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OVERVIEW

We are a vertically integrated manufacturer of chemical fibre knitted fabrics, especially with focus on functional fabrics, for sportswear clothing in the province of Fujian in the PRC. We develop and manufacture fabrics for sports and leisure apparel in the PRC and produce garments on an OEM basis for some overseas premium apparel brand owners such as Decathlon, Kappa and Mizuno and some PRC apparel brand owners such as Li Ning and Anta. The Group is also engaged in the design, development and marketing of fashion and leisure apparel and accessory products sold under the MXN brand.

The following table sets forth the breakdown of our turnover by fabric sales, casual and sportswear OEM sales and branded leisure clothing sales during the Track Record Period:

Turnover	For the year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Fabric sales	548,476	83.9	769,841	82.6	888,984	70.2	431,213	82.6	511,537	62.6
Casual and sportswear OEM sales	104,904	16.1	162,635	17.4	154,381	12.2	72,912	14.0	60,091	7.4
Branded leisure clothing sales	—	—	—	—	222,685	17.6	17,658	3.4	245,677	30.0
Total	653,380	100.0	932,476	100.0	1,266,050	100.0	521,783	100.0	817,305	100.0

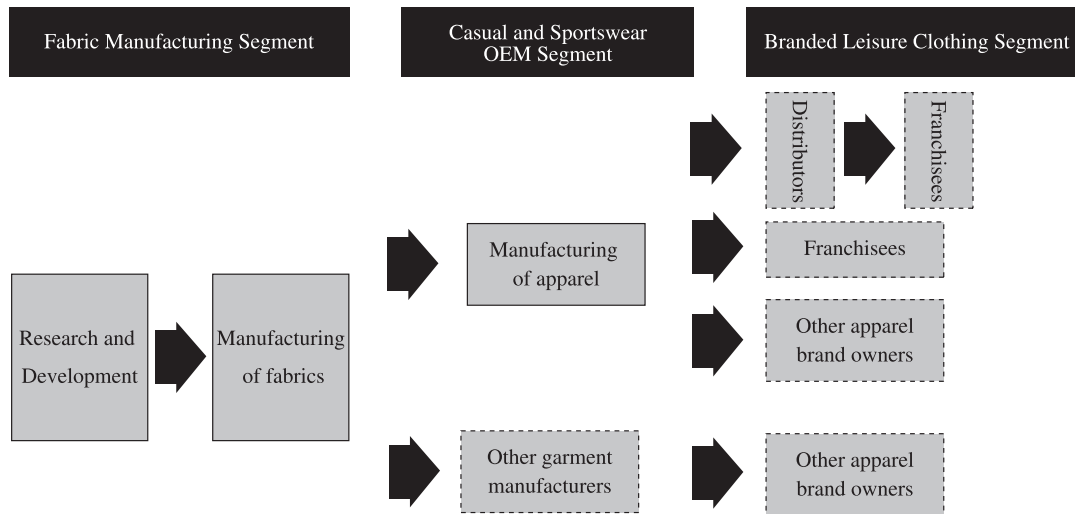
We collaborate closely with apparel brand owners to design fabrics that meet customised order particulars. Our finished fabrics comprise more than 2,880 designs and specifications. Our fabrics are used in a broad range of garments, including men's, women's and children's clothing, sportswear, golf shirt, T-shirt, swimwear and inner-wear. We have established business relationships with owners of leading brands. For the fabrics manufacturing segment, Fuqing Hong Liong produces fabrics which serves as the raw materials for the production of all the five brand owners, namely Decathlon, Anta, Kappa, Mizuno and Li Ning. For the causal and sportswear OEM segment, Fuqing Ecotex also produced the sportswear and leisure apparel for Anta, Mizuno and Li Ning. As advised by our Directors, our Group has maintained relationships with the apparel brand owners for more than ten years even though we have not entered into long term supply contracts with these customers.

Our principal manufacturing facility is a modern, integrated knitting, dyeing and finishing facility in Fuqing, China, with a total gross floor area of approximately 31,756.75 square meters. We offer weft and warp knitting along with dyeing services.

Apart from the above, we are also engaged in the design, development, wholesale and marketing of fashion and leisure apparel and accessory products, sold under the MXN brand, which was acquired by us in the PRC pursuant to the agreement with Chen Pin-Chou, Kuo Yuan-Li, Su Ming-Che and Chen Li-Nuan dated 26 May 2008.

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The chart below illustrates our current segment model:



Note: Components of our segment model marked by solid lines refer to those parts of the value chain controlled by us, while those components marked by dotted lines indicate those not controlled by us.

COMPETITIVE STRENGTHS

We believe the following competitive strengths position us to capitalise on significant opportunities to sustain the growth of our business:

Integrated and efficient production operations

The Group vertically integrates the manufacture of fabrics to the production of branded causal leisure apparel. Among the Company's subsidiaries, Fuqing Hong Liong produces fabrics, which serves as one of the suppliers of raw materials for the production of sportswear and leisure apparel (Casual and Sportswear OEM Segment) by Fuqing Ecotex. Fuqing Ecotex also serves as one of the suppliers of sportswear and leisure apparel for Fuzhou Aike and Shishi Maigen. The Board believes that the Group's vertical integration strategy provides the Group with the flexibility to adjust product mix to meet changing market conditions and demands, and the capability to cater for the needs of customers. The Board is of opinion that the Group's efficient production and inventory management system enables the Group to fulfil customer orders within a short lead time.

Innovative design and product development

Product design

We believe that one of our core competitive strengths is our provision of fashionable branded products to meet consumer demands from time to time. Our MXN brand has its own merchandising department composing of 28 employees as at 31 October 2009.

In order to blend international perspective into our designs and to strengthen the standards of our local designs in China, we leverage on our good social resources and network and obtain first hand clothing samples through market research. We visit places in the Southeast Asia such as Hong Kong and

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Thailand to experience first hand the latest trends in style and fabric materials in those places. Since 2009, we have engaged a fashion design agency in Hong Kong to assist us with the design of international and fashionable apparel products for the China market.

Product development

For the fabric manufacturing segment, we develop new fabric constructions, patterns, textures and colours to meet our customers' specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing innovative fabrics with value-added features, including anti-bacteria, anti-odour, anti-static, UV protection, moisture management, micro-fibre, stretch, and anion fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in development processes to meet quality standards.

Multi-faceted marketing strategy

Promotion by entertainment celebrity

We believe that marketing and promotion strategy is the key of success in the branded leisure clothing segment. We have deployed a new marketing campaign by using entertainment celebrities to promote our brand and products to attract and appeal to the fashion-conscious consumer. We have contracted an entertainment celebrity, who is popular among the Chinese-speaking communities, Peter Ho (何潤東), as an image and brand representative of our MXN brand because we believe he matches our culture and the lifestyle images that we want to be associated with the MXN brand. We believe this marketing strategy has been effective in attracting certain target consumers to our MXN brand and will result in increased market awareness and acceptance of our MXN brand as a trend-setting leisure wear brand.

Media advertising

Apart from the promotion by entertainment celebrities, we also strategically select other forms of advertising for our MXN brand that we believe match its image and market position.

We promote our MXN brand by posting advertisements in apparel magazines, broadcasting advertisements on bus media which cover 22 provinces and setting up advertising boards in stations or open areas outside shopping malls. Following the appointment of our entertainment celebrity, we have changed the advertising posters in the franchise shops and franchise stores accordingly in order to build up a clear brand image.

Focus on value-added fabrics with higher margins

With our product development, technical expertise and production scale, we consider that we are able to produce customised, high value-added fabrics that command higher average selling prices and generate higher margin.

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Established relationships with apparel brands

We believe our relationships with brand owners are due in large part to our reputation for reliability, in terms of quality control and on-time delivery, dedicated customer service, ability to innovate and competitive product pricing. We have established business relationships with a broad range of apparel brands such as internationally renowned labels, Decathlon, Kappa and Mizuno and local label, Li Ning and Anta. For the fabrics manufacturing segment, Fuqing Hong Liong produces fabrics which serves as the raw materials for the production of all the five brand owners, namely Decathlon, Anta, Kappa, Mizuno and Li Ning. For the casual and sportswear OEM segment, Fuqing Ecotex also produced the sportswear and leisure apparel for Anta, Mizuno and Li Ning. As advised by our Directors, our Group has maintained relationships with the apparel brand owners for more than ten years even though we have not entered into long term supply contracts with these customers.

Experienced management team

Our core management team has been with the Group for about 15 years. Our Chairman, Vice-Chairman, and Chief Executive Officer have an average of over 20 years of industry experience.

The management team's ability to execute its business plan is demonstrated by the approximately 39.2% compound annual growth rate in turnover for the past three financial years and reflects the focus of our founders, executive Directors and senior management on enhancing profitability and creating shareholder value. After the completion of the Offering, our senior management will retain a significant financial interest in the Group's business.

BUSINESS STRATEGIES

Our principal business strategies are:

Expand and upgrade manufacturing facilities

In order to enhance our competitiveness and profitability, we seek to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, to expand our manufacturing facilities, selectively upgrade production equipment and acquire environmental-friendly and energy-saving production equipment. Existing production equipment such as boiler equipment and thermal equipment will be upgraded. Environmental-friendly and energy-saving production equipment such as renovated dyeing equipment will be acquired in order to save energy, reduce production cost and increase production capacity for high-end products. We also seek to identify new production equipment designed to enhance our production efficiency and capacity, shorten turnaround time and reduce labour costs and energy consumption, particularly the equipment used for knitting, dyeing and finishing in our fabric manufacturing segment. These planned upgrades and acquisitions lay the foundation for improving both productivity and profitability in the future. It is expected that the proceeds will be invested in 2010 and the production capacity will increase by approximately 50% in the second half of 2010.

Develop new high-tech fabric specifications

We are currently planning to introduce additional value-added fabrics such as environment-friendly fabrics and functional fabrics to secure our competitive strength in research and development of high-tech fabrics in the industry.

In order to achieve such target, we seek to increase our resources on innovation, research and development of new high-tech fabric specifications, and to annually file at least three patent applications for registering an invention or a new process. Increasing our resources in research and development includes an expansion of our research and development department, acquisition of new research and development equipment, hiring experts and scholars in this profession, provision of training to existing research and development employees to enhance their professional standards and formulation of relevant approaches to encourage innovation. These initiatives will be implemented in order to strengthen the innovation and development capability of our own research and development department, which in turn will help us strive to become one of the world's leading professional manufacturers in functional fabrics and environment-friendly fabrics.

