

### OVERVIEW

We are principally engaged in the design, production and sales of sports shoes with the *Flyke* brand in China. We launched the *Flyke* brand in April 2004 and as of the Latest Practicable Date, the products with the *Flyke* brand were sold by 19 authorised distributors at 1,169 authorised retail stores in 208 cities in China. In addition to sports shoes, the *Flyke* brand also includes sportswear and sports accessories which are produced by our contract manufacturers. The *Flyke* brand targets the youth market ranging from 14 to 25 years old in second- and third-tier cities in China. The *Flyke* brand is focusing on fashionable and leisure sports shoes, sportswear and sports accessories.

We enjoy a rapid growth in the sales of sports shoes, sportswear and sports accessories with the *Flyke* brand during the three years ended 31 December 2008 which recorded a CAGR of approximately 656.7%.

In December 2005, Xinwei (China) was accredited as a “2005 China Sports Brand Top 100 Outstanding Enterprise” (2005年中國體育品牌風雲100榜優秀企業). In July 2006, Xinwei (China) was named as an “Advance Enterprise for Creation of Famous Brand for the Year 2003–2005” (2003–2005年度創名牌先進企業). In July 2007, the *Flyke* brand was awarded the “Top 10 Most Favourable Brands of sportswear as voted by consumers in China” (中國體育用品市場消費者(用戶)最喜愛十佳品牌) and the “A reputable brand in terms of protecting consumers’ interest” (全國保護消費者權益信譽品牌). In September 2008, Xinwei (China) was awarded “Fujian Famous International Brand” (福建國際知名品牌).

Prior to the launch of the *Flyke* products, Xinwei (China) had already started the design, production and sales of Soles and sport shoes for our Export ODM Business. These two business activities are part of our vertically integrated business models for the production and sales of sports shoes with the *Flyke* brand for our customers.

As part of our vertically integrated business models, we have strong product design and development capability dedicated for the sports shoes, sportswear and sports accessories with the *Flyke* brand and our Export ODM Business. During the year ended 31 December 2008, our product design and development teams designed and developed over 1,400 styles of sports shoes. We also design, develop and produce the Soles in our sports shoes and sell the Soles to other manufacturers according to their specifications.

### OUR COMPETITIVE ADVANTAGES

Our Directors believe that our success is attributable to the following competitive advantages:—

#### **The *Flyke* brand targets a niche market**

The sports shoes, sportswear and sports accessories with the *Flyke* brand target the youth market segment ranging from 14 to 25 years old in second- and third-tier cities in China. We aim to provide fashionable and leisure footwear and sportswear to our customers. Our sports shoes are designed for the comfort of the wearer with emphasis on the fashionable designs and sports technologies. We have various categories of sports shoes and sportswear designed for

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different types of sports activities with appropriate Soles produced with different types of materials. Our Directors believe that our consumers choose their sports shoes, sportswear and sports accessories based on the brand recognition, the price level and the design and functionality. Hence, we take into consideration all these factors in our product design and production process and in our marketing and promotional activities.

### **We have established vertically integrated business models**

Leveraging our experience in our Export ODM Business, we have established vertically integrated business models for the design, production and sales of sports shoes with the *Flyke* brand without relying on any contract manufacturers. Our Directors believe that these arrangements are important and enable us to respond to the changing market demand for the *Flyke* products with different styles using different production technologies. Our vertically integrated business models also enable us to continue to strengthen our sales under our Export ODM Business which represented a significant part of our turnover during the three years ended 31 December 2008 and the nine months ended 30 September 2009.

### **We have an established Export ODM Business**

We have commenced our Export ODM Business since December 1998. Our Export ODM Business contributed, during each of the three years ended 31 December 2008 and the nine months ended 30 September 2009, approximately 83.7%, 70.6%, 42.4% and 36.4% of our turnover, respectively. Our Export ODM Business provides us with a stable source of income and allows us to access to the latest market information on the overseas markets. Such updated market information allows us to enhance the product designs of the *Flyke* products.

We have cultivated stable and long term business relationships with most of our overseas buyers for our Export ODM Business. As of 31 December 2008, a majority of our overseas buyers had purchased sports shoes from us for more than five years. As of 30 September 2009, we had 36 active overseas buyers with which we have been conducting business for more than five years. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the sales orders placed by these 36 active overseas buyers amounted to approximately RMB28.3 million, RMB59.7 million, RMB89.4 million and RMB114.3 million, respectively, representing approximately 27.9%, 50.4%, 51.1% and 56.1% of our sales under our Export ODM Business.

### **We have strong product design and development capability**

We use computer-aided design software to design our sports shoes and soles with different designs and functionality. We have dedicated design, research and development teams with a total of 142 designers and professional technicians as of 30 September 2009. Our design, research and development departments are dedicated for the *Flyke* products, the sports shoes under our Export ODM Business and the Soles. These departments are located at our production plant situated at Jinjiang City, Fujian Province, China. During the year ended 31 December 2008, our design teams designed and developed over 1,400 styles of sports shoes, over 500 styles of sportswear and sports accessories and over 500 styles of Soles for our customers. In addition, we attend trade fairs and technology-exchange seminars in order to enrich our knowledge and keep abreast of the latest market development.

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We have submitted 19 patent applications in China. Further information on our patent applications is set forth in the section headed “Further Information About the Business of our Group — 2. Intellectual property” in Appendix VI to this prospectus.

### **We have an experienced management team**

Our executive Directors and senior management teams have more than 10 years of experience and professional knowledge in the sports shoes and sportswear production industry in China. In particular, Mr. LIN, our Chairman and an executive Director, has more than 20 years of experience in the sports shoes and sportswear industry. In 2007, Mr. LIN was awarded the “*Outstanding Entrepreneurship in Brand-Building in China*” (中國品牌建設優秀企業家) by 中國國際名牌發展協會 (China International Nameplate Development Association\*). Our Directors believe that our executive Directors and our senior management team are instrumental to our success.

### **OUR GROWTH STRATEGIES**

We strive to grow our business substantially with the implementation of the following strategies:—

#### **We will expand the distribution network for the *Flyke* products**

We plan to expand the distribution network for the products with the *Flyke* brand to cover regions in China where we currently do not have business presence. In this regard, we will increase the number of our authorised distributors and encourage them to expand the number of the authorised retail stores. We also plan to expand our distribution network of the sports shoes and sportswear to university campus in China by cooperating with selected business partners. In this connection, on 30 August 2009, we entered into a framework agreement with Saier for the sales and promotion of specific products with the *Flyke* brand at selected tertiary institutions in China. Pursuant to this framework agreement, Saier is responsible for the formulation and implementation of the promotional activities for the *Flyke* products at selected universities and tertiary institutions in China and purchases the *Flyke* products from us on a non-return basis. Saier also provides us with market information on the youth market and their preferences. We are responsible for the promotional expenses incurred by Saier on a reimbursement basis. We also plan to cooperate with Saier to launch the promotion on the Internet and to establish sales counters at the tertiary institutions. As of the Latest Practicable Date, Saier had arranged for 93 Campus Retail Stores at selected universities and tertiary institutions in China to sell the *Flyke* products.

#### **We will continue to enhance our brand recognition**

Our Directors believe that our brand image and market positioning are important to our further business development in China. We plan to focus on the design, production and sales of fashionable, trendy and leisure sports shoes, sportswear and sports accessories. We will continue to implement marketing and promotional strategies by engaging well-known entertainment celebrities and professional sportsmen in China as our spokespersons, launching advertising campaigns on different media as well as sponsoring school activities and sports events to enhance the image and popularity of our brand.

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We plan to establish seven flagship stores and 23 image stores in the PRC provinces of Fujian, Guangxi, Jiangsu, Zhejiang, Sichuan and Guangdong by the end of 2011. We will showcase our latest products at our flagship stores and image stores. Flagship stores will be open in the first-tier cities. Image stores will be open in the second- or third-tier cities. Our business development department will be responsible for the overall planning of this initiative. We will monitor the stores' inventory levels, design and implementation of the promotional activities and the preparation of the stores' monthly accounts. Our business management department will manage the stores on a daily basis including staff recruitment and training and analysis of the sales performance and the inventory levels of each store. The flagship stores and the image stores will focus on the promotion of our brand and the latest products.

Because of our previous experience in managing specialty stores, concession counters and distributors (before the implementation of our existing distribution arrangements and the management of our existing image store), our Directors believe that we have the capability and experience in managing the proposed flagship stores and image stores. Our existing image store in Shuitou, Fujian Province, China was established in April 2008 with a gross floor area of approximately 130 sq. m., and its sales during the year ended 31 December 2008 and the nine months ended 30 September 2009 were approximately RMB0.7 million and RMB3.2 million, respectively.

In addition, we plan to increase our sponsorship to sports events at universities in China and provide selected university students with discounts and other benefits for the purchase of our products. We plan to enhance the image and popularity of the *Flyke* brand through the increase in advertising on print media, such as magazines, newspapers and posters, and broadcasting media. We will also participate in national exhibitions in China and international trade fairs. Our Directors believe that these marketing activities will enable us to capture the growing business opportunities in China.

### **We will strengthen our product design and development capability**

Our Directors plan to expand our product design and development capability by recruiting experienced personnel with appropriate qualifications and establishing collaborative relationships with professional design institutions and research centres in China. We will continue to seek business cooperation opportunities with reputable designers and design institutions to enhance our product design capability.

### **We will expand our production capacity**

As of the Latest Practicable Date, we operated 10 sports shoes production lines with an aggregate annual production capacity of approximately 10.0 million pairs of sports shoes, with further information set forth in the paragraphs under “—— — Our production facilities and process” below. We plan to increase three sports shoes production lines with the aggregate

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annual production capacity increased to 13.0 million pairs of sports shoes by the middle of 2010. The additional production capacity will be allocated for the production of the *Flyke* sports shoes and the sports shoes for our Export ODM Business. We also plan to start the establishment of own production facilities for sportswear towards the end of 2010 for the production of sportswear with the *Flyke* brand.

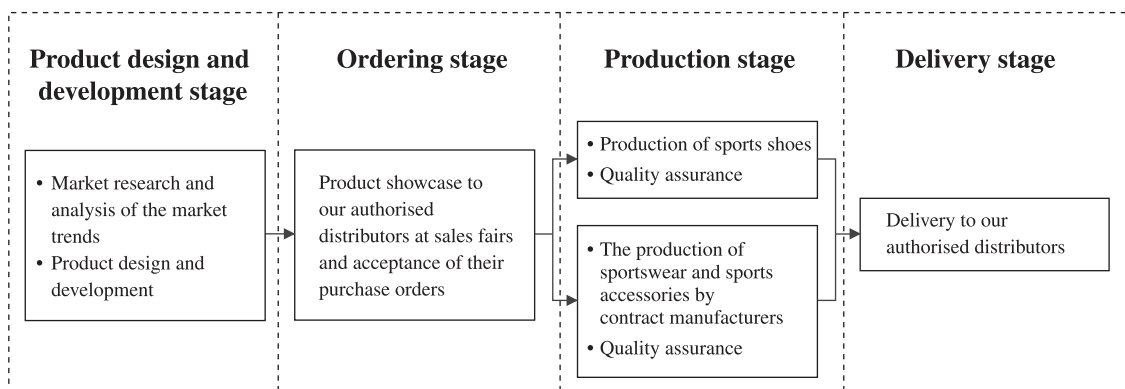
### OUR BUSINESS MODELS

Our business may be divided into three business segments, namely (a) sales of sports shoes, sportswear and sports accessories with the *Flyke* brand; (b) sales under our Export ODM Business and (c) sales of Soles.

