and properties.

The August 2003 Agreement was not registered with the relevant PRC authorities. According to our PRC legal advisers, Tian Yuan Law Firm, by granting Sanliuyidu Fujian the right to use Land A and Property 1 under the August 2003 Agreement prior to their acquisition of the allocated land use rights of those lands and properties, Bieke Fujian and Wanshile contravened certain provisions of the Provisional Rules on the Administration of Allocated Land Use Right (劃撥土地使用權管理暫行辦法) and Provisional Regulations of the PRC on the Sale and Transfer of Land Use Right of State-owned Land in Cities and Towns (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) and the relevant PRC authorities had the authority to impose administrative penalty on Bieke Fujian and Wanshile. Bieke Fujian and Wanshile obtained the land use right certificate in respect of the said allocated land use rights on 15 May 2008. Accordingly, as confirmed by our PRC legal advisers, Tian Yuan Law Firm, the relevant PRC authorities will not impose any penalty on Sanliuyidu Fujian and there will not be any material adverse impact on our Group’s operation. Further, according to our PRC legal advisers, Tian Yuan Law Firm, as Bieke Fujian had not obtained the relevant land use right certificate and building ownership certificate for Land C and Property 2 at the time of signing of the August 2003 Agreement, the August 2003 Agreement was not enforceable and the relevant PRC authorities had the authority to reclaim possession of the land occupied by Bieke Fujian. Nevertheless, upon obtaining the relevant land use

right certificate and building ownership certificate on 9 June 2007, Bieke Fujian could lease Land C and Property 2.

In March and May 2008, we entered into the following agreements to acquire the land and buildings leased by us: (a) an agreement with Bieke Fujian to acquire the land use right of a piece of land with an area of approximately 1,431.0 square metres situated at Qianjin Road, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市陳埭鎮江頭村前進路) (“**Land A**”) for a consideration of RMB546,800; (b) an agreement with Wanshile to acquire the land use right of a piece of land with an area of approximately 2,816.5 square metres situated at Qianjin Road, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市陳埭鎮江頭村前進路) (“**Land B**”) for a consideration of RMB1,076,100; (c) an agreement with Bieke Fujian and Wanshile to acquire the building with a construction area of approximately 12,588.1 square metres built on the land covered in agreements (a) and (b) above jointly owned by Bieke Fujian and Wanshile (“**Property 1**”) for a consideration of RMB6,850,000; (d) an agreement with Bieke Fujian to acquire the land use right of a piece of land with an area of 21,564.0 square metres situated at Fangjiao Village, Chendai Town, Jinjiang City, Fujian Province, the PRC (中國福建省晉江市陳埭鎮坊腳村) (“**Land C**”) for a consideration of RMB8,238,530; and (e) an agreement with Bieke Fujian to acquire the building with a construction area of approximately 56,201.5 square metres built on the land covered in agreement (d) above (“**Property 2**”) for a consideration of RMB36,190,000. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, confirmed that the aggregate amount of RMB940,430 implied compensation for the rent free period from 13 May 2003 to 13 May 2008 as specified under the July 2003 Agreement and the August 2003 Agreement, being the difference between the total acquisition price of RMB52,901,430 for all land and properties owned by Bieke Fujian and Wanshile and the appraised value of these land and properties of RMB51,961,000, only amounted to approximately less than 1.8% of the total consideration of RMB52,901,430 paid for the acquisition of the land and properties under the agreements entered into in March and May 2008 and is immaterial, therefore the total consideration paid for the acquisition of the land and properties from Bieke Fujian and Wanshile, namely the compensation, prepayment and the balance of the purchase consideration paid as a whole, was comparable to the then prevailing market price. The implied compensation of RMB940,430 was amortised, on a straight line basis, in our combined income statements included in the accountants’ report set out in Appendix I to this prospectus over the period between July 2004 and September 2007, when Sanlinyidu China and Bieke Fujian entered into a tenancy agreement (“**2007 Tenancy Agreement**”) in respect of the lease of certain factory premises covered under the July 2003 Agreement in order to facilitate Sanliuyidu China’s application for ordinary tax payer status with the local tax bureau at the relevant time. Our Directors are of the view that the above arrangements between Bieke Fujian and us as well as between Wanshile and us relating to the above land and properties as a whole made reasonable commercial sense and the above terms (including the annual rental expenses as stated in note 23 to our combined financial statements included in the accountants’ report set out in Appendix I to this prospectus) are no less favourable to us than terms available to or from Independent Third Parties. The above transactions have also been disclosed in note 23 to our combined financial statements included in the accountants’ report set out in Appendix I to this prospectus.