We expect to fund these initiatives from our internal resources.

Continue to develop and enhance our MXN brand name

Through the implementation of a number of innovative and diversified marketing plans targeted towards our major consumer group who are between the ages of 18 and 35, we intend to apply approximately HK\$259.7 million of the proceeds from the Global Offering, which represents approximately 26.0% of the net proceeds, to continue to develop and enhance our MXN brand and brand recognition as a leading and innovative retailer of trendy and fashionable casual wear and accessory products. The amount is significantly higher than the aggregated expenses on the same item during the Track Record Period. As advised by the Directors, before the acquisition by the Group in 2008, Shishi Maigen did not have a very well-organised marketing strategy. However, after the acquisition, the new management of our Group realised the importance of the popularity of a brand, which is also the core factor which leads to the success of running a brand business. So, our Directors advised that the number of franchise stores of us is expected to continue to expand, which will lead to an increase in the advertising and marketing costs as a result of the additional number of the franchise stores involved.

We intend to further promote the brand by engaging in various types of advertisement on mass media, including television commercials, radio, magazine advertising, outdoor displays, and multimedia advertisement on public transport, which will incur a substantial amount of promotion costs.

We first set up our MXN franchises in second-tier cities. In order to gain more brand awareness and exposure in first-tier cities at an accelerating pace, one of our initiatives is to appoint entertainment celebrities, who are popular in the trendy and youth mass market and have a fresh image that closely conveys the culture and lifestyle of our MXN brand, to be our image and brand spokespersons. In 2009, we appointed Peter Ho (何潤東), who is a popular Asian entertainment celebrity, to be our image and brand spokesperson.

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Moreover, we intend to hire a female celebrity as a spokesperson for the brand. Together with the current spokesperson, we intend to organise different marketing events to promote the brand, which will also significantly increase our cost of the advertising programme.

As advised by our Directors, we intend to apply approximately HK\$259.7 million of the net proceeds from the Global Offering in the three years after the listing of the Company for advertising and marketing. It is estimated that the advertising and marketing cost will be utilised as approximately HK\$38.9 million, HK\$90.9 million and HK\$129.9 million for each year of 2010 to 2012 respectively. We will use our internal resources to carry out the advertising and marketing activities in the subsequent years after that three years period of time as mentioned.

Expand and optimise our distribution network

We will continue to expand and optimise the distribution network of our MXN branded products. In 2008, our sales channels had mainly been distributionship and franchising. We intend to apply approximately HK\$352.6 million of the proceeds from the Global Offering, which represents approximately 35.3% of the net proceeds, to gradually speed up the establishing of 20 self-owned and operated flagship stores in 20 prime locations in major cities or provinces of the PRC in the coming years of 2010 and 2011. The flagship stores are planned to be located in East China (such as Shanghai and Fujian), South China (such as Hubei, Guangdong and Hong Kong), Southwest China (such as Sichuan and Yunnan), Northeast China (such as Heilongjiang Liaoning), and North China (such as Beijing and Tianjin). We believe that the flagship stores are a good means for promoting the image of the brand and style of the shop for attracting potential investment. This is another initiative of ours to outreach our MXN brand to increase brand recognition and reputation. We have no self-owned and operated flagship stores as the Latest Practicable Date.

Implement our multi-brand strategy

We confirm that we are currently in negotiation for the acquisition of a second sports and leisure apparel brand. Substantive negotiations are expected to be entered in 2010, and that particular brand will join our Group in the second half of the same year if the negotiation is successful. As confirmed by our Directors, the negotiation between the potential seller of the leisure apparel brand in the PRC has undergone for about one year. Both the potential seller and us were having a preliminary intention but these are no concrete terms or arrangements at this stage. Thus, the acquisition may or may not be successful.

We intend to apply approximately HK\$132.2 million of the proceeds from the Global Offering, which represents approximately 13.2% of the net proceeds, for the acquisition of the second sports and leisure apparel brand. This multi-brand strategy not only allows us to offer a wider range of product offerings but also allows us to distinguish and divide our target markets with a number of unique brands that cater and attract different customer groups. Therefore, we will continue to develop and promote each of our brands as a unique brand targeting different consumer groups.

Continue to reinforce our one-stop solutions

Through providing our customers with a variety of value-added services and solutions, we seek to strengthen our cooperative relationships with our customers and secure higher-margin business. Different from many Asian apparel companies that are mainly engaged in either fabric manufacturing, casual and

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sportswear OEM manufacturing or distribution, we vertically integrate the apparel industry chain. We integrate fabric manufacturing, apparel manufacturing and branded distribution and enjoy the advantages of such one-stop solutions. From manufacturing of fabrics to trading of apparel, this business integration enables us to have more control and rights over different procedures throughout the apparel industry chain.

To reinforce our one-stop solutions and enhance our corporate image, we intend to apply approximately HK\$52.8 million of the proceeds from the Global Offering, which represents approximately 5.3% of the net proceeds, to establish a more centralised administrative corporate headquarters, where the internal resources of our Group, product design, logistics management, office and exhibitions are integrated. In addition, it will be where general assemblies for suppliers, distributors and customers who place their orders are held. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the corporate headquarters in Fuqing.

Continue to improve our management of production

Although we believe we currently enjoy a flexibility in adjusting our production schedules to meet production needs through outsourcing production to sub-contractors and contract manufacturers, we will continue to expand and improve our manufacturing facilities in order to meet the expected growth of our business and the growing demand for our fabrics, sportswear products and leisure apparel and accessory products. In particular, we intend to apply approximately HK\$44.1 million of the proceeds from the Global Offering, which represents approximately 4.4% of the net proceeds, to purchase an ERP system for increasing operational efficiency by enhancing information management, production management, logistics management and operational control through the installation of the ERP system. We aim to do this in order to strengthen our control over operations and cost and to rapidly respond to the changing market trends and preferences. We believe that the growth in our business, operations and production volume will increase our efficiency in terms of product line utilisation rates while allowing us to reduce our raw material costs. We will also continue to refine and improve our manufacturing facilities in order to improve production rates and reduce stoppages.

Strengthen cooperative relationships with our MXN franchisees

We intend to apply approximately HK\$26.4 million of the proceeds from the Global Offering, which represents approximately 2.6% of the net proceeds, to develop our new corporate headquarters for our MXN distribution business. The setting up of the new MXN corporate headquarters can consolidate the design, logistics, operations and convention functions such as annual sales fairs into a single place, and in which, we can carry out conventions for potential investors, merchandisers, suppliers and franchise distributors. As advised by our Directors, the Board has not identified any target building and is not under any negotiation for the acquisition. Our Directors confirmed that at this stage, we only have a preliminary plan to establish the new MXN corporate headquarters in Xiamen.

PRINCIPAL PRODUCTS**Fabric Manufacturing Segment**

We now manufacture and offer a wide range of designs and specifications of functional and comfortable chemical fibre knitted fabrics to garment manufacturers in China. Designs for fabrics that meet individualised order specifics are typically developed after exchanging ideas and working closely with owners of major domestic and foreign well-known apparel brands. To meet the tastes and preferences of their target consumers, many of these orders made by the apparel brand owners require highly customised, complex design and production specifications. Our garment manufacturer customers in turn manufacture finished garments using our chemical fibre knitted fabrics for sale to the apparel brand owners.

Weft knitted and warp knitted fabric

We produce and sell weft knitted and warp knitted fabrics which are made from raw yarns. Weft knitted fabric is commonly used for the production of lightweight apparel, such as T-shirts, polo shirts and night clothes, and is knitted in one continuous row.

On the other hand, warp knitted fabric is knitted using vertical, horizontal and diagonal interlooping of raw yarns. A variety of complex fabrics can be made from warp knitted fabric ranging from stretch and compression fabrics to heavy and sturdy fabrics. Therefore, warp knitted fabric is commonly used for the production of apparel requiring such complexity, for example, swimwear, underwear and non-apparel products such as automobile decorations.

Main fabric specifications

The weft knitted and warp knitted fabrics we manufacture have more than 2,880 designs and specifications. The table below lists out a few of the many types of fabric that we mainly produce and classification is mainly made by type of finish and knitting structure:

Name	Description	Typical end use as expected by the Company
Environmental-friendly fabrics	fabrics knitted with recycled fibre or decomposable fibre	Sportswear, golf shirt, inner-wear
Functional fabrics	fabrics that incorporate value-added features such as anti-microbial, anti-electromagnetic radiation, anti-ultraviolet, anti-odour, anti-infrared, warmth-retaining, light-weight and moisture management	Sportswear, golf shirt
Jersey	a plain light-weight single-knit fabric	T-shirt, inner-wear
Double-knit	fabric produced on a circular-knitting machine equipped with two sets of latch needles situated at right angles to each other	Turtleneck, polo shirt

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Name	Description	Typical end use as expected by the Company
Striped	fabric knitted with different fibres and then dyed with horizontal strip pattern made by two to four kinds of colored yarns according to individualised order specifics	T-shirt, polo shirt, golf shirt
Velour	Plain knitted terry fabric with a sheared surface on one side and a smooth surface on the reverse	Pullover, jacket, pants
Polar-fleece	plain knitted fabric with both sides brushed and single side anti-pilling	Hooded jacket
Nylex	a plain fabric with a pillled and sanded surface on one side resembling the detailed touch of peach skin and velvet	Furniture, indoor slippers, boots
Stretch fabrics	fabrics knitted with elastomers (spandex) to provide stretch properties	Inner-wear, t-shirt, swimwear

Casual and Sportswear OEM Segment and Branded Leisure Clothing Segment


To maximise the efficient use of our manufacturing capacity, we also manufacture apparel for various domestic and foreign well-known brands. We categorise our principal products under these two components of our segment model into (i) sportswear and, (ii) leisure apparel and accessory products. Among the other brands, our leisure apparel and sportswear are as well sold under the Aike Sport brand, which is owned by us; and our leisure apparel and accessory products are also sold under the MXN brand, which was acquired by us in May 2008. These brands have their own target consumer groups and are managed by our separate subsidiaries, each of which is responsible for its own product design and development, production, marketing and promotion, distribution and retail.

Aike Sport

The Aike Sport brand was launched in 2008 and is owned by us. Through our brand, we strive to deliver sports and leisure apparel to our target group of consumers, who are consumers between the ages of 6 and 14. We also strive to make functional fabrics, affordable to children in China. By combining the functionality of functional fabrics which incorporate features such as moisture management, anti-microbial and anti-mould with the characteristics, demand and fashion trends of children and teenagers' clothing, we believe that we have been successful in designing fashionable sports and leisure apparel which are appealing to the trendy and youth mass market.