The business models for the design, production and sales of the *Flyke* sports shoes and the sports shoes for our Export ODM Business are similar, with the major differences in the product development stage and the design stage. Our focus is on the development of the *Flyke* brand and as such, we put priority on the production of the sports shoes with the *Flyke* brand in order to ensure that the sports shoes can be launched on time. As of the Latest Practicable Date, all of our sports shoes with the *Flyke* brand were produced by us without engaging any contract manufacturer, while we outsource the production of some of the sports shoes under our Export ODM Business to contract manufacturers. All the Soles used in our sports shoes are produced by us, and we also produce and sell Soles to other sports shoes manufacturers as semi-finished products. All the *Flyke* sportswear and sports accessories are produced by our contract manufacturers, which are Independent Third Parties.

### Business model for the *Flyke* products

The following diagram illustrates the business model for the design, production and sales of the sports shoes, sportswear and sports accessories with the *Flyke* brand:—



#### *Product design and development stage*

We commence the product design and development stage by creating the themes for our products in the coming season. Ideas for themes are obtained from the latest market information, especially on the latest trends in fashion, lifestyle and taste, major upcoming sports events and input from our designers. Our designers will then design, with the aid of



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computer-aided design software, different styles of sports shoes for each season targeting the theme. On average, our design team designs over 200 styles for each season, and all these styles will be available in about six to seven months prior to the launch of the products.

We will select and approve certain designs produced by our designers based on the current market trends and the product themes proposed to be launched for the season. The decision will be made by our sales department together with our product design and development teams. Once the designs and the styles have been approved, we will start prototype development. Trial production will also be implemented to find out if there are any issues or adjustments which should be made in the production process. Further information on this stage is set forth in the paragraphs under “\_\_\_\_ — Our product design and development” below.

### *Ordering stage*

Our sales and marketing teams will formulate the appropriate marketing strategies for the promotion of each of our sports shoes, sportswear and sports accessories. Once the prototype development and trial production processes are completed satisfactorily, the sports shoes, sportswear and sports accessories will be arranged for presentation to our authorised distributors at our sales fairs.

To showcase our sports shoes, sportswear and sports accessories offering to our authorised distributors, we organise two major sales fairs in April and August each year and invite all our existing and potential authorised distributors, operators of authorised retail stores and media to attend. We would accept purchase orders from our authorised distributors for our latest product range. These sales fairs allow us to communicate with our authorised distributors and obtain the latest information on the feedback of the *Flyke* products.

### *Production stage*

After confirming the purchase orders from our authorised distributors, our production department will prepare and finalise the overall production plan and schedule and will analyse the demand on our production capacity. We will also review if there are products which we do not receive enough purchase orders to meet our production requirement. We may then adjust or cancel certain purchase orders by sending our authorised distributors order adjustment notices.

We commence the production of sports shoes following the confirmation of the purchase orders placed by our authorised distributors. Our procurement department will source the raw materials from suppliers which can offer us the best possible prices. Our production department will formulate the production timetable with the designated production volume of various components and the production of Soles for the purpose. We will enter into contracts with our contract manufacturers for the production of the sportswear and sports accessories. Further information on this stage is set forth in paragraphs under “\_\_\_\_ — Our production facilities and process” below.

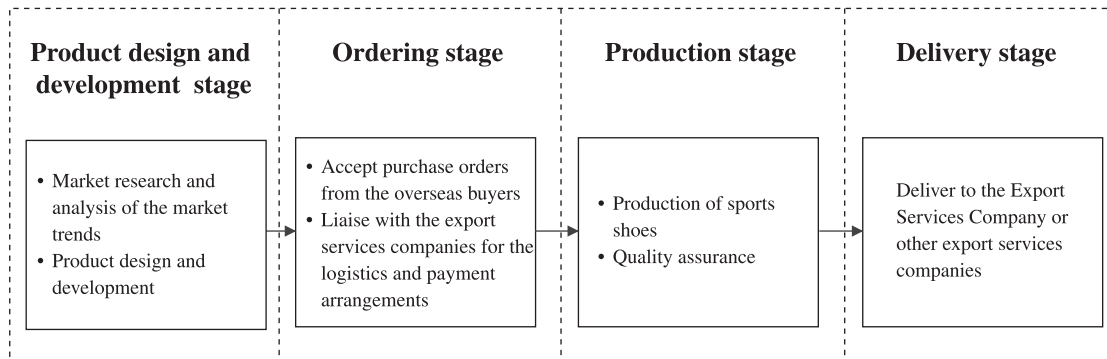
We conduct final tests and quality inspection on the sports shoes produced by us in accordance with the applicable domestic and the international standards. We will also conduct random checks on the sportswear and sports accessories produced by our contract manufacturers.

*Delivery stage*

We will deliver the finished products to the warehouses operated by local logistics companies in Jinjiang City, Fujian Province, China and our authorised distributors will arrange for the transportation of the products to their own warehouses at their own risks and cost.

**Business model for our Export ODM Business**

The following diagram illustrates the business model for our Export ODM Business:—



*Product design and development stage*

We have dedicated product design and development team for our Export ODM Business. Our product design and development team will design and develop approximately 600 styles for selection by our customers. These designs will be produced independently from the designs for the *Flyke* products, and will be presented to our overseas buyers with estimated unit prices in US\$. We will accept certain modifications to our designs on colours and the materials to be used. All the sports shoes, once approved by our customers, will bear our customers’ brands.

*Ordering stage*

In each year, we regularly participate in six international and domestic trade fairs to procure purchase orders from our overseas buyers. Our overseas buyers will place their purchase orders with us directly, and we will then produce the pre-production samples for their confirmation. The product samples will be tested for proper fitting and wearing comfort using our test subjects for the purpose of ensuring that all the samples meet our customers’ quality requirements. We will also provide our customers with our estimate on the unit prices in US\$ based on the customers’ specific requirements, including shoe model, shoe materials, number of products ordered, packaging required, schedule and mode of delivery. Our production department will also review and confirm if we have the production capacity to complete the purchase orders. Once all these are confirmed, we will enter into purchase agreements with our customers. If we require any advance payment to be made by our overseas buyers, we will liaise with the Export Services Company or other export services companies designated by our customers accordingly. Further information on this is set forth in the paragraphs under “— Our distribution — Our Export ODM Business” below.

### *Production stage*

We commence the production of our sports shoes upon entering into purchase agreements with our overseas buyers. Further information on this stage is set forth in the paragraphs under “\_\_\_\_ — Our production facilities and process” below. We may also outsource the production of some of the sports shoes to contract manufacturers during peak seasons. At the same time, we will liaise with the Export Services Company or other export services company designated by our customers for the payment arrangements by our overseas buyers and the required delivery arrangements. Representatives from our overseas buyers may from time to time visit our production plant to ensure that our products are in satisfaction of their requirements. Further information on this is set forth in the paragraphs under “\_\_\_\_ — Our sales and products — Our Export ODM Business” below.

### *Delivery stage*

Upon completion of the production of the relevant sports shoes, we will arrange for the delivery of the sports shoes to the Export Services Company or other export services companies designated by our customers. Further information on this is set forth in the paragraphs under “\_\_\_\_ — Our sales and products — Our Export ODM Business” below.

## **THE FLYKE BRAND**

Based on our study of the sports footwear and sportswear markets in China, we commenced the promotion and marketing activities of the *Flyke* brand to increase the brand awareness of our products. Such activities included the engagement of Mr. Leon LAI (黎明) as our brand spokesperson in 2004. We launched our first collection of the *Flyke* brand products in 2004. Since the launch of the *Flyke* brand, we have focused on building the brand to be a fashionable, trendy and leisure footwear and sportswear brand with recognised quality and at affordable prices.

The *Flyke* brand logo depicts a flying eagle soaring into great heights portraying bravery, strength, advancement and confidence as our brand spirit. We also use the colour orange, which represents openness, youth and passion, as our brand-theme colour. In addition, our Chinese slogan is “精彩無處不在” (Fascination is everywhere) which is to characterise the theme of the brand.

The sports shoes, sportswear and sports accessories with the *Flyke* brand are principally targeted at the youth market segment ranging from 14 to 25 years old in second- and third-tier cities in China. We aim to provide fashionable and leisure footwear and sportswear to our customers. We strategically position the *Flyke* brand in the second- and third-tier cities in China with the listed retail prices for sports shoes in the range between RMB150 and RMB350 and for sportswear in the range between RMB100 and RMB400. The retail price ranges of our products are determined and reviewed by us from time to time taking into consideration our production cost, the level of the household disposable income of target consumers, the prices of comparable products offered by competitors and the consumption pattern and the affordability of our target consumers.



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We have placed and will continue to place emphasis on our brand building activities, as our Directors believe that establishing brand recognition is crucial to our continued growth and prospects. For the purpose of promoting the *Flyke* brand, we engage in various advertising and marketing activities to establish strong brand awareness and brand loyalty. We advertise through various media channels such as print media, television and on the internet.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we incurred RMB2.6 million, RMB1.8 million, RMB9.9 million and RMB7.7 million, respectively, on advertising and marketing activities. In 2007, we were awarded as “A reputable brand in terms of protecting consumers’ interests” (全國保護消費者權益信譽品牌) and “The Top 10 most favourable brands of sportswear as voted by consumers in China” (中國體育用品市場消費者(用戶)最喜愛十佳品牌).

### AWARDS AND CERTIFICATION

During the Track Record Period, we received the following awards and certifications:—

Date	Awards/Certifications	Issuing authorities	Key granting criteria
November 2000	“ <i>Reliable Quality Products</i> ” (質量信得過產品)	China Light Product Quality Assurance Centre (中國中輕產品質量保障中心)	The sales amount must satisfy a minimum threshold and the production process must conform with international or existing domestic standards.
December 2004	“ <i>Famous Trademark in Quanzhou</i> ” (泉州市知名商標)	Quanzhou Famous Trademark Recognition Committee (泉州市知名商標認定委員會)	The trademark must have been registered for use for at least three years, the products must have good reputation and market share, and the relevant enterprise must have adequate internal measures for trademark management and protection.

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Date	Awards/Certifications	Issuing authorities	Key granting criteria
February 2005.	“ <i>Famous Brand Products in Fujian Province</i> ” (福建名牌產品)	People’s Government of Fujian Province (福建省人民政府)	The enterprise’s market share, brand recognition and sales amount must be in leading positions, the production process must conform with international or domestic standards and there must be a sound quality management process.
August 2005 . .	“ <i>Famous Trademark in Fujian Province</i> ” (福建省著名商標)	Fujian Province Famous Trademark Recognition Committee (福建省著名商標認定委員會)	The products bearing the relevant trademark must be of good quality, reputation and market share and the relevant enterprise must have an adequate internal trademark management and protection system.
December 2005	“ <i>2005 China Sports Brand Top 100 Outstanding Enterprise</i> ” (2005年中國體育品牌風雲100榜優秀企業)	2005 China Sports Brand Top 100 Outstanding Enterprise Committee 2005中國體育品牌風雲榜暨領袖年會組委會	The enterprise must be a Chinese brand name with adequate size and assets value.

