

**OVERVIEW**

We are one of the leading domestic sportswear enterprises in the PRC. As of the Latest Practicable Date, our 361° products were sold at more than 5,900 361° authorised retail outlets in 31 provinces and most major cities in the PRC. According to Frost & Sullivan, among the ten major participants of the PRC sportswear market (selected based on revenue for 2008), we were the fastest growing brand in terms of revenue growth rate for 2008 as compared to 2007, a top five domestic brand in terms of revenue for 2008, accounting for 4.2% of the total revenue of the PRC sportswear market for the same period, and a top five brand in terms of the number of retail outlets in the PRC as of 31 March 2009.<sup>(1)</sup> We design, develop, produce, market and distribute high performance, innovative and stylish sportswear products, including athletic footwear, apparel and accessories. Our 361° products are marketed primarily to the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 16 and 25. Founded in 2003, we have grown rapidly in recent years in terms of sales and number of authorised retail outlets. We believe our growth has been driven principally by the successful promotion of our 361° brand, rapid expansion of the 361° retail network, improved product designs, 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.

Our brand, 361°, represents the 360 degrees of a complete circle plus one extra degree, symbolising our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing 361° from other competitors by this one degree.

We place great emphasis on brand building and promoting our 361° products. We produce integrated, theme-based print, television and Internet advertising that promote 361°'s spirit of passion and individualism. We also create influential co-marketing campaigns through our selection of top athletes, such as Olympic badminton gold medallists Ms. Zhang Ning (張寧) and Mr. Lin Dan (林丹), as our spokespersons and the sponsorship of high quality, brand enhancing sporting events, such as the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽), the Xiamen International Marathon (廈門國際馬拉松賽) and various other promotional activities. This allows us to develop product tie-ins that are cross-marketed during the events' promotional campaigns and, in turn, stimulate in-store sales of our 361° products. Our 361° trademark has been recognised as a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局) and a “China Famous Brand” (中國名牌) (for 361° sports footwear) 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).

In collaboration with external design agencies, our in-house design team of 49 staff develops stylish and functional sportswear products for a wide variety of sporting activities. Our team caters to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

We also pride ourselves on creating high performance sportswear products for our consumers. Our team of 57 dedicated research and development staff is engaged in developing new technologies and applications to enhance the technical innovations and performance of our 361° products. Our two laboratories, the primary role of which is quality control testing, also provide data to our research and development department to assist them in developing new technologies and applications. Key achievements of our research and development departments include patented sportswear technologies, such as NFO Tech soles, which enhance the shock absorbing characteristics of soles, and Hold Ground Tech, which enhances the gripping power of soles. We currently hold six patents related to footwear.

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

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**Note:**

(1) Please refer to “Industry Overview—The PRC Sportswear Industry” section in this prospectus for more information.

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 (including individual outlets and store counters in department stores) which have been specifically authorised by our distributors, with our consent, to sell exclusively our 361° products. The new business model improves our efficiency in the distribution of our 361° products and reduces our selling and distribution expenses as we only need to manage a relatively small number of customers compared to hundreds of customers under the previous business model. In addition, by leveraging our distributors' local resources and business networks, we are able to expand the 361° retail network more efficiently. 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.

Prior to 2008, 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 covered orders for a particular season. These customers either resold our 361° products to authorised retailers or sold our 361° products at their self-operated authorised retail outlets. The purchase contracts set out the sales terms including price, purchase quantity, delivery terms and settlement terms. As we did not adopt a wholesale distribution business model before 2008, we did not enter into any long-term agreements which governed our relationship with our pre-2008 customers.

We select our distributors based on their capital base, financial stability, expertise in retail distribution, retail management and history of operation in the sportswear industry, as well as their commitment to the expansion of the 361° retail network. We have entered into an annual distributorship agreement with each of our distributors since February 2008. The terms of each of our distributorship agreements are substantially the same and include such terms as geographical exclusivity, product exclusivity, payment terms, minimum purchases, minimum number of new 361° authorised retail outlets to be opened and certain other undertakings. Under the new distributorship business model, we have adopted a uniform pricing policy with a national suggested retail pricing system. We sell our 361° products to our distributors at a uniform discount to the suggested retail price, and our distributors, in turn, sell our 361° products to their authorised retailers at a uniform price that has been approved by us. We do not have any contractual relationship with our authorised retailers.

As of the Latest Practicable Date, the distribution network of our 361° products consisted of 30 distributors who oversaw 3,173 authorised retailers. These authorised retailers owned and operated 5,925 361° authorised retail outlets, covering 31 provinces and more than 450 district-level cities, as well as more than 1,200 county-level cities in the PRC. Currently, we do not have any interest in, or operate, any of our distributors, authorised retailers, or 361° authorised retail outlets. 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. To ensure compliance with these procedures and to assist authorised retailers with marketing and sales, our regional sales managers routinely visit 361° authorised retail outlets. In addition, we offer authorised retailers and 361° authorised retail outlets training programmes several times a year.

We introduce new products to our distributors and authorised retailers at our sales fairs, which have historically been held three times a year, in February, May and August, approximately four to six months before a new season's products are introduced to consumers. Our distributors place their orders for the products featured at a sales fair, and we then use these orders to determine production schedules and quantities, and either manufacture the ordered products at our own production facilities or outsource the manufacturing to various contract manufacturers. As we manufacture products only after receipt of purchase volume indications from our distributors, and in the quantities ordered, we are able to coordinate raw material supplies and inventory levels with manufacturing and distribution, which allows us to better control inventory levels and achieve timely delivery of products to our distributors.

Our production facilities are located in Jinjiang City, Fujian Province, the PRC. As of the Latest Practicable Date, we operated 16 footwear production lines, with an aggregate annual production capacity of approximately 13.6 million pairs of footwear. We do not operate any production facilities for apparel or accessories and have, during the Track Record Period, outsourced all production of those products to third-party contract manufacturers.

Our revenues for the financial years ended 30 June 2006, 2007 and 2008 were RMB262.9 million, RMB373.3 million and RMB1,317.1 million, respectively, representing a CAGR of 123.8%. Our gross profits for the financial years ended 30 June 2006, 2007 and 2008 were RMB27.1 million, RMB76.9 million and RMB348.0 million, respectively, representing a CAGR of 258.6%. Our net profits for the financial years ended 30 June 2006, 2007 and 2008 were RMB11.0 million, RMB22.9 million and RMB179.0 million, respectively, representing a CAGR of 303.3%. Our revenues for the nine months ended 31 March 2008 and 2009 were RMB853.7 million and RMB2,423.7 million, respectively, representing an increase of 183.9%. Our gross profits for the nine months ended 31 March 2008 and 2009 were RMB202.4 million and RMB791.3 million, respectively, representing an increase of 291.1%. Our net profits for the nine months ended 31 March 2008 and 2009 were RMB102.7 million and RMB364.2 million, respectively, representing an increase of 254.8%. The significant growth in our profits for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, as compared to the financial year ended 30 June 2007 and the nine months ended 31 March 2008, respectively, was primarily due to the successful promotion of our 361° brand, rapid expansion of the 361° retail network, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model, which encouraged our distributors to concentrate their resources exclusively on the wholesale distribution of our 361° products and helped us to develop and expand the 361° retail network.

## **COMPETITIVE STRENGTHS**

We have grown quickly to become one of the leading sportswear brands in the PRC, and according to Frost & Sullivan, we were the fastest growing sportswear brand among the ten major participants of the PRC sportswear market (selected based on revenue for 2008) in terms of revenue growth rate for 2008 as compared to 2007. We believe that our ability to rapidly expand our business and capture the increasing opportunities in the PRC sportswear market is underpinned by the following competitive strengths:

### **A leading and one of the fastest growing sportswear brands in the PRC**

We are one of the leading sportswear brands in the PRC and according to Frost & Sullivan, we were the fastest growing sportswear brand among the ten major participants of the PRC sportswear market (selected based on revenue for 2008) in terms of revenue growth rate for 2008 as compared to 2007. Our 361° trademark is recognised as a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局), and we have received numerous other awards, recognitions and accolades for our sportswear products and our brand name, including “China Famous Brand” (中國名牌) (for 361° sports footwear) 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 “Certificate for Exemption from Product Quality Surveillance Inspection” (產品質量免檢證書) 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), amongst others.

We have grown rapidly since we launched our 361° branded athletic footwear in January 2004. We expanded our product line to include men’s and women’s footwear in 2004, apparel beginning in February 2005 and accessories beginning in September 2007, all with a strong focus on high performance and technological innovation. We believe that our well-known brand name has created a strong brand following among our core consumer demographic of sports-minded consumers between the ages of 16 and 25 and has contributed to our significant growth over the period, both in terms of revenues and number of 361° authorised retail outlets. Our revenues have grown at a CAGR of 123.8% to RMB1,317.1 million from 2006 to 2008, and further increased to RMB2,423.7 million for the nine months ended 31 March 2009. The number of 361° authorised retail outlets has increased by a CAGR of 82.5% to 4,632 361° authorised retail outlets from 2006 to 2008, and further increased to 5,543 as of 31 March 2009 and 5,925 as of the Latest Practicable Date.

**Extensive nationwide distribution network**

The distribution network of our 361° products of 30 distributors and 3,173 authorised retailers as of the Latest Practicable Date has allowed us to expand quickly across the PRC and penetrate our core markets. Our distributors oversaw these authorised retailers who in turn owned and operated 5,925 361° authorised retail outlets in 31 provincial capitals, more than 450 district-level cities and over 1,200 county-level cities in 31 provinces of the PRC as of the Latest Practicable Date. These 361° authorised retail outlets include store counters in department stores in most major cities in the PRC. According to Frost & Sullivan, among the ten major participants of the PRC sportswear market (selected based on revenue for 2008), we were a top five brand in terms of number of the authorised retail outlets as of 31 March 2009. Our exclusive distributorship business model encourages our distributors to expand our market share by increasing our retail presence, providing an improved and enjoyable purchasing experience to consumers and contributing to the promotion and marketing of our 361° sportswear products.

We believe that our distributorship model has enabled us to establish a meaningful presence in all of our core markets. We collaborate closely with our exclusive distributors in developing a structured expansion plan, requiring each distributor to establish a minimum number of new outlets during the term of the distributorship agreement and to meet minimum purchase targets. From 2005 to 2008, we had successfully established retail positions in popular commercial districts within our 10 core markets: Beijing, Guangzhou, Kunming, Nanjing, Jinan, Shanghai, Shenyang, Shijiazhuang, Wuhan and Zhengzhou.

**Innovative design and product development capability**

Our brand integrates our product development experience in the PRC market with our product research and development capabilities to create high performance, innovative and stylish sportswear for our consumers.

We have established stand-alone dedicated research and development and design departments for our footwear, apparel and accessories products which employ a total of 57 and 49 staff, respectively, as of the Latest Practicable Date. We currently operate one laboratory for footwear, which was established in 2004, and one laboratory for apparel, which was established in 2007, the primary role of which is quality control testing, though they also provide data to our research and development department to assist them in developing new technologies and applications. We also co-operated with domestic and international research and development and product design companies with a view towards enabling our 361° products to have the desired function and application, and to be responsive to market developments.

We currently own six patents related to the design and technologies of our footwear products. For example, we have successfully developed sportswear technologies such as NFO Tech soles which increase shock absorbing characteristics of soles and are incorporated into our Marathon I and Marathon II running shoes series, Hold Ground Tech which increases the gripping power of soles.

**Innovative marketing and promotion strategies**

Our innovative multimedia marketing and promotion strategy highlights 361° as a leading sportswear brand. In addition to traditional mass media marketing, we cross-promote ourselves through integrated media advertising, special events, product promotion and marketing, our three annual sales fairs and in-store promotions that maximise our exposure and create a uniform and well-respected brand image.

We have also developed creative integrated marketing campaigns through our sponsorship of high quality, brand enhancing sporting events. This allows us to develop product tie-ins that are cross-marketed during the events' promotional campaigns and, in turn, stimulate our 361° products in store sales. For example, we selected Olympic badminton gold medallists Ms. Zhang Ning (張寧) and Mr. Lin Dan (林丹) as the spokespersons for our products for 2008 and have collaborated with them to create specialised badminton sportswear products. We have also developed the Marathon I and Marathon II running shoes series in connection with the 361° sponsored Xiamen International Marathon (廈門國際馬拉松賽) from 2006 to 2008, and basketball shoes in connection with the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽), amongst others. We also were appointed as a Guangzhou 2010 Asian Games Sportswear Prestige Partner (廣州2010年亞運會體育服裝高級合作伙伴) in 2008.

We market our brand through slogans that characterise our brand philosophy and highlight our 361° products' theme, thereby personifying the 361° brand attitude with which consumers can easily associate. From 2004 to 2007, our slogan was "Dare to be" ("勇敢做自己"). Further, in 2008, we coined the slogan "China, dare to be" ("中國·勇敢做自己") in relation to the 2008 Beijing Olympic Games (2008年北京奧運會) and created products with a view towards promoting the sporting spirit of the games. From January 2009, we adopted "One love" ("多一度熱愛") as our slogan to promote the love for sporting games in people's lives.

### **Experienced and professional management team**

Our professional management team has extensive experience in sportswear marketing and manufacturing. Our president, Mr. Ding Wu hao, has approximately 14 years of experience in sportswear operations and management. Our vice president, Mr. Xia Youqun, has approximately 13 years of experience in marketing, brand management and retail marketing management in the PRC sportswear industry. We have recruited employees from other PRC sportswear businesses to leverage their operational and management experience to contribute to the success of our brand.

We have also created stand-alone management departments for various business units with a view towards obtaining optimal operational efficiency, while core functions, such as supply chain and brand management, are closely integrated. We believe we have created a management system with strong operational transparency which has enabled us to effectively execute our business strategies and rapidly increase our market share.