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MXN

The MXN brand was acquired in May 2008 and is owned by us. We understand that the designer of the MXN logo “” took the main letters of two words: MODERN and NATURE as the basis of the brand culture. The collision of two arrows forming “X” closely links modern and nature which are the two essences highly valued by the new generation of young consumers. The Board is of the view that the logo represents a more in-depth interpretation of our brand name “MXN” which emphasises the culture of naturally designed, simple and stylish clothing and accessory products. Through our brand, we strive to deliver casual wear and accessory products which feature the characteristics of popular cultures to our target group of consumers, who would be consumers between the ages of 18 and 35.

Major Awards

The following table sets out our major awards obtained by us:

Brand	Year of grant	Awards	Awarding body
HO-COOLING	2004.12	Well-known trademark of Fuzhou	Administration for Industry and Commerce of Fuzhou
HO-COOLING	2006.01	Fujian top brand	Government of Fujian Province
HO-COOLING	2008.12	Fujian top brand	Rongqiao Economic & Technological Development Zone/Government of Fujian Province
	2008.09	Well-known trademark of Fujian Province	Administration for Industry and Commerce of Fujian

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Product Offerings

We currently offer a wide range of products including (i) fabrics, (ii) sportswear and (iii) leisure apparel and accessory products. The following table lists out our major product types under each of the above-mentioned categories:

Fabrics	Sportswear	Leisure apparel and accessory products
Environmental-friendly fabrics	sports T-shirts	Jeans
Functional fabrics	sports pants	Casual pants
• Ho-cooling [®]	long-sleeved shirts	Vests
• Smartech [®] -BB	short-sleeved T-shirts	Short pants
• Smartech [®] -DD	short-sleeved shirts	Jackets
• Smartech [®] -NS	sports suits	Shirts
• Smartech [®] -PH		Windbreakers
• Smartech [®] -NT		T-shirts
• Smartech [®] -MR		Down coats
• Smartech [®] -CS		Belts
Jersey		
Double-knitted		
Stripped		
Velour		
Polar-fleece		
Nylex		
Stretch fabrics		

During 2006 and 2007, all of our turnover was derived from fabric manufacturing segment and casual and sportswear OEM segment. The turnover derived from our Aike brand and MXN brand amounted to approximately 17.6% of our total turnover in 2008 under the branded leisure clothing segment. The following table sets out the breakdown of our turnover by fabric sales, casual and sportswear OEM sales, and Aike and MXN branded leisure clothing sales during the Track Record Period:

Turnover	For the year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>(unaudited)</i>			
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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Total	<u>653,380</u>	<u>100.0</u>	<u>932,476</u>	<u>100.0</u>	<u>1,266,050</u>	<u>100.0</u>	<u>521,783</u>	<u>100.0</u>	<u>817,305</u>	<u>100.0</u>

RESEARCH, DEVELOPMENT AND DESIGN

Research and development

As at 31 October 2009, our research and development team consisted of 26 experienced researchers. Our research and development efforts focus on developing new fabrics and styles to meet specific styling requirements or other specific properties, such as insulation, weight, strength, and support as well as improving fabric quality and production efficiency. We sometimes collaborate with our customers to produce new fabrics.

As advised by our Directors, the collaborations with its customers to produce new fabrics were material to our Group. As the investment cost contributed by the Group was absorbed in the administrative and management cost of each department, there is no separate classification for new product development. In the research and development project collaborated with customers, our Group involved in the design of style, texture, color, function and final structure of new products. Our Group also produced samples of new products for customers. As the cost of the Group in developing new products with customers was absorbed in the administrative and management cost in different departments, there is no profit sharing between our Group and the customers.

As advised by our Directors, the amount of research and development expenses incurred by our Group were approximately RMB1.22 million, RMB1.22 million and RMB1.51 million and RMB0.56 million for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively.

For the fabric manufacturing segment, we develop new fabric constructions, patterns, textures and colours to meet our customers' specifications. We have equipment in our facilities dedicated to sample manufacturing where we test new fabric concepts for actual end-use products. Based upon the results of internal evaluations and retail tests, new fabrics are introduced into the marketplace. We also focus on developing functional fabrics with value-added features, including anti-bacteria, anti-odour, anti-static, UV protection, moisture management, micro-fibre, stretch, and anion fabrics.

We work closely with our customers to ensure product quality and our research and development team plays an important part in development processes to meet quality standards.

Product design

Our Group strived to make functional fabrics. By combining the functionality of functional fabrics with the characteristics, demand and fashion trends of children and teenagers' clothing, our Directors believe that we had been successful in designing fashionable sports and leisure apparel. We did not hire any design agency for Aike Sport brand products but our Group have an in-house design team for the product design. Our in-house design team for Aike Sport brand consist of 6 employees as at 31 October 2009.

As a brand which emphasises the culture of naturally designed, simple and stylish clothing and accessory products, we believe our MXN brand must continue to focus on designing innovative and stylish branded apparel products that are able to attract and sustain the new generation of young

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consumers. We believe that one of our core competitive strengths is our provision of fashionable branded products to meet consumer demands from time to time. Our MXN brand has its own merchandising department which comprises 24 employees as at the Latest Practicable Date.

In order to blend international perspective into our designs and to strengthen the standards of our local designs in China, we leverage our good social resources and network and obtain first hand clothing samples through market research. We visit major cities such as Hong Kong and Thailand in the Southeast Asia to experience first hand the latest trends in style and fabric materials in those cities. Since 2008, we have employed a fashion design agency from Hong Kong to assist us in designing international and fashionable apparel products for the China market.

Our product design process starts with our own dedicated product design department producing a planned portfolio of apparel products which in turn is submitted to the Hong Kong fashion design agency for product design. With a deep understanding of the current fashion trends, the Hong Kong fashion agency begins their design from three areas: trend, design and fashion theme and sets a general design direction for the clothing every season. Subsequently, our own product design department will refine the ideas of the Hong Kong fashion agency by considering the China market, the Chinese consumers' purchasing habits and the market information. As advised by our Directors, our Group has not entered into long-term agreement with the fashion design agency. Our Directors also confirmed that the fashion design agency is independent of the Group.

We plan to purchase an ERP system to analyse customers' purchasing behaviour. In addition, we plan to upgrade our logistics management (i.e. inventory control and scheduling).

MANUFACTURING PROCESSES

Fabric manufacturing segment

Our production processes are of a high degree of mechanisation. We process raw yarn and greige fabric into weft knitted or warp knitted fabrics.

Our fabric production cycle can be divided into three general procedures: knitting, dyeing and finishing, which are illustrated as follows:

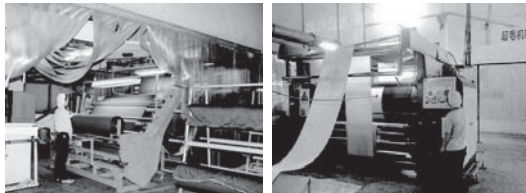
Knitting



Dyeing



Pilling*



Finishing



* This step of the production process does not apply to all fabric types. Only nylex go through this process. If the pilling process is required, the dyed fabrics are then dried at high temperature and pilled.

Knitting

This procedure occurs in our knitting factory. Employees from the knitting workshops first collect raw yarn in accordance with the fabric production schedule. In the production of warp knitted fabrics, raw yarns are put up on a horizontal scroll. The horizontal scroll is put onto the knitting machine and raw yarns are fed from the horizontal scroll to the knitting machine for knitting. In the production of weft knitted fabrics, raw yarns are put up on cones. After winding, cones of raw yarns are put on creels to feed into the circular knitting machines for knitting. Upon completion of the knitting, the knitted fabrics are first tested before being transported to the warehouse of semi-finished products.

Dyeing

This procedure occurs in our dyeing and finishing plant. Employees from the dyeing and finishing workshops first collect semi-finished products (including the knitted fabrics self-produced and greige fabrics purchased) from the warehouse of semi-finished products, dyes and dye auxiliaries. In preparation for the dyeing process, fabrics are first inspected. They are then scoured to remove dust, impurities and oil. Dyes and dye auxiliaries are then added onto the scoured fabrics for the dyeing process. After being dehydrated, dyed fabrics then undergo an intermediate inspection to check whether their colors and quality match customers' specifics. If the pilling process is required, the dyed fabrics are then dried at high temperature and pilled; otherwise, they are then inspected by our quality control employees and will then be processed through the finishing step.

Finishing

This procedure occurs in our dyeing and finishing plant. Fabrics will be transported to the warehouse of finished products for shipping after final inspection and packaging.

Casual and sportswear OEM segment

Our apparel manufacturing process is divided into five major stages: (i) raw materials inspection and testing; (ii) cutting and trimming; (iii) sewing and assembly; (iv) ironing; and (v) packaging.

The major raw materials in the production of apparel are fabrics. Prior to being cut and trimmed into individual components of the desired shape, fabrics and other raw materials are usually required to be inspected and tested by our quality control department. During the inspection and testing, fabrics are put onto a winding machine for our quality control staff members to view their colors and textures such as knitting patterns, thickness and touch. We confirm that other raw materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection. After our quality control inspection and testing, raw materials qualified for processing are then prepared for sewing and stitching. Individual components such as sleeves, front and back are then assembled to form the finished products. To preserve the shape and appearance of the finished products, ironing might be necessary. In order to ensure high quality of products, finished products will be prepared for packaging and shipping after final inspection by our quality control staff members.

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MANUFACTURING FACILITIES

Fabric manufacturing segment

The following tables present a number of annual production capacity and related information for our fabric manufacturing facilities:

	Period				
	For the year ended 31 December		2008	For the six months ended 30 June	
	2006	2007		2008	2009
Approximate output (tonnes)	12,576	14,758	15,420	7,584	7,886
Annualised production capacity (tonnes)	16,000	16,000	16,000	8,000	9,000
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	79%	92%	96%	95%	88%

Casual and sportswear OEM segment

Apart from the captive cogeneration power facility included in our Fuqing manufacturing facility, we operate our own apparel manufacturing facilities to more effectively control the quality of our products as well as to respond more quickly to consumer demand. Other than those apparel products produced under outsourcing, the production of our entire apparel products takes place at our own production facilities located in Fuqing, Fujian Province. We operated apparel production lines with annual manufacturing capacity of approximately 1.63 million, 1.74 million and 2.53 million pieces of apparel products per annum as at 31 December 2006, 2007 and 2008 respectively. The following tables present a number of annual production capacity and related information for our apparel manufacturing facilities:

	Period				
	For the year ended 31 December		2008	For the six months ended 30 June	
	2006	2007		2008	2009
Approximate output (thousand pieces)	1,626	1,738	2,525	969	1,103
Annualised production (thousand pieces)	2,362	2,362	2,362	1,184	1,262
Annual production capacity represented by the percentage approximate output represents of annualised production (%)	69%	74%	107%	82%	87%

The approximate annual output as a percentage of the annualised production in 2008 exceeded 100%. As confirmed by the Directors, it is because the production of 320,200 pieces of apparel products commenced in 2007 but was not completed until 2008, when the finished apparel products were transported to the warehouse and recorded as inventory.