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Date	Awards/Certifications	Issuing authorities	Key granting criteria
December 2005	<p>“<i>Products Exempted from Quality Surveillance Inspection</i>” for a period of three years (產品質量國家免檢, 為期三年)</p>	<p>State General Administration of the PRC for Quality Supervision and Inspection and Quarantine (國家質量監督檢驗檢疫總局)</p>	<p>The enterprise must reach a minimum size requirement and have a comprehensive product quality assurance system, must have passed the national or provincial quality surveillance authority’s inspection for at least three consecutive times, and both the enterprise and the products must comply with applicable laws and regulations.</p>
July 2006 . . . .	<p>“<i>100 Strongest Enterprises in the Footwear Manufacturing Industry in China</i>” (中國製鞋工業百強企業)</p>	<p>China Market Study Centre (中國市場檢測中心)</p>	<p>The enterprise must have at least three years of operations results and the annual sales volume must meet a minimum threshold of RMB 100 million.</p>

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Date	Awards/Certifications	Issuing authorities	Key granting criteria
July 2006 . . . .	<p>“<i>Advance Enterprise for Creation of Famous Brand for the Year 2003–2005</i>” (2003–2005年度創名牌先進企業)</p>	<p>People’s Government of Quanzhou (泉州市人民政府)</p>	<p>The enterprise must have adequate size and market share, with ISO9001 certification for quality management and there must not be any incident in the recent three years in respect of product safety or failure in quality inspection.</p>
July 2007 . . . .	<p>“<i>A reputable brand in terms of protecting consumers’ interest</i>” (全國保護消費者權益信譽品牌)</p>	<p>China Association for Promotion of Consumer Protection (中國國際保護消費者權益促進會) China International Brand Association (中國國際名牌協會) China Promotion of Product Quality and Quality Brand Centre (中國商品質量名優品牌推廣中心)</p>	<p>Voted by the public members of conducted in more than 30 provinces and/or cities in China and confirmed by the relevant PRC Government authorities, industry associations and quality associations.</p>
July 2007 . . . .	<p>“<i>The Top 10 Most Favourable Brands of sportswear as voted by consumers in China</i>” (中國體育用品市場消費者(用戶)最喜愛十佳品牌)</p>	<p>China Association for Promotion of Consumer Protection (中國國際保護消費者權益促進會) China International Brand Association (中國國際名牌協會) China Promotion of Product Quality and Quality Brand Centre (中國商品質量名優品牌推廣中心)</p>	<p>Voted by the public members of conducted in more than 30 provinces and/or cities in China and confirmed by the relevant PRC Government authorities, industry associations and quality associations.</p>

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Date	Awards/Certifications	Issuing authorities	Key granting criteria
December 2007	“Famous Brand Products in Fujian Province” (福建名牌產品)	People’s Government of Fujian Province (福建省人民政府)	The enterprise must have adequate size, there must be an effective quality management system with no major quality incident and the products must be manufactured in compliance with international or domestic standards.
September 2008 . . . . .	“Fujian Famous International Brand” (福建國際知名品牌)	Fujian Province External Economics Co-operation Bureau (福建省對外經濟合作廳)	115 enterprises are selected out of over 10,000 enterprises from Fujian Province every two years

### OUR SALES AND PRODUCTS

Our sales may be divided into three business segments, namely (a) sales of the sports shoes, sportswear and sports accessories with the *Flyke* brand; (b) sales under our Export ODM Business and (c) the sales of Soles. The following is an analysis of our sales during the Track Record Period under each of these business activities:—

	For the year ended 31 December						For the nine months ended 30 September			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales of sports shoes, sportswear and sports accessories with the <i>Flyke</i> brand . . . . .	3,725	3.1	32,382	19.3	213,206	51.5	166,341	58.2	334,774	59.9
Sales under our Export ODM Business . . . . .	101,436	83.7	118,499	70.6	175,210	42.4	102,529	35.9	203,568	36.4
Sales of Soles . . . . .	16,029	13.2	16,994	10.1	25,178	6.1	16,961	5.9	20,502	3.7
<b>Total . . . . .</b>	<b>121,190</b>	<b>100.0</b>	<b>167,875</b>	<b>100.0</b>	<b>413,594</b>	<b>100.0</b>	<b>285,831</b>	<b>100.0</b>	<b>558,844</b>	<b>100.0</b>

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, our five largest customers accounted for approximately 77.0%, 69.4%, 48.4% and 58.5%, respectively, of the aggregate amount of sales, and our largest customer accounted for approximately 55.4%, 61.9%, 35.3% and 34.7%, respectively, of the aggregate amount of sales.

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None of our Directors, our chief executive or any person who, to the knowledge of our Directors, owns more than five per cent. of our issued Shares or the share capital of any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest customers during the Track Record Period.

### Our sales of the *Flyke* products

Since the launch of the *Flyke* brand in April 2004, we position the brand as a brand to offer fashionable, trendy and leisure footwear with quality at affordable prices. The following table illustrates the growth in the sales volume of the sport shoes, sportswear and sports accessories with the *Flyke* brand and the average prices during the three years ended 31 December 2008 and the nine months ended 30 September 2009:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	2007	2008	2008	2009
Number of sport shoes produced and sold with the <i>Flyke</i> brand ('000 pairs) . . .	54.4	263.8	1,747.6	1,328.4	2,820.8
Average <i>ex-factory</i> prices for the sport shoes with the <i>Flyke</i> brand. . . . .	68.5	83.7	87.2	88.1	62.8
Average listed retail prices for the sports shoes with the <i>Flyke</i> brand (RMB). . . . .	98	144	208	210	210
Number of sportswear and sports accessories produced and sold with the <i>Flyke</i> brand ('000 pieces) . . .	—	138.9	1,256.1	1,075.8	3,399.5
Average <i>ex-factory</i> prices for the sportswear and sports accessories with the <i>Flyke</i> brand. . . . .	—	74.1	48.5	45.8	46.4
Average listed retail pieces for the sportswear and sports accessories with the <i>Flyke</i> brand (RMB). . . . .	—	122	116	109	143

In 2008, the average *ex-factory* prices for the sportswear and sports accessories with the *Flyke* brand dropped by approximately 34.5% as compared to 2007. This is because when we commenced the business of sportswear and sports accessories in 2007, we only offered a small selection of high-end products which were sold at higher prices. In 2008, we managed to reduce our costs and began to offer a wider range of products at lower prices to capture market share, which resulted in the significant drop of the average *ex-factory* prices.

Since 2009, we sold the *Flyke* products exclusively to our authorised distributors, and we reduced our *ex factory* prices by approximately 12.0% during the first-half of the year ended 31 December 2009 to support this arrangement and provide additional incentive to our authorised distributors. Besides, due to the new distributorship model, we cease to sell our products directly to retail specialty stores and concession counters, which inevitably lowers our average *ex factory* prices.



**Our products with the *Flyke* brand**

The *Flyke* brand is positioned to provide fashionable, trendy and leisure footwear and sportswear with quality at affordable prices. As of the Latest Practicable Date, we launched seven different categories of the *Flyke* sports shoes and eight different categories of the *Flyke* sportswear and sports accessories. We have also launched four theme-based collections of the sports shoes with the *Flyke* brand:—

**Sports shoes**

Basketball footwear series



Leisure footwear series



Outdoor footwear series



Tennis footwear series



Skater footwear series



Canvas footwear series



Running footwear series



**Sportswear and sports accessories**

T-shirt



Tracksuit



Wind-breaker



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Jacket



Sweater



Trousers



Tennis Skirt



Sports bag, socks  
and other  
accessories



**Theme-based collections under the *Flyke* brand**

In addition to the above seasonal products, we have also launched theme-based collections of sports shoes and sportswear with the *Flyke* brand. Our Directors believe the use of different themes with different advertising campaigns and stories, in conjunction with the *Flyke* brand, will enhance the brand recognition and the brand awareness. During the Track Record Period and up to the Latest Practicable Date, we have launched the following theme-based collections of sports shoes and sportswear:—

Launch date	Theme and short description	Promotional materials
April 2005 . . . .	賽車系列 ( <i>Car Racing Series</i> ) — this series features speed and focuses on classic car-racing styles of sports shoes.	
January 2008 . .	圖騰系列 ( <i>Totem Series</i> ) — this series highlights eight traditional Chinese animals as totems to combine traditional Chinese culture elements into our products.	
January 2009 . .	戰機系列 ( <i>Jet Fighter Series</i> ) — this series was developed as our designers were inspired by the resemblance between jet fighters and the character of eagles	
August 2009 . . .	鷹雄系列 ( <i>Eagle-Hero Series</i> ) — we use eagle to represent our brand's culture in this series and the products are designed to showcase an eagle's characteristics	

The sales of the above theme-based collections of sports shoes and sportswear represented approximately 10.1%, 13.2%, 20.4% and 39.8% of our aggregate sales of the *Flyke* products during the three years ended 31 December 2008 and the nine months ended 30 September 2009.

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### Our Export ODM Business

Since our establishment in 1998, we have engaged in the design, production and sales of sports shoes for our Export ODM Business and have accumulated over 11 years of experience. Our overseas buyers are mainly overseas sports brands and chain-store retailers. A majority of our overseas buyers are based in Asia, Latin America and Europe. We have maintained stable and long term relationship with our ODM footwear sale customers, a number of whom have been our customers for over five years.

The following table sets forth an analysis of the geographical locations of our sales under our Export ODM Business during the Track Record Period:—

	For the year ended 31 December						For the nine months ended 30 September	
	2006		2007		2008		2009	
	<i>RMB</i> ( <i>'000</i> )	<i>ODM</i> <i>Business</i>	<i>RMB</i> ( <i>'000</i> )	<i>ODM</i> <i>Business</i>	<i>RMB</i> ( <i>'000</i> )	<i>ODM</i> <i>Business</i>	<i>RMB</i> ( <i>'000</i> )	<i>ODM</i> <i>Business</i>
	<i>% of the turnover to our Export</i>		<i>% of the turnover to our Export</i>		<i>% of the turnover to our Export</i>		<i>% of the turnover to our Export</i>	
Sales to Asia <sup>1</sup> . . . . .	60,635	59.8	48,728	41.1	73,194	41.8	47,511	23.3
Sales to Latin America <sup>2</sup> . . . . .	19,090	18.8	38,880	32.8	46,971	26.8	70,080	34.4
Sales to Europe <sup>3</sup> . . . . .	19,513	19.2	27,803	23.5	53,867	30.7	81,148	39.9
Sales to other areas . . . . .	2,198	2.2	3,088	2.6	1,178	0.7	4,829	2.4
<b>Total . . . . .</b>	<b>101,436</b>	<b>100.0</b>	<b>118,499</b>	<b>100.0</b>	<b>175,210</b>	<b>100.0</b>	<b>203,568</b>	<b>100.0</b>

Notes:—

- Most of our sales are derived from sales to customers situated at Hong Kong which may re-export the sport shoes to other countries or territories, such as Korea, India, Singapore and Thailand.
- Countries include Argentina, Panama, Brazil, Ecuador, Peru, Mexico and Columbia.
- Countries include those in Eastern Europe and Western Europe, such as Germany, Greece, the United Kingdom, Croatia and Ukraine.

We produce various series of fashionable, trendy and leisure sports shoes which are designed with reference to the global fashion trends for our overseas buyers. In 2008, our designers designed and developed more than 600 styles of sports shoes, of which over 400 styles were selected and ordered by our customers for production. The products under our Export ODM Business consist of basketball shoes, running shoes, tennis shoes, leisure shoes, canvas and skaters footwear.

During the Track Record Period, we sold a total of approximately 13.7 million pairs of sports shoes to the overseas buyers under our Export ODM Business.

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## BUSINESS

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The following table illustrates the growth in the sales volume of the sport shoes for our Export ODM Business during the Track Record Period:—

	For the year ended 31 December			For the nine months ended 30 September	
	2006	2007	2008	2008	2009
	Number of sport shoes sold under our Export ODM Business ( <i>'000 pairs</i> ) . . . . .	2,528.8	2,810.2	3,972.8	2,690.5

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the gross profit margin for our Export ODM Business was approximately 33.3%, 32.3%, 27.4% and 22.2%, respectively, whilst the average *ex factory* price for each pair of sport shoes under our Export ODM Business was approximately RMB40.1, RMB42.2, RMB44.1 and RMB46.6, respectively. The average *ex factory* prices of our sports shoes have increased slightly principally because the overseas buyers have demanded sports shoes of better quality and design. The costs for us to manufacture such shoes of better quality and design were higher and thus we sold them at higher *ex factory* prices to cover our increased costs. On the other hand, our gross profit margin is equivalent to the degree of the difference between our costs and the *ex factory* prices of our sports shoes. While the *ex factory* prices of our sports shoes have increased, we have not increased the degree of the difference between the *ex factory* prices and our costs and hence our gross profit margin to the same extent, and as a result our gross profit margin has dropped. This was principally because we reduced our gross profit margin to boost our sales in light of the sluggish overseas demand. The increase in the sales volume for the nine months ended 30 September 2009 was principally due to our pricing adjustments to attract overseas buyers.