### **BUSINESS STRATEGIES**

We aim to become the leading domestic sportswear brand in the PRC in terms of brand recognition and market share and to maximise shareholder value. The following sets forth our key business strategies which we expect to implement to meet our overall goal of increasing market share in the PRC sportswear market:

#### **Expand our ten core markets and distribution network**

We plan to continue to actively expand the distribution network of our 361° products in our ten existing core markets, namely Beijing, Guangzhou, Kunming, Nanjing, Jinan, Shanghai, Shenyang, Shijiazhuang, Wuhan and Zhengzhou. We also plan to further expand the existing distribution network to create one of the strongest sportswear distribution networks in the PRC. We aim to increase the number of the 361° authorised retail outlets that carry our sportswear products to over 6,400 by the end of December 2009. We also plan to use part of the proceeds from the Global Offering to establish self-owned and operated flagship stores. As we expect the revenue arising from the flagship stores owned and operated by us may amount to only a small portion of our total revenue in the near future, we believe our establishment of the flagship stores will not change the business model we adopted in 2008. By broadening our distribution coverage, we can more effectively penetrate our target consumer market and further establish our brand as one of the leading sportswear brands in the PRC.

To complement our expansion plan, we intend to increase the number of our regional sales managers. We plan to recruit experienced regional sales managers who have an intimate understanding of local consumer demand and spending patterns. Through our regional sales managers who periodically conduct on-site inspections of randomly-selected 361° authorised retail outlets and visit our distributors in their respective geographic regions, we expect to be able to monitor the performance of our distributors, assist them in developing new 361° authorised retail outlets and entering into new markets and provide them with appropriate sales and marketing strategy education and merchandising training.

#### **Further develop and increase awareness of our 361° brand**

We intend to continue to refine our brand strategy and improve our brand positioning to better target our consumer base. Through investment in and expansion of our retail channel management department and

collaboration with external marketing consultants, we plan to research our consumers' spending patterns, product preference and demographics to allow us to obtain first hand and intimate knowledge of our customer base. This should in turn help us to fine tune our marketing and product development programs to improve brand loyalty, reputation and recognition.

We expect to leverage our current sports sponsorship programs and continue to identify additional sports categories that align with our brand value, in both cases, to further increase brand awareness. Through the expansion of our event sponsorships and product tie-in arrangements, we expect to increase awareness of our 361° brand among our customers. We also plan to explore endorsement opportunities with international sports teams or well-known athletes to further enhance our brand value.

Moreover, we plan to use part of the proceeds from the Global Offering to establish certain self-owned and operated flagship stores in prime locations in major and fast-growing cities of the PRC. We believe the establishment of these flagship stores should help raise the profile of our 361° brand in the PRC.

Perception of our retail channels is also critical to our brand's recognition. We plan to improve our distributors' management capabilities and, through distributors, increase the size and improve the locations of the 361° authorised retail outlets to provide an improved purchasing experience to our consumers. In addition, through our investment in training programs, we intend to assist our distributors in improving operation management through offering trainings several times a year to the 361° authorised retail outlet managers, store display managers and senior management through physical meetings and online resources. Further, we plan to maintain advanced technical development, high value-added and high quality standards in our 361° products, so our customers will continue to associate our brand with quality and performance.

### **Leverage our 361° brand into sub-brands and broaden the 361° authorised retail outlet format**

As we establish ourselves as a leader in the PRC sportswear market, we plan to further leverage our brand awareness by expanding our 361° product lines to add sub-brands of 361° so that we can better distinguish and align our 361° products with our target consumers. To that end, we are currently developing a new children's footwear and apparel line to capture the attractive growth prospects of this market segment.

We continuously seek to optimise the distribution network of our 361° products to cater to specific demographics, age groups and product needs by adding more varieties to our 361° authorised retail outlet format to expand our distribution channels. While we will focus on our current standard stand alone outlet and store counter formats, through our distributors or by ourselves, we plan to develop multi-level flagship stores to increase our brand presence in core markets; create single product outlets, such as footwear-only 361° authorised retail outlets; and establish specialty stores that categorise products by their functions to better offer our customers an appealing one-stop shopping experience.

### **Increase investment in product research and development**

In order to maintain our position as a leading sportswear brand that offers products with high quality performance, we intend to increase our product research and development funding and recruit additional employees to expand our new product research and development capabilities. We will also continue to collaborate with domestic and international professional design firms to strengthen and expand our 361° product portfolio.

We also plan to continue to use the sponsorship of sporting events as our product development platform, such as our designated partnership with the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽) to develop customised sportswear products for players from 2007 to 2010.

In addition to product category expansion and extension, we intend to incorporate the latest technical innovation to enhance performance attributes of our 361° products. Further, to establish ourselves as a socially

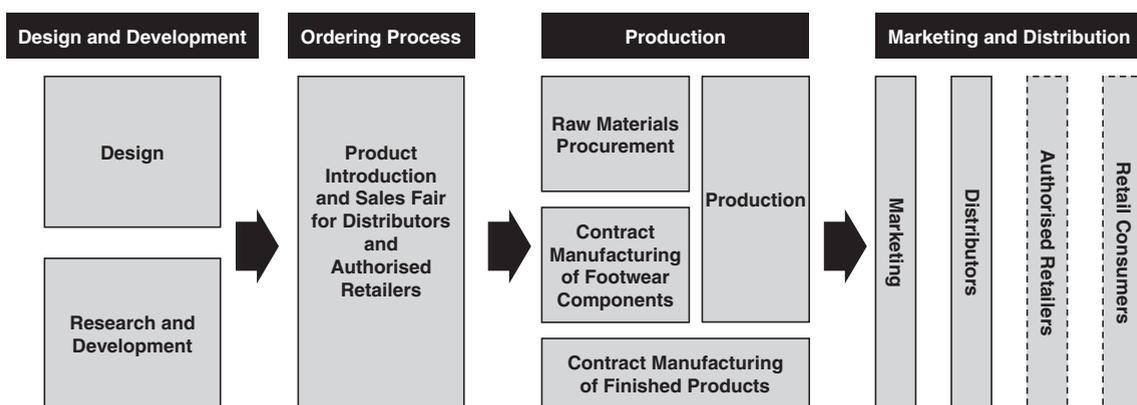
responsible enterprise and advocate of sustainable living, we plan to introduce ecologically friendly materials, such as organic cotton, recyclable materials and natural fibres into our future products.

**Increase production efficiency by improving supply chain management**

To cope with our business needs and better manage the rapidly expanding distribution network of our 361° products, we plan to introduce and implement an enterprise resource planning (the “ERP”) system in 2010 that allows for the integration of operating information between our Group, our distributors and the authorised retail outlets. The system should allow real-time data flow through the supply chain to decrease production lead time, reduce logistics bottlenecks and improve the overall efficiency of our enterprise. We also plan to further invest in our ERP system to enable direct linkage of our system with the point-of-sales system of our distributors and authorised retailers and the authorised retail outlets. The ERP system integration is intended to help us to more efficiently gather financial and operational information from our distributors and retail channels, and further improve our merchandising and product ordering processes.

**BUSINESS MODEL**

The following diagram illustrates our current business model:



*Note:* Components of our business model diagram indicated by solid lines represent those aspects of the value chain controlled by us, while those components indicated by dotted lines represent those not controlled by us.

We design, develop, manufacture and market our 361° branded sportswear, including footwear, apparel and accessories for sports-minded consumers and the general public. We manufactured approximately 100%, 98.5%, 90.4% and 60.7% of our footwear in terms of production volume for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively, at our production facilities located in Jinjiang City, Fujian Province, the PRC. We outsourced the production of the rest of our footwear and all of our apparel and accessories to various contract manufacturers in the PRC during the Track Record Period, most of whom were located in the Fujian Province, the PRC. Our 361° products are marketed primarily to the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 16 and 25.

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. The new business model improves our efficiency in the distribution of our 361° products and reduces our selling and distribution expenses as we only need to manage a relatively small number of customers compared to hundreds of customers under the previous business model. In addition, by leveraging our distributors’ local resources and business networks, we are able to expand the 361° retail network more efficiently. In view of (i) our previous experience in the management of our customers prior to 2008, (ii) our ability to develop a network of 361° authorised retail outlets

in the PRC, the details of which are set out in the paragraph headed “Management of Sales Network” in this section, (iii) our management team’s multi-year experience in sportswear operations, brand management and retail marketing management in the PRC sportswear industry and (iv) the establishment and implementation of our policies and procedures on, among other things, financial reporting, purchases and payment, sales and credit control, as well as inventory control, we believe our management team has the ability, resources and sufficient internal control measures to manage the business of our Group under the current business model.

## **BRAND AND PRODUCTS**

Our 361° brand, which was first introduced to the market in January 2004, is widely recognised in the PRC as the 361° trademark has been recognised as a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局) and a “China Famous Brand” (中國名牌) (for 361° sports footwear) 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). We believe that the maintenance of our brand image and the public’s perception of our brand are critical to our success.

### **Brand Name “361°”**

Our brand, 361°, represents the 360 degrees of a complete circle plus one extra degree, symbolising our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing 361° from other competitors by this one degree. Through our brand, we strive to deliver a message of passion and individualism to our target group of sports-minded consumers, who are consumers between the ages of 16 and 25.

We market our brand through slogans that characterise our brand philosophy and highlight our 361° products’ theme, thereby personifying the 361° brand attitude with which consumers can easily associate. From 2004 to 2007, our slogan was “Dare to be” (“勇敢做自己”). In 2008, we coined the slogan “China, dare to be” (“中國，勇敢做自己”) in relation to the 2008 Beijing Olympic Games (2008年北京奧運會) and created products with a view to promote the sporting spirit of the games. From January 2009, we adopted “One love” (“多一度熱愛”) as our slogan to promote the love for sporting games in people’s lives.

Our 361° trademark has been registered or is in the course of application for registration in Hong Kong, the PRC and over 90 other countries and jurisdictions worldwide.

We plan to further leverage our brand awareness by adding sub-brands of 361° to expand our 361° product lines to better distinguish and align our 361° products with our target consumers. To that end, we are currently developing a new children’s footwear and apparel line to capture the attractive growth prospects of this market segment.

### **Brand Recognition**

Our 361° brand is highly recognised in the PRC, as evidenced by the following awards and accreditations:

- “China Well-Known Trademark” (中國馳名商標), awarded by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局) in December 2005 (for the “” logo) and in February 2008 (for the “361°” trademark);
- “China Famous Brand” (中國名牌) (for 361° sports footwear), awarded 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) with a term of five years commencing from September 2005;
- “Certificate for Product Exemption from Quality Surveillance Inspection” (產品質量免檢證書), awarded 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) with a term of three years commencing from December 2006;

- “China’s 500 Most Valuable Brands” (中國500最具價值品牌) with an estimated brand value exceeding RMB2 billion, awarded by the World Brand Laboratory (世界品牌實驗室) in August 2005;
- “2006 China Sports Brand Top Ten Marketing Enterprise Award” (2006中國體育品牌十大營銷企業獎), awarded by 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 December 2006;
- “Top 100 Business with Great Potential in China” (中國潛力一百榜) for year 2005 and 2006, awarded by the Forbes China;
- “Best Innovative Marketing of the Year” (年度最佳創新營銷) for year 2006 of “Impact on China” (影響中國), awarded by QQ.com (騰訊網) in January 2007; and
- “Innovation Champion of China Brand” (中國品牌創新冠軍) in sports industry and “Asia 500 Most Valuable Brand Award” (亞洲500最具價值品牌獎), awarded by the Asia Brand Ceremony Organising Committee (亞洲品牌盛典組委會) with a term of one year commencing from September 2008.

### **Our 361° Products**

We develop sportswear collections that focus on sports activities, combining functionality and innovation. We utilise advanced technologies in our 361° products to provide sports-minded consumers and the general public with a unique sporting experience.

We currently offer a wide range of sportswear products under the 361° brand, including footwear, apparel and accessories. Each of these product lines is managed by a separate team, with each team being responsible for its own product design and development.

Our collections include:

- Footwear: badminton, table tennis, tennis, basketball, casual, general training, running, and general outdoor;
- Apparel: badminton, tennis, basketball, casual, general training, running, general outdoor and women’s fitness; and
- Accessories: bags, balls, caps, equipment, knit wear, protective gear and socks.

Some examples of our 361° products include:

*Footwear:*



Badminton footwear



Table tennis footwear



Tennis footwear



Basketball footwear



Casual footwear



General training footwear



Running footwear



General outdoor footwear

Apparel:



Badminton apparel

Basketball apparel



Casual apparel

Running apparel



Tennis apparel

General training apparel



General outdoor apparel

Women's fitness apparel

**Accessories:****Bags****Basketball****Knit Wear and Protective Gear****Football****Caps****Socks****Footwear Material Sales**

In addition to sales of our 361° products, approximately 0.5%, 1.3% and 0.7% of our revenues for the financial years ended 30 June 2006, 2007 and 2008, respectively, were contributed by sales of footwear material, consisting of TPR pellets and TPU pellets (which were raw materials for the production of soles and were not sold by us under any brands) that we manufactured for sale to various manufacturers of soles for footwear. We ceased producing and selling these pellets in July 2008 as this business did not achieve our targeted results.

**Packaging Material Sales**

We used to provide certain packaging materials, such as shoe boxes and shopping bags embossed with our 361° logo, to our distributors or pre-2008 customers for use by the authorised retailers in connection with sales of our 361° products at our cost, and such cost had been recognised as our selling and distribution expenses. In order to encourage efficiency in resources management, starting from June 2008, we only provide our distributors with a certain amount of packaging materials as we think fit at our cost, and provide additional packaging materials to our distributors only at their requests and at a charge. Such charges are regarded as sales of packaging materials by us. Sales of packaging materials accounted for approximately 0.1% of our revenue for the nine months ended 31 March 2009.