We believe that our current apparel manufacturing facilities are cost-competitive. At the same time, we also continue to improve our manufacturing facilities and production lines to increase productivity of our manufacturing facilities and enhance quality control. Currently, our apparel production lines are staffed with three shifts a day, each shift comprising approximately 240 to 270 production staff.

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In order to improve production efficiencies at our existing manufacturing facilities and production lines, we plan to allocate a portion of the proceeds from the Global Offering to capital expenditure for the purchase of environmental energy-saving production facilities.

Sewing equipment is the most important among all the production equipment for our daily production. As a contingency plan to cope with power shortages and suspensions and mechanical failures of our sewing equipment, our maintenance technicians are on call to carry out repairs and troubleshooting. The Group has maintenance manual specifically for sewing equipment and sewing equipment can only be operated by the trained staff. During the Track Record Period, we did not experience any major failures of our sewing equipment.

THIRD-PARTY OUTSOURCING

For the fabric manufacturing segment, we may outsource to some third-party sub-contractors during the peak season, when the demand exceeds our production capacity, for the production processes of dyeing, printing, and pilling. We select the third-party sub-contractors based on the quality and cost of their work. We do not enter into long-term agreements with third-party sub-contractors but instead maintain flexibility by working with them based on individual orders, and we generally supply them with raw materials in the outsourcing production.

For the casual and sportswear OEM segment, we occasionally outsource the production of some of our sportswear and leisure apparel and accessory products to various third-party sub-contractors. Sub-contractors are engaged to perform all or certain of the production steps. We outsource our whole production processes occasionally when the demand exceeds our production capacity. We select the third-party sub-contractors based on the quality and cost of their work. We do not enter into long-term agreements with third-party sub-contractors but instead maintain flexibility by working with them based on individual orders, and we generally supply them with materials in the outsourcing production.

For the branded leisure clothing segment, the production processes of the Group's Aike and MXN branded leisure clothing products are outsourced to third-party contract manufacturers as well as contracted to Fuqing Ecotex. The Group engage the contract manufacturers to perform the entire production processes and they will be responsible for purchasing the relevant raw materials. We select the third-party contract manufacturers based on their reputation as well as the quality and cost of their work. We do not enter into long-term agreements with third-party contract manufacturers but instead maintain flexibility by working with them based on individual orders.

The number of sub-contractors available and approved by the Group's production on fabric for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was 19, 10, and 12 and 9.

The number of sub-contractors available and approved by the Group's production on OEM segment for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was 8, 7, and 7 and 12.

The number of contract manufacturers available and approved by the Group's branded leisure clothing segment for the year ended 31 December 2008 and the six months ended 30 June 2009 was 42 and 33.

BUSINESS

The costs incurred by us in respect of third-party sub-contractors under outsourcing arrangements for 2006, 2007 and 2008 were approximately RMB29.2 million, RMB28.7 million and RMB27.0 million respectively, representing a percentage of the Group's total cost of sales of 5.8%, 4.1% and 3.0% respectively, for each of the year during the Track Record Period. Our Directors consider that the production processes outsourced to the sub-contractors are critical to the Group's production. The percentage of apparel products produced by sub-contractors of the Group for 2006 and 2007 was approximately 30% of the total number of apparel products produced. For 2008, the percentage dropped to approximately 22%. Although the Directors consider the production processes outsourced to the sub-contractors are crucial to the Group's production, they are of the view that there are no associated risks with outsourcing arrangements as there are a number of sub-contractors can be found in Fuzhou. In order to maintain the competitiveness between the sub-contractors, the costs of outsourcing offered by the sub-contractors would not fluctuate much. The Directors advised that sub-contractors can easily be replaced if the quality of products is poor or the charge of outsourcing is high. As confirmed by the Directors, they do not think there is any significant risk associated with outsourcing. Our Directors confirm that the sub-contractors are independent third parties.

RAW MATERIALS, MATERIALS PURCHASED AND SUPPLIERS

The principal raw materials used in the production of our fabric products are raw yarns and greige fabric, chemicals and dye auxiliaries while the raw materials used in the manufacture of our apparel products are fabrics. All these materials can be obtained from domestic suppliers in the PRC. For the branded leisure clothing segment, since the Group engages the contract manufacturers to perform the entire production processes and they will be responsible for purchasing the relevant raw materials, the materials purchased by the Group in this segment is finished garments.

We have developed solid and steady relationships with many of our key suppliers, as they have been supplying to us for years. As advised by our Directors, our Group maintained solid and steady relationship with its key suppliers. Given our solid and steady relationships with many of our key suppliers, we believe that our suppliers generally prioritises their supply to us and we did not experience any material delays in receiving supplies from our suppliers during the Track Record Period.

Our suppliers including raw material suppliers as well as sub-contractors and contract manufacturers to whom we outsource the manufacture of our apparel products. Through our one-stop solutions to the apparel industry chain, for each of the years ended 31 December 2006, 2007 and 2008, purchases of fabrics made by Fuqing Ecotex from Fuqing Hong Liong amounted to approximately RMB50.4 million, RMB102.3 million and RMB105.4 million, respectively. For the year ended 31 December 2008, purchases of finished garments made by Fuzhou Aike and Shishi Maigen (after the date of its acquisition by the Group) from Fuqing Ecotex amounted to approximately RMB21.0 million and RMB38.7 million, respectively.

For each of the years ended 31 December 2006, 2007 and 2008, purchases from our top five suppliers amounted to RMB183.99 million, RMB243.03 million and RMB228.61 million, respectively, representing 36.6%, 34.8% and 25.1% of our total purchases. During these periods, purchases from our largest supplier amounted to RMB74.29 million, RMB75.15 million and RMB66.05 million, respectively, representing 14.8%, 10.8% and 7.2% of our total purchases for 2006, 2007 and 2008. We confirm that we generally enjoy credit of 30–60 days from our suppliers.

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We purchase certain raw materials from our connected parties. Please refer to the section headed “Connected Transactions — Continuing Connected Transactions” in this prospectus. Apart from that, 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.

INVESTMENTS IN OTHER COMPANIES

As at the Latest Practicable Date, save as disclosed herein, we have not invested in any other companies.

SALES AND DISTRIBUTION

Customers

The customers of the fabric manufacturing segment and casual and sportswear OEM segment are mostly brand owners, who are the end-users of our fabrics. We have dedicated sales teams assigned to those brand accounts to provide frequent contact in order to enhance our knowledge of and responsiveness to their specific needs and ensure full accountability for sales-related activities and customer service. As at 30 September 2009, our sales and marketing team consisted of approximately 382 personnel.

Accordingly, our sales efforts primarily target global and PRC brands with a strong image and a high volume of business. We have developed and maintained good business relationships with internationally renowned labels such as Decathlon, Mizuno and Kappa and local labels such as Li Ning and Anta.

Our top five largest customers accounted for approximately 27.9%, 27.7%, and 15.8%, respectively, of our total turnover for the three years ended 31 December 2006, 2007, and 2008. Sales to our largest customer of each year amounted to RMB70.25 million, RMB84.43 million and RMB60.5 million, respectively, representing 10.8%, 9.1% and 4.8% of our total sales. None of the Directors, their respective associates or, so far as the Directors are aware, the existing shareholders of the Company had any interest in any of the top five largest customers of the Group during the Track Record Period. Our customers are invoiced at the time when such products are delivered by us. Generally speaking, we provide the majority of our customers with trade credit of 30 to 60 days period depending on the customer’s financial strength, business size, credit history and historical sales performance. All credit terms are subject to our senior management’s approval. However, when we grant payment extensions to certain of our franchise distributions or franchise stores, it may result in payments being made to us more than 60 days after the date of delivery of our products. Our management and responsible sales staff conduct regular reviews of customers with overdue payments or who have exceeded their credit limit. We perform ongoing credit evaluations of our franchise distributors’ and franchise stores’ financial condition and they are generally not required to provide collateral to guarantee us their payment obligations. We monitor our receivable balances from each franchise distributor and franchise store weekly, and will make appropriate assessments in a timely manner as to whether or not an allowance for doubtful debts will need to be made. As of 31 December 2006, 2007 and 2008 and 30 June 2009, our allowance for doubtful debts was approximately RMB Nil, RMB4.8 million, RMB4.8 million and RMB8.1 million respectively and impairment loss of RMB Nil, RMB4.8 million, RMB Nil and RMB3.3 million was recognised for the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009.

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During the Track Record Period, the percentage of the aggregate sales of fabrics and casual and sportswear OEM to the leading brands customers is listed out as follow:

	Year ended 31 December		
	2006	2007	2008
Decathlon	22.42%	21.33%	18.29%
Li-Ning	15.29%	13.43%	16.18%
Anta	3.30%	6.66%	6.86%
Mizuno	11.05%	11.53%	12.58%
Kappa	2.36%	2.69%	1.73%

For our branded leisure clothing segment under the Aike Sport brand, we do not have any franchise distributors or franchise stores and all sales are made to wholesalers. We have a showroom in our Fuqing head office for displaying the Aike Sport apparel and for the wholesaler to place their orders. For the Aike Sport, the tenure of the sales contracts between our Group and our customers would be agreed after negotiations on a case by case basis.

For our branded leisure clothing segment under the MXN brand, please read the sub-section headed "Distribution" under this section for further details of the franchise stores. All of our customers are franchise distributors and franchise stores. Under our wholesale business model, we employ a franchise distribution model which is commonly used by apparel brand owners in the PRC. Neither the franchise distributors nor the franchise stores were owned or operated by our Group. After our acquisition of Shishi Maigen in 2008, we had 420 franchise stores as at 31 December 2008, and 665 franchise stores as at the Latest Practicable Date. For the year ended 31 December 2008 and as at the Latest Practicable Date, we had 11 and 22 franchise distributors, who in turn had 171 and 379 franchise stores, respectively. As confirmed by the Directors, the Group did not own any franchise stores during the Track Record Period and as at the Latest Practicable Date. For the year ended 31 December 2008 and the Latest Practicable Date, the total number of MXN franchise stores was increased by about 58% while the total number of the MXN franchise stores that are not under the franchise distributors was increased by about 15%. As confirmed by the Directors, the Group did not own the franchise stores in 2006 and 2007.