### Our Soles

For the nine months ended 30 September 2009, our annual production capacity of Soles was approximately 13.0 million pairs, with further information set forth in the paragraphs under “— — Our production facilities and process” below. Other than the production of Soles for use in the *Flyke* sports shoes and our Export ODM Business, we also sell Soles to other shoes manufacturers. Our Soles are made of EVA, PU and rubber.

The Soles sold by us to our customers will be produced according to our customers’ specifications or the specifications designed by us.

### MARKETING AND PROMOTION FOR THE *FLYKE* PRODUCTS

Our Directors believe that promotion of the *Flyke* brand is very important to us. Our sales and marketing department is responsible for building a strong brand image and enhancing brand popularity, evaluating market information and trend, governing unified brand sales and marketing strategies, conceiving and organising promotion and marketing activities, coordinating market investigation, and managing our sponsorship and spokesmanship

arrangement. The major channels for the promotion of the *Flyke* products consist of advertising on different media, sponsoring sports events and engagement of athletes as spokespersons and other self-organised promotional activities.

### **Media advertising**

We mainly use regional television networks, the internet, privated media (such as newspapers and magazines) and outdoor billboards for media advertising. Some of the major newspapers and magazines in which we place our advertisements include 揚子晚報 (Yangtze Evening Post\*), NBA特刊 (NBA Special) and 體育週報 (Sports Weekly). We also advertise on national and local television channels such as CCTV 1, 3 and 5, Hunan Satellite Television (湖南衛視) and Travel Satellite Television (旅遊衛視).

### **Engaging spokespersons**

To promote the *Flyke* brand, we engage celebrities and professional athletes as our spokespersons. Under these arrangements, the spokesperson is required to wear the *Flyke* products when attending designated public sports events. In 2004, we engaged Mr. Leon LAI (黎明), a famous Hong Kong artiste, as our spokesperson for the *Flyke* products for a term up to December 2005. The spokesperson contract with Mr. Leon LAI was renewed for a period from March 2007 to February 2010. In conjunction with the launch of the “*Car Racing*” series of sports shoes and sportswear, we engaged a professional car racer, Mr. CHEN Zhen (陳震), as the spokesperson of the collection for the period between August 2006 and August 2008. Mr. CHEN has ceased to be our spokesperson since August 2008.

### **Sponsoring sports events**

We also sponsor sports events in China to promote the brand awareness. As we target the youth market and we consider that university students are a very important group of our target consumers, we have organised promotional events in selected universities in China, such as 浙江大學 (Zhejiang University) and 廈門大學 (Xiamen University). In addition, we also sponsor university students with scholarships or gift vouches for the promotion of the *Flyke* brand.

### **Local promotional activities**

We encourage and coordinate with our authorised distributors to organise local promotional activities within their exclusive geographical areas. Before launching any promotional activities, the relevant authorised distributor must submit a detailed proposal for our consideration. We will review and provide comment on the proposal, and the promotional activities cannot be launched until we have given our approval. We may provide financial subsidy of not more than one-half of the total budgeted amount to support the approved promotional activities at our discretion.

Local promotional activities include placement of advertisement on billboards and local television channels and organisation of special promotional events when new authorised retail stores are opened.



## **OUR PRODUCT DISTRIBUTION**

### **Introduction**

Since the beginning of 2009, we have sold most of the *Flyke* products to our authorised distributors on a non-return basis (except for such products which do not match the product specifications, styles or quality requirements stated in the sales order) and we recognise our sales when the products are accepted for delivery by our authorised distributors. We also sell a very small portion of the *Flyke* products at our image store in Shuitou, Fujian Province, China. During the year ended 31 December 2008 and the nine months ended 30 September 2009, sales through the image store represented less than 1.0% of our total sales of the *Flyke* products during the relevant period.

Our Export ODM Business is conducted through the Export Services Company, with whom we have cooperated for a number of years. We deliver most of the sport shoes to the port of Xiamen for delivery to our overseas buyers. We may also deliver the sports shoes under our Export ODM Business to other ports of China upon the requests by our customers. Upon the requests of our customers, we also conduct our Export ODM Business through other export services companies designated by our customers.

Our sales of Soles are focusing on shoe manufacturers in China, and most of the transactions are conducted on an open account basis.

The following sets forth detailed description of the distribution arrangements for each of our business activities.

### **Distribution of the *Flyke* products through our authorised distributors**

#### *Introduction*

We currently sell the *Flyke* products to our authorised distributors pursuant to the Exclusive Distribution Agreements. Our authorised distributors either operate authorised retail stores or appoint Independent Third Parties (with our approval) to operate authorised retail stores in designated areas.

As of the Latest Practicable Date, we had appointed 19 authorised distributors. The number of the authorised retail stores operated directly by our authorised distributors or by Independent Third Parties was 1,169.

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### *Distribution of the Flyke products for the three years ended 31 December 2008*

During the three years ended 31 December 2008, we sold the *Flyke* products directly to specialty stores, concession counters and distributors operated by Independent Third Parties. The distributors might operate specialty stores and concession counters to sell our products, and might distribute our products to specialty stores and concession counters operated by other parties. As of 31 December 2006, 2007 and 2008, we had 4, 11 and 11 distributors, respectively, and we did not have any distributor which terminated its business relationship with us from 2006 to 2008. The table below sets forth the number of specialty stores and concession counters selling the *Flyke* products (i) which were our direct customers and (ii) operated by the distributors as of 31 December 2006, 2007 and 2008:—

	<b>As of 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Speciality stores and concession counters which were our direct customers . . . . .	80	138	438
Speciality stores and concession counters operated by the distributors . . . . .	5	50	387
<b>Total</b> . . . . .	<b>85</b>	<b>188</b>	<b>825</b>

Some of the operators of these specialty stores and concession counters and distributors continue to operate the authorised retail stores or become our authorised distributors under our current distribution arrangements.

In April 2008, we established an image store in Shuitou, Fujian Province, China with a gross floor area of approximately 130 sq. m.

The table below sets forth the sales contributed by (a) the specialty stores and concession counters which were our direct customers and (b) the distributors and (c) the image store for the three years ended 31 December 2008:—

	<b>For the year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Speciality stores and concession counters.	3,689	26,398	126,811
Distributors . . . . .	36	5,984	85,707
Image store. . . . .	—	—	688
<b>Total</b> . . . . .	<b>3,725</b>	<b>32,382</b>	<b>213,206</b>

### *Distribution of the Flyke products since the beginning of 2009*

To facilitate a better allocation of our management resources and in anticipation of the continuing expansion of our business, we streamlined our distribution arrangement from the beginning of 2009. In this connection, we ceased selling the *Flyke* products directly to the specialty stores, concession counters and distributors. We appointed our authorised distributors and entered into the Exclusive Distribution Agreement with each of them. Among the 11 distributors as of 31 December 2008, eight of them continued to be our authorised distributors while three of them ceased to be our authorised distributors as of 30 September 2009. We ceased our business relationship with them because they did not have adequate personnel and resource to keep up with our brand building and business expansion plan. As we sold our products to these distributors on a non-return basis (except for such products which do not match the product specifications, styles or quality requirements stated in the sales order), we did not make any arrangement for them to return to us the products sold to them but not yet sold to end customers when we terminated our business relationship with them.

At the beginning of implementation of the above distribution arrangements, we arranged for the inventory at the specialty stores, concession counters and distributors to be transferred to our authorised distributors in the same region in order to maintain the continuity of the distribution of the *Flyke* products. We did not experience any disruption to our business or incur any cost/loss arising from or in connection with the implementation of our streamlined distribution arrangement.

Pursuant to the Exclusive Distribution Agreements, our authorised distributors can establish authorised retail stores or appoint Independent Third Parties to operate authorised retail stores within a designated region. The Exclusive Distribution Agreements are to be renewed annually or for a period of 15 months. The following sets forth a summary of the principal terms and conditions of the Exclusive Distribution Agreement:—

- Each authorised distributor is authorised to sell the *Flyke* products on an exclusive basis in a designated region or through other operators by entering into agreements with terms similar to those contained in the Exclusive Distribution Agreement.
- The *Flyke* products are sold to at *ex factory* prices on a non-return basis (except for such products which do not match the product specifications, styles or quality requirements stated in the sales order), which generally represent 35% to 40% of the proposed listed retail prices. No authorised distributors may change the retail prices of the *Flyke* products without our approval.
- The *Flyke* products can only be returned to us within seven days of the date of delivery if they do not match the product specifications, styles or quality requirements stated in the sales order.
- Each authorised distributor will be invited to attend our sales fairs and may invite operators of authorised retail stores to attend. We will only accept purchase orders from the authorised distributor.

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- We deliver the *Flyke* products to the delivery hub in Jinjiang City for collection by our authorised distributors. The title and the risks in the products will be passed to the authorised distributors upon delivery.
- Each authorised distributor must ensure all authorised retail stores to comply with our product pricing policy and other requirements on shop decoration and shop assistants' uniforms and training.
- Each authorised distributor must obtain our approval prior to the launch of any local promotional activities.
- Each authorised distributor has a specific annual minimum purchase amount to fulfill.
- Each authorised distributor must submit to us quarterly sales analysis reports (including sales information categorised by product styles, quantity sold, price range and other information required by us) and the detailed reports provided by the authorised retail stores containing the same information.
- We will be entitled to conduct on-site visit to the authorised retail stores from time to time, and we usually do so once every quarter.
- Each authorised distributor undertakes to sell the *Flyke* products on an exclusive basis at the authorised retail stores in the relevant region.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we did not have any returned sales.

We evaluate the performance of our authorised distributors for every six-month period in terms of sales performance, compliance with our rules and regulations and the credit term and the efforts it has made on the promotion of the *Flyke* products. We will also consider the performance of the authorised retail stores under the supervision of the relevant authorised distributors. In some cases, we may discuss with selected authorised distributors on their business plans in terms of the number of authorised retail stores to be open. Our Directors believe that this evaluation process is important to us to maintain an efficient distribution network with the autonomy of our authorised distributors. We consider whether to renew the Exclusive Distribution Agreements based on our evaluation results.

Our Directors believe that the above changes allow us to focus our resources on the management of our authorised distributors and provide direct incentives to our authorised distributors to boost the sales of the *Flyke* products with reduced competitions amongst themselves. Hence, all authorised retail stores are operated or managed by our authorised distributors directly or indirectly through their appointed operators. We have no direct contractual relationship with the operators of authorised retail stores, but exercise the control through the terms and conditions of, and the restrictions contained in, the Exclusive Distribution Agreements.

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Our Directors also believe that our distribution arrangements enable us to achieve sales growth through our authorised distributors' sales networks. Our authorised distributors have intensive experience in the retail industry and we can leverage their experience in the local regions without incurring significant amount of resources on exploring the local markets in China. We work closely with our authorised distributors to ensure that their performance is up to our expectation and that there is no accumulation of slow-moving or obsolete inventory of the *Flyke* products at each region.

As part of our business plan in the future, we intend to limit the number of our authorised distributors in each region in China so as to provide more incentive to our authorised distributors to focus on and expand the sales of the *Flyke* products in designated regions.

### *Selection of our authorised distributors*

We select our authorised distributors carefully with reference to a number of factors, such as their experience in sports shoes, sportswear and sports accessories industry, their business network and sales channels, their capital resources and their credit history.

Our Directors believe that we have a stable business relationship with our authorised distributors, and have business relationship with most of them or their predecessors for approximately three years. As of the Latest Practicable Date, we had 19 authorised distributors, all of whom are Independent Third Parties and 18 of whom had been working with us for three to six years as the previous owners or operators of the speciality stores, concession counters or distributors during the three years ended 31 December 2008.