**MARKETING AND PROMOTION**

Our marketing and promotion strategies have been important components of our success. As our success ultimately depends on the acceptance of our brand by consumers, our marketing strategy has been focused on developing our 361° brand into a sportswear brand consumers can easily identify and associate with high performance, innovative and stylish sportswear products. This goal has been promoted through our advertising, including print, billboard, bus, Internet and television, retail sales and promotions, promotional events and activities, for our products.

Our marketing strategy integrates all aspects of our products and strives to communicate the spirit of our brand to consumers as well as showcase the functionality, technological innovation and design of our 361° products. Our marketing strategy has included theme-based marketing promotions, such as sponsorship of national sporting and entertainment events. We were appointed as a Guangzhou 2010 Asian Games Sportswear Prestige Partner (廣州2010年亞運會體育服裝高級合作伙伴) in 2008. We are one of CCTV's live game broadcasting partners for 2007 and 2008 (中央電視台2007-2008體育賽事直播節目合作伙伴). We have also endeavoured to develop different images, preferences and styles of the 361° brand to appeal to a diverse group of

consumers, through different marketing channels. We will continue to centre our marketing strategies around images, logos, advertising slogans and sporting activities that are attractive to our target consumer groups.

### **Sponsorships of Sports Events and Top Athletes as Spokespersons**

We have also developed creative integrated marketing campaigns through our multi-year sponsorship of high quality, brand-enhancing sporting events and selecting top athletes as our spokespersons. For each event, we create promotional campaigns to generate market awareness and build momentum for the event and for our 361° brand. We develop customised products that are cross-marketed during the event's promotional campaigns, and also advertise our products in each event's promotional materials at the 361° authorised retail outlets to maximise cross-selling opportunities.

We believe our sponsorship activities and product tie-ins better position us as a leading provider of products for these sporting events and, in turn, stimulate the in-store sales of our 361° products.

Our cross-marketing activities include the following:

- We selected Olympic badminton gold medallists Ms. Zhang Ning (張寧) and Mr. Lin Dan (林丹), doubles silver medallists Mr. Cai Yun (蔡贇) and Mr. Fu Haifeng (傅海峰) as the spokespersons for our products for 2008. We have collaborated with them to create the “Dan” and “Ning” series badminton shoes and apparel;
- We sponsored the Xiamen International Marathon (廈門國際馬拉松賽) from 2006 to 2008. For this event we have created a short advertisement film showcasing the marathon experience from different personal perspectives and how 361° represents the marathon spirit. In connection with our sponsorship of this event, we developed the Marathon I and Marathon II running shoes series;
- We entered into an agreement with the Federation of University Sports of China (中國大學生體育協會) to be the designated partner of the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽) from 2007 to 2010, and have designed basketball shoes in connection with this relationship. We will continue to collaborate with the League to develop customised sportswear products for its players during the period;
- We entered into an agreement with the Olympic Council of Asia (亞洲奧林匹克理事會) and the 16th Asian Games Organising Committee (第16屆亞運會組委會) to be a Guangzhou 2010 Asian Games Sportswear Prestige Partner (廣州2010年亞運會體育服裝高級合作伙伴);
- We entered into an agreement with CCTV (Beijing) Sports Promotion Company (中視(北京)體育推廣有限公司) to be the title sponsor of China Table Tennis Super League from 2009 to 2013;
- We also entered into an agreement with CCTV (Beijing) Sports Promotion Company (中視(北京)體育推廣有限公司), which requires all CCTV Channel 5 (sports channel)'s reporters and journalists to wear our sportswear products from 2009 to 2013 on certain programs and games broadcasted on CCTV Channel 5;
- We entered into an agreement with Henan Century Central China Sports & Culture Co., Ltd. (河南世紀中原體育文化有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports footwear and apparel sponsor (唯一指定運動服、運動鞋贊助商) of the China Zhengkai Marathon (中國鄭開馬拉松) from 2009 to 2013; and
- We entered into an agreement with the Chinese Taipei Road Running Association (中華台北路跑協會) and Xiamen Television Broadcast Development Limited (廈門廣播電視產業發展有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports footwear and apparel sponsor (唯一指定運動服、運動鞋贊助商) of the Jinmen Marathon (金門馬拉松) from 2009 to 2013.

## Media Advertising

Our media advertising activities include the following:

- We sponsored CCTV's Entertainment Basketball (娛樂籃球), a national basketball talent show. This is a large reality TV competition show in the PRC, in which young athletes participate in qualifying competitions to showcase their talents in various basketball skills, such as slam dunking and three-point shooting;
- We were appointed as CCTV's live game broadcasting partner for 2007 and 2008 (中央電視台2007-2008體育賽事直播節目合作伙伴); and
- We cooperated with QQ.com (騰訊網), a large instant messaging service network in Asia, Sohu.com (搜狐) and Xiaonei.com (校內網) to promote Internet sports programmes.

In addition to the broad media coverage provided to us by our sponsorship activities, we also strategically select other forms of advertising for our brand that we believe match our brand's image and market position. For example, we have signed agreements to buy advertising space from a leading PRC-based basketball magazine, NBA Space (NBA時空), as well as from a leading sports newspaper in the PRC, Sports Weekly (體壇週報).

Our distributors also contribute to the marketing and promotion of our brand by conducting local promotions within their geographic areas. We encourage all of our distributors to spend a portion of their sales on local advertising and sponsorship activities. To this end, our distributor in Guangzhou sponsored the 2008 Beijing Olympics Diving Qualification Contest (2008年奧運會跳水選拔賽) which were held in Jinan and our distributor in Zhengzhou ran advertisements for our 361° products on buses with routes within Zhengzhou.

Our advertising and marketing expenses for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009 were approximately RMB8.7 million, RMB34.2 million, RMB84.0 million and RMB225.7 million, respectively, which represented approximately 3.3%, 9.1%, 6.4% and 9.3% of our total revenue, respectively, for the corresponding periods.

## SALES AND DISTRIBUTION

### Sales of Our 361° Products

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) of sportswear products pursuant to purchase contracts which were entered into for each season's order. These customers either resold our products to authorised retailers or sold our products at their self-operated authorised retail outlets. We shifted our business model in the beginning of 2008. Under the new distributorship business model, we sell our 361° products exclusively to our distributors at a uniform discount to the suggested retail price. Our distributors in turn sell these products to authorised retailers at a price which is a uniform discount to the suggested retail price which has been approved by us. Our authorised retailers then sell our 361° products to consumers in authorised retail outlets. We believe our new business model enables us to achieve growth by leveraging the resources of our distributors, as well as the expertise in retail distribution and retail management and local relationships of our distributors. Our current business model also enables us to better manage our rapidly growing business and cater to the increased market demand for sportswear products in the PRC by allowing us to focus on designing and developing new and innovative sportswear products, and to allocate our resources to developing our 361° brand and marketing our 361° products. We are able to leverage the financial and management resources of each of our 30 distributors for the management of the 361° retail network and for overseeing that the authorised retailers operate according to our guidelines. Our Directors believe that the exclusive distributorship arrangement has been instrumental in enabling our Group to increase our sales and profitability since 2008.

We introduce our new 361° products to our distributors and authorised retailers at our sales fairs, which are held three times a year, in February, May and August, approximately four to six months before the new products

for the fall, winter/spring and spring/summer seasons, respectively, are introduced to consumers. We then use the orders placed at each sales fair to determine production schedules and quantities for the applicable season. We do not permit our distributors to cancel, reduce or increase their orders after they have been placed and confirmed with us. We manufacture a portion of our footwear products internally and outsource the production of the remainder of our footwear products, and all apparel and accessories products, to contract manufacturers. Finished products are periodically delivered to our distributors from our warehouse based on previously agreed delivery schedules, and our distributors in turn deliver these products to their respective authorised retailers for sale to retail consumers.

We recognise revenue from the sales of goods to our distributors when our 361° products leave our warehouse because at that time the distributors have accepted the related risks and rewards of ownership. During the Track Record Period, we did not receive any sales returns from our distributors.

We determine the pricing of our products based on various factors such as our internal and outsourcing production costs, our competitors' pricing strategies, consumers' purchasing power in the PRC and general economic conditions in the PRC. Our distributors are given exclusivity over their respective geographic territories and are not allowed to distribute or sell any products that compete with our products. We believe this policy promotes distributors' loyalty to our 361° brand and provides incentives to our distributors to market and expand the market share of our 361° products. Each distributor is responsible for expanding the 361° retail network in its exclusive geographic territory and is required to establish a minimum number of new outlets during the term of the distributorship agreement. We also require our distributors to meet minimum purchase targets.

We experienced significant growth in our sales of 361° products during the Track Record Period which was due to the growth in the sales of our 361° products to end retail consumers in the PRC. This growth was not due to the accumulation of inventory at distributors and authorised retail outlet level for the following reasons:

- (i) We closely monitored the inventories and sales of distributors by requiring our distributors to provide monthly inventory reports since 2008 and reviewing the periodic local market condition reports provided by our regional sales managers throughout the Track Record Period. The monitoring through the regional sales managers helps us collect sales and inventory data to arrange our production schedules and maintain optimum inventory levels. We also carried out random on-site inspections on our distributors and authorised retail outlets to track their inventories;
- (ii) Prior to each sales fair, we would allow our distributors and pre-2008 customers to preview the coming season's products, and our distributors and pre-2008 customers would provide feedback to enhance our product selection. During the sales fair, our sales and marketing department would work closely with our distributors and pre-2008 customers to set appropriate growth plans with a view to ensure that products purchased from us can be sold to end retail consumers for each season. Through this ordering process, we can gauge potential market demand of end retail consumers through feedback from distributors and pre-2008 customers;
- (iii) We encourage our distributors and pre-2008 customers to clear their past-season inventory levels. As described in the paragraph headed "Factory Outlets" in this section, an authorised retailer with excess inventory at the end of a season may attempt to sell such excess inventory through regular and special end-of-season sales. The authorised retailer may also sell such excess inventory to a factory outlet if a factory outlet is being operated in such authorised retailer's province;
- (iv) As we did not stipulate any minimum purchase targets with our pre-2008 customers, our pre-2008 customers would only place their orders according to their needs. Since the change of our business model in 2008, our distributors are required to meet minimum purchase targets as stipulated in the distributorship agreements, which are set by us and our distributors based on historical sales trends, local market demand, and feedback from our distributors; and
- (v) The PRC's sportswear market experienced significant growth in recent years. In light of such growth in the PRC's sportswear market, our Directors consider that our successful marketing strategies as well as

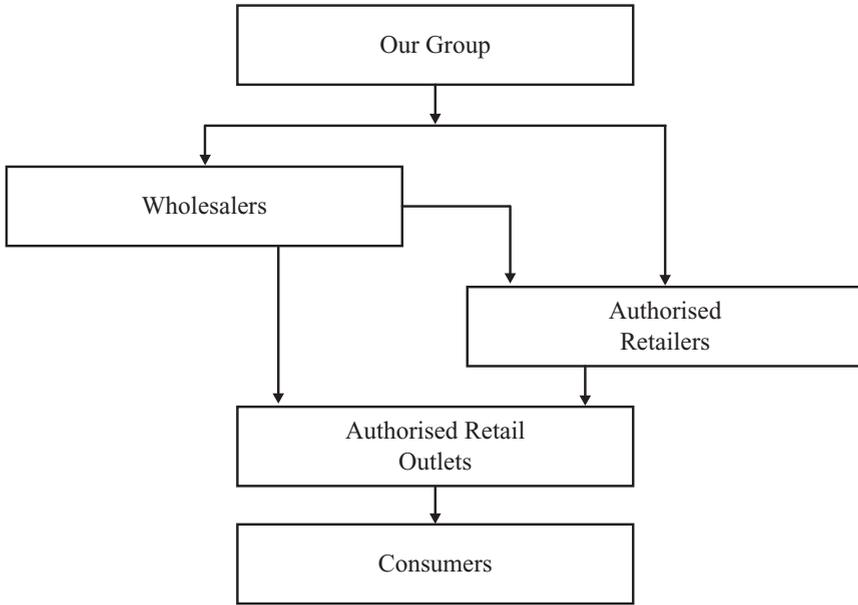
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## BUSINESS

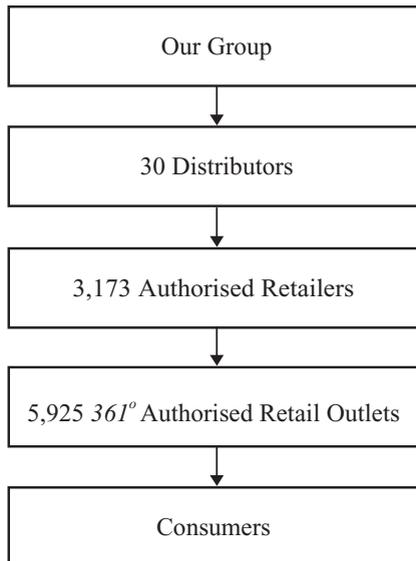
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the expansion and optimisation of authorised retail outlets have been a key to enabling us to take advantage of the growth in PRC's sportswear market and translate the same into growth in our sales during the Track Record Period.