Brands, trademarks and vehicles acquired from Bieke Fujian and Wanshile

After the cessation of the sportswear business operations of Bieke Fujian and Wanshile in around June and July 2003, Bieke Fujian also discontinued the use of the brands and trademarks relating to “Bieke” and “别克”. In order to provide flexibility to the development of our Group’s business, our Company acquired certain trademarks relating to “Bieke” and “别克” with a view to explore the potential of using such brands in the future. The application for registration of these trademarks were submitted by Bieke Fujian and Wanshile at different times during 1994 to 2003, and were approved by the Trademark Bureau under the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局商標局) and relevant overseas trademark authorities during the period from 1996 to 2004. We also acquired a few trademarks relating to 361° from Bieke Fujian and Wanshile. The application for registration of these trademarks were submitted by Bieke Fujian and Wanshile at different times during 1999 to 2003, and were approved by the Trademark Bureau under the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局商標局) and relevant overseas trademark authorities during the period from 2001 to 2008. The trademarks relating to 361° were never used by either Bieke Fujian or Wanshile. The registrations of the transfers of these trademarks from Bieke Fujian and Wanshile to us

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were approved by the Trademark Bureau under the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局商標局) and relevant overseas trademark authorities during the period from 2004 to 2006. Other than a small volume of sales of TPR and TPU pellets (which were raw materials for the production of soles and were not sold by us under any brands) and sales of certain packaging materials, we have conducted all business under our 361° brand since the inception of our Group and our Directors confirmed that our Group had never used any of the trademarks relating to “Bieke” and “别克”. We commenced designing, producing, marketing and selling athletic footwear under our 361° brand in January 2004.

Apart from the land and buildings used by us during the Track Record Period and certain trademarks described above, we also acquired three vehicles in December 2007 and October 2008 from Bieke Fujian at the total transfer price of RMB110,080. Save as aforesaid, no customers, suppliers, assets and liabilities of our Group have been transferred or acquired from Bieke Fujian pursuant to any agreement, oral or written, between Bieke Fujian and us and there was no agreement, oral or written, regarding the transfer of Bieke Fujian’s business to our Group. Several customers and suppliers of our Group who were also customers and suppliers of Bieke Fujian before the cessation of its sportswear business operations, at their own discretion, commenced business with us after Bieke Fujian ceased its sportswear business operation in June 2003. As stated above, since there was never any agreement, oral or written, regarding the transfer of these customers and suppliers to our Group, we considered that the major cause of this was the geographical proximity between our Group and Bieke Fujian.

Apart from the land and buildings used by us during the Track Record Period and certain trademarks described above, we also acquired three vehicles in December 2007 from Wanshile at the total transfer price of RMB358,460. Save for aforesaid, no customers, suppliers, assets and liabilities of our Group have been transferred or acquired from Wanshile pursuant to any agreement, oral or written, between Wanshile and us and there was no agreement, oral or written, regarding the transfer of Wanshile’s business to our Group.

Save and except for the activities as disclosed above, each of Bieke Fujian and Wanshile had not conducted any business operations after they ceased their sportswear business operation in around June and July 2003, and therefore was not during the Track Record Period and is currently not in competition with the business of our Group.

Certain of our Directors and senior management members had held positions in Bieke Fujian and Wanshile, as follows: (i) Mr. Ding Wuhao was a director and the general manager of Bieke Fujian since its incorporation until 1 July 2008 and a director and the general manager of Wanshile since its incorporation until 30 June 2008; (ii) Mr. Ding Huirong was a vice general manager of Bieke Fujian since its incorporation until 1 July 2008, and a vice general manager of Wanshile since its incorporation until 30 June 2008; and (iii) Mr. Wang Jiabi was a vice general manager of Bieke Fujian until 1 July 2008. However, none of them were involved in the management and operations of Bieke Fujian and Wanshile since they ceased their sportswear business operations in around June and July 2003. Save as disclosed above, (i) none of our Directors or senior management members were or will be involved in the management and operations of Bieke Fujian and Wanshile during the Track Record Period or after the Listing; (ii) and none of the directors or senior management members of Bieke Fujian and Wanshile were or will be involved in the management and operations of our Group during the Track Record Period or after the Listing. It is currently expected that Bieke Fujian will be dissolved by December 2009. After the disposal of the entire interest in Huafeng, which held 14.3% interests in Wanshile, by Mr. Ding Wuhao and Mr. Ding Jiantong to Mr. Lin Shanming in June 2008, none of our Directors or their respective associates has any interest in Wanshile, and our Directors are not in a position to participate or influence the conduct of business of Wanshile.