Amongst our 19 authorised distributors engaged by us as of the Latest Practicable Date, more than one half of them has more than 10 years' experience in the sales and distribution of shoes and apparel industry. Some of the distributors also have experience in distributing sports shoes and sports accessories with other brands. Our authorised distributors are either individuals or domestic enterprises in China operated by Independent Third Parties. Except for two authorised distributors who were our former employees, all other authorised distributors were engaged by us through business referrals or previous business cooperation. As of 30 September 2009, our largest authorised distributor managed 202 authorised retail stores with a team of 32 staff members in Hebei Province, Beijing and Inner Mongolia. A newly appointed authorised distributor only had one authorised retail store in the PRC province of Xinjiang. Under the relevant contractual arrangements, neither our authorised distributors nor the operators of the authorised retail stores are allowed to distribute sports shoes and sports accessories of other brands.

### *Establishment of the authorised retail stores*

The authorised retail stores for the *Flyke* products are either operated by our authorised distributors or Independent Third Parties approved by us. As of the Latest Practicable Date, there were 1,169 authorised retail stores established in 208 cities in China, 50 of which were operated by our authorised distributors and 1,119 were operated by Independent Third Parties. We continued to operate one image store in Shuitou as of the Latest Practicable Date.

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For ease of our management, we divide the China market into four sales regions, namely Northern China, Eastern China, Central/Southwestern China and Southern China.

The following map illustrates the number and the geographical locations of the 1,169 authorised retail stores, which contracted with our authorised distributors, in these four sales regions as of the Latest Practicable Date:—



Each location set forth above is managed by one authorised distributor.



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The table below sets forth the number of the authorised retail stores (under the current distribution arrangements) and the speciality stores and concession counters (under the previous distribution arrangements, and include the specialty stores and concession counters operated by the distributors, and those which were our direct customers) in each sales region as of 31 December 2006, 2007 and 2008 and 30 September 2009:—

	As of 31 December			As of 30 September
	2006	2007	2008	2009
	Number of specialty stores and concession counters	Number of specialty stores and concession counters	Number of specialty stores and concession counters	Number of authorised retail stores
Northern China . . . . .	60	85	257	312
Eastern China . . . . .	12	45	186	256
Central/Southwestern China . . . . .	7	38	240	336
Southern China . . . . .	6	20	142	221
<b>Total . . . . .</b>	<b>85</b>	<b>188</b>	<b>825</b>	<b>1,125</b>

As of 30 September 2009, 49 authorised retail stores were operated by our authorised distributors and 1,076 authorised retail stores were operated by other Independent Third Parties. Most of these Independent Third Parties were owners/operators of specialty stores and concession counters under our previous distribution arrangements, and they operated five, 46 and 375 specialty stores and concession counters during the three years ended 31 December 2008, respectively.

The following table sets forth the movements of the number of the authorised retail stores (or specialty stores and concession counters) in each of the four sales regions from the commencement of the Track Record Period:—

	For the year ended 31 December						For the nine months ended 30 September					
	2006		2007		2008		2009					
	Addition	Termination	Total number at the end of the year	Addition	Termination	Total number at the end of the year	Addition	Termination	Total number at the end of the year	Addition	Termination	Total number at the end of the period
Northern China . . . . .	2	—	60	40	15	85	210	38	257	237	182	312
Eastern China . . . . .	—	—	12	39	6	45	149	8	186	256	186	256
Central/Southwestern China . . . . .	3	—	7	35	4	38	208	6	240	101	5	336
Southern China . . . . .	—	—	6	18	4	20	128	6	142	169	90	221
<b>Total . . . . .</b>	<b>5</b>	<b>—</b>	<b>85</b>	<b>132</b>	<b>29</b>	<b>188</b>	<b>695</b>	<b>58</b>	<b>825</b>	<b>763</b>	<b>463</b>	<b>1,125</b>

Out of the 463 specialty stores and concession counters which terminated operation during the nine months ended 30 September 2009, 421 (included in the 763 additional authorised retail stores established during the nine months ended 30 September 2009) were converted into

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authorised retail stores, 21 were closed because we terminated our business relationship with the relevant distributors, and the remaining 21 were closed mainly because they failed to promote our brand or conduct sales in accordance with our requirements.

The following table sets forth the total sales of the *Flyke* products and the average sales for each authorised retail store (or specialty stores and concession counters) by sales regions:—

	For the year ended 31 December						For the nine months ended 30 September	
	2006		2007		2008		2009	
	Total sales RMB'000	Average sales <sup>(1)</sup> RMB'000	Total sales RMB'000	Average sales <sup>(1)</sup> RMB'000	Total sales RMB'000	Average sales <sup>(1)</sup> RMB'000	Total sales RMB'000	Average sales <sup>(1)</sup> RMB'000
Northern China . . . . .	2,783	46	10,075	139	60,599	354	98,262	345
Eastern China . . . . .	255	21	6,351	223	42,389	367	50,947	231
Southern China . . . . .	—	—	7,384	568	46,470	582	84,961	468
Central/Southwestern China . . . . .	687	98	8,572	381	63,060	454	100,604	349
<b>Total . . . . .</b>	<b>3,725</b>	<b>44</b>	<b>32,382</b>	<b>237</b>	<b>212,518</b>	<b>421</b>	<b>334,774</b>	<b>343</b>

*Note:*—

- The average number of the authorised retail stores (or specialty stores and concession counters for the three years ended 31 December 2008) is based on the simple average of the relevant numbers at the beginning and the end of the relevant year or period. The amount of the average sales is based on the total sales and the average number of the authorised retail stores (or specialty stores and concession counters for the three years ended 31 December 2008).

### *Management of the authorised retail stores*

Pursuant to the Exclusive Distribution Agreements, prior to the opening of new authorised retail stores, our authorised distributors must submit to us an application for approval. In considering an application for the opening of new authorised retail stores, we will consider the proposed locations, the number of the existing authorised retail stores and other demographical factors, such as the level of household income, the population mix and the overall economic development of the region. If an authorised retail store is to be operated by a third party other than our authorised distributor, we require the operator to have at least three years of experience in the retail of shoes, sports shoes or sports accessories. Upon receiving our approval, our authorised distributors will enter into the relevant contract with the operator of the new authorised retail store. We do not have any direct contractual relationship with the authorised retail stores. We are not responsible for investing any capital for the establishment of the authorised retail stores, nor are we responsible for the expenses incurred in the business operation of the authorised retail stores.

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Our authorised distributors are responsible for overseeing the business operation of the authorised retail stores within the designed region. In this connection, we provide each authorised distributor with a set of policy documents for the operation and management of authorised retail stores and provide training seminars to the sales staff of the authorised retail stores. Our authorised distributors are also required to monitor the performance of the relevant authorised retail stores by the following measures:—

- requiring the authorised retail stores to submit monthly sales reports;
- conducting spot checks from time to time on the authorised retail stores;
- reviewing the financial records of the authorised retail stores; and
- providing instructions to the authorised retail stores for their promotional activities.

We also have personnel to conduct random on-site inspections on the authorised retail stores about once every quarter, and they will liaise with the authorised distributors for rectification and follow-up if there is any non-compliance issue.

In addition to the above measures, we impose stringent criteria to select our authorised distributors and a majority of them have extensive experience in the sales and distribution of shoes and apparel. We also consider applications for opening new authorised retail stores carefully with reference to a set of criteria. We believe such measures can ensure the effective management of the authorised retail stores by our authorised distributors.

### *Designated marketing and management policies*

We incorporate detailed policies in respect of marketing, management and operation of authorised retail stores, pricing and customer service in the Exclusive Distribution Agreements, and provide trainings to our authorised distributors. Our authorised distributors are responsible for the distribution of the sports shoes, sportswear and sports accessories and the distribution, operation and management of the authorised retail stores, including the provision of basic operation guidelines, staff training and after-sales services according to our policies and/or standards. In addition, starting from the beginning of 2009, an annual minimum purchase amount is agreed between us and each of our authorised distributors pursuant to the Exclusive Distribution Agreements. The annual minimum purchase amount is determined with reference to:—

- the capacity of our authorised distributor's sales teams and the likely performance;
- our authorised distributor's latest sales results and the level of its inventory;
- the amount of sales which may be generated from our authorised distributor's business plan for the coming year; and
- the market share that may be taken up by the authorised distributor in light of our business plan in the relevant geographical region.

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For the year ended 31 December 2009 and the year ending 31 December 2010, the range of the annual minimum purchase amount was from RMB650,000 to RMB6,494,000 and from RMB1,700,000 to RMB10,000,000, respectively.

If an authorised distributor cannot achieve the annual minimum purchase amount in any six-month period, we may seek compensation against the authorised distributor and terminate the relevant Exclusive Distribution Agreement accordingly. During the year ended 31 December 2009, we started to require each authorised distributor to enter into the Exclusive Distribution Agreement for the sales of our *Flyke* products and the operation and management of the authorised retail stores in designated regions in China, and we did not seek any compensation in this regard because all our authorised distributors fulfilled their respective annual minimum purchase amount. Besides, our Directors confirm that there was no breach of the terms and conditions pursuant to the Exclusive Distribution Agreements during the year ended 31 December 2009.

As an incentive to our authorised distributors, we may provide them with additional financial support for advertising and promotional activities if they meet the agreed annual minimum purchase amount. To monitor the performance of our authorised distributors, our marketing personnel works with our authorised distributors closely and we request them to provide us with monthly sales analysis reports which include information on the styles, quantities and prices of the sold products, pursuant to the terms of the Exclusive Distribution Agreement.

We monitor the inventory levels of our authorised distributors by analysing their sales reports, purchase orders and their existing sales network from time to time and generally once every six months. We request our authorised distributors to provide us with their inventory levels before we start formulating the sales plans so that our sales activities can be focused on the promotion of the products that constitute most of the inventory of our authorised distributors. We do not have any arrangement with our authorised distributors to handle obsolete stock because during the past, they did not have much inventory kept for a long time without being sold.

Our authorised distributors must also provide us with timely information regarding authorised retail stores including the name, address and the telephone number of the owners of the relevant authorised retail stores and their sales results, the periodic sales reports from the authorised distributors detailing the sales by products and prices, and market feedback on new product. If we consider that the performance of any of our authorised distributors does not meet our requirements or that there is a material breach of the Exclusive Distribution Agreement, we may terminate the business cooperation with the relevant authorised distributors and we are not responsible for the inventories held by the authorised distributors. Towards the end of each year, we will undertake a comprehensive review of the performance of our authorised distributors before renewing the Exclusive Distribution Agreement for the next year. We will also from time to time conduct spot-checks on the performance of our authorised distributors through our dedicated sales and marketing staff.

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With regard to our pricing policies, we require that the *Flyke* products (including the sports shoes, sportswear and sports accessories) must be sold at the listed retail prices or discounted listed retail prices which are determined by us with reference to our production cost and the pricing strategies adopted by our customers. Following the determination of the relevant retail price, we will determine the selling prices, or the *ex factory* prices, of the relevant products to be sold to our authorised distributors. Our *ex factory* prices for the sports shoes, sportswear and sports accessories generally represent 35% to 40% of the proposed listed retail prices.

Starting from the third quarter of the year 2008, in response to the economic slowdown in China, we have reduced the *ex factory* prices in order to provide our authorised distributors with incentive to promote and sell the *Flyke* products. Because of the reduction in the *ex factory* prices, we also allow authorised retail stores to provide the consumers with further discount to the listed retail prices. Our Directors believe that this marketing strategy is effective to promote the sales of the *Flyke* products in economic downturn without compromising the brand image and position of the *Flyke* brand.

### *Distribution management for the Flyke products*

We divide the China market into four major sales regions and each region is further divided into various number of sub-regions. We allocate our regional sales management teams to monitor the performance of our authorised distributors and authorised retail stores within each region. The regional sales management teams are also responsible for the credit control, product management and marketing and promotional activities.

We manage the sales of the *Flyke* products in Jinjiang City at our headquarters. For sales management outside Jinjiang City, we divide our sales and marketing department into two business teams, namely the marketing management team and the sales team. Our marketing management team is principally responsible for the daily sales operations including supervision of purchase orders, product delivery and the provision of after-sales services. Our sales team is principally responsible for the selection of our authorised distributors, the formulation of sales policy and the supervision and management of our authorised distributors. As of 30 September 2009, our sales and marketing department had 60 staff members responsible for the *Flyke* products.