The following chart illustrates the sales and distribution model of our 361° products prior to 2008:

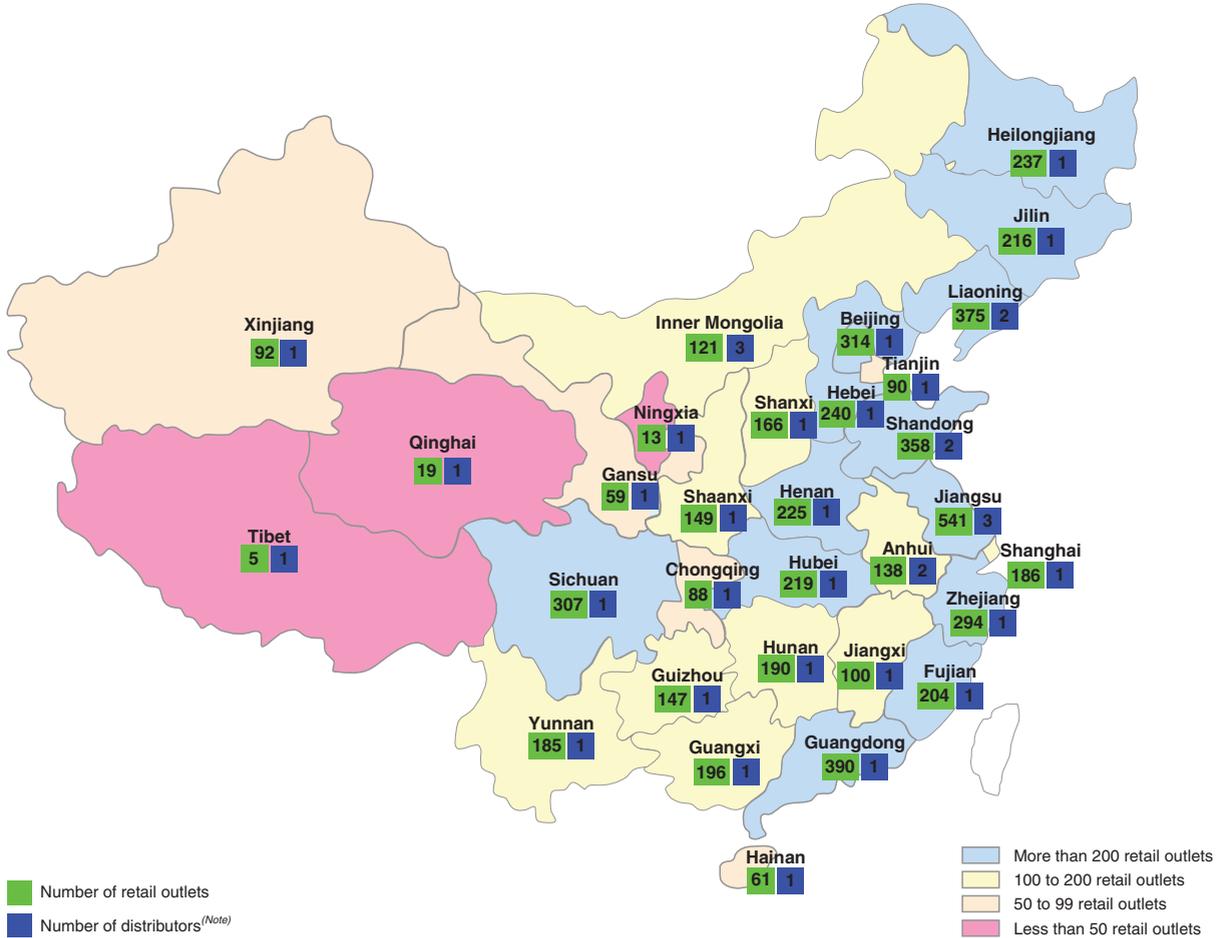


The following chart illustrates the sales and distribution model of our 361° products as of the Latest Practicable Date:



The Distribution Network of our 361° Products

The following table illustrates the distribution network of our 361° products in the PRC as of the Latest Practicable Date:



Note: 18 distributors have been granted exclusivity over one province, autonomous region or municipality; 6 distributors have been granted exclusivity over one or more areas within a province; and the remaining 6 distributors have been granted exclusivity over more than one province, autonomous region or municipality due to their local resources and business network in those provinces or areas.

We distribute our products via a network of 30 distributors, all of whom are Independent Third Parties without engaging in any business other than being our distributors. Many of our distributors or their predecessors or affiliates have substantial experience in the PRC sportswear or retail industry and have a business relationship of more than four years with us. We have not terminated any of the distributorship agreements or replaced any of the distributors of our 361° products since we signed distributorship agreements with them in February and March 2008. Each distributor is given exclusivity over its appointed geographic territory. Distributors that sell outside their exclusive territories are subject to penalties, which may include surrendering of profits realised from such sales to us, the imposition of a monetary fine and the termination of their distributorship agreement.

As of the Latest Practicable Date, our distributors did not own any 361° authorised retail outlets while they oversaw 3,173 authorised retailers. These authorised retailers, all of whom were, to the best of our knowledge, Independent Third Parties, owned and managed a total of 5,925 361° authorised retail outlets. Collectively, the 361° retail network covers all 31 provinces and more than 450 district-level cities, as well as more than 1,200 county-level cities in the PRC. Our distributors have direct contractual relationships with authorised retailers, but we do not. However, through our distributors, we are able to indirectly place certain operating requirements on our authorised retailers regarding their 361° authorised retail outlets, including compliance with our standard operating procedures, uniform retail pricing policy, standard store display and layout, as well as customer service

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standards. In addition, we currently have 18 regional sales managers who are responsible for monitoring and assisting distributors and 361° authorised retail outlets in their respective geographic regions to ensure that our distributors and authorised retailers remain in compliance with these operating requirements.

The following table sets forth the additions, terminations and total number of 361° authorised retail outlets operated by our authorised retailers in the PRC under the 361° brand, by region as of 30 June 2006, 2007 and 2008 and 31 March 2009, respectively:

	As of 30 June									As of 31 March		
	2006			2007			2008			2009		
	Addition	Termination	Total	Addition	Termination	Total	Addition	Termination	Total	Addition	Termination	Total
East												
China <sup>(1)</sup> . . . .	280	22	347	648	33	962	502	36	1,428	258	18	1,668
South												
China <sup>(2)</sup> . . . .	277	60	291	440	29	702	402	32	1,072	139	9	1,202
Southwest												
China <sup>(3)</sup> . . . .	122	—	201	135	10	326	162	13	475	202	4	673
Northeast												
China <sup>(4)</sup> . . . .	153	—	229	236	3	462	234	1	695	99	2	792
North												
China <sup>(5)</sup> . . . .	164	2	256	247	9	494	232	10	716	185	6	895
Northwest												
China <sup>(6)</sup> . . . .	47	—	67	113	—	180	66	—	246	70	3	313
<b>Total</b> . . . . .	<b>1,043</b>	<b>84</b>	<b>1,391</b>	<b>1,819</b>	<b>84</b>	<b>3,126</b>	<b>1,598</b>	<b>92</b>	<b>4,632</b>	<b>953</b>	<b>42</b>	<b>5,543</b>

*Notes:*

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
- (2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.
- (3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
- (4) Northeast China includes Heilongjiang, Liaoning and Jilin.
- (5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
- (6) Northwest China includes Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang.

We have been working with our distributors to expand the 361° retail network. The number of 361° authorised retail outlets operated by our authorised retailers has grown rapidly from 1,391 as of 30 June 2006 to 3,126 as of 30 June 2007, 4,632 as of 30 June 2008, 5,543 as of 31 March 2009 and to 5,925 as of the Latest Practicable Date. We will continue to expand and optimise the 361° retail network by working closely with our distributors and leveraging their local resources and business networks. During the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, 84, 84, 92 and 42 authorised retail outlets, respectively, were closed, primarily due to (i) unsatisfactory sales performance of such 361° authorised retail outlets, (ii) expiration of leases of such 361° authorised retail outlets, or (iii) the relocation of such 361° authorised retail outlets as a result of government orders to reconstruct the buildings, streets or areas on which such 361° authorised retail outlets were located. We currently anticipate that the number of 361° authorised retail outlets will surpass 6,400 by the end of December 2009. Certain of the authorised retailers also operate flagship outlets and “Star” outlets. These outlets are usually located in major metropolitan retail districts and are generally larger in size than other standard outlets. These outlets are often used to conduct promotions of our newly launched 361° products and often cooperate in many of the cross-marketing sponsorships and campaigns.

We plan to improve our distributors’ management capabilities and, through distributors, increase the size and improve the locations of 361° authorised retail outlets to provide an improved purchasing experience to our consumers. In addition, through our investment in training programs, we intend to assist our distributors in improving operation management through offering trainings several times a year to 361° authorised retail outlet managers, outlet display managers and senior management through physical meetings and online resources. Further, we plan to maintain advanced technical development, high value-added and high quality standards in our 361° products, so our customers will continue to associate our brand with quality and performance. We will also continue to closely monitor our authorised retailers’ performance by requiring distributors to provide us with monthly inventory reports on their specified geographic areas and by reviewing local market condition reports

provided by our regional sales managers from time to time. We intend to continue to work closely with our distributors in various regions to plan the expansion of the existing 361° retail network and to place specific requirements on the number and types of new 361° authorised retail outlets to be opened.

### **Criteria for Selection of Distributors**

Our relationships with our distributors have been stable, as many of these distributors or their predecessors or affiliates have had a business relationship of more than four years with us during the Track Record Period. In addition, as each of our distributors has been selected after an extensive screening process, we expect to maintain long-term relationships with each of them. We strategically select our distributors based on various criteria, including the following:

- capital resources and financial stability;
- experience in the sportswear industry and retail sales;
- management capabilities;
- sales channels, local recognition and business network; and
- sales performance prior to the establishment of our exclusive distributorship system in the beginning of 2008.

### **Distributorship Agreements**

We have entered into an annual distributorship agreement with each of our distributors since February 2008, which generally includes the following principal terms:

- Geographical exclusivity—Each distributor is exclusively authorised to sell our 361° products within a defined geographic area;
- Product exclusivity—Our distributors are not permitted to sell outside of their exclusive territories and are prohibited from distributing or selling any products that compete with our products;
- Undertakings—Our distributors are required to meet a minimum purchase target and to establish a minimum number of new outlets during the term of the distributorship agreement. Our distributors are also required to comply with our sales policies, adhere to our pricing policies, and enforce our standardised outlet design and layout upon 361° authorised retail outlets within their exclusive geographic area;
- Payment and credit terms—We provide our distributors a credit limit, the amount of which is determined based on the demands by distributors in different seasons;
- Pricing—We agree to sell our products to our distributors at a uniform price across all distributors;
- Duration—The agreement has a term of one year;
- Protection of our intellectual property rights—Our distributors are only allowed to use our intellectual property in connection with the sale of our products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;
- Termination rights—We are entitled to terminate the agreement in certain circumstances (such as, for breach of the agreement by the distributors, sale by the distributors of pirated products, material damages to our brand image caused by the distributors and failure to meet 50% of the minimum purchase target within six months). Our distributors do not have termination rights under the agreements;
- Renewal—Negotiations for renewal of the distributorship agreements will usually takes place 60 days prior to their expiry date; and
- Transportation insurance—Our distributors are responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the distributors.

As of the Latest Practicable Date, we were not aware of any of our distributors committing any material breach of the distributorship agreements with us. We have renewed annual distributorship agreements with all of our distributors for the year 2009.

Pursuant to the distributorship agreements, our distributors are entitled to authorise a person to become an authorised retailer and sell our 361° products and to use the 361° logo in a 361° authorised retail outlet. Distributors then enter into separate agreements with our authorised retailers for the sale and purchase of our 361° products and other aspects of their commercial relationship. While we do not deal with the authorised retailers directly, the distributorship agreements entered into between us and our distributors require that distributors receive our consent prior to approving any person as an authorised retailer. Our distributors are responsible for ensuring that authorised retailers do not sell our 361° products outside of their respective territories. Authorised retailers breaching any of the terms stipulated in their separate agreements with our distributors will be subject to penalties, such as monetary fines and the termination of their authorisation to sell our 361° products.

### **Seasonal Sales Fairs and Ordering Process**

We generally hold previews for our new products with our distributors approximately one month in advance of the sales fairs, at which distributors can preview and evaluate our new products. During this time, we also exchange ideas with our distributors about current and future trends in the sportswear industry and how these trends will affect the products intended to be introduced in the upcoming season. During the month following the internal preview, distributors will work with their respective authorised retailers to estimate the approximate volume of products they intend to purchase. We formally introduce new products to our distributors and authorised retailers at our sales fairs, which are held three times a year, in February, May and August, approximately four to six months before the new products for the fall, winter/spring and spring/summer seasons, respectively, are introduced to consumers. We believe that by holding three sales fairs each year, we can respond to the ever-changing trends and demands of the sportswear industry. Prior to 2008, all sales fairs were held in Jinjiang City, Fujian Province, the PRC, but the three sales fairs for 2008 were held in Xiamen, Shenyang and Wuhan, respectively. We determine the locations of the seasonal sales fairs based on our marketing strategies, taking into account such factors as ease of access (availability of convenient transportation) and the performance of distributors and authorised retailers in the proposed region. One of the goals of the sales fair is to promote the 361° brand and products, thus a region with successful distributors and authorised retailers is preferable because such distributors and authorised retailers can serve as motivating role models for others that attend the sales fair. We encourage our distributors and authorised retailers not to over order, and we provide extensive training and guidance to them on how to make ordering decisions at the sales fairs. After collecting indicative orders from their respective authorised retailers, our distributors submit to us their intended purchase volume for our 361° products. We use this information to determine production schedules and quantities of products for the applicable season. We review and cancel the sale of certain products if the aggregate volume of purchases for such products fails to reach a minimum threshold to justify production. Formal orders from our distributors are generally required to be confirmed within one week following a sales fair. We do not permit our distributors to cancel, reduce or increase their orders after they have been placed and confirmed with us.

### **Management of Sales Network**

We believe that effective management of our sales network is an integral element to our success. Our retail channel management department, marketing department and brand management department, which consist of 28, 19 and 33 staff as of the Latest Practicable Date, respectively, are responsible for the overall management of our sales network. Their key responsibilities are discussed in more detail below.