Sanliuyidu China

In April 2005, we established Sanliuyidu China as a new member of our Group. Sanliuyidu China is primarily responsible for the manufacture and sales of sportswear products. The entire registered capital of Sanliuyidu China was held by Sanliuyidu Hong Kong, which was a company incorporated under Hong Kong law on 6 April 2004. The sole shareholder of Sanliuyidu Hong Kong at the relevant time was Mr. Ding Huihuang. Pursuant to a trust agreement entered into on 5 February 2005 by and among Mr. Ding Huihuang, Mr. Ding

Huirong and Mr. Ding Wuhao (the “**Sanliuyidu Hong Kong Trust Agreement**”), the entire issued share capital of Sanliuyidu Hong Kong, which was held by Mr. Ding Huihuang, was beneficially owned as to 51% by Mr. Ding Huirong, 24% by Mr. Ding Huihuang and 25% by Mr. Ding Wuhao. The parties entered into the Sanliuyidu Hong Kong Trust Agreement because they held the view that since Sanliuyidu Hong Kong is a Hong Kong company, it would be more convenient to manage the affairs of Sanliuyidu Hong Kong by registering the legal title of all the shares of Sanliuyidu Hong Kong under the name of one person rather than all of them so that only such person has to travel to Hong Kong (if required) to manage the affairs of Sanliuyidu Hong Kong and to sign the corporate documents of Sanliuyidu Hong Kong. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao did not violate any PRC laws and regulations by entering into the Sanliuyidu Hong Kong Trust Agreement. In June 2008, each of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao executed a statutory declaration to declare that Mr. Ding Huihuang had been holding the 51% and 25% equity interests in Sanliuyidu Hong Kong on trust for Mr. Ding Huirong and Mr. Ding Wuhao, respectively, since the incorporation of Sanliuyidu Hong Kong, and Mr. Ding Huihuang have executed formal declarations of trust to re-affirm the arrangements as set out in Sanliuyidu Hong Kong Trust Agreement. Our legal adviser as to Hong Kong laws advised that the above trust arrangement as set out in the Sanliuyidu Hong Kong Trust Agreement and as reaffirmed in the declarations of trust executed in June 2008 did not violate any laws or regulations in Hong Kong and is valid and legal. In July 2008, Mr. Ding Huihuang transferred the legal title in 51% and 25% interest to Mr. Ding Huirong and Mr. Ding Wuhao respectively. After such transfers, the shares of Sanliuyidu Hong Kong are not subject to any other trust arrangement.

Pursuant to a loan agreement dated 14 March 2005, Mr. Ding Huihuang agreed to provide Sanliuyidu Hong Kong a loan in the amount of HK\$160 million, without interest, to fund the payment of the registered capital of Sanliuyidu China. Pursuant to a loan agreement dated 15 March 2005, Mr. Ting Tong Bun provided an unsecured personal loan in the amount of HK\$160 million to Mr. Ding Huihuang without interest because of his family relationship with Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhao. Mr. Ding Huihuang in turn applied such loan to lend to Sanliuyidu Hong Kong to pay up the registered capital of Sanliuyidu China. The loan provided by Mr. Ting Tong Bun to Mr. Ding Huihuang was repayable within two years from the date of provision of the entire loan amount and it was never intended that Mr. Ting Tong Bun would acquire any equity interest in Sanliuyidu China by providing such loan. As described above, pursuant to an agreement dated 20 March 2009, the repayment term of such loan, together with the HK\$80 million advanced by Mr. Ting Tong Bun under three loan agreements all dated 7 May 2003 (as described above), was extended with HK\$95 million repayable prior to the Listing and the remaining HK\$40 million, HK\$40 million and HK\$65 million repayable during the first, second and third year after the Listing, respectively. It is expected that the source of repayment of these loans to Mr. Ting Tong Bun will primarily be future dividends to be distributed to Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao by our Company. Mr. Ting Tong Bun was never involved in the management or operations of Sanliuyidu China during the Track Record Period, had no influence over Sanliuyidu China’s business and did not have any control over Sanliuyidu China.

Sanliuyidu Xiamen

In view of the growth of our sales and as part of our strategic development, we established Sanliuyidu Xiamen, a limited liability company in Xiamen City, Fujian Province, the PRC, in May 2008, which primarily focuses on wholesale of athletic footwear, apparel and accessories. Sanliuyidu Xiamen is an indirect wholly-owned subsidiary of our Company and has been owned as to 10% by Sanliuyidu Fujian and as to 90% by Sanliuyidu China since its incorporation.

Our Company

Our Company was incorporated under the laws of the Cayman Islands on 1 August 2008. To prepare our corporate structure for the Listing and to facilitate our growth and expansion strategy, we underwent a reorganisation in which Sanliuyidu Holdings and 361 Enterprise were established and became the subsidiaries of our Company and the major holding companies of our Group.

CORPORATE REORGANISATION

In preparation for the Listing, we underwent the Corporate Reorganisation which consisted primarily of the following steps:

- the incorporation of Sanliuyidu Holdings and 361 Enterprise;
- the acquisition of Sanliuyidu Fujian and Sanliuyidu China; and
- the transfer of the equity interest in Sanliuyidu Holdings to our Company which resulted in our Company becoming the holding company of our Group.

Incorporation of Sanliuyidu Holdings and 361 Enterprise

Sanliuyidu Holdings was incorporated in the BVI on 20 February 2008 with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. At the time of incorporation, its share capital was held as to 51% by Hui Rong International, 25% by Dings International and 24% by Ming Rong International. Hui Rong International is wholly-owned by Mr. Ding Huirong, Ming Rong International is wholly-owned by Mr. Ding Huihuang and Dings International is wholly-owned by Mr. Ding Wuhao.