We have also formulated detailed retail stores management policy for our authorised distributors for their operation and management of the authorised retail stores. The policy documents consist of sales management, marketing promotion, pricing, sales reporting and human resources policies. In order to ensure that the authorised retail stores are fully equipped with proper selling and management skills and service quality, the human resources policy requires all sales staff to attend training courses provided by us.

### *Sales fairs and ordering process*

We promote our new sports shoes, sportswear and sports accessories at sales fairs. The sales fairs are held twice a year in April and August with a series of shows and exhibitions to showcase our new seasonal products. We also hold additional sales fairs on an *ad hoc* basis in each year for our authorised distributors to place additional purchase orders.

Sales fairs are our principal marketing events for the promotion of our new sports shoes, sportswear and sports accessories to our existing and potential distributors. The operators of authorised retail stores may join the sales fairs upon invitation or selection by our authorised distributors, and they may confirm their purchase orders with their assigned distributors during the sales fairs. Our authorised distributors will confirm the purchase orders with us following the sales fairs. We only accept purchase orders from our authorised distributors.

After receiving purchase orders from our authorised distributors, we will arrange internal production meetings to finalise our production schedules for the coming season, and then we will re-confirm with our authorised distributors the amount of purchase before the production. Our authorised distributors are not allowed to cancel the confirmed purchase orders, but we accept subsequently increase in the amount of purchase.

### *Distribution in tertiary institutions in China*

In order to expand our distribution network of the sports shoes and sportswear to university campus in China, on 30 August 2009, we entered into a framework agreement with Saier for the sales and promotion of specific products with the *Flyke* brand at selected tertiary institutions in China. Saier is a company established by the Ministry of Education of the PRC and is responsible for the construction and operation of the China Education and Research Network, which provides broadband linkage and Internet information to students and teachers of tertiary institutions in China. Saier is cooperating with the Campus Retail Stores to sell a variety of products, e.g. computer and mobile communication products, in such Campus Retail Stores. Pursuant to this framework agreement, Saier is responsible for the formulation and implementation of the promotional activities for the *Flyke* products at selected universities and tertiary institutions in China and purchases the *Flyke* products on a non-return basis. Saier also provides us with market information on the youth market and their preferences. We are responsible for the promotional expenses incurred by Saier on a reimbursement basis. We also cooperate with Saier to launch the promotion on the Internet and to establish sales counters at the tertiary institutions.

We have negotiated with Saier to sell the *Flyke* products in about 200 Campus Retail Stores by the end of 2010, and about 500 Campus Retail Stores by the end of 2011. Saier commenced the sales of the *Flyke* products at selected Campus Retail Stores in October 2009. As of the Latest Practicable Date, there were 93 Campus Retail Stores (nine in Guangxi, 34 in Jiangsu, 20 in Hangzhou, 22 in Sichuan and eight in Yunnan) selling the *Flyke* products. Saier is responsible for determining which of the Campus Retail Stores to sell the *Flyke* products.

After Saier has placed orders for the *Flyke* products, we deliver the ordered products to a designated location in Jiangsu Province. Saier will then accept the delivery of the products at the location for further distribution to the Campus Retail Stores.

Saier provides us with quarterly sales analysis reports with the same format as those provided by our authorised distributors. In addition, Saier provides us with analysis reports on the behaviours and preferences of consumers visiting the Campus Retail Stores. We also have personnel to perform random on-site inspections on the Campus Retail Stores selling the *Flyke* products.



### **Distribution under our Export ODM Business**

As of 30 September 2009, we sold our sports shoes to over 80 overseas buyers which are mostly wholesalers or retailers of shoes.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we had 51, 62, 91 and 87 overseas buyers, respectively, under our Export ODM Business. Our sales to each of these overseas buyers were less than 20% of the total sales under our Export ODM Business in the corresponding year or period. As of 30 September 2009, we had 36 active overseas buyers under the Export ODM Business with which we have been conducting business for more than five years. During each of the three years ended 31 December 2008 and the nine months ended 30 September 2009, the sales orders placed by these 36 active overseas buyers amounted to approximately RMB28.3 million, RMB59.7 million, RMB89.4 million and RMB114.3 million, respectively, representing approximately 27.9%, 50.4%, 51.1% and 56.1% of our sales under the Export ODM Business. We have maintained long-term, stable relationship with most of our overseas buyers for our Export ODM Business.

#### *Engagement of export services companies*

As mentioned above, we will arrange for the delivery of the sports shoes under our Export ODM Business to the Export Services Company (or other export services companies, all of which are Independent Third Parties, as required by our customers) for shipment to our overseas buyers. As the Export Services Company and other export services companies are specialised in handling the export procedures, our Directors believe that it would be more cost-efficient to engage them to handle the export procedures for our sport shoes. We do not have and do not intend to apply for the export business licence, even though there is no legal impediment for us to apply for such licence, as we do not require such licence with the services provided by the Export Services Company or other export services companies. We engage the Export Services Company or other export services companies because our Directors believe that it would be more cost efficient for us to engage these companies to coordinate and perform the export-related procedures and filings, rather than because we do not have the export business licence. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we conducted approximately 66.2%, 87.8%, 83.3% and 95.1%, respectively, of our Export ODM Business through the Export Services Company. The Export Services Company is a company established in China in 1999, and its scope of business includes importing and exporting of products and acting as an import or export agent for the purpose. The Export Services Company had been our largest customer for each of the three years ended 31 December 2008 and the nine months ended 30 September 2009. Our Directors confirm that even though we engage the Export Services Company as our sole agent for handling all export matters for our Export ODM Business, there are various companies in Jinjiang City and Xiamen City that can provide the same services with comparable business terms and conditions and replacements for the Export Services Company can therefore be easily identified. The Export Services Company is responsible for completing all the export/customers clearance procedures for the export of our sports shoes to the designated markets. In this connection, we entered into an agreement with the Export Services Company on 21 December 2008. The agreement with the Export Services Company is for a period of one year

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and will be automatically renewed unless such renewal is objected by either party. A summary of the business cooperation between us and the Export Services Company is set forth below:—

- We are confirmed with overseas buyers on the terms and conditions of our sales and inform the Export Services Company the detailed payment terms and conditions.
- Our sports shoes are approved for delivery by our overseas buyers, and we deliver our sports shoes to the warehouses of the Export Services Company.
- A letter of credit representing the contract price of the shipment, of not more than 60 days, will be issued by our overseas buyers to the Export Services Company against the delivery of our sports shoes to our overseas buyers on FOB basis.
- Following the acceptance of delivery of the sports shoes by our overseas buyers, the letter of credit will be presented by the Export Services Company to the relevant banks for payment. Pursuant to the relevant agreement with us, the Export Services Company will remit to us within two business days in China from the day the Export Services Company receives the payment the entire amount in RMB net of the relevant bank service charge with the PRC export tax rebate in the range between 11.0% and 15.0% (such rates of tax rebate payable from the relevant authority to us through the relevant export services company and such rates are applicable to all export services companies). We will pay the Export Services Company its services charges as agreed from time to time between the Export Services Company and us. The exchange rate between US\$ and RMB is determined by us and the Export Services Company on a regular basis with reference to the prevailing exchange rates between the currencies.
- We may terminate the agreement with the Export Services Company if it misapplies the payments received from our overseas buyers for other purposes or it discloses our business secrets without our consent.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we agreed that the Export Services Company would settle the principal amount under each letter of credit within two business days in China from the day the Export Services Company receives the payment. As of 31 December 2006, 2007 and 2008 and 30 September 2009, the amount of trade receivables from the Export Services Company was approximately RMB27.7 million, RMB33.3 million, RMB67.7 million and RMB72.9 million, representing approximately 41.2%, 32.1%, 46.4% and 37.6% of the total transaction amount with the Export Services Company for the relevant period, respectively. Most of these outstanding amounts represented letters of credit drawn by our overseas buyers to the Export Services Company. During the two years ended 31 December 2007, the trade receivable from the Export Services Company was due for less than 60 days. During the year ended 31 December 2008, the trade receivable was due for more than 60 days but less than 90 days principally because of the slow payment of the overseas buyers due to the economic downturn. During the nine months ended 30 September 2009, the trade receivable was due for less than 90 days because of our extension of the credit period given to the Export Services Company as an incentive to boost sales. We did not request for any security provided by the Export Services Company because of the long term business relationship. The amount due to us from the Export Services

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Company comprised the cash balance and the balance due under letters of credit issued by our overseas buyers. The Export Services Company will be ultimately liable to us for the balance settled by our overseas buyers.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the Export Services Company remitted a substantial portion of the proceeds after presenting the relevant letters of credit to us within two days. Hence, the balance due to us from the Export Services Company from time to time and as of 31 December 2006, 2007 and 2008 and 30 September 2009 set forth above comprised primarily the aggregate balance due under various letters of credit. The average balance of cash held by the Export Services Company was no more than RMB2.0 million which was used for the settlement of its service fees and other miscellaneous charges and out-of-pocket expenses. On this basis, our Directors consider that we did not encounter any material risk in conducting the business with the Export Services Company. We can always request our overseas buyers to cancel the existing letters of credit and re-issue the same to us or other designated export services companies. In the event the Export Services Company is in default of its obligation to remit the payments to us, we are entitled to take legal action against it to claim the default payments. In addition, we have a team of dedicated staff liaising with the Export Services Company on a daily basis for updates on the payment status of each letter of credit issued by our overseas buyers and the remittance to us the remaining cash balance.

The Export Services Company may conduct investigations on the credit-worthiness of our new customers upon our request or assist in arranging for the trade credit insurance. The purpose of engaging the Export Services Company is to streamline the export process to reduce our internal overhead and to delegate such logistical and administrative works to a specialised service agent.

Our Directors also confirm that we are able to identify replacement with comparable terms of business without any difficulty should the Export Services Company be unable to provide us with the required export/customs clearance services.

### *Footwear trade fairs and exhibitions*

We participate in international footwear trade fairs and domestic exhibitions to meet the existing and potential customers. Since 2002, we have regularly participated in the WSA Show held at Las Vegas, the United States in February and August, the International Event for Shoes & Accessories held at Dusseldorf, Germany in March and September and the China (Guangzhou) International Shoe Fair held at Guangzhou, China in April and October each year. All of these trade fairs and exhibitions are led by an executive Director with a team of selected sales and marketing personnel. At these trade fairs and exhibitions, our customers may place purchase orders directly with us, or may subsequently follow-up with us for their purchase orders.

### **Distribution of our Soles**

Most of our customers for our Soles are footwear manufacturers in Fujian Province whom we will provide designs of our Soles as well as samples to promote our sales. We believe that even though we are focusing on increasing our sales of the *Flyke* products, the sales of Soles also provide us with additional business opportunities to serve our customers. Before accepting the purchase orders, we will make sure that we have enough production capacity for the production of sport shoes with the *Flyke* products or for our Export ODM Business. The Soles are delivered to our customers with a credit period of 60 days.

### **OUR PRODUCT DESIGN AND DEVELOPMENT**

We value the importance of innovative design and new technology to the continued success of our products and hence, we expand our product design and development teams continuously. The number of staff members in our product design and development teams grew from 37 as of 31 December 2006 to 51 as of 31 December 2007 and 144 as of 31 December 2008. As of 30 September 2009, we had three separate design and development teams for the *Flyke* products, the ODM sports shoes and the Soles, with an aggregate of 142 staff members. In 2008, our product design and development teams designed and developed over 1,400 styles of sports shoes, over 500 styles of Soles and over 500 styles of sportswear and sports accessories, of which over 600 styles of our sports shoes, 300 styles of our Soles and over 150 styles of our sportswear and sports accessories were put into commercial production.