The following table sets forth the amount of sales of Aike Sport and MXN products under the branded leisure clothing segment for the year ended 31 December 2008 and six months ended 30 June 2008 and 2009 as follows:

	Year ended	Six months ended 30 June	
	31 December	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aike Sport	20,341	2,288	12,516
MXN	<u>202,344</u>	<u>15,370</u>	<u>233,161</u>
	<u><u>222,685</u></u>	<u><u>17,658</u></u>	<u><u>245,677</u></u>

Sales

Fabric sales

Our sales team, which consisted of approximately 49 personnel as at 30 September 2009, evaluates our production capacity before accepting a sales order and makes direct sales to our customers. While we obtain such sales orders by visiting the offices of apparel brand owners and exploring cooperation opportunities periodically, we also receive sales orders from customers who are directed to us by other apparel brand owners, some of whom we have been working closely with. We do not have long-term written sales contracts with most of our customers. From time to time we enter into informal written contracts or order forms with garment manufacturers, but orders are also frequently accepted upon oral agreement or via email or fax. We believe this is consistent with the industry practice. Since our production of fabrics is commenced only after these informal written contracts and orders are accepted, there is no tenure for the contracts we enter into with our customers. For the fabric manufacturing segment, we generally provide our customers with trade credit of 30–60 days, and we collect a 30–50% deposit for orders of special fabrics. For the casual and sportswear OEM segment, we generally provide our customers with trade credit of 30 to 60 days. For the branded leisure clothing segment, please read “Distribution” under this section.

Casual and sportswear OEM sales

Our sales team under the casual and sportswear OEM segment consisted of approximately 11 personnel as at 30 September 2009 and makes direct sales to our customers. Same as the fabric manufacturing segment, we obtain sales orders by visiting the offices of apparel brand owners and exploring cooperation opportunities periodically. In addition, we receive sales orders largely from customers who purchase our fabrics after working closely with us to develop certain fabrics that require highly customised, complex design and production specifications. For this segment, we also from time to time enter into informal written contracts or orders with various domestic and foreign well-known brands. Since we only commence production of casual and sportswear OEM products after having confirmed these informal written contracts and orders with them, there is no tenure for the contracts we enter into with our customers. In 2006, approximately 16.1% of our turnover was derived from casual and sportswear OEM sales. Although the turnover derived from casual and sportswear OEM sales had increased to approximately 17.4% in 2007, our management began the process of shifting our business focus to franchise distribution of branded leisure clothing, because we believe it has greater potential and such positioning differentiates us from major competitors. Our Directors believe that the increase in GDP, the increase in average income and spending power of the PRC citizens, and the increasingly strong sentiment towards the overall economic conditions in China brought and to be brought by the Beijing 2008 Olympic Games and the Guangzhou 2010 Asian Games respectively will increase the demand and thus the sales of branded leisure clothing.

In 2008, the turnover derived from casual and sportswear OEM sales has decreased to approximately 12.2%. We will continue to concentrate our resources to strengthen our branded leisure clothing segment and we plan to continue to reduce our casual and sportswear OEM segment and its contribution to our Group’s total turnover.

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Post-sales customer support

We believe our reputation is key to success of our business and we place importance on the quality of customer support that we provide. Therefore, our dedicated sales team provides our customers with dedicated post-sales customer service. Our sales team is also responsible for the day-to-day handling of minor claims or complaints from existing clients and coordination with the production team for any necessary reprocessing of orders.

General operations for our branded leisure clothing segment

Aike Sport

Under our branded leisure clothing segment for the Aike Sport products, we generate all of our turnover from sales of apparel to wholesaler. We do not sell our Aike Sport products to the end-customers.

MXN

We generally generate all of our turnover in this segment from sales of our branded leisure clothing on a franchise basis. We sell our branded leisure clothing to our customers who were primarily franchise distributors and franchise stores (directly under us or our franchise distributors). We do not sell our products directly to the end-customers. Franchise distributors and franchise stores under us place wholesale orders for our products directly with us, and franchise stores under the franchise distributors place wholesale orders for our products directly with our franchise distributors.

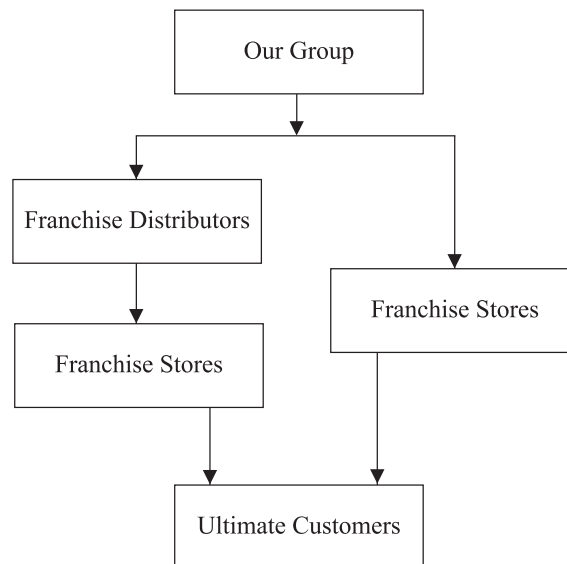
During the Track Record Period, our sales of MXN products recorded substantial growth. The Directors are of the view that this growth was not due to the accumulation of inventories at franchise distributor and franchise store level but as a result of the increase in sales of our MXN products to end retail customers in the PRC based on the following reasons:

- (i) By reviewing sales reports of our MXN products to the franchise distributors and franchise stores and reports on local market conditions throughout the Track Record Period, we closely monitored the sales to franchise distributors and franchise stores. The monthly sales data indicates that there were continuous sales to franchise distributors and franchise stores. We consider that this indicates there was no accumulation of inventories at franchise distributor and franchise store level. We also conducted random on-site inspections on our franchise distributors and franchise stores;
- (ii) We would work closely with our franchise distributors and franchise stores to collect their feedback and such feedback will assist our product design. Shortly after a sales fair, representatives of franchise distributors and/or franchise stores could enter into purchase orders whereby they would be obliged to purchase the agreed-upon quantity stated therein and Shishi Maigen would provide the products in accordance with such purchase orders. We can determine potential market demand of end retail customers through feedback from franchise distributors and franchise stores;

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- (iii) We encourage our franchise stores to clear inventory levels by allowing our franchise stores to exchange such excess inventory amongst other franchise stores, or to seek assistance from us to act as an intermediary between two franchise stores to exchange such inventory if necessary without charges. We also increase awareness of our brand through advertising. In addition, our franchise distributors and franchise stores with excess inventory at the end of each season may sell such excess inventory through special sales with our prior permission; and
- (iv) In recent years, China's apparel retail market recorded sharp increases. According to Datamonitor, China's apparel sales are expected to grow from approximately RMB595 billion in 2009 to reach approximately RMB731 billion by 2011, representing a CAGR of approximately 10.8%. Given such growth in China's apparel retail market, our Directors are of an opinion that our successful advertising strategies, increased brand reputation and the expansion and optimisation of franchise distributors and franchise stores have been a key factor enabling us to take advantage of the growth in China's apparel retail market and translate this growth into our sales during the Track Record Period.

The following chart illustrates the relationships among our Group, our MXN franchise distributors, our MXN franchise stores and ultimate customers as at the Latest Practicable Date:



Distribution

The distribution network of branded leisure clothing

Aike Sport

For our branded leisure clothing segment under the Aike Sport brand, we do not have any distribution network. We have a showroom for displaying the Aike Sport products and for the wholesaler to place their orders.

MXN

For our branded leisure clothing segment under the *MXN* brand, we have franchise distributors and franchise stores in selling our *MXN* products to the end customers. The following map sets forth the geographic distribution network of our branded leisure clothing under the *MXN* brand in the PRC as at the Latest Practicable Date:



Our Directors advised that all of the franchise distributors and franchise stores are Independent Third Parties. We have not terminated any of the distributorship agreements or replaced any of the franchise distributors and franchise stores for our *MXN* products since we signed distributorship agreements with them. Each franchise distributor is given exclusivity over its appointed geographic territory.

Under our wholesale business model, we employ a franchise distribution model which is commonly used by apparel brand owners in the PRC. Neither the franchise distributors nor the franchise stores were owned or operated by our Group. After our acquisition of Shishi Maigen in 2008, we had 420 franchise stores as at 31 December 2008, and 665 franchise stores as at the Latest Practicable Date. As at 31 December 2008 and the Latest Practicable Date, we had 11 and 22 franchise distributors, who in turn had 171 and 379 franchise stores, respectively. As confirmed by the Directors, the Group did not own any franchise stores during the Track Record Period and as at the Latest Practicable Date. Collectively, the *MXN* distribution network covers 22 provinces, as well as more than 33 county-level cities in the PRC. Our franchise distributors have direct contractual relationships with the franchise stores under them, but we do not. However, through our distributors, we are able to indirectly place certain operating requirements on our franchise stores, including compliance with our standard operating procedures, uniform pricing policy, standard store display and layout, as well as customer service standards. In addition, we currently have 8 regional sales managers who are responsible for monitoring

BUSINESS

and assisting franchise distributors and franchise stores in their respective geographic regions to ensure that our franchise distributors and franchise stores remain in compliance with these operating requirements.

The following table shows the number of MXN franchise stores directly sourcing from our Group and the number of MXN franchise stores sourcing from franchise distributor (excluding those franchise distributors) for different districts in the PRC as at 31 December 2008 and as at the Latest Practicable Date, respectively:

	As of 31 December 2008			As at the Latest Practicable Date		
	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store	No. of franchise store directly sourcing from our Group	No. of franchise store sourcing from franchise distributor	Total no. of franchise store
East China ⁽¹⁾	181	115	296	217	163	380
South China ⁽²⁾	18	56	74	15	77	92
Southwest China ⁽³⁾	21	—	21	22	30	52
Northeast China ⁽⁴⁾	17	—	17	22	14	36
North China ⁽⁵⁾	12	—	12	9	80	89
Northwest China ⁽⁶⁾	—	—	—	1	15	16
Total	249	171	420	286	379	665

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 Xingjiang and Shaanxi.