361 Enterprise was incorporated in Hong Kong on 22 April 2008 with an authorised share capital of HK\$10,000 divided into 10,000 shares with a par value of HK\$1 each. 361 Enterprise has been wholly-owned by Sanliuyidu Holdings since its incorporation.

Acquisition of Sanliuyidu Fujian and Sanliuyidu China

On 25 July 2008, Sanliuyidu Hong Kong and 361 Enterprise entered into a share transfer agreement pursuant to which Sanliuyidu Hong Kong transferred all its equity interest in Sanliuyidu China to 361 Enterprise at the consideration of HK\$1. In view of the fact that both Sanliuyidu China and 361 Enterprise were then beneficially owned as to 51% by Mr. Ding Huirong, 24% by Mr. Ding Huihuang and 25% by Mr. Ding Wuhao, the transfer did not result in any changes of the beneficial interest of Sanliuyidu China. Accordingly, a nominal consideration was used. After such transfer, Sanliuyidu Hong Kong ceased to hold any interest in any member of our Group. It was not injected into our Group as Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao all considered that the shareholding structure of our Group would be simplified by replacing Sanliuyidu Hong Kong, which involved a trust arrangement among its beneficial owners historically, with 361 Enterprise, which our Group directly owned.

Apart from holding the equity interest of Sanliuyidu China between April 2005 and July 2008, Sanliuyidu Hong Kong had no business operations since its incorporation on 6 April 2004. It is expected that Sanliuyidu Hong Kong will be deregistered by mid-2010.

On 25 July 2008, Mr. Ting Tong Bun and 361 Enterprise entered into a share transfer agreement pursuant to which Mr. Ting Tong Bun transferred all the equity interest in Sanliuyidu Fujian registered under his name to 361 Enterprise at the consideration of HK\$1. In view of the fact that both Sanliuyidu Fujian and 361 Enterprise were then beneficially owned as to 51% by Mr. Ding Huirong, 24% by Mr. Ding Huihuang and 25% by Mr. Ding Wuhao, the transfer did not result in any changes of the beneficial interest of Sanliuyidu Fujian. Accordingly, a nominal consideration was used.

Transfer of equity interest in Sanliuyidu Holdings to our Company

On 15 August 2008, Hui Rong International, Ming Rong International, Dings International and our Company entered into a share transfer agreement pursuant to which Hui Rong International, Ming Rong International and Dings International transferred their respective shareholdings in Sanliuyidu Holdings to our Company in consideration of (i) the crediting as fully paid the 51, 24 and 25 nil paid Shares in the share capital of our Company held by Hui Rong International, Ming Rong International and Dings International, respectively,

and (ii) the issue of 5,049, 2,376 and 2,475 Shares in our Company credited as fully paid to Hui Rong International, Ming Rong International and Dings International, respectively.

SHARE TRANSFERS AFTER THE CORPORATE REORGANISATION

After the Corporate Reorganisation, there were two share transfers in the share capital of our Company: (i) transfer of 25% equity interest in aggregate to Mr. Wang Jiabi and Mr. Wang Jiachen and (ii) transfer of 2% equity interest to Mr. Ding Jiantong.

Transfer of 25% equity interest to Mr. Wang Jiabi and Mr. Wang Jiachen

On 12 October 2002, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhao entered into an undertaking (the “**2002 Undertaking**”) which acknowledged that the parties agreed to jointly invest in the sportswear business. In view of the strong experience of Mr. Wang Jiabi and Mr. Wang Jiachen in the manufacturing of sports shoes, as an incentive to retain their continued service in the new sportswear business to be established by Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhao, the parties agreed to transfer 25% equity interest in the new sportswear products business to Mr. Wang Jiabi and Mr. Wang Jiachen at a consideration equal to 25% of the original investment costs of the new sportswear business on the basis that Mr. Wang Jiabi and Mr. Wang Jiachen will continue to serve in the new sportswear business. Mr. Ding Huihuang, Mr. Ding Wuhao and Mr. Ding Huirong further agreed that the interests to be transferred to Mr. Wang Jiabi and Mr. Wang Jiachen shall come from the interests held under Mr. Ding Huirong’s name.

Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that the 2002 Undertaking did not violate PRC laws and regulations and was legally binding and valid between the parties under PRC laws. Pursuant to a confirmation dated 28 August 2008 and signed by Mr. Ding Huirong, Mr. Ding Huihuang, Mr. Ding Wuhao, Mr. Wang Jiabi and Mr. Wang Jiachen, the parties confirmed that the subject companies which were referred to in the 2002 Undertaking were Sanliuyidu China and Sanliuyidu Fujian and further agreed that upon completion of the transfer of an aggregate of 25% interests in our Company by Hui Rong International to Jia Wei International and Jia Chen International, respectively (i.e. upon completion of the transfer of a 12.5% equity interest in our Company from Hui Rong International to each of Jia Wei International and Jia Chen International), the obligations of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao to transfer equity interest in our Company to Mr. Wang Jiabi and Mr. Wang Jiachen under the 2002 Undertaking would be considered fulfilled. On 30 August 2008, Hui Rong International, Jia Wei International and Jia Chen International entered into a share transfer agreement pursuant to which Hui Rong International transferred 1,250 shares in our Company (representing a 12.5% equity interest in our Company at the relevant time) to each of Jia Wei International and Jia Chen International, respectively (in aggregate 2,500 Shares, representing a 25% equity interest in our Company) at a total consideration of HK\$60 million which was paid as to HK\$30 million by each of Jia Chen International and Jia Wei International without any direct or indirect financial support from Mr. Ding Huirong, Mr. Ding Huihuang, Mr. Ding Wuhao and/or Mr. Ting Tong Bun. Such transfers were completed on 3 December 2008. As Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao equally bore the original cost for the 25% equity interest in our Company, they divided equally among themselves the total consideration of HK\$60 million received by Hui Rong International. The consideration was determined by reference to 25% of the aggregate of the registered capital of Sanliuyidu China and Sanliuyidu Fujian. Each of Mr. Wang Jiabi and Mr. Wang Jiachen is a legal and beneficial owner in respect of a 12.5% interest in our Company held under the name of Jia Wei International and Jia Chen International, and none of them is holding any Shares in trust for any other party. The Shares held by Mr. Wang Jiabi and Mr. Wang Jiachen are subject to a lock-up arrangement identical to that applicable to our Controlling Shareholders. As it was the consensus among the parties to the 2002 Undertaking that the interests to be transferred to Mr. Wang Jiabi and Wang Jiachen would come from the interests beneficially held by Mr. Ding Huirong for ease of administration, the interests beneficially held by Mr. Ding Huirong had already taken into account the future share transfers to Mr. Wang Jiabi and Mr. Wang Jiachen, and were greater than those held by Mr. Ding Huihuang and Mr. Ding Wuhao. Accordingly, Mr. Ding Huihuang and Mr. Ding Wuhao did not transfer any Shares held under their names to Mr. Wang Jiabi and Mr. Wang Jiachen.

Transfer of 2% equity interest to Mr. Ding Jiantong

Under the 2002 Undertaking, Mr. Ding Huirong and Mr. Ding Huihuang also agreed to gift a 2% equity interest in our Group to Mr. Ding Jiantong, the father of Mr. Ding Huirong and Mr. Ding Huihuang as an expression of filial piety and a gesture of gratitude towards their father. Mr. Ding Huihuang and Mr. Ding Huirong further agreed that the interests to be transferred to Mr. Ding Jiantong would come from the interests held under Mr. Ding Huirong's name. Pursuant to a confirmation dated 28 August 2008 and signed by Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Jiantong, the parties agreed that upon completion of the transfer of 2% interest in our Company by Hui Rong International to Jian Tong Investments, the obligations of Mr. Ding Huirong and Mr. Ding Huihuang to transfer interests in our Company to Mr. Ding Jiantong under the 2002 Undertaking would be considered fulfilled. Mr. Ding Huirong and Mr. Ding Huihuang equally bore the original cost for the 2% equity interest in our Company. On 30 August 2008, Hui Rong International transferred 200 Shares pursuant to a deed of share transfer, representing a 2% interest in our Company, to Jian Tong Investments. The Shares held by Mr. Ding Jiantong are subject to a lock-up arrangement identical to that applicable to our Controlling Shareholders. As it was the consensus among the parties to the 2002 Undertaking that the Shares to be transferred to Mr. Ding Jiantong would come from interests beneficially held by Mr. Ding Huirong for ease of administration, the Shares held by Mr. Ding Huirong had already taken into account the future interest transfer to Mr. Jiantong, and were greater than those held by Mr. Ding Huihuang and Mr. Ding Wuhao. Accordingly, Mr. Ding Huihuang did not transfer any Shares held under his name to his father.