To provide input to our design and development teams, we have employees stationed in Guangzhou, Beijing, Shanghai, Jiangsu, Zhejiang and Guangxi to be responsible for collection of the latest information on fashion trends, customer preferences and other relevant industry data. Our authorised distributors are also required to provide us with regular feedback on the sales of our products. Our product design and development team members also participate in international exhibitions and trade fairs in order to obtain the latest market information.

In order to produce comfortable and trendy sports shoes with different functions, our dedicated product design and development teams incur significant amount of resources and efforts in the development of different designs and styles of sports shoes with different functionality and production technologies. Our product design and development team has developed the following footwear technologies which have been applied to the *Flyke* products:—

- an outsole which provides additional flexibility on the fore part of the sports shoes in running and walking;
- a supporting system within the insole and the midsole that absorb vibration in running and walking and thereby provide additional comfort to the wearer; and
- sports shoes that can improve bouncing and absorb vibration with Soles made by a combination of PVC and rubber.

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We are also applying for patent registrations for other technologies or designs for our sports shoes and Soles. Further information on our patent applications is set forth in the section headed “Further Information About the Business of our Group — Intellectual property rights” in this prospectus.

Our Directors believe that the main reasons for the long-term business relationship with our overseas buyers under our Export ODM Business are our industry knowledge on design and development of leisure and professional sports shoes, and the quality of our products that meet the requirements of our customers. We compete with our competitors on the quality and the wide range of designs of our sports shoes available to our customers.

To further enhance the product design of our sport shoes and sportswear and sports accessories, we engage professional design companies from time to time. For example, we entered into an agreement in July 2009 with 廣州市鼎服盛飾時裝有限公司(Guangzhou City Dingfu Shengshi Fashion Co., Ltd.\*), an Independent Third Party, for the design and development of a new collection of the sportswear and sports accessories with the *Flyke* brand. The scope of the engagement includes the design of the product theme and product series with different combinations of colours and raw materials.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we incurred RMB1.1 million, RMB1.2 million, RMB10.0 million and RMB7.6 million, respectively, as expenses on product design and development.

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### OUR PRODUCTION FACILITIES AND PROCESS

#### Introduction

Our production facilities are located in Jinjiang City, Fujian Province, China. The following table sets forth further information on our production facilities:—

	<u>Our production facilities for</u>	
	<u>Sports shoes</u>	<u>Soles</u>
<b>Commencement date of production</b> . . . . .	April 1999	April 1999
<b>Number of production lines as of the Latest Practicable Date</b> . . . . .	10	21
<b>Annual production capacity (pairs)<sup>1</sup></b>		
For the year ended 31 December 2006 . . . . .	5.0 million	8.0 million
For the year ended 31 December 2007 . . . . .	5.1 million	8.0 million
For the year ended 31 December 2008 . . . . .	7.0 million	10.0 million
For the nine months ended 30 September 2009 . . . . .	10.0 million	13.0 million
<b>Actual production volume (pairs)</b>		
For the year ended 31 December 2006 . . . . .	2.6 million	4.1 million
For the year ended 31 December 2007 . . . . .	2.6 million	4.5 million
For the year ended 31 December 2008 . . . . .	5.9 million	7.8 million
For the nine months ended 30 September 2009 . . . . .	6.0 million	6.9 million
<b>Utilisation rate</b>		
For the year ended 31 December 2006 . . . . .	51.6%	51.8%
For the year ended 31 December 2007 . . . . .	51.8%	56.6%
For the year ended 31 December 2008 . . . . .	84.9%	77.6%
For the nine months ended 30 September 2009 . . . . .	80.5%	70.6%

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*Note:—*

- The annual production capacity of sports shoes is based on the assumption that a production line can produce 300 pairs of sports shoes within an hour and that each production line is operating 12 hours a day with a total of 300 days in a year. For the production of Soles, the annual production capacity is based on the assumption that a production line can produce 300 pairs of Soles within an hour and that each production line is operating 24 hours a day with a total of 300 days in a year.



### **Our production lines**

#### *Footwear production line*

Our production facilities are strategically located in Jinjiang City, Fujian Province, China with approximately 35,815 sq. m. Jinjiang City is the hub for sports shoes manufacturing business in China and hence, our Directors believe that we are able to take advantage of the latest local production technology, the constant supply of skillful labour and other ancillary facilities in Jinjiang for the production of our sports shoes, sportswear and sports accessories.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we produced all the sports shoes with the *Flyke* brand using our own production facilities without outsourcing to our contract manufacturers. Most of the sports shoes under our Export ODM Business were produced by us during the corresponding period, except that we might outsource the production of some of sports shoes to contract manufacturers during peak seasons. Our Directors confirm that, during the year ended 31 December 2008 and the nine months ended 30 September 2009, we outsourced approximately 6.8% and 14.2% of the total number of our sports shoes to our contract manufacturers because of the tight production schedule with our production capacity almost fully utilised at that time. All of these contract manufacturers are Independent Third Parties. In 2008, we received certain orders from our active overseas buyers for products such as children's shoes that we do not normally produce, and thus we outsourced the production to our contract manufacturers.

#### *Sole production equipment*

We have separate equipment for the production of Soles with different materials, including EVA Soles, PU Soles and rubber Soles.

As a matter of our production arrangements, we put priority on the production of Soles for the sports shoes with the *Flyke* brand and under our Export ODM Business. We will fully utilise the production capacity of Soles production equipment through the production and sales of Soles as semi-finished products to other sports shoes manufacturers.

#### *Production of sportswear and sports accessories*

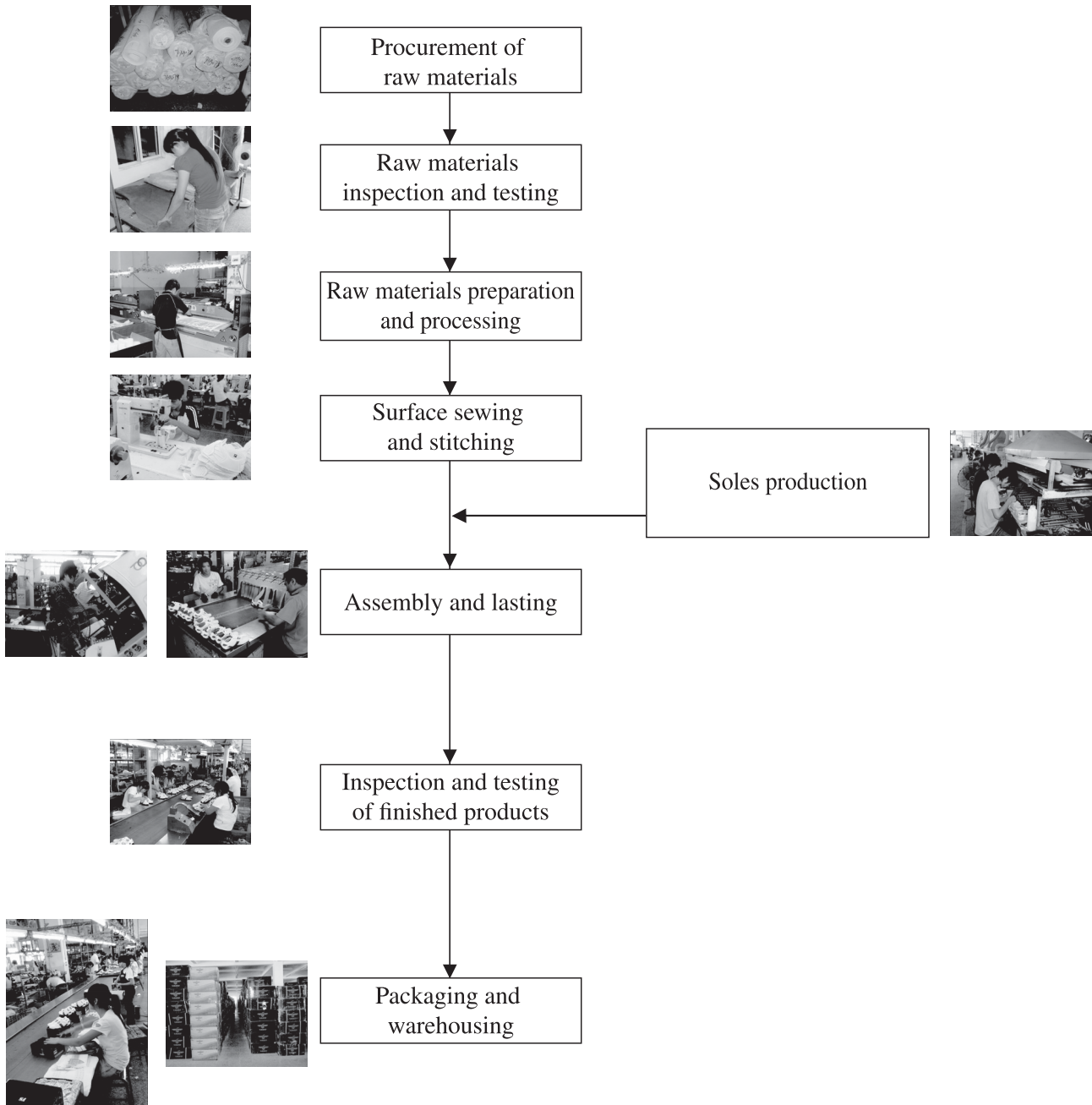
All the sportswear and sports accessories with the *Flyke* brand are produced by our contract manufacturers which are Independent Third Parties. As of the Latest Practicable Date, we engaged six contract manufacturers located in various locations including Guangdong Province and Fujian Province, China for the production of all the sportswear and sports accessories. We engage the manufacturers after we have confirmed purchase orders from our authorised distributors. During the two years ended 31 December 2008 and up to 30 September 2009, we incurred to our contract manufacturers approximately RMB6.1 million, RMB41.0 million and RMB127.7 million, respectively. For each purchase order, we enter into separate purchase contracts which set out details including the price, quantity, quality requirements, delivery and settlement terms. We do not prohibit our contract manufacturers from manufacturing products for other customers. In order to increase the profit contributed by the sportswear and sports accessories with the *Flyke* brand, we plan to use approximately HK\$80.0 million in 2010 and 2011 for the establishment of suitable sportswear and sports accessories



production facilities for the *Flyke* brand. The production facilities are expected to commence commercial production towards the end of 2011 with an annual production capacity of approximately five million pieces of sportswear and sports accessories.

## Our footwear production process

Our footwear production process may be divided into eight main stages:—



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Procurement of raw materials	Raw materials necessary for production are procured by our procurement department according to production orders.
Raw materials inspection and testing	Raw materials are inspected and tested before being used in production. We will conduct a series of material strength test, colouring test, endurance test and bending test on the materials.
Raw materials preparation and processing	Raw materials are trimmed into independent components, processed and then sewed and stitched according to production design.
Surface sewing and stitching	Independent components and materials with different shapes are sewed and stitched for the shoes' surface.
Assembly and Lasting	The surface and the Sole of the footwear are assembled. The last is a block of plastic used for shaping shoes, and the stitched surface upper is shaped around it. During the lasting process, the last and the surface are placed together and then placed onto a lasting machine to ensure a good fit of the surface to the shape of the last. The insole is glued onto the sole unit and the lasted surface is then attached to insole together with the sole unit. The completed but unfinished shoe is then pressed around the last using pressing machines to ensure that the sole unit is attached to the surface properly. The last and the sole unit will then be removed to complete the entire process.
Inspection and testing of finished products	Inspection and testing of finished products are conducted by quality control staff.
Packaging and warehousing	Finished products are packaged and delivered to the warehouses maintained by a logistics company for delivery to our authorised distributors. For our Export ODM Business, the sports shoes will be delivered to the export services company.