Criteria for selection of distributors

Our relationships with our MXN franchise distributors and MXN franchise stores have been stable. 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 leisure clothing industry and franchise or retail sales;
- management capabilities;
- sales channels, local recognition and business network; and
- sales performance.

Franchise agreements between each franchise distributor and franchise store with our Group under the MXN brand

Each of the franchise distributors and franchise stores that are directly under the Group enters into a franchise agreement with Shishi Maigen. The franchise agreements for the franchise distributors and franchise stores that are directly under the Group are identical except the terms of pricing. The franchise agreements generally includes the following principal terms:

- Geographical exclusivity — Each franchise distributor and franchise store exclusively sells our *MXN* products within a defined geographic area;
- Product exclusivity — Our franchise distributors and franchise store are not permitted to sell outside their exclusive territories and are prohibited from distributing or selling any products that compete with our products;
- Minimum purchase amount — The franchise agreements do not specify the minimum purchase amount that the franchise distributors and franchise stores are expected to purchase from us during the year.
- Undertakings — Our franchise distributors and franchise stores are also required to comply with our sales policies, adhere to our pricing policies, and enforce our standardised shop design and layout upon *MXN* franchise distributors and franchise stores within their exclusive geographic area;
- Payment and credit terms — We set payment and credit terms on a case-by-case basis with each franchise distributor and franchise store. We generally give a credit period of one month to our franchise stores, while for the franchise distributor, delivery of products was made after payment;
- Pricing — We agree to sell our products to our franchise distributors at a uniform price, and sell to our franchise stores with the price range of about 5% difference; besides, we sell our products to our franchise distributors at a lower price than the franchise stores;
- Duration — The agreement has a term of three years which will lapse at the end of the period;
- Protection of our intellectual property rights — Our franchise distributors and franchise stores 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;
- Right of termination — If the franchise distributors or franchise stores fail to comply with the franchise agreements, we have the right to terminate the franchise agreements;
- Pricing policy — Franchise distributor or franchise store are required to follow the uniform suggested retail price that we adopt from time to time for each product;

BUSINESS

- Transportation arrangement and obligation – Our franchise distributor or franchise store are generally responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the franchise distributors and franchise store.

As of the Latest Practicable Date, we were not aware of any of our franchise distributors or franchise stores committing any material breach of their distributorship agreements with us. In 2009, we will start renewing the distributorship agreements entered into since 2006 with our franchise distributors and franchise stores as the franchise agreements would lapsed at the end of period. Subject to arm's length negotiations, we will continue to renew the distributorship agreements with franchise distributors and franchise stores every three years in the future.

Sales fairs

We hold sales fairs where we showcase our branded apparel products to potential and existing customers, distributors and franchisees. Customers, distributors and franchisees can place purchase orders for our products at or shortly after these sales fairs. We review purchase orders placed at these sales fairs before entering into corresponding sales contracts with the customers, distributors and franchisees.

Return policy

We do not have any obsolete stock arrangements with our franchise distributors and franchise stores. We only accept returns of defective products from our franchise distributors and franchise stores. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no record of returned products.

MARKETING AND PROMOTION

Aike Sport

As we do not have any distribution network, we do not have a strong marketing strategy in promoting our Aike Sport products.

MXN

Promotion by entertainment celebrities

We believe that a strong marketing and promotion strategy is the key to success in the branded leisure clothing segment. We have deployed a new marketing campaign by using entertainment celebrities to promote our brand and products to attract and appeal to the fashion-conscious consumer. We selected an entertainment celebrity, who is popular among the Chinese-speaking communities, Peter Ho (何潤東), as an image and brand representative of our MXN brand because we believe he matches our culture and the lifestyle images that we want to be associated with our MXN brand. We believe this marketing strategy has been effective in attracting certain target consumers to our MXN brand and will result in increased market awareness and acceptance of our MXN as a trend-setting leisure clothing brand.

Media advertising

Apart from the promotion by entertainment celebrities, we also strategically select other forms of advertising for the MXN brand that we believe match its image and market position.

We promote our MXN brand by posting advertisements in apparel magazines, broadcasting advertisements on bus media which cover 22 provinces, and setting up advertising boards in stations or open areas outside shopping malls. Following the appointment of our entertainment celebrities, we have changed the advertising posters in the franchise distributors and franchise stores, accordingly, in order to build up a clear brand image.

COMPETITION

Fabric Manufacturing Segment

We operate in a highly competitive industry. According to Euromonitor International, the total revenue of the PRC high tech, multi-functional, high quality polyester based knitted fabric market was approximately RMB3.7 billion for 2008. We accounted for 17.0% of this amount and were ranked number one among all players in the high tech, multi-functional, high quality polyester based knitted fabric market in the PRC in terms of revenues for 2008. We compete with a large number of fabric manufacturers in the PRC. Although we may face competition from new entrants in the future, we believe that the high capital requirements, increasing technology requirements in developing and manufacturing new fabric and the importance of customer relationships pose significant barriers to entry for new competitors.

Compared with us, our major competitors may have more financial resources and higher productivity. However, we believe the following weaknesses of our major competitors allow us to obtain a competitive advantage over them:

- Lack of professional teams of specialists for the one-stop production of functional fabrics including manufacture, research and development, and management;
- Limited production capacity for only large-volume orders of general fabrics and a small number of orders of functional fabrics, whereas we position ourselves as specialising in functionality of our fabrics and producing customised orders with small volume and/or a variety of functions; and
- Instability of high value-added functional fabrics manufactured when compared with those manufactured by us.

We compete on the basis of the quality and reliability of our customer service. Because our customers are international and PRC brands with strong images, we must provide a high level of service to them. Quality of service includes reliability in meeting delivery deadlines, responsiveness and flexibility in meeting customer requirements. We seek to enhance our competitive position by offering a broad range of products to deepen our relationships.

The quality of our fabrics is an important competitive factor, and we seek to meet the requirements of our customers and brand owners.

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Apart from quality, we consider price remains an important competitive factor for the majority of our fabrics, especially fabrics that can be readily produced by a large number of our competitors. We believe our efficient production model driven by modern facilities and advanced technologies in developing new fabric construction patterns, textures and colors which translates into competitive pricing terms for our customers.

Although the pricing of our fabrics is slightly higher when compared with that of our major competitors and there are limited channels to recruit specialists in the production of functional fabrics, we believe that as the leading PRC high tech, multi-functional, high quality polyester based knitted fabric manufacturer in the PRC, the above qualities of our fabric manufacturing segment allow us to achieve a competitive advantage over our major competitors.

Casual and Sportswear OEM Segment

The domestic demand for casual and sportswear in China has been steadily rising in recent years, in line with economic growth. Market participants mainly compete in areas such as, among other things, product quality, price, and the ability to fulfill delivery commitments to shippers and brand owners.

We face competition from domestic OEM enterprises in the casual and sportswear OEM market in China. Although our major competitors have more abundant resources to put in the apparel manufacturing process such as sewing and have established a good relationship with their customers due to their long-standing history of business, we believe that as a vertically integrated apparel manufacturer in China, we have a competitive advantage of one-stop solutions for fabric manufacturing and order acceptance over our major competitors which have no direct collaboration with any fabric manufacturers.

Branded leisure clothing segment

The sports and leisure industry is keenly competitive in the PRC. We compete with an increasing number of international and domestic sports and leisure footwear companies, sports and leisure apparel companies, sports accessories companies, and large companies with diversified lines of sports and leisure shoes, apparel and accessories. We expect competition to further intensify due to the entry of new foreign and domestic sports and leisure wear retailers in the PRC and as a result we may be required to adjust our prices in response to our competitors' pricing policies. Our ability to maintain or further increase our profitability will primarily depend on our ability to compete effectively by leveraging our leading market position in the PRC, our brand recognition and product portfolio, our distributors' extensive distribution network, our experienced management and our product designs to differentiate ourselves from our competitors.

Performance style and quality of apparel and accessories, new product development, price, product identity through marketing and promotion, and support to distributors and customer service are important aspects of competition in the sports, leisure apparel and accessories business. We believe that we are competitive in all these areas particularly as a result of, what we believe is, our brand name, product quality and research and development.

QUALITY CONTROL

Fabric manufacturing segment

We believe that provision of reliable and high-quality fabrics to customers is the key to our success. For this reason, we focus on the quality of our products by performing quality inspection and testing procedures at different stages throughout our manufacturing process, from the procurement of raw materials through packaging of finished products. Because of our quality control standards, we believe the reprocessing ratio of our knitted and dyed products remains at a very low level.

We believe that the quality of our products have been widely acknowledged in the textile industry both locally and internationally. The following table presents the details of main certifications and accreditations we have obtained:

Accreditation	Issuing Organisation	Area of accreditation	Date of issue
04 Spring/Summer Selected Enterprises of Trendy Fabrics of the PRC (04年春夏中國流 行面料)	China Textile Development Centre/ China Textile Information Centre	04 Spring/Summer Trendy fabrics of the PRC	2003.03
04–05 Autum/Winter Selected Enterprises of Trendy Fabrics of the PRC (04–05年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	04–05 Autum/Winter Trendy fabrics of the PRC	2003.11
05 Spring/Summer Selected Enterprises of Trendy Fabrics of the PRC (05年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	05 Spring/Summer Trendy fabrics of the PRC	2004.03
05–06 Autum/Winter Selected Enterprises of Trendy Fabrics of the PRC (05–06年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	05–06 Autumn/Winter Trendy fabrics of the PRC	2004.09
06 Spring/Summer Trendy Fabrics of the PRC (06 年春夏中國流行面料入 圍企業)	China Textile Development Centre/ China Textile Information Centre	06 Spring/Summer Trendy fabrics of the PRC	2005.03

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Accreditation	Issuing Organisation	Area of accreditation	Date of issue
06-07 Autumn/Winter Selected enterprises of trendy fabrics of the PRC (06-07年秋冬中 國流行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	06-07 Autumn/Winter Trendy fabrics of the PRC	2005.09
07 Spring/Autumn Selected enterprises of trendy fabrics of the PRC (07年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	07 Spring/Autumn Trendy fabrics of the PRC	2006.03
06 Development and Contribution Award for Textile Production in China (06年度全國紡 織產品開發貢獻獎)	Textile Development Centre (紡織產品開發 中心)		2006.10
09 Spring/Summer Selected enterprises of trendy fabrics of the PRC (09年春夏中國流 行面料入圍企業)	China Textile Development Centre/ China Textile Information Centre	09 Trendy fabrics of the PRC	2008.02
ISO9001-ISO2000 certification	Intertek testing services NA.Inc		2007.08
ISO9002 certification	Marie C. Almeda		1998.09
ISO9001-ISO14001 certification	Knowledge System Registration Ltd. (珂 瑪認證培訓有限公司)		2000
ISO9001-ISO14001 certification	Knowledge System Registration Ltd. (珂 瑪認證培訓有限公司)		2004.10
ISO14001: 2004 certification	Intertek testing services NA.Inc		2006.01
OEKO-TEX Standard 100 Certificate (OEKO-TEX 標準100國際認證)	Swiss Texile Testing Institute		2007.06

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Accreditation	Issuing Organisation	Area of accreditation	Date of issue
OEKO-TEX Standard 100 Certificate (OEKO-TEX 標準100國際認證)	Swiss Texile Testing Institute		2008.05
Laboratory Quality Management (實驗室品質管理)	Mizuno		2008.12
Centre Laboratory Certificate	Li Ning		2006.12

Our quality assurance standards have been recognised by a number of well-known apparel brands. We carry out testing on the quality of our fabrics in our own laboratories, without the need to engage third-party laboratories.