Mr. Ding Jiantong had been one of the directors of Sanliuyidu Fujian and Sanliuyidu China and the sole signatory of the bank accounts of Sanliuyidu China and Sanliuyidu Fujian since their respective dates of incorporation. As Mr. Ding Jiantong is the father of Mr. Ding Huirong and Mr. Ding Huihuang and has the trust and respect from each of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao, they unanimously agreed to appoint him as the bank signatory of Sanliuyidu Fujian and Sanliuyidu China, a role which Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao all considered as honourable given that they believe that banks will generally regard a bank signatory as an important figure of an enterprise, as a sign of showing their respect towards him. Nevertheless, each of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao as well as Mr. Ding Jiantong confirmed that (i) in his capacity as the director of Sanliuyidu Fujian and Sanliuyidu China, Mr. Ding Jiantong always followed the instructions of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao in the exercise of director's power and have never exercised any such power on his own; and (ii) in his capacity as the bank signatory of Sanliuyidu Fujian and Sanliuyidu China, Mr. Ding Jiantong always followed the instructions of Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao in signing all documents. Save as disclosed above, notwithstanding the positions held by Mr. Ding Jiantong mentioned above, Mr. Ding Jiantong was never involved in the management or operations of our Group. In addition, prior to the transfer of 2% interest in our Company in August 2008, Mr. Ding Jiantong had no equity interest in our Group. Mr. Ding Jiantong was previously a director of Bieke Fujian from its incorporation to 1 July 2008 and a director of Wanshile from its incorporation to 30 June 2008, but he has ceased to be involved in the management and operations of Bieke Fujian and Wanshile since they ceased their sportswear business operations in around June and July 2003.

CONTROL OF OUR GROUP

Despite the fact that Mr. Ding Huirong was the single largest beneficial shareholder in Sanliuyidu Fujian and Sanliuyidu China, the operating subsidiaries of our Group during the Track Record Period, our Group was not controlled by Mr. Ding Huirong alone. As disclosed in the paragraph headed "Share Transfers after the Corporate Reorganisation" above, the interests beneficially held by Mr. Ding Huirong in our Company, which replicated his beneficial interest proportion in Sanliuyidu Fujian and Sanliuyidu China, were larger than those beneficially held by Mr. Ding Huihuang and Mr. Ding Wuhao because the interests beneficially held by Mr. Ding Huirong took into account the contemplated interest transfers to Mr. Wang Jiabi, Mr. Wang Jiachen and Mr. Ding Jiantong. Mr. Ding Huirong only beneficially held such interests to be transferred for ease of administration and Mr. Ding Huirong never attempted to exercise the voting rights held under his name independent from Mr. Ding Huihuang and Mr. Ding Wuhao.

HISTORY AND CORPORATE STRUCTURE

Among our Controlling Shareholders, Mr. Ding Huihuang and Mr. Ding Huirong are brothers, Mr. Ding Wuhao married the sister of Mr. Ding Huihuang and Mr. Ding Huirong thus is the brother-in-law of both Mr. Ding Huirong and Mr. Ding Huihuang. Mr. Ding Huirong, Mr. Ding Huihuang and Mr. Ding Wuhao were brought up in the PRC. None of them is or was a full time government official of any country. Our Controlling Shareholders have worked together for more than 14 years and were all initial beneficial owners of each of Sanliuyidu Fujian and Sanliuyidu China. Since our Controlling Shareholders are relatives, have worked together for a long time, known each other very well and have built up mutual trust among themselves, they have not entered into any written agreements as to how they should act as a group of our Controlling Shareholders. Nevertheless, as a matter of fact, our Controlling Shareholders made important corporate and business decisions jointly as a group after discussions among themselves. After they reached consensus, they either voted or directed other persons to vote unanimously as a group in a coordinated manner. They shared the same business visions and have never failed to reach consensus over important decisions relating to the affairs of our Group and none of our Controlling Shareholders has exercised his shareholder's rights or made any material shareholder's decision in relation to the affairs of our Group without the consent of the other Controlling Shareholders during the Track Record Period.

Accordingly, our Group was jointly controlled by our Controlling Shareholders and not by Mr. Ding Huirong alone throughout the Track Record Period and is expected to continue to be so after the Listing.

SAFE REGISTRATION

According to 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 Vehicle (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 “SAFE Circular 75”), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

- domestic residents who plan to establish or control an offshore special purpose vehicle 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 offshore special purpose vehicle, or have raised funds offshore after such contribution, must conduct foreign exchange registration for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority; and
- domestic residents who are the shareholder of an offshore special purpose vehicle 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.

Our PRC legal advisers, Tian Yuan Law Firm, have advised that Mr. Ding Huihuang, Mr. Ding Huirong, Mr. Ding Wuhao, Mr. Wang Jiabi, Mr. Wang Jiachen and Mr. Ding Jiantong, being the relevant beneficial shareholders of our Group and domestic residents of the PRC, have completed their foreign exchange registration of overseas investments at the Fujian Branch of SAFE and confirmed that the SAFE Circular 75 has been duly satisfied.

OUR CORPORATE REORGANISATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the “M&A Rules”), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise

HISTORY AND CORPORATE STRUCTURE

and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the appraisal result on the equity or assets to be acquired. According to Article 15 of the M&A Rules, where parties to an acquisition are related including where the control is only de facto, the parties must “provide an explanation on the purpose of the acquisition and whether the appraisal result is consistent with fair market value”. Avoiding this requirement by using trusts, nominees, or other means is prohibited.