Our distributors are required to ensure that their authorised retailers follow our pricing policies and adopt our standard operating procedures, both set by our retail channel management department. We believe this requirement strengthens the recognition of our 361° brand and helps to build a consistent brand image and management system at the retail level. Currently, we have 18 regional sales managers under our marketing department who are responsible for covering all of our 30 distributors and periodically conduct on-site inspections of randomly-selected 361° authorised retail outlets in their respective geographic regions to ensure that our distributors comply with the terms set out in the distributorship agreements and that the authorised retailers adhere to our standardised design and layout guidelines set by our retail channel management department. All distributors must obtain the approval from our retail channel management department prior to authorising the opening of new outlets by the authorised retailers, and our retail channel management department

works closely with our distributors to choose locations that have high retail traffic flow and exposure to the public in order to enhance recognition of our 361° brand and sales of our 361° products. We organise training programmes several times a year for our distributors, authorised retailers and 361° authorised retail outlets. In addition, our brand management department coordinates with our distributors on various marketing, promotional and advertising campaigns and programmes for our sportswear products to enhance our 361° brand. We believe that working closely with our distributors and authorised retailers will allow us to gauge market trends and to control our production and inventory management systems more efficiently.

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. Authorised retailers breaching any of the terms stipulated in their agreements with our distributors will be subject to penalties, such as monetary fines and the termination of their authorisation to sell our 361° products. In addition, in order to closely monitor the authorised retailers' performance, our distributors are required to provide us with monthly inventory reports on their specified geographic areas. Our distributors also periodically conduct on-site inspections of randomly-selected 361° authorised retail outlets.

### **Pricing Policies**

In determining our pricing policies both currently and during the Track Record Period, we take into account various factors such as internal and outsourcing production costs, our competitors' pricing strategies, purchasing power of consumers in the PRC and general economic conditions in the PRC. We have adopted a suggested retail pricing system that is applied nationwide to all of our authorised retailers, to maintain our brand image and avoid price competition amongst our authorised retailers. Under the 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. Authorised retailers may, after taking into account local market conditions and consumer preferences, sell a product at a discount to the suggested retail price, but pricing policies are subject to our prior approval. Authorised retailers are generally not allowed to offer discounts of greater than 50% of the suggested retail price. Our Directors, our Group and their associates did not fund the operations of our distributors or customers during the Track Record Period.

### **Factory Outlets**

An authorised retailer with excess inventory at the end of a season may attempt to sell such excess inventory through regular and special end-of-season sales. The authorised retailer may also sell such excess inventory to a factory outlet if a factory outlet is being operated in such authorised retailer's province. All outlets labelled as factory outlets under the 361° brand name are operated by authorised retailers, and generally sell our 361° products from previous seasons at discounts greater than those offered by our 361° authorised retail outlets but in any event not greater than 50% of the suggested retail price. There were, as of the Latest Practicable Date, six factory outlets out of the 5,925 361° authorised retail outlets, located in four different provinces in the PRC.

### **Payment Terms and Credit Control**

Our distributors are invoiced upon delivery of our 361° products and we recognise revenue from the sales of goods to them when our 361° products leave our warehouse because at that time such distributor has accepted the related risks and rewards of ownership. Such revenue recognition policy also applied to pre-2008 customers during Track Record Period. We generally provide our distributors a credit period between 30 and 180 days, the exact term of which is determined based on such factors as past sales performance, credit history and their expansion plans. As a matter of policy, we do not grant credit periods of over 180 days to any of our distributors or customers. However, there may be instances when we grant payment extensions to certain of our distributors or customers, which will result in payments being made to us more than 180 days after the date of delivery of our 361° products. We grant these extensions on an ad hoc basis, usually in instances when we believe that the

greater liquidity afforded to the distributor or customer by the credit extension would assist the distributor or customer in opening new 361° authorised retail outlets and expanding the 361° retail network. 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<sup>(1)</sup>, respectively, we granted such payment extension to 82, 69 and 22 distributors and pre-2008 customers, and 8 distributors, respectively. We also maintain an overall credit limit with respect to each of our distributors, the amount of which varies depending on the particular distributor. Furthermore, we require distributors with balances that are older than one year from the date of billing to settle all outstanding balances before we grant them any further credit. Specific credit terms and repayment schedules are determined on a case by case basis with each distributor and with respect to each order of our 361° products. However, we work closely with our distributors and generally require payments from them on a weekly basis to reduce their accounts payable to us. Our credit policy prior to the adoption of our new business model in 2008 is not different from our current credit policy as stated above, except that we generally extended credit to customers for a period of 30 to 90 days. We perform ongoing credit evaluations of our distributors' financial condition and generally require no collateral from them to secure their payment obligations. We monitor our receivable balances from each distributor on a weekly basis and will make appropriate assessments in a timely manner as to whether or not an allowance for doubtful debts will need to be made. We had an allowance for doubtful debts of RMB4.0 million, RMB5.4 million, RMB14.3 million and RMB39.5 million as of 30 June 2006, 2007 and 2008 and 31 March 2009, respectively. Our allowance for doubtful debts increased by 165.5% from RMB5.4 million as of 30 June 2007 to RMB14.3 million as of 30 June 2008, and further increased by 176.2% to RMB39.5 million as of 31 March 2009. Such increases were in line with the increases of 252.8% and 183.9% in our revenues during the corresponding periods as well as the granting of longer credit terms to all of our distributors and the granting of payment extensions to some of our distributors upon the conversion to our exclusive distributorship business model to afford them with greater liquidity and to encourage distributors to expand the 361° retail network.

See the section headed “Financial Information—Trade and Other Receivables Analysis” in this prospectus for more information on our credit policy.

### **Sales Return Policies**

Our sales return policies only permit our distributors to return products to us due to material quality defects. Distributors should inspect the products and, where defective products are found, may report the alleged defect to us. Such reports must be made within three days of delivery and we inspect all returned products. We are not responsible for defects caused by improper storage by the distributors or improper use by consumers. Furthermore, the standard operating procedures that we impose on our distributors, which they in turn impose on authorised retailers, state that claims for defective products from consumers should be handled in accordance with applicable consumer protection laws in the PRC, which generally require defective products to be accepted for return or exchange if claimed within a certain prescribed time period. During the Track Record Period, we did not receive any notifications with respect to quality defects or any sales returns from our customers.

### **Our Customers**

We sell all of our 361° products on a wholesale basis to our 30 distributors, who are exclusive distributors of our 361° products. Our five largest distributors accounted for approximately 35.1% and 47.5% of our total revenues, and our largest distributor accounted for approximately 11.9% and 17.0% of our total revenues, in each case, for the financial year ended 30 June 2008 and the nine months ended 31 March 2009. We believe our relationships with our distributors have been stable, as many of these distributors or their predecessors or affiliates have established a business relationship of more than four years with us during the Track Record Period. For the financial years ended 30 June 2006 and 2007, prior to our shift to the distributorship model, our top five customers accounted for approximately 32.9% and 33.4% of our total revenues and our largest customer

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*Note:*

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

accounted for approximately 14.0% and 14.0% of our total revenues, respectively. All of our distributors and authorised retailers were Independent Third Parties during the Track Record Period.

None of our Directors, our chief executive, or any person who (to the knowledge of our Directors) owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our distributors or authorised retailers during the Track Record Period.

### **Pre-2008 Sales and Distribution Network**

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) of sportswear products, pursuant to purchase contracts which were entered into for each season's order. These wholesalers and authorised retailers then either resold our 361° products to authorised retailers or sold our 361° products at their self-operated authorised retail outlets. The purchase contracts set out the terms regarding the price, purchase quantity, delivery terms and settlement terms, amongst others. As we did not adopt a wholesale distribution business model before 2008, we did not enter into any long-term agreements which governed our relationship with our pre-2008 customers. For the financial years ended 30 June 2006, 2007, 2008 and the nine months ended 31 March 2009 we also sold approximately 0.25%, 0.24%, 0.05% and nil, respectively, of our products via group purchases to institutions and government agencies.

All of our pre-2008 customers were Independent Third Parties, many of which engaged in the sales of sportswear products, including our 361° products, and have a business relationship of more than three years with us. Some of our pre-2008 customers were also engaged in non-sportswear business. The following table sets forth the additions, terminations and total number of our pre-2008 customers for the financial years ended 30 June 2006 and 2007, and for the six months ended 31 December 2007, respectively:

<u>Pre-2008 Customers</u>	<u>Addition</u>	<u>Termination</u>	<u>Total</u>
For the financial year ended 30 June 2006 .....	248	84	494
For the financial year ended 30 June 2007 .....	291	171	614
For the six months ended 31 December 2007 .....	171	253	532

The number of terminations of our pre-2008 customers increased significantly from 84 for the financial year ended 30 June 2006 to 171 for the financial year ended 30 June 2007 primarily because some of our pre-2008 customers, who previously purchased through a number of entities, consolidated their purchase orders and purchased through a reduced number of entities since the financial year ended 30 June 2007. In addition, we did not enter into any long-term agreements with our pre-2008 customers and some of our pre-2008 customers discontinued to purchase our products due to the commercial decisions made by each such pre-2008 customers individually. To the best of the knowledge of our Directors, the decisions of such pre-2008 customers not to continue to purchase our products did not involve or relate to any dispute, the quality of our products or other claims. At the same time, the number of additions of our pre-2008 customers increased from 248 for the financial year ended 30 June 2006 to 291 for the financial year ended 30 June 2007, with the total number of our pre-2008 customers increasing by 120 from 494 to 614 for the financial year ended 30 June 2007. The number of terminations of our pre-2008 customers then increased to 253 for the six months ended 31 December 2007 in preparation for the adoption of our new exclusive distributorship business model under which we only sell our products through a limited number of distributors instead of a large number of customers who could be wholesalers and authorised retailers.

Of the 2,390 361° authorised retailers as of 30 June 2008, 11 authorised retailers were our pre-2008 customers. Of our current distributors, 19 were our customers prior to 2008. These 19 customers chose to continue to work with us after the implementation of our new wholesale distribution business model. 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.

We closely monitored the operation of our pre-2008 customers, including, among other things, their sales, inventory, store location, display and layout, and advertising activities. We provided guidance to our customers as to suggested purchase amount. Our products were sold to customers at a discount to the suggested retail price, but the discounts varied on a case-by-case basis depending on our relationship with the customer and the quantity of purchase. No minimum purchase targets were stipulated or required of our customers. Our credit policy prior to the adoption of our new business model in 2008 is not different from our current credit policy as stated above except that we generally extended credit to customers for a period of 30 to 90 days. Our sales return policies in this period permitted customers to return materially defective products to us according to the requirements stipulated in the applicable consumer protection laws, subject to review by our quality control department. Our sales return policy has not changed significantly since we shifted our business model in the beginning of 2008. During the Track Record Period, we did not request our pre-2008 customers to provide us with detailed written sales or inventory reports, but our regional sales managers would visit our pre-2008 customers to monitor their inventory situation and reported back to us, and we then used this information to plan our sales and discount strategies. Our regional sales managers also periodically conducted on-site inspections of randomly-selected 361° authorised retail outlets in their respective geographic regions to ensure that our customers/authorised retail outlets complied with our guidelines and policies. Our inventory policy has not changed significantly since we shifted our business model during the beginning of 2008.

## **RESEARCH AND DEVELOPMENT AND DESIGN**

### **Research and Development**

As a sportswear enterprise, we work to develop high performance products that will meet the functional needs of our target consumers, which we believe can be achieved through technological innovation. One of our core competitive strengths is our ability to create innovative technologies we use in our sportswear products. We currently operate one laboratory for footwear, which was established in 2004, and one laboratory for apparel, which was established in 2007, the primary role of which is quality control testing, though they also provide data to our research and development department to assist them in developing new technologies and applications. Each laboratory is equipped with advanced equipment and stringent testing standards for footwear and apparel product testing. As of the Latest Practicable Date, we employed a total of 57 full-time employees for research and development. Our total expenditures for research and development amounted to approximately RMB167,000, RMB222,000, RMB3.6 million and RMB10.8 million, for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. We conduct research and development to ensure that our 361° products have the desired function and application, utilise advanced technology and raw materials, and are responsive to market developments. Our research and development teams have also focused on improving the manufacturing process to increase our production efficiency.

We believe our future success depends on our ability to deliver new technologies, as well as applying existing technologies in our 361° products, and we will continue to conduct research and development on technologies and raw materials to enable our 361° products to meet and exceed the expectations of our target consumers. Our research and development teams have developed the following six patented technologies which are already in use in our 361° products:

- NFO Tech—We use a newly developed sole structure with enhanced shock absorption characteristics capable of better absorbing the shock created from motion;
- Hold Ground Tech—We place one or more indents shaped like flower petals on the bottom of the sole which provide suction, allowing the sole to have enhanced grip;
- 3D Cushion Tech—We use a new type of solid shock-absorbing sole to improve existing shock absorption structure of athletic footwear soles;
- Long-distance Running Sole—We insert an elasticity system into the heel of the footwear to absorb shock and to protect the feet and legs during long-distance running;

- **Foot Massaging System**—We embed massage tablets into the sole of the footwear at the ball of the foot and the heel, distributed to massage the two parts of the foot that hold the most weight; and
- **After Pushing System**—We insert a function block that is enabled with an after pushing system in the heel of the footwear to make it more comfortable to wear and to allow faster response to body movement.

In addition, we are currently in the process of applying for registration of the following patents in the PRC:

- **Magnetic Therapy Sole**—We insert an elasticity system and a magnetic therapy device into the heel of the footwear to absorb shock and to provide magnetotherapy effect on the foot; and
- **Spring & Cushion System**—We insert a spring and cushion system into the sole to provide more elasticity and shock absorption.

### **Product Design**

We believe that product design has been one of the keys to our sustained success and will continue to play an important factor in our continued success and growth. The design process for our 361° products requires careful consideration of not only specific products, but of how they will embody and enhance the image of the 361° brand.

#### *Consistency of Brand Image*

In keeping with our belief that the maintenance of our brand image and the public's perception of our brand are critical to our success, we pay great attention to brand image in the process of designing our products. In order to promote increased brand recognition, we implement an integrated marketing strategy centred around the development of themes that recur in all aspects of our operation, including product design, advertising and retail promotion. We encourage our designers to stay true to such themes in their product design. We have also worked with a professional colour theme adviser, Dystar Textile Services (Shanghai) Ltd. (德司達印染科技(上海)有限公司), since April 2008 in developing colour themes that match our brand image.