Our quality control system covers the following key areas:

- *Procurement of raw materials:* Raw materials are tested before orders are confirmed and business transactions are completed to ensure quality. Raw yarns and greige fabrics are physically tested by us for eligibility. Chemicals such as dyes and dyeing auxiliaries must be chemically certified through a quality inspection for eligibility.

Raw materials are also tested when they reach the warehouse. Warehouse staff check the quantity of raw materials delivered prior to confirming the receipt of raw materials. Our quality assurance department is responsible for the inspection of raw yarns. Staff from our quality control department are responsible for the testing of greige fabrics and semi-finished fabrics purchased. Our technical centre is responsible for the quality examination of dyes and dyeing auxiliaries. Packaging materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection.

- *Production:* At each of our production steps, comprehensive inspection on the quality of the semi-finished and finished fabrics is conducted with the assistance of machines, to ensure compliance with customers' order specifications. Semi-finished and finished fabrics need to go through three quality testing points. Preliminary inspection is carried out on greige fabrics before dyeing. After the dyeing procedure, an intermediate inspection is performed to check whether the colors and quality of the dyed fabrics match customers' order specifications. During the final inspection, fabrics are put onto a winding machine for our quality control staff members to clearly identify knitting patterns of the fabrics, colors and any flaws. Thickness and touch of the fabrics are inspected by hands. The fabrics then go through physical, chemical and bacteria testing; after which, a quality inspection report is issued by the quality assurance department and the fabrics are qualified to be transported to the warehouse.
- *Machinery and equipment management:* Due to differences in items of machinery and equipment subject to maintenance and their maintenance cycle, we carry out regular or occasional inspections and maintenance and fixed repairs at the end of each year to enhance the reliability and product quality.

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- *Sales:* If our customers are not satisfied with our products or our products have quality problems, our sales staff will immediately handle the complaints and provide remedial service.
- *Employee quality awareness:* We provide our existing employees with systemic and professional training on quality and quality assurance, as well as a professional quality assurance staff certificate course. We also conduct continuous assessment of their performance.

Casual and Sportswear OEM Segment

Our quality control procedures start early in the raw material procurement stage when our warehouse staff check the quantity of raw materials delivered prior to confirming the receipt of raw materials. During the inspection and testing conducted by our quality assurance department, fabrics are put onto a winding machine for our quality assurance staff members to view their colors and textures such as knitting patterns, thickness and touch. Other raw materials undergo a conventional viewing of their quality which can be identified easily through an appearance inspection to ensure that the raw materials comply with our quality standards. At each stage of the manufacturing process, an appearance inspection is carried out on the semi-finished components and their cutting and trimming, and only qualified semi-finished components are allowed for the next manufacturing stage. During the ironing stage, our quality assurance staff members conduct an appearance inspection on the fabrics, sewing crafts and supplementary sewing materials of the semi-finished components to ensure that they meet our quality requirements. During the packaging stage, our quality assurance staff members perform an appearance inspection on the supplementary packaging materials such as price tags and care labels to ensure that they are appropriately attached to the right apparel products, which are then packaged according to customers' requirements.

Branded Leisure Clothing Segment

Our on-site quality control personnel perform a number of quality inspection and testing procedures at different stages in the manufacturing process. They are also responsible for quality inspection procedures on the branded products prior to their shipment. For our branded products supplied by our OEM manufacturers, quality control procedures on procurement of raw materials are completed by them. Our OEM manufacturers arrange for quality inspectors to carry out inspections on the apparel products throughout the manufacturing process to make sure that the finished apparel products meet the quality requirements specified by us in the contracts.

We generally inspect and monitor the manufacturing process of our OEM manufacturers through our on-site quality control personnel. A sample appearance inspection is carried out on the semi-finished components and their cutting and trimming. During the sewing stage, our quality control personnel conduct a sample appearance inspection on the fabrics, sewing crafts and supplementary sewing materials of the semi-finished components to ensure that they meet our quality requirements. During the ironing and packaging stages, our quality control personnel perform an appearance inspection on the supplementary packaging materials such as price tags and care labels to ensure that they are appropriately attached to the right apparel products, which are then packaged according to our requirements. After the branded products reach our warehouse, a sample appearance inspection is carried out. Quality for particular quantities of branded products can then be inferred without having to conduct quality inspection and testing on all branded products. So far, we have never received any significant

complaints about the quality of our branded products from our customers in connection with social, health and safety regulation that may impose material and adverse effects on our business or relationship with such customers.

ENVIRONMENTAL ISSUES

Fabric Manufacturing business

There are no environmental protection laws or regulations in the PRC specifically applicable to fabrics and clothing manufacturers in the PRC. In general, we are required to abide by the Environmental Protection Law of the PRC (中華人民共和國環境保護法) which took effect on 26 December 1989, pursuant to which we should establish a system for environmental protection and take effective measures to prevent pollution caused by production, construction work or other activities.

According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact evaluation must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the State Environment Protection Administration of China shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Depending upon the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

Furthermore, due to the composition of the products which we manufacture, there is minimal waste discharge, noise, water or air pollution. Also, all the trash and remaining waste resulting from the production process is delivered to a professional waste treatment enterprise for recycling. As at the Latest Practicable Date, no administrative sanctions, penalties or punishments had been imposed upon us for the violation of any environmental laws or regulations.

In accordance with the requirements of relevant laws and regulations on environment protection, we have adopted advanced technologies and equipment to prevent and reduce pollution. All of our construction and extension projects comply with the relevant environmental impact assessment procedures for construction projects and have undergone inspection and have been approved by the relevant environmental protection authorities. We have reported to and registered with the relevant environmental protection administration departments for pollutants discharge and have obtained the Permit for the Discharge of Pollutants.

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Our factory has obtained all permits or approvals from, among others, the relevant planning, public security, fire control and environmental protection government departments, and conducted the filing of completion of construction project with the relevant construction departments.

Our PRC legal advisors have confirmed that during 2006, 2007 and 2008 and up to the Latest Practicable Date, (i) our operations complied with the relevant requirements on environmental protection, and (ii) no significant penalty was imposed on us for the reason of any violation of environmental protection rules and regulations.

The expenditure for environmental compliance of the Group is currently approximately RMB346,300 for the year 2008 and primarily relates to the expenses incurred by the water treatment facilities in Fuqing.

Branded leisure clothing segment

Our branded leisure clothing segment has not engaged in any business operations that may cause environmental pollution and other public hazards, and the franchised shops have not imposed any environmental conditions as part of the preconditions to placing order for our products.

Our PRC legal advisors have confirmed that there are no environmental regulations specific to the franchise sector in the PRC that are applicable to us.

INFORMATION TECHNOLOGY

We believe that our management information system significantly enhances product procurement, inventory and logistics management, and financial and cash management, and helps us minimise costs of maintaining inventory, achieve better franchise inventory allocation and improves our overall performance. We maintain a computerised information system which integrates the functions of merchandising, stock replenishment, procurement and distribution, sales and financial management. For our branded leisure clothing segment, we maintain a computerised information system for carrying out sales analyse.

We also use our information systems to identify fast and slow moving products, analyse the sales trend of different products based on the historical data of stock orders and selling data and improve our merchandise mix.

INVENTORY CONTROL

We are committed to reducing excess inventory of raw materials and finished goods, and meanwhile continuing to meet the supply demands of our franchise distributors and franchise stores. In accordance with our existing business model, we do not have a general inventory provision policy. We normally confirm purchase orders with our customers before we purchase raw materials and begin production. We did not receive any cancelled purchase orders during the Track Record Period.

We closely monitor our inventories, including inventory levels and inventory age. We have a policy to regularly review the obsolescence of inventories based on the expected future sales and the age of the inventories in order to further reduce the risk of accumulation of obsolete inventories. We also conduct physical stock counts from time to time in order to identify obsolete or damaged products. If

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the market conditions are less favorable than those forecast by the management and our unsold inventories remain for a period longer than we expected, we will make specific provision on an item-by-item basis and if the costs are higher than the corresponding estimated net realisable value of certain inventories, we make a provision against such inventories. During the Track Record Period, we did not make any specific provisions for inventories, and the reason is that all of the ending inventories as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 were subsequently consumed or sold higher than costs.

LEGAL PROCEEDINGS

From time to time, we may be involved in litigation or other legal proceedings in the ordinary course of our businesses. We are not aware of any material legal or administrative proceedings currently existing or pending against us. We are not involved in any intellectual property rights dispute or claims in relation to our product design/development and manufacturing.

PROPERTIES

Our owned land

As at 31 October 2009, we owned the land use rights certificates to one parcel of land with a site area of approximately 111,960 square metres, on which 18 buildings and various ancillary structures have been erected for our business activities and operations in the PRC. The total gross floor area of the buildings is approximately 31,756.75 square metres. We had paid full consideration for our land use rights in the PRC.

Our owned buildings

As at 31 October 2009, we owned 18 buildings on land owned by our Group that support our business activities and operations in the PRC. All of them are being used for production, storage, office, residential and ancillary facilities purposes. The total gross floor area of these buildings is approximately 31,756.75 square metres. We have building ownership certificates and real estate title certificates for 16 buildings. For the remaining 4 buildings of the property with a total gross floor area of approximately 3,962 square metres, we have not obtained any title certificates. We lease a total gross floor area of approximately 448 square metres to 2 independent third parties for office purpose. We typically enter into standard tenancy agreements with our tenants, who are required to pay fixed rental fees to us on a monthly basis. The tenancy agreements covers terms of three years. For the ten months ended 31 October 2009, we received rental income in the sum of RMB494,910 from our tenants.