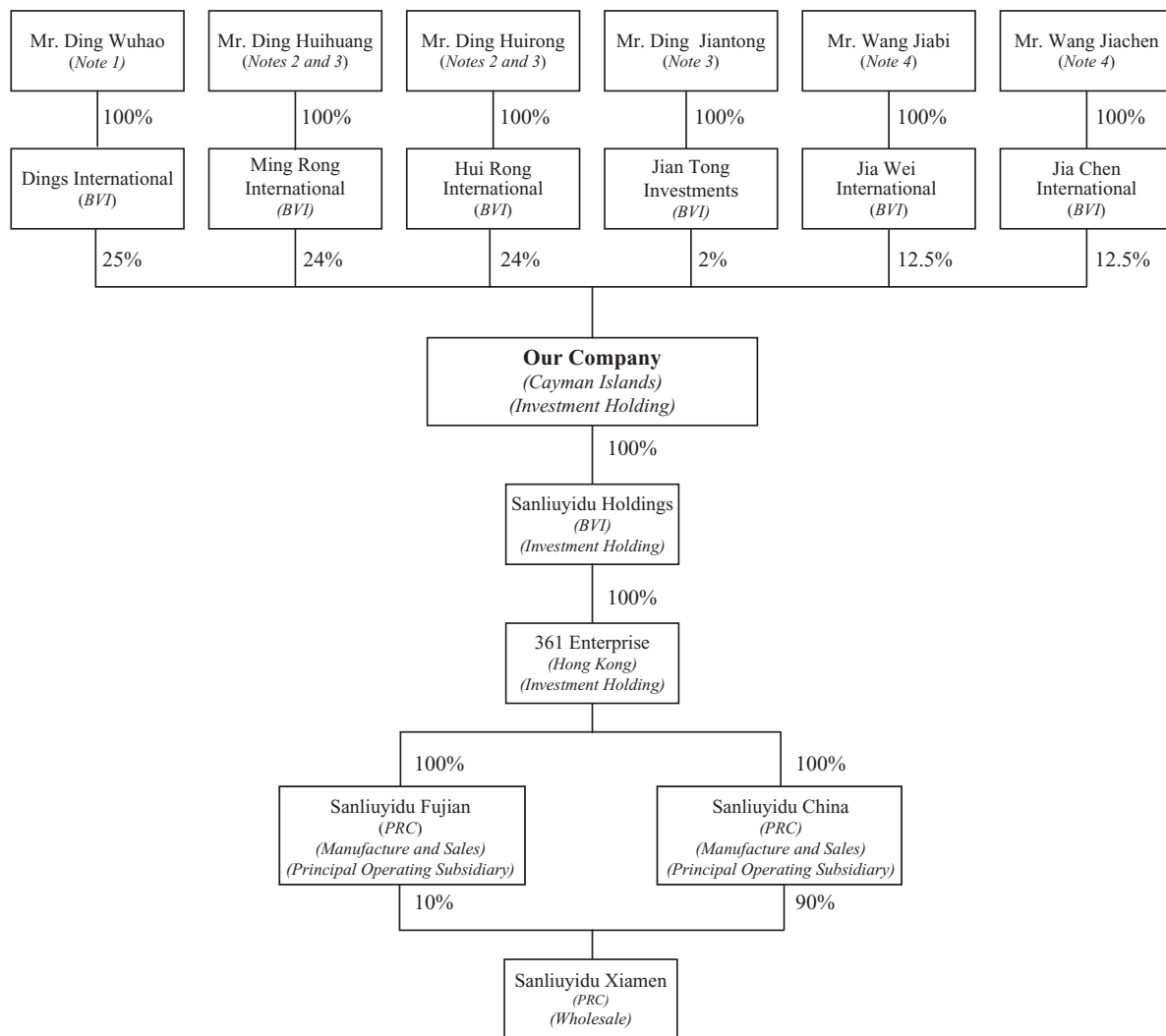
Our PRC legal advisers, Tian Yuan Law Firm, have advised that the acquisition by 361 Enterprise of equities of Sanliuyidu Fujian and Sanliuyidu China does not fall within the scope of the above regulated activities stipulated in the M&A Rules, as Sanliuyidu Fujian and Sanliuyidu China have been established as foreign-invested enterprises upon approval of competent commerce authorities, before 8 September 2006, the date from which the M&A Rules became effective.

Our PRC legal advisers, Tian Yuan Law Firm, have advised that all approvals or permits required under PRC laws and regulations in connection with each stage of the Corporate Reorganisation and the Listing of our Company have been obtained.