#### *Product Concept*

Our 361° product design teams, assisted by external design agencies since April 2008, such as Daniel Richard Design, LLC (since October 2008), which provide us with current global fashion information and ideas, analyse the latest global sportswear trends based on data gathered through market research, product exhibitions and sales fairs. This analysis provides our design teams with a deep understanding of current trends in the sportswear industry, and they strive to cater to the varying tastes and preferences of consumers in different regions within the PRC, all the while keeping the theme developed by our marketing strategists in mind. Thus, we are able to deliver multi-line and multi-theme products reflecting a unified message.

As of the Latest Practicable Date, we employed 49 full-time designers. Each product line, footwear, apparel and accessories, has its own in-house design team. To add an international perspective to our designs, each product design team, as well as members of our sales and marketing team, visit fashion stores and shopping centres in South Korea and Japan, where sportswear trends we believe have been, and will continue to be, influential in determining the sportswear trends in the PRC. We believe that our three product design teams have a proven track record in identifying and responding to sportswear market trends in the PRC. They collaborate with our professional colour theme adviser and external sportswear design agencies, who lend their expertise in creating product designs reflecting the message of the brand.

## *Product Testing and Improvement*

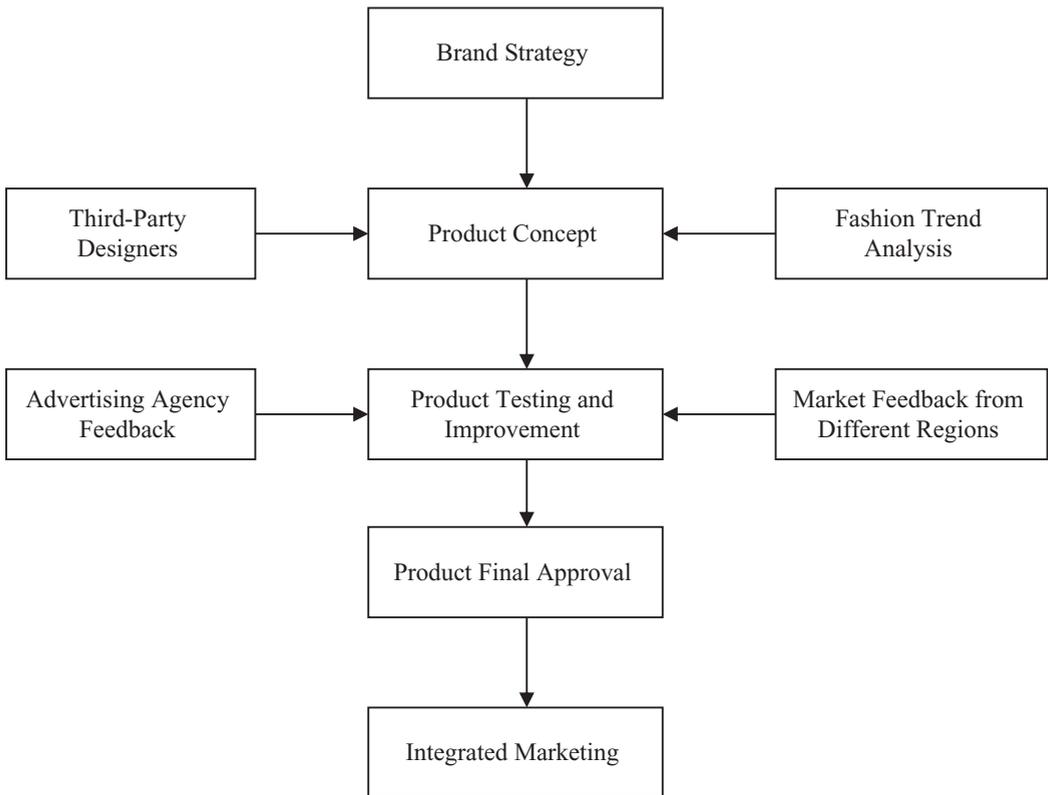
Once a design concept is solidified, our 361° product design teams refine their design ideas by considering the functionality and features of the products, as well as the materials used in production. We also collect information and feedback from all regional markets to assist the design teams in creating and improving their designs. Our prototype products reflecting initial designs undergo our internal and final product assessments, which include input from distributors, internal laboratory testing personnel and other professional advisers, such as Shanghai Ogilvy & Mather Advertising Co., Ltd. (上海奧美廣告有限公司), which provide comments towards design improvements.

## *Integrated Marketing*

Once a product has received final approval, we turn to our integrated marketing strategy to promote the product. The product can be tied into the theme around which it was designed and incorporated into an advertising campaign (print, billboard, bus, Internet and television), retail sales and promotions, and promotional events and activities.

We have invested and will continue to invest considerable resources in product design, both by maintaining our dedication to theme-based design to strengthen the brand image and by effectively implementing our integrated marketing and design strategy. We will also strive to retain our current employees and to recruit designers and production specialists globally, by offering attractive compensation packages and a work environment that is conducive to the innovation and design of new sportswear products, in order to maintain our position in designing functional and innovative sportswear products.

The different stages of our design process are summarised by the diagram below:



**MANUFACTURING****Our Production Facilities**

We have our own production facilities for footwear. We produced approximately 100%, 98.5%, 90.4% and 60.7% of our footwear products in terms of production volume at our own production facilities located in Jinjiang City, Fujian Province, the PRC, for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. The percentage of our footwear products produced at our own production facilities decreased significantly to approximately 60.7% for the nine months ended 31 March 2009 primarily due to the increasing demand of our footwear with approximately 14.3 million of pairs of our 361° footwear sold for the nine months ended 31 March 2009 while our production capacity for the same period was approximately 10.2 million pairs of footwear. As of the Latest Practicable Date, we operated 16 footwear production lines, with an aggregate production capacity of approximately 13.6 million pairs of footwear products per annum<sup>(1)</sup>. As of 30 June 2006, 2007 and 2008 and 31 March 2009, we operated six, six, 16 and 16 footwear production lines, respectively, with aggregate production capacity of approximately 5.1 million, 5.1 million, 13.6 million and 13.6 million pairs of footwear per annum, respectively. Some of the equipment we use in manufacturing our 361° products was imported from foreign countries, such as Japan and Italy. As of the Latest Practicable Date, our production staff consisted of approximately 4,180 workers. As of 30 June 2006, 2007 and 2008 and 31 March 2009, our production staff consisted of approximately 2,726, 2,350, 3,952 and 4,322 workers, respectively. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, the utilisation rates of our production facilities, calculated by dividing the actual production output for the relevant period by the production capacity for such period, were approximately 111.0%<sup>(2)</sup>, 122.5%<sup>(2)</sup>, 103.1%<sup>(2)</sup> and 86.5%, respectively. The upward utilisation rate from the financial year ended 30 June 2006 to the financial year ended 30 June 2007 was primarily due to the growing demand of our 361° products. For the financial year ended 30 June 2008, the addition of production facilities, which increased our production capacity to approximately 13.6 million pairs of footwear per year, contributed to the declining utilisation rate during the same period.

Given that the utilisation rate of our footwear production facilities for the financial years ended 30 June 2006, 2007 and 2008 exceeded 100% and in order to ease the tension of the continuously high utilisation rates and to equip our Group with spare production capacity to meet the production capacity requirements of a rapidly growing business and adapt quickly to changing consumer needs and market trends, as well as to further enhance the quality of our 361° products by meeting strict quality requirements while controlling production costs, we plan to apply a portion of the proceeds from the Global Offering to increase our production capacity.

In August 2007, we began construction of our new production facilities located in Wuli Industrial Park Phase One to increase our footwear production capacity. We expect to further incur approximately RMB102.1 million on these new footwear production facilities, which will commence operations with 2 footwear production lines with a production capacity of approximately 1.7 million pairs per annum upon completion of construction of the facilities by December 2009.

We also plan to construct new production facilities at the Wuli Industrial Park Phase Two to expand our production capabilities to include apparel, which will allow us to have access to both internal and outsourced manufacturing capabilities similar to our footwear manufacturing strategy. We expect to further incur approximately RMB182.2 million on these new apparel production facilities, which will commence operations with 2 apparel production lines and a production capacity of approximately 1.8 million pieces per annum upon completion of construction of the facilities by June 2010.

In addition, we plan to construct new footwear production facilities at the Jiangtou Industrial Park. We expect to further incur approximately RMB36.7 million on these new footwear production facilities, which will commence operations with 3 footwear production lines and a production capacity of approximately 2.6 million pairs per annum upon completion of construction of the facilities after June 2010.

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*Notes:*

- (1) Calculated on the basis that our production facilities are operating at eight hours per day and 26 days per month.
- (2) The utilisation rate of our production facilities for the financial years ended 30 June 2006, 2007 and 2008 were over 100% because we utilised our production facilities more than the above thresholds.

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

### Footwear Manufacturing

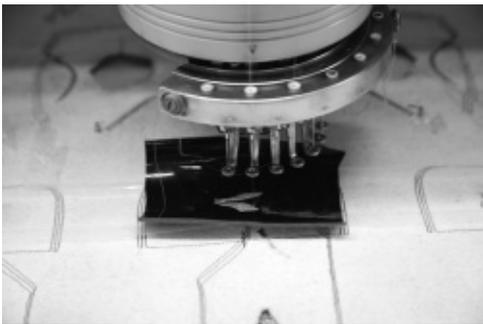
Our footwear manufacturing process is divided into six main stages: (1) raw materials inspection and testing; (2) materials preparation and processing; (3) sewing and stitching; (4) assembly; (5) finished product inspection and testing; and (6) packaging. The following diagram outlines our manufacturing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



The main raw materials used in our footwear production are leather, synthetic leather, fabrics, rubber, soles and plastics. Raw materials are generally inspected and tested before being used in production.



Raw materials are cut and trimmed to the desired shape and size by various cutting machines, moulding machines and trimming machines.



Logos and embroidery are affixed to the components.



The various components are then sewn and stitched together.



The top and sole of the footwear are formed together.



Sample products undergo our rigorous quality control inspection process to ensure that all of our 361° products meet our stringent quality standards.



Our 361° products are then packaged for delivery to our distributors.

### **Production Outsourcing**

Production outsourcing includes the contract manufacturing of certain footwear components as well as of finished products. We began outsourcing a portion of our footwear 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, respectively, in terms of production volume. 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 may, but are not always required to, supply our contract manufacturers with the raw materials required to produce certain footwear components or, as applicable, finished products ordered by us. We often recommend or require that our contract manufacturers procure raw materials from a group of designated raw material suppliers. We believe that our use of both internal and external production capacity has enabled us to supply our customers with our products on a consistent basis during the Track Record Period. We expect to continue to outsource the production of all apparel and accessory products after Listing until our new apparel production facility commences production.

During the financial year ended 30 June 2008 and the nine months ended 31 March 2009, we engaged approximately 79 and 57 contract manufacturers, respectively, all of whom were Independent Third Parties. Most of these contract manufacturers are located in Fujian Province, the PRC. We engage their services on a contractual basis after obtaining purchase orders during our sales fairs. For each order, we enter into separate purchase contracts, which set out the terms regarding the price, purchase quantity, delivery terms and settlement terms, amongst others. We do not prohibit our contract manufacturers from manufacturing products for other brands.

We provide the designs and specifications of our products to contract manufacturers. To prevent any leakage of such information by the contract manufacturers, which is considered proprietary, contract manufacturers are generally obliged under the purchase contracts not to disclose such information to third parties or use the same for their own products or any other purposes. In addition, we require the contract manufacturers to return any documents and information incidental to the designs and specifications of our products when the purchase contracts expire.

Our agreements with our contract manufacturers generally include the following terms and conditions:

- **Quality**—Contract manufacturers are required to produce products which conform to the specifications required by us; and
- **Delivery**—Contract manufacturers are required to deliver products within a certain period of time after we give them notice, failing which they are typically required to pay certain damages and penalties.

Our contract manufacturers are carefully selected by us, and we require each of them to satisfy certain criteria. We evaluate the contract manufacturers' performance, financial strength, experience, reputation, ability to produce high-quality products and quality control effectiveness in determining whether to continue using their services. In addition, our contract manufacturers are required to undergo quality tests by an independent quality testing institute.

### INFORMATION SYSTEMS

We believe that computerised systems are critical to improving our efficiency in supply chain management, quality and inventory control, logistics and sales. We currently use a computerised sales system and an inventory management system, which is also a category of ERP system, developed by Shanghai Baison Software Co., Ltd. (上海百勝軟件有限公司), which allows us to monitor our sales volume and track the movement of our 361° products at our warehouses. We also utilise a computerised ordering system at our sales fairs, which allows us to efficiently manage the ordering process. The data made available to us from these systems is shared with our production, inventory, procurement and finance departments.

We currently plan to apply a portion of the proceeds from the Global Offering to upgrade our information system to establish an ERP system that allows for the integration of operating information between our Group, our distributors and the retail locations. The system would allow real-time data flow through the supply chain to decrease production lead time, reduce logistics bottlenecks and improve the overall efficiency of our enterprise. We also plan to further invest in our ERP system to enable direct linkage of our system with the point-of-sales system of our distributors and authorised retailers and authorised retail outlets. The ERP system integration is intended to help us to more efficiently gather financial and operational information from our distributors and retail channels, and further improve our merchandising and product ordering processes.