We lack formal title certificates to certain buildings that we occupy for our business as storage, research centre and staff welfare centre. All these defective title properties are located in the area which Fuqing Hong Liong legally owns the land use rights, and the usage of those properties is for storage and administration. No production activity is there in the defective title properties. Therefore, our Directors do not anticipate there will be any material financial losses arising from the lack of formal building title certificates.

We are taking necessary action to obtain title certificates for these business premises and ancillary premises. As advised by our Directors, our Company has submitted the applications for the buildings that are currently without ownership certificates in September 2009, and the relevant title certificates are

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expected to be obtained in January 2010 following the normal approval procedures. As advised by our PRC legal adviser, if the owner of the construction uses the land before it passes a construction completion inspection, the authority will require to rectify, and could impose a fine amounting to 2%–4% of the total construction cost which is estimated to be RMB38,000 to RMB76,000. Since our Company has completed the construction planning for the buildings that are currently without ownership certificates, there are no significant legal impediments to obtaining the relevant title certificates for these buildings. Our Directors believe the absence of building title certificate in respect of such business premises will not result in any material adverse effect on our operations. Besides, the ancillary premises are not directly related to our operations. Therefore, no turnover or operational profits have been generated from the use of the ancillary premises and we believe that the lack of title certificates will not result in any material adverse effect to our operations as a whole. Accordingly, we consider them to be non-essential and, if required, comparable and suitable replacements can be acquired or leased by us without any material adverse effect on our business or operations as a whole.

Details of the property valuation together with the summary of valuation and valuation certificates from Jones Lang LaSalle Sallmanns Limited in respect of the land and buildings owned or leased by us are set forth in Appendix V “Property Valuation” to this prospectus.

Leased properties

As at 31 October 2009, we leased from third party 7 premises that support our business activities and operations in the PRC. The premises with a total floor area of approximately 3,504.68 square metres. All of them are being used as office buildings, warehouse or dormitory. All our leases are entered into with independent third parties and we are using the leased premises in accordance with the purposes stated in the respective lease agreements. As advised by our PRC legal adviser, none of the lease agreements is registered. However, the lease agreement is valid and enforceable although it is not registered. According to the 《城市房地產管理法》(Urban Real Estate Management Law) and 《城市房屋租賃管理辦法》(Urban Housing Leasing Regulations), the lease agreements are required to be registered, but there is no specific penalty imposed on the non-registration of lease agreements. Also the 《福州市房屋租賃管理暫行規定》(Fuzhou Interim Provisions for Housing Lease Management) had been annulled on April 28, 2004 according to 《福州市人民政府決定廢止的規章、規範性檔目錄》(Abolished regulations and normative directory by Fuzhou People’s Government) issued by Government of Fuzhou. Therefore, the non-registration of the lease agreement does not have material impact on our Group. Please refer to Appendix V to this prospectus for further details regarding the buildings or units that we occupy and the terms of the leases.

All of the leased properties with non-registration agreements are currently in use during our operations, but we believe that the incompliance of the lease will not adversely affect our business operation. Shishi Maigen has been using the leased properties with non-registration agreements since its establishment in 2002. Shishi Maigen’s use of these leased properties has never been challenged in the past 7 years although the lessor has never provided the legal title certificates to Shishi Maigen and the lease agreements have not been registered. In addition, Shishi Maigen is planning to move within the next few months, and if anyone challenges Shishi Maigen’s use right to the leased properties, Shishi Maigen will execute the relocation plan immediately. A similar property can be easily found in the vicinity of Shishi Maigen for it to immediately execute the relocation plan.

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INSURANCE

We maintain insurance policies in respect of our offices, manufacturing facilities and inventories covering losses owing to fire, flood, earthquake and hurricane. We believe that such insurance coverage is adequate. We also carry insurance covering risks such as loss and theft of, and damage to, properties. We do not maintain business interruption insurance. Significant damage to any of our manufacturing facilities or buildings, whether as a result of fire or other causes, would have a material adverse effect on our results of operations. In 2008, we expended an aggregate of approximately RMB114.3 million on maintaining insurance policies. We do not maintain insurance against product liability for products we sell, since our standard purchase contracts obligate the suppliers to bear this risk. Furthermore, it is not compulsory to maintain product liability insurance under PRC law.

EMPLOYEES

For the years ended 31 December 2006, 2007 and 2008 and as at 30 September 2009, we had 1,612, 1,793, 1,754 and 1,917 staff, respectively. The following table sets forth, for the periods indicated, the breakdown of number of our employees employed in the areas of sales and administration, research and development and manufacturing as of 31 December 2008 and the Latest Practicable Date:

Division	As of 31 December 2008		As at 30 September 2009	
	Number of employees	Percentage of total employees	Number of employees	Percentage of total employees
Sales and marketing	107	6.1	382	19.9
Manufacturing and logistics	1,437	81.9	1,327	69.2
Administration and human resources	147	8.4	155	8.1
Research and development	<u>63</u>	<u>3.6</u>	<u>53</u>	<u>2.8</u>
Total	<u>1,754</u>	<u>100</u>	<u>1,917</u>	<u>100</u>

The number of sales and marketing employees increased significantly in 2009. Such increase was mainly due to the increase in number of franchise stores of the Group during the period. As at 30 June 2009, the Group had 547 stores, representing an increase of approximately 27% or 116 store compared to that as at 31 December 2008. The Group plans to further expand and it is expected that the number of stores will further increase in the future. The increase in number of sales and marketing employees is to cope with the Group's business expansion.

Our total staff costs for the years ended 31 December 2006, 2007 and 2008 were RMB33.0 million, RMB37.0 million and RMB43.8 million, respectively, which accounted for 5.0%, 4.0% and 3.5% of our total turnover, respectively. We provide both internal and external training to our staff on a regular basis. Our internal training target the newly hired staff and the external training target the existing and potential promoted staff to enhance their technical and product knowledge including sales and management skills, factory management skills, industrial engineering, research and quality control technique. We arrange for external trainers to provide training to our staff at our production premises

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and we also arrange for our staff to attend external training. Our management actively participate in the evaluation of our staff and provide timely performance feedback. We adopt a performance-based incentive scheme for all our employees. We plan to continue to improve the working environment in our manufacturing facilities and the living facilities for our employees. We seek to grow our management team internally through effective training and promotion programs. We adhere strictly to both statutory employment standards and those requested by our customers, such as wages and working hours, and maintain internal standards and workplace practices that exceed both.

We have not fully paid the social welfare insurance for our migrant workers as the high turnover rate of these workers employed by us compounded by their mobility generally makes it unduly burdensome and practically difficult to establish a system which would enable us to track their movement, as is necessary to fully comply with the social welfare and housing fund laws and regulations. The practical difficulty of administering such for migrant workers is further exacerbated by their reluctance to make these necessary co-contributions and any attempts by us to enforce co-contributions would decrease these workers' take-home pay and increase their turnover rate. We have contacted the relevant social welfare authorities and housing fund authorities to pay all delinquent payments of social welfare insurances and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments. The relevant social welfare authorities and housing fund authorities have issued the compliance certificates to each of our PRC subsidiaries confirming that they will not accept unilateral contributions from us, and no penalty, recovery or fine will be imposed on us on account of such historical delinquent payments. As confirmed by our Directors, the total amount of underpayment and penalty by our Group due to the social welfare authority and the housing fund authority are approximately RMB45.3 million and RMB11.3 million respectively. During the period from 1 July 2009 to the Latest Practicable Date, no requests for any current payments of social welfare insurances and housing funds for our migrant workers, and no penalty, recovery, or fine on account of such current payments were received from the relevant social welfare authorities and housing fund authorities. We have contacted the relevant social welfare authorities and housing fund authorities to pay all delinquent payments of social welfare insurances and housing funds for our migrant workers, and all penalties or fines that may arise from such delinquent payments during the period from 1 July 2009 to the Latest Practicable Date. The Controlling Shareholders have agreed to provide indemnity to the Group in respect of the non-compliance in this regard during the period from 1 July 2009 to the Latest Practicable Date, and any delinquent payments and all relevant penalties or fines that may arise from such non-compliance. As advised by the Directors, our Group will closely monitor and take any necessary measurement to comply with and to enforce our migrant workers to comply with the social welfare and housing fund laws and regulations after the Listing.

Our PRC legal adviser advised that, as confirmed by relevant social welfare authorities, the non-compliances of our Group in this regard were due to the imperfection of the current social welfare system of the PRC and the practical difficulty of the social welfare laws and regulations. Besides, the Controlling Shareholders have agreed to provide indemnity to the Group in respect of the non-compliance in this regards.

OCCUPATIONAL SAFETY

To ensure that our production facilities comply with applicable safety standards, we have established several factory safety manuals such as fire safety manual and production safety manual which provide the prevention of accident in our production facilities. All our production facilities are

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required to be thoroughly tested before commencement of production. All operators of production facilities are required to be well trained before they are allowed to operate production facilities. Training sessions are provided on the required safety and hygiene standards. During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to production facilities failure and we have not experienced any major accidents during our production process. We are not aware that any toxic substances produced during the production process has caused personal injuries. As of the Latest Practicable Date, our production facilities complied with all applicable laws, regulations and standards in relation to safety.

PRODUCTION SAFETY MATTERS

We have complied with the Production Safety Law by procuring all our employees to follow our safety rules, which are based on the applicable government regulations and customer requirements, and conducting routine safety training for them. During the Track Record Period and the six months ended 30 June 2009, we have complied with all applicable production safety laws in all material respects according to the recognition documents issued by the local tax authorities at the places where each subsidiary operates. We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees, especially those working in the Fuqing factory. Such measures include ensuring that the design, installation, use and maintenance of our equipments meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, providing suitable protective devices to the employees and requiring them to properly wear those devices. Our PRC legal advisors have confirmed that our operations are in compliance with the current applicable production safety law in all material respects.

INTELLECTUAL PROPERTY RIGHTS

We use the Hontex, Ecotex, Aike Sport and MXN brand for the marketing and sales of our products. As of the Latest Practicable Date, we owned the rights to not less than 19 registered trademarks in the PRC and 10 other countries and were in the course of applying of 22 trademark applications in the PRC. For more information, please see the paragraph headed “Intellectual property rights of the Group” in Appendix VII to this prospectus.