HISTORY AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE THE GLOBAL OFFERING

Set out below is the shareholding structure of our Group after the Corporate Reorganisation and the Share Transfers and immediately prior to the Capitalisation Issue and the Global Offering:



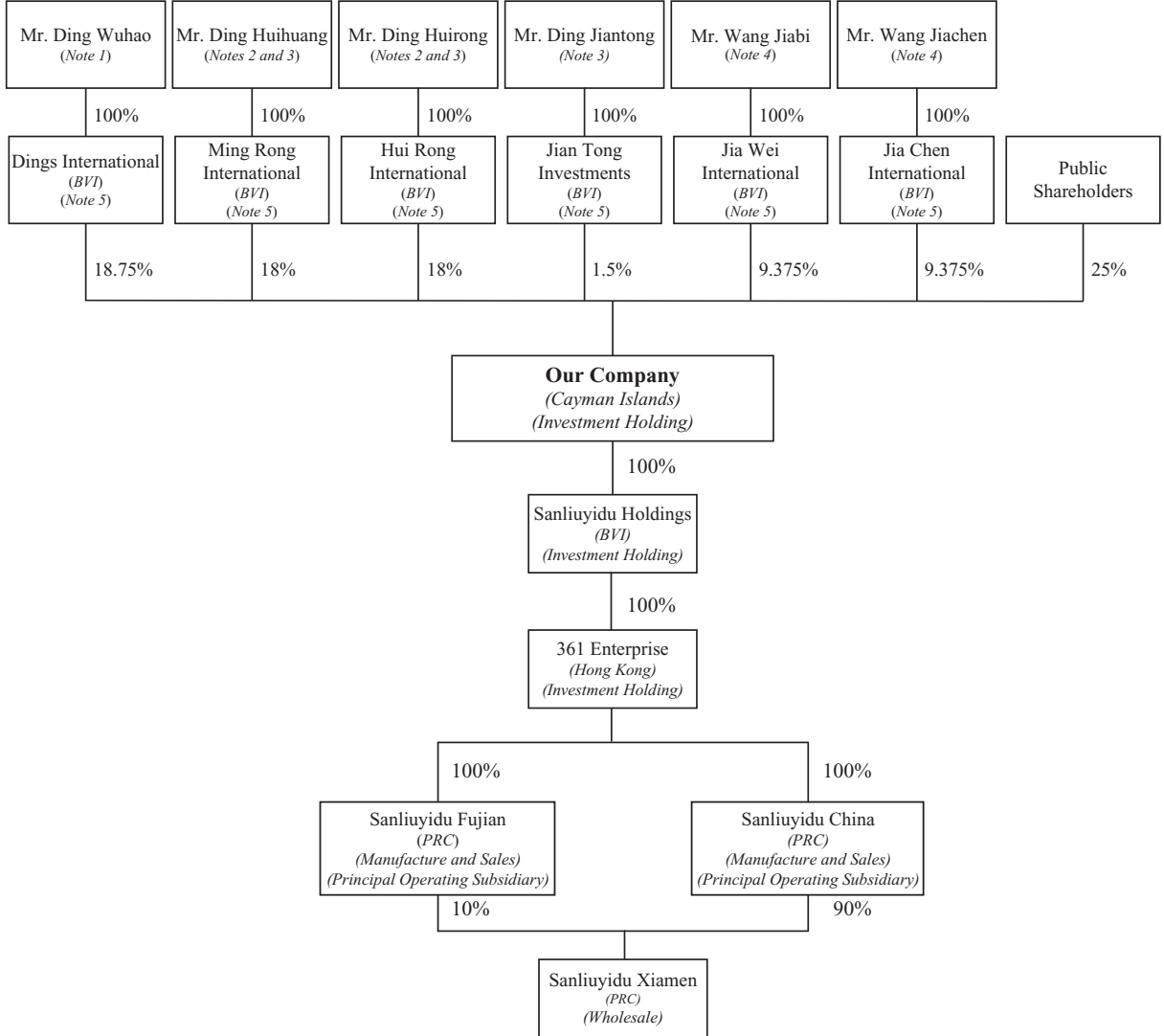
Notes:

- (1) Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.
- (2) Mr. Ding Huihuang is the elder brother of Mr. Ding Huirong.
- (3) Mr. Ding Jiantong is the father of both Mr. Ding Huihuang and Mr. Ding Huirong.
- (4) Mr. Wang Jiabi is the elder brother of Mr. Wang Jiachen. Mr. Wang Jiabi and Mr. Wang Jiachen are not connected with any of Mr. Ding Jiantong, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhao.

HISTORY AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP UPON COMPLETION OF THE GLOBAL OFFERING

Set out below is the shareholding structure of our Group upon completion of the Capitalisation Issue and the Global Offering:



Notes:

- (1) Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.
- (2) Mr. Ding Huihuang is the elder brother of Mr. Ding Huirong.
- (3) Mr. Ding Jiantong is the father of Mr. Ding Huihuang and Mr. Ding Huirong.
- (4) Mr. Wang Jiabi is the elder brother of Mr. Wang Jiachen. Mr. Wang Jiabi and Mr. Wang Jiachen are not connected with any of Mr. Ding Jiantong, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Ding Wuhao.
- (5) The Shares held by each of Dings International, Ming Rong International, Hui Rong International, Jian Tong Investments, Jia Wei International and Jia Chen International will not be treated as part of the public float after the Listing.