### INVENTORY CONTROL AND LOGISTICS

We strive to reduce excess levels of raw materials and finished goods in our inventory while still being able to meet the supply demands of our distributors and authorised retailers. We are able to manage our inventory levels by procuring the majority of raw materials and commencing production upon confirmation of purchase orders with our distributors. Beginning in 2008, we commenced production of a portion of the indicated purchase volume of certain products for which we received high purchase volume indications from our distributors during their preview of the prototype products, which takes place approximately one month prior to the sales fairs that follow. Prior to 2008, we only commenced mass production upon confirmation of purchase orders with our customers. We believe that the new production schedule allows us to better control production costs and manage delivery schedules. To further minimise the risk of accumulating excess inventory, we regularly review our level of inventory. During the Track Record Period, we were not required to and did not make any inventory provision.

Our distributorship agreements require our distributors to provide us with an inventory report every month. Our 18 regional sales managers currently provide us with local market condition reports from time to time and

conduct periodic on-site inspections of our distributors and 361° authorised retail outlets to track their inventory levels. We encourage our distributors to clear their past-season inventory, as we believe that accumulation of inventory by distributors will adversely affect the volume of orders that they will order from us in the future. By tracking the inventory levels of our distributors, we are also able to gather information and data regarding the market acceptance of our 361° products, both in the PRC generally as well as in particular regions, so that we can reflect consumer preferences in the design and development of our 361° products for future seasons. However, our ability to accurately track the sales and inventory levels at our distributors and 361° authorised retail outlets may be limited. See “Risk Factors—Risks Relating to Our Business” in this prospectus.

Our inventory balances as of 30 June 2006, 2007 and 2008 and 31 March 2009 were approximately RMB35.2 million, RMB68.9 million, RMB181.1 million and RMB131.7 million, respectively, while our average inventory turnover days were 39, 64, 47 and 26 for each of the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. As of 30 April 2009, all of the finished goods in stock as of 30 June 2006, 2007 and 2008 and RMB76.4 million, or 90.7%, of finished goods in stock as of 31 March 2009 were subsequently consumed or sold above cost.

The size of our leased warehouses increased to approximately 10,691.5 square metres as of 31 March 2009, from approximately 5,500 square metres as of 30 June 2006. As of the Latest Practicable Date, our logistics team was comprised of 38 full-time employees. We deliver our 361° products to our distributors through professional logistics companies who are engaged and paid by our distributors and are responsible for any losses associated with the delivery of our 361° products. We did not experience any material loss in the delivery of our 361° products during the Track Record Period. Raw materials supplied by our suppliers are delivered to us at their own cost and their own risk. As of the Latest Practicable Date, we utilised one logistics company, who is an Independent Third Party, to deliver our products from the production facilities to our warehouses.

## **QUALITY MANAGEMENT SYSTEM**

We have developed a comprehensive and effective quality management system, which is evidenced by our obtaining the ISO 9001:2000 quality management system certificate from the China Quality Mark Certification Group (方圓標誌認證集團) since October 2005. We have been granted the “Certificate of Exemption from Product Quality Surveillance Inspection” (產品質量免檢證書) 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) with a term of three years commencing from December 2006.

We established a quality control department in 2004, which is equipped with two product testing laboratories with advanced equipment and stringent testing standards for footwear and apparel product testing. To enhance our quality management system, we plan to apply a portion of the proceeds from the Global Offering to upgrade our laboratory facilities to enhance our quality control standards. As of the Latest Practicable Date, we had approximately 110 employees performing quality control functions.

Our quality control process starts early at the design and development stage, where we consider the functionality and qualities of the raw materials and other manufacturing components to be used for manufacturing. We conduct tests on raw materials and other manufacturing components based on inspections of appearance, as well as with testing equipment, to ensure that the raw materials and manufacturing components meet our quality standards. In respect of products manufactured at our manufacturing facilities, the staff from our quality control department are responsible for monitoring the quality of these manufactured products. In addition, several sales staff members monitor the quality of these products from the perspective of our customers and provide valuable input to our quality control process as if we were receiving such input directly from our customers. We also dispatch quality controllers to all of our contract manufacturers, who are stationed at the production facilities of our contract manufacturers to monitor the quality of our products and production procedures. Our quality control staff members conduct on-site inspections of all semi-finished products, both at our own facility and at the facilities of our contract manufacturers. After the assembly stage, our quality control

staff members conduct sample tests on the finished products, to assess their functionality and quality before they are delivered to our customers.

## **RAW MATERIALS AND SUPPLIERS**

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, soles and plastic. We obtain all of these materials from domestic suppliers in the PRC.

Many of our raw material suppliers are located in Jinjiang City, Fujian Province, the PRC, where our manufacturing facilities are also located. We believe such proximity of these suppliers offers convenience and helps us to improve procurement efficiency. We have developed solid and steady relationships with many of our key suppliers, as they have been supplying to us for a few years. Given our solid and steady relationships with our suppliers, we believe that our suppliers generally make supplying to us a priority and we did not experience any material delays in receiving supplies from our suppliers during the Track Record Period.

Our suppliers include raw material suppliers and contract manufacturers to whom we outsourced the production of our footwear, apparel and accessories. We have been granted credit periods of between 30 to 180 days by our suppliers. We may also be required to make deposits and advance payments to suppliers. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, our five largest suppliers accounted for approximately 35.1%, 40.8%, 31.2% and 19.8%, respectively, of the aggregate amount of purchases from all suppliers and our largest supplier accounted for approximately 22.8%, 24.6%, 14.3% and 6.8%, respectively, of the aggregate amount of purchases from all suppliers.

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

## **COMPETITION**

The demand for sportswear in the PRC has grown rapidly in recent years, in line with the general economic growth of the PRC. According to Frost & Sullivan, the total revenue of the PRC sportswear market was approximately US\$7.7 billion (RMB53.3 billion) for 2008. We accounted for 4.2% of this amount and were ranked one of the top five domestic sportswear brands in the PRC in terms of revenues for 2008. However, the barriers to entry in the China branded sportswear market are high due to the cost and time required to build brand awareness and to establish an effective distribution network. Participants in the highly competitive 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.

Our competitors, especially international brands, may have greater financial resources, greater production capabilities, superior technology, better brand recognition and a wider, more diverse and established distribution network than us. See “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” and “Industry Overview” in this prospectus for more information. Nevertheless, we believe the following competitive strengths may allow us to compete effectively with our major competitors:

- Recognition of our brand as a valuable brand in the PRC;
- An extensive sales network comprised of exclusive distributors and 361° authorised retail outlets;
- Effective and innovative marketing and promotion;
- An experienced management team; and
- Determination to offer customers the highest quality products in the PRC.

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## BUSINESS

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We believe that competition in the PRC branded sportswear product industry will remain intense in the near future. However, we also believe that our competitive advantages will continue to allow us to differentiate ourselves from our competitors.

### EMPLOYEES

As of the Latest Practicable Date, our Group had a total of 4,817 full-time employees, all of whom were located in the PRC. The following table shows a breakdown of our employees by department as of the Latest Practicable Date:

	As of the Latest Practicable Date	
	Number of Employees	% of Total Employees
Management and administration . . . . .	105	2.2
Production and procurement . . . . .	4,187	86.9
Sales and marketing . . . . .	132	2.7
Finance and accounting . . . . .	49	1.0
Quality control . . . . .	110	2.3
Research and development . . . . .	57	1.2
Design . . . . .	49	1.0
Other (logistics and information technology) . . . . .	128	2.7
<b>Total</b> . . . . .	<b>4,817</b>	<b>100</b>

Our Directors believe that quality control, logistics and information technology are crucial to our reputation and growth. In order to effectively monitor the quality of our products, deliver the products to our distributors in a timely manner and share the information within our Group and our distributors, we employed a significant number of staff in these departments. Our Directors also believe that the number of employees in these departments is in line with the fast growing demand of our 361° products in the PRC.

### Our Relationship with Employees

We believe that we maintain satisfactory working relationships with our employees, with an average retention rate of approximately 90% through the Track Record Period, and we have not experienced significant problems with our employees or disruptions in our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

### Employee Training

We are committed to employee development and have implemented various programmes for the development of our employees, including various training programmes to enhance our employees' industrial and technical skills and to increase their knowledge of work safety standards.

### Employee Remuneration

The remuneration payable to the employees includes salaries and allowances. We determine our staff's remuneration based on factors such as qualifications and years of experience. Our staff costs (including Directors' and senior management's emoluments) for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009 were approximately RMB35.4 million, RMB41.8 million, RMB70.9 million and RMB84.5 million, respectively.

We reward our senior management with annual bonuses based on various performance criteria. As part of our remuneration policies for our senior management, we have in place two share-based remuneration schemes—

the Share Option Scheme and the Pre-IPO Share Option Scheme. These schemes are designed to provide incentives and rewards to our employees. Under the Share Option Scheme, eligible persons may be granted with options, the exercise of which will entitle the holder thereof to subscribe for our Shares at a price fixed on the date of grant. Under the Pre-IPO Share Option Scheme, invitations are made to eligible persons inviting them to subscribe for our Shares at a price which represents a price which is at a discount of 20% to the final offer price of our Shares at the Listing, subject to the fulfilment of certain vesting conditions. For further details on the principal terms of the Share Option Scheme and the Pre-IPO Share Option Scheme, please refer to Appendix VI to this prospectus. We believe that by offering our key employees a shareholding stake in our Company, we are aligning their interests with our interests, thereby providing our key employees with additional incentives to improve our performance.

### **Social Welfare**

Our contributions to various Social Insurance Funds for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009 amounted to approximately RMB23,000, RMB98,000, RMB315,000 and RMB2,113,000, respectively.

Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that we are in compliance with all social insurance obligations applicable to us under PRC laws. We contribute to various social insurance plans, such as pension contribution plans, medical insurance plans, work-related injury insurance plans and unemployment insurance plans, as well as housing accumulation funds for our employees in accordance with the applicable PRC laws and regulations on social insurance. Please also refer to the paragraph headed “Legal Compliance and Proceedings” in this section.

### **Labour Matters**

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

According to the PRC Labour Law and the New Labour Law, we enter into labour contracts if we are to establish labour relationships with our employees. We must provide wages, which are no lower than the local minimum wage standards, to such employees. We are required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to our employees. We must also provide our employees with working conditions that meet PRC rules and standards for safety and sanitation and we must regularly examine the health of our employees engaged in hazardous occupations.

The New Labour Law, which became effective on 1 January 2008, calls for stricter requirements in human resources management in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economical compensation, as well as social security premiums. The New Labour Law may materially and adversely affect our results of operations. See “Risks relating to conducting business in the PRC—New labour laws in the PRC may materially and adversely affect our results of operations” in this prospectus. We have taken a variety of proactive measures to improve our employment relationship management and fulfil our obligations under the New Labour Law and other applicable PRC laws. In addition, we will structure the terms of employment with our employees to comply with the new law. We expect that the New Labour Law will help us to establish a more stable and beneficial labour relationship with our employees. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that no potential risks will affect our track record results due to the New Labour Law.

As confirmed by the relevant PRC authorities, we have fully paid social securities insurance, including health, accident and safety insurance under PRC laws and regulations. Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we complied with all applicable labour and safety laws and regulations, including but not limited to the New Labour Law, in all material respects. We work to ensure the safety of our employees. We have implemented safety guidelines and operating procedures for our production processes and have provided employees with occupational safety education and training to enhance their awareness of safety issues. Since our business commenced in 2004, none of our employees has been involved in any major accident in the course of their employment, and we have never been subject to disciplinary actions with respect to the labour protection issues.

We spent approximately RMB93,000, RMB1.2 million, RMB1.3 million and RMB4.3 million in respect of regulatory compliance with applicable labour, health and safety rules and regulations in the PRC for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. We currently do not have any specific expenditure plan in this regard. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have also confirmed that we will not be responsible for the breaches of laws, rules and regulations by our contract manufacturers, suppliers, distributors, or authorised retailers. We have not been held liable for such breaches during the Track Record Period.

### **INTELLECTUAL PROPERTY RIGHTS**

We use the 361° brand for the marketing and sales of our sportswear products. As of the Latest Practicable Date, we have registered or are in the course of application for registration of our 361° trademark in Hong Kong, the PRC and over 90 other countries and jurisdictions worldwide. For more information, please see the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this prospectus.

#### **Protection of Intellectual Property Rights**

We recognise the importance of protecting and enforcing our intellectual property rights. Our employees who may have access to our trade secrets and other proprietary intellectual property are bound by confidentiality agreements regarding our 361° brand and our related intellectual property. During the Track Record Period, there has been no material action taken against any employee for breach of such confidentiality agreements. We will take appropriate action to defend our 361° brand and our intellectual property rights if they are infringed in the future. Moreover, we intend to apply for the appropriate intellectual property rights for any new technological know-how developed by us. As of the Latest Practicable Date, we have registered 150 trademarks and six patents. We are also in the process of applying for registration in the PRC and other countries of some other trademarks. In respect of the PRC trademark applications, our PRC legal advisers, Tian Yuan Law Firm, have confirmed that we have the right to use the pending trademarks notwithstanding that the registrations of such trademarks are still in process. To our best knowledge and so far as our PRC legal advisers are aware of, there are no legal impediments to the pending applications, except for (i) one application which has been refused registration by reason of a prior application for registration by an Independent Third Party; and (ii) three applications which are currently under review by the Trademark Bureau under the State Administration for Industry and Commerce (國家工商行政管理總局商標局) after filing of oppositions by Independent Third Parties following publication of such applications. We are appealing against the decision to refuse such application. We are also in the process of applying for registration in the PRC of some other patents. Our Directors confirm that they do not expect there will be any material adverse impact on our Group’s operations in the event that the registration of any of the pending trademark and/or patent applications is not successful. However, we may not be able to adequately protect our intellectual property rights. See “Risk Factors—Risks Relating to Our Business” in this prospectus.

### **PROPERTIES**

As of 31 March 2009, we had a total area of approximately 194,544.3 square metres of land and a total gross floor area of approximately 72,018.8 square metres of buildings, all of which are situated in the PRC.

Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that we hold valid land use right certificates with respect to all of our land. In respect of a piece of land located at Huatingkou Village, Chendai Town, Jinjiang City, Fujian Province, the PRC with a total area of approximately 253.9 square metres (the “**Huatingkou Land**”) which was converted from rural collective non-agricultural land for construction use (農村集體非農建設土地), our PRC legal advisers, Tian Yuan Law Firm, advised that pursuant to the Working Opinions on Trial Points of Circulation of Rural Collective Non-Agricultural Land for Construction Use (《關於農村集體非農建設用地流轉試點工作意見》) (the “**Working Opinions**”) published by the Administration of State-owned Land and Resources of Fujian Province (福建省國土資源廳) and the Provisional Measures for the Administration of Circulation of Rural Collective Non-Agricultural Land for Construction Use of Jinjiang City (《晉江市農村集體非農建設用地流轉管理暫行辦法》) (the “**Provisional Measures**”) published by the People’s Government of Jinjiang City (晉江市人民政府), any rural collective non-agricultural land for construction use must first be converted to state-owned land before circulation (流轉) of such land to any third party which will result in change of ownership of land use rights. The buildings and construction erected on the land subject to circulation will also be circulated at the same time as the circulation of the land. Such conversion and circulation shall be approved by the people’s government above county level. Our PRC legal advisers, Tian Yuan Law Firm, advised that there are no universal provisions on circulation of rural collective non-agricultural land for construction use under the PRC laws and regulations, and the circulation of the Huatingkou Land to us was approved by the People’s Government of Jinjiang City (晉江市人民政府) on 5 September 2008 and was in compliance with the aforesaid Working Opinions and Provisional Measures. Further, according to Regulations on the Listing for Sale of Land Use Right of State-owned Land for Construction Use by way of Tender and Auction (《招標拍賣掛牌出讓國有建設用地使用權規定》) (the “**Tender Regulations**”) published by the Administration of State-owned Land and Resources (國土資源部), the land use right for industrial land shall be listed for sale by way of tender or auction. The circulation of the Huatingkou Land to us did not involve any tender or auction, and was effected by the land use right transfer contract entered into with the Jinjiang Administration of State-owned Land and Resources (晉江市國土資源局), thus was not in compliance with the Tender Regulations. Nevertheless, relevant PRC laws and regulations do not specify any legal liabilities on the part of the acquirer of the land use right for industrial land which was not obtained by way of tender or auction. As the circulation of the Huatingkou Land to us has been approved by the People’s Government of Jinjiang City (晉江市人民政府) and was in compliance with the aforesaid Working Opinions and Provisional Measures, our PRC legal advisers, Tian Yuan Law Firm, is of the opinion that the possibility of the land use right of the Huatingkou Land to be compulsorily forfeited by the relevant land administrative department and for us to be penalised as a result of the land use right of the Huatingkou Land not being obtained by way of tender or auction is minimal, and there will not be any material adverse effect on the value, usage, transfer and/or sale of the land use right of the Huatingkou Land. Since the Huatingkou Land is used for dormitories of our employees, our Directors consider that such land is not crucial to the existing and future operation of our Group, and in the event that we are required to vacate from the Huatingkou Land, similar sites would be available at the nearby areas. For further details of the Huatingkou Land, please refer to valuation certificate no. 2 in the property valuation report in Appendix IV to this prospectus.

As of 31 March 2009, approximately 44,940.0 square metres of our buildings are used by us as workshops and office buildings, representing approximately 62.4% of the total gross floor area of all of our buildings, and approximately 27,078.8 square metres of our buildings are used as dormitories, representing approximately 37.6% of the total gross floor area of all of our buildings.

As of 31 March 2009, we leased an office in Xiamen with a gross floor area of approximately 4,900 square metres and we also leased a warehouse in Guangzhou, the PRC, with a total gross floor area of approximately 10,691.5 square metres (together, the “**Xiamen and Guangzhou Lease**”). The tenancy agreements in relation to the Xiamen and Guangzhou Lease were not registered by the relevant lessors with the relevant PRC authorities. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that it is the obligation of the lessors, who possess the relevant title documents, to register the tenancy agreements. Further, our PRC legal advisers, Tian Yuan Law Firm, have confirmed that as under PRC laws, the registration of the tenancy agreements is not a condition for the tenancy agreements becoming effective, the lack of registration of these tenancy agreements will not affect the legality of such tenancy agreements and the tenancy agreements in relation to the Xiamen and Guangzhou Lease are valid, binding and enforceable under PRC laws. Details of the Xiamen and Guangzhou Lease are set out in valuation certificates no. 6 and no. 7 in the property valuation report in Appendix IV to this prospectus.

As of 31 March 2009, we also leased an office which is located in Beijing, the PRC, with a total leased area of approximately 445.88 square metres (the “**Beijing Lease**”). As the lessor of the building has not obtained proper building title certificate for the property and has not registered the relevant tenancy agreement with the relevant PRC authorities, Tian Yuan Law Firm, our PRC legal advisers, cannot confirm that the relevant tenancy agreement is valid, binding and enforceable under the PRC laws. Our PRC legal advisers, Tian Yuan Law Firm, advised that failure by the tenant to submit the Beijing Lease for registration may cause a fine of not less than RMB200 but not more than RMB500, and such fine would not have any material adverse impact to us. Details of the Beijing Lease are set out in valuation certificate no. 8 in the property valuation report in Appendix IV to this prospectus.

In view of the uses of the Xiamen and Guangzhou Lease and the Beijing Lease (namely offices) and given that our Group has the right to claim losses against the lessors in respect of the Xiamen and Guangzhou Lease and the Beijing Lease, our Directors consider the fact that the above tenancy agreements have not yet been registered or may not be enforceable under PRC laws and regulations has no material impact on our Group’s operations. As the office under the Beijing Lease is only one of our Group’s offices and is not important to the operations of our Group, we believe that the absence of title certificate of such office does not have any material impact on our Group’s operations.

Our Controlling Shareholders have undertaken under the Deed of Indemnity to indemnify our Group against any damages, losses or liabilities which are or become payable or incurred by any members of our Group, including relocation costs and expenses (if any), as a direct or indirect result of any title defects of the property used by our Group after the Listing.

Details of the properties are set out in the section headed “Property Valuation” in Appendix IV to this prospectus.

### ENVIRONMENTAL MATTERS

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

According to current PRC national and local environmental protection laws and regulations, any enterprise which discharges wastewater, waste products, or polluted air is required to seek approval for the establishment of such an enterprise in the PRC from the relevant environmental protection authorities. The relevant PRC laws and regulations also require any such enterprise to carry out an environmental impact assessment before commencing construction of its production facilities and ensure that such production facilities meet the relevant environmental standards to treat wastewater, waste products and polluted air treatment before discharging such waste. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and, in cases where the pollutants have not been properly treated, fines for such discharge. The relevant environmental laws and regulations empower certain governmental authorities to shut down any enterprise that violates such laws and regulations through the discharge of pollutants.

PRC environmental laws and regulations also stipulate that all enterprises that may cause environmental pollution and other public health hazards are also required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These measures and systems must work to effectively prevent and control pollution levels and harm caused to the environment by waste gas, waste water, solid waste, dust, malodourous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction, or other activities of the enterprise.

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## BUSINESS

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During the Track Record Period, we carried out the relevant environmental impact assessments before commencing construction of our production facilities and have obtained all the required permits and environmental approvals for our production facilities. We were granted an environmental compliance certificate from the Jinjiang City Environmental Protection Bureau (晉江市環境保護局) for complying with its environmental protection standards. Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that, during the Track Record Period, (i) we fully complied with the relevant environmental rules and regulations and obtained all the required permits and environmental approvals for our production facilities, (ii) no environmental pollution incident was discovered and (iii) no penalty of any kind was imposed on us.

We spent approximately RMB6,000, RMB61,000, RMB75,000 and RMB106,000 in respect of regulatory compliance with applicable environment 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. We expect such expenditures going forward will increase when our new production facilities commence production. We currently do not have any specific expenditure plan in this regard. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

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

As of the Latest Practicable Date, we had obtained all the pollutant discharge permits required under the PRC laws and regulations. Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that we were, during the Track Record Period, and we are in compliance with the relevant requirements under PRC laws and regulations for waste water treatment. We do not produce material waste during our production process.

We believe that our production process does not emit material quantities of pollutants and that our operation will not be subject to any future environmental risk. However, in order to ensure that we comply with the relevant PRC environmental laws and regulations, we have appointed Mr. Zhou Pingbo (周平波), our legal manager, to oversee environmental protection related matters within our Group. We will ensure that we comply with applicable PRC environmental laws and regulations in the future by (i) empowering the legal manager to oversee and maintain our compliance with environmental protection policies, (ii) providing both regular, annual training and special, as-needed training upon the promulgation of new environmental laws and regulations with respect to the latest PRC environmental laws and regulations and encouraging our team staff to attend environmental protection training sessions organised by the local environmental protection authorities, (iii) conducting on-site inspections every week, (iv) providing relevant training to our staff, including but not limited to providing training to our Directors regarding compliance with PRC environmental laws and regulations, (v) immediately reporting to our Directors any incident or non-compliance with the relevant PRC environmental laws and regulations and (vi) immediately reporting to and coordinating with competent authorities in the case that any incident or non-compliance arises.

## INSURANCE

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

As of the Latest Practicable Date, all of our products were sold in the PRC. In line with the general industry practice in the PRC, we do not maintain any product liability insurance for any of our 361° products. We have been advised by our PRC legal advisers, Tian Yuan Law Firm, that we are not required under PRC laws to

maintain any product liability insurance. Taking into account the general practice in the PRC sportswear industry, our experience in running our business and insurance products available in the PRC, our Directors are of the view that we have sufficient insurance coverage for our current operations. During the Track Record Period, we did not receive any material claim from customers and/or consumers regarding any liability arising from or relating to the use of our 361° products.

## **LEGAL COMPLIANCE AND PROCEEDINGS**

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

In 2006, Sanliuyidu Fujian received two tax penalty notices with the aggregate fine of approximately RMB210,000 for our failure to pay an aggregate of value-added tax of approximately RMB420,000. The underpaid value-added tax of approximately RMB420,000 was subsequently charged to our Group's combined income statements for the financial years ended 30 June 2004 and 2005, being the years when the underpayment occurred and the payment should have been recorded. The fine of approximately RMB210,000 was charged to our Group's combined income statement for the financial year ended 30 June 2007, being the year when the notice from the relevant tax bureau was received. Our Group has obtained confirmation from the relevant tax bureau that Sanliuyidu Fujian has paid all value-added tax and fines prior to the issuance of the confirmation and our Group had no outstanding liabilities. Our PRC legal advisers, Tian Yuan Law Firm, and our Directors have confirmed that there are no further liabilities for Sanliuyidu Fujian in connection with such failure to pay the value-added tax and the fine.

For each of the three financial years ended 30 June 2008 and for the nine months ended 31 March 2009, our Group made contributions to pension funds, medical insurance (including maternity insurance), unemployment insurance, work-related injury insurance (collectively, “**Social Insurance Funds**”) and housing funds (“**Housing Funds**”) for its employees in the PRC. These contributions, which were funded from internal financial resources of our Group, are in compliance with the requirements of the relevant labour bureau and housing fund administration centres of the relevant PRC laws and regulations with regard to Social Insurance Funds. Jinjiang City Labour and Social Security Bureau (晉江市勞動和社會保障局) confirmed that as of 17 April 2009 (as to Sanliuyidu China and Sanliuyidu Fujian) and Xiamen Huli District Personnel Labour and Social Security Bureau (廈門湖里區人事勞動和社會保障局) confirmed that as of 22 April 2009 (as to Sanliuyidu Xiamen), (i) Sanliuyidu China, Sanliuyidu Fujian and Sanliuyidu Xiamen paid all social security payments in accordance with PRC laws and regulations; (ii) there were no outstanding social security payments payable by Sanliuyidu China, Sanliuyidu Fujian and Sanliuyidu Xiamen; and (iii) none of Sanliuyidu China, Sanliuyidu Fujian and Sanliuyidu Xiamen had been penalised by reason of breach of any PRC laws and regulations in respect of social security, and there existed no possibility for administrative penalty or legal dispute for breach of any PRC laws and regulations regarding social security. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that Jinjiang City Labour and Social Security Bureau (晉江市勞動和社會保障局) and Xiamen Huli District Personnel Labour and Social Security Bureau (廈門湖里區人事勞動和社會保障局) had the authority to issue such confirmations.

Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that we have complied with the relevant PRC laws and regulations in all material aspects, including laws and regulations relating to environmental protection, safety, and labour and have obtained all licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC.

In order to comply with relevant PRC laws and regulations applicable to our Group, including, among others, laws and regulations relating to tax and Social Insurance Funds, we have appointed Mr. Zhou Pingbo (周平波) as the head of our legal department who is generally responsible for the legal matters of our Group. He received his master's degree in law from East China University of Political Science and Law (華東政法學院) in July 2003 and has held a Lawyer's Qualification Certificate in China since March 2004. Mr. Zhou served as the legal manager of a company listed on the Shanghai Stock Exchange since 2003 before joining our Group in November 2007. We have also appointed Mr. Hou Zhaohui (侯朝輝) as the head of our human resources

department. He received his master's degree in business administration from Beijing University of Posts and Telecommunications (北京郵電大學) in June 2004 and is responsible for organising staff training programmes. We will ensure that we comply with applicable PRC laws and regulations in the future by (i) empowering the legal department and human resources department to oversee and maintain our compliance with applicable PRC laws and regulations through, among other things, establishing policies to monitor tax return filings and payments with the relevant tax authority and strictly implementing monthly reporting procedures on tax, Social Insurance Funds and Housing Funds matters; (ii) providing regular trainings or updates in respect of PRC laws and regulations to our Directors on a bi-annual basis, and to senior management and the relevant staff on a monthly basis; and (iii) seeking external legal advice where appropriate and necessary. Our Directors considered that the internal control measures relating to compliance are adequate and effective.