### **Our production expansion plan**

We will expand our shoe production capacity by increasing three production lines for sports shoes with an aggregate annual production capacity of approximately three million pairs of sports shoes. The production lines will be allocated for the production of sports shoes with the *Flyke* brand and for our Export ODM Business. Based on the recent utilisation rates and the level of sales orders received for the *Flyke* products and the sports shoes under the Export ODM Business, our Directors estimate that the average utilisation rate for the year ended 31 December 2009 would reach approximately 87.0% which is a rather high utilisation level. From time to time, when we have significant scheduled production volume, our production capacity would be fully utilised and we need to outsource part of our production to contract manufacturers. Taking into consideration the increasing trend of our utilisation rates during the Track Record Period and the proposed expansion of our distribution network, our Directors believe that the proposed increase in the production capacity as set forth in the section headed "Future Plans and Use of Net Proceeds from the Global Offering" will not result in excessive production capacity. We will incur approximately HK\$23.0 million in the above production expansion plan which will be funded by net proceeds from the Global Offering. The expansion plan is expected to complete by September 2010.

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### PROPERTIES AND FACILITIES

As of the Latest Practicable Date, we owned three properties and leased two properties in the PRC for our business operations which are primarily situated at Jinjiang City, Fujian Province, China. Further information on our properties is set forth in Appendix IV to this prospectus.

All of our owned and completed properties are used by us as our production facilities, administration offices and staff quarters. Within such properties, we have three factory buildings used by us as our production facilities. Our production facilities are very close to our suppliers and contract manufacturers and Sole customers which enable us to provide more convenient service to our customers.

Except for our production department, all our other departments are located in two of our buildings near our production facilities, one of which is dedicated to our Export ODM Business, including the research and development section, the material section and two exhibition halls where samples of shoes are displayed.

We provide accommodation to over 3,000 employees in our dormitory buildings of approximately 6,990 sq. m. within our production plant.

In addition to our owned properties, we have entered into two tenancy agreements with Independent Third Parties for our two branch companies, namely Flyke (Guangxi) Branch Company and Flyke (Shuitou) Branch Company in Liuzhou, Guangxi Province and Shuitou, Nanan, Fujian Province, respectively.

### PRC legal issues

In March 2007, Flyke (China) was in contemplation of acquiring a parcel of land of approximately 18,138 sq. m. adjacent to our production plant situated at Yangdai, Chendai Town, Jinjiang City, Fujian Province, China. The land was collectively owned by the village of Yangdai and thus it was a pre-requisite to pay the land use compensation to the village of Yangdai so that the land could be converted into State-owned construction land and become available for acquisition through public tender participated by the payer of land use compensation, followed by the execution of a relevant State-owned land transfer contract and the payment of the relevant land premium.

On 21 March 2007, on behalf of Flyke (China), Quanzhou Xingwei entered into an agreement with the Yangdai Villagers' Committee pursuant to which the amount of the land use compensation for the parcel of land was agreed to be approximately RMB16.9 million. We have paid an aggregate amount of approximately RMB16.9 million to the Yangdai Villagers' Committee by 19 installments from April 2007 to July 2009. Such amount is recorded under "Construction work in progress" under "Property, plant and equipment" in our combined statements of financial position as of 30 September 2009, and is non-refundable from the Yangdai Villagers' Committee. However, if we fail to acquire the land through public tender, we are entitled to receive such amount from the party obtaining the land. After entering into the land use compensation agreement with the Yangdai Villagers' Committee, Quanzhou Xingwei submitted an application to the relevant PRC Government authority for the acquisition

of the land. The land is currently owned by the State. Pursuant to a confirmation letter signed by the Land Resources Bureau of Jinjiang City (晉江市國土資源局) and Flyke (China) dated 11 February 2010, Flyke (China) succeeded in the public tender of the land and was required to pay a land premium of RMB5.72 million. Upon the payment of the land premium, the land use rights certificate can be obtained by Flyke (China) by the end of May 2010. Further information on the land is set forth in property No. 3 of the valuation report in Appendix IV to this prospectus.

Quanzhou Xingwei is not engaged in any business activities even though its scope of business includes the manufacture of shoes, Soles and shoe decorations. As confirmed by Mr. LIN, Quanzhou Xingwei is in the process of finalising its environmental protection report for the change of its business scope. After the completion of such environmental protection, Quanzhou Xingwei has submitted an application to amend its scope of business to avoid any competing business with us and such amendment application is being processed by the relevant government authority. Mr. LIN does not conduct any other business activities save for our business. Flyke (China) did not submit the application to acquire the land nor enter into the agreement with the Yangdai Villagers' Committee because it was not certain whether the land could be duly applied for and the investment amount was significant. Hence, Mr. LIN used Quanzhou Xingwei for entering into the agreement with the Yangdai Villagers' Committee and for submission of the relevant application to the Jinjiang Municipal Bureau of Land Resources.

We commenced the construction of one factory building in October 2008, one dormitory in July 2008 and one administrative building in October 2007 on the land, with an aggregate floor area of approximately 35,518 sq. m. and a net book value of approximately RMB30.3 million as of 30 September 2009, without obtaining the relevant 《建設用地規劃許可證》(Construction Land Planning Permit\*), 《建設工程規劃許可證》(Construction Work Planning Permit\*) and 《施工許可證》(Approval for Commencement of Construction Work\*). The factory building and the dormitory are currently vacant as they are still under construction, and the aggregate construction cost pursuant to the construction contract is approximately RMB36.5 million of which approximately RMB25.6 million has been paid. This amount is recorded under "Construction work in progress" under "Property, plant and equipment" in our combined statements of financial position as of 30 September 2009. The construction is expected to complete by March 2010 and the outstanding contracted construction cost shall be paid within 60 days after our inspection and acceptance. The administrative building, with an aggregate floor area of approximately 2,560 sq. m. and construction cost of approximately RMB4.7 million, is currently used by us as our temporary administrative office.

Our PRC Legal Advisers confirm that in accordance with the applicable laws and regulations in China, namely 《中華人民共和國城鄉規劃法》(Urban and Rural Planning Law of the PRC\*) and 《建設工程施工許可管理辦法》(Measures for Administration of Permit on Commencement of Construction Works\*), we should have obtained the abovementioned permits before undertaking any construction work on the land. If any construction is commenced in the absence of such approval documents, the relevant PRC Government may order suspension of the relevant construction work or impose a penalty of an amount equivalent to 5% to 10% of the cost of the construction work completed. Hence, the likely amount of penalty, if any, would be in the range between RMB2.0 million and RMB4.0 million.

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Flyke (China) has obtained confirmations issued by 晉江市國土資源局 (Jinjiang Municipal Bureau of Land Resources\*) and 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate\*), both dated 9 August 2009, confirming that Flyke (China) may temporarily make use of the buildings in the existing manner before obtaining the land use rights certificate and the building ownership certificates, and the land was in compliance with the planning requirements and Flyke (China) may apply for the building registration after obtaining the land use rights certificate. Our PRC Legal Advisers also confirm that 晉江市國土資源局 (Jinjiang Municipal Bureau of Land Resources) and 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate) are the competent authorities for the purpose of issuing the above confirmations. Upon obtaining the land use rights certificates, Flyke (China) will be entitled to apply for the relevant building ownership certificates for the buildings.

Flyke (China) shall pay the land premium and obtain the land use rights certificate. Upon obtaining the land use rights certificates, Flyke (China) will be entitled to apply for the relevant building ownership certificates for the three buildings. Our PRC Legal Advisers confirm that there is no legal impediment for us to obtain the relevant land use rights and there is a low chance that Flyke (China) will be penalised for the non-compliance because of the above confirmations. Each of our Controlling Shareholders have entered into the Deed of Indemnity in favour of us in respect of, amongst other things, any payments, suits, settlement payment, cost, liability, claim, fine expense, penalty, loss, damages or expense that may be incurred or suffered by any member of our Group as a result of such non-compliance. If we fail to acquire the land due to failure to pay the land premium, we may be required to relocate our offices. Our future business plan will not be adversely affected as our Directors believe that we will be able to find suitable premises to replace the factory and the dormitory buildings. In addition, our current business operation will not be adversely affected as the factory and the dormitory buildings are not in use while the administrative building is only used by us as our temporary administrative office. As such, we only need to relocate our temporary administrative office and we should not have any difficulty in locating suitable premises for the purpose. We estimate that the relocation costs will be approximately RMB50,000. We may also incur impairment loss for the buildings built on the land which had a net book value of approximately RMB30.3 million as of 30 September 2009.

In March 2007, Xinwei (China) was in contemplation of acquiring a parcel of land of approximately 1,528 sq. m. in Yangdai, Chendai Town, Jinjiang City, Fujian Province, China. The land was collectively owned by the village of Yangdai and thus it was a pre-requisite to pay the land use compensation to the village of Yangdai so that the land could be converted into State-owned construction land and become available for acquisition through public tender participated by the payer of land use compensation, followed by the execution of a relevant State-owned land transfer contract and the payment of the relevant land premium.

On 2 March 2007, Xinwei (China) entered into an agreement with the Yangdai Villagers' Committee pursuant to which the land use compensation for the parcel of land was agreed to be approximately RMB1.9 million. We have paid approximately RMB1.9 million to the Yangdai Villagers' Committee in two installments in March 2007 and May 2008, and such amount is recorded under "Construction work in progress" under "Property, plant and



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equipment” in our combined statements of financial position as of 30 September 2009. Such amount is non-refundable from the Yangdai Villagers’ Committee. After entering into the land use compensation agreement with the Yangdai Villagers’ Committee, Xinwei (China) submitted an application to the relevant PRC Government authority for the acquisition of the land. Xinwei (China) succeeded in the public tender of the land held on 22 December 2009, and accordingly entered into the State-owned Construction Land Use Rights Transfer Agreement in January 2010, pursuant to which Xinwei (China) was required to pay a land premium of RMB0.66 million within 60 days of the date of the agreement. Upon the payment of the land premium, the land use rights certificate has been obtained by Xinwei (China) in February 2010. Further information on the land is set forth in property No. 2 of the valuation report in Appendix IV to this prospectus.

We commenced the construction of a building on the land in March 2007 after paying the first installment of the land use compensation to the Yangdai Villagers’ Committee, without obtaining the relevant 《建設用地規劃許可證》(Construction Land Planning Permit\*), 《建設工程規劃許可證》(Construction Work Planning Permit\*) and 《施工許可證》(Approval for Commencement of Construction Work\*). The building has a gross floor area of approximately 3,721 sq. m. and a net book value of approximately RMB4.5 million as of 30 September 2009. It is used for the offices of our Export ODM Business and we intend to continue to use the building for this purpose.

Our PRC Legal Advisers confirm that in accordance with the applicable laws and regulations in China, namely 《中華人民共和國城鄉規劃法》(Urban and Rural Planning Law of the PRC\*) and 《建設工程施工許可管理辦法》(Measures for Administration of Permit on Commencement of Construction Works\*), we should have obtained the abovementioned permits before undertaking any construction work on the land. If any construction is commenced in the absence of such approval documents, the relevant PRC Government may order suspension of the relevant construction works or impose a penalty of an amount equivalent to 5% to 10% of the cost of the construction work completed. Hence, the likely amount of penalty, if any, would be in the range between RMB0.2 million and RMB0.5 million.

Xinwei (China) has obtained a confirmation issued by 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate\*), dated 24 July 2009, confirming that Xinwei (China) may temporarily make use of the building in the existing manner before obtaining the land use rights certificate and the building ownership certificate, and the land was in compliance with the planning requirements and Xinwei (China) may apply for the building registration after obtaining the land use rights certificate. Our PRC Legal Advisers also confirm that 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate\*) is the competent authority for the purpose of issuing the above confirmation. Upon obtaining the land use rights certificate, Xinwei (China) will be entitled to apply for the relevant building ownership certificates for the building.

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We commenced the construction on the two parcels of land before obtaining the relevant permits because at that moment we had reached agreements with the Yangdai Villagers' Committee for the amount of land use compensation while our Directors believed that there was no legal impediment for us to obtain the relevant land use rights and there was a low chance that we would be penalised for the non-compliance. Our Directors' belief is substantiated by confirmations issued by 晉江市國土資源局 (Jinjiang Municipal Bureau of Land Resources\*) and 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate\*), both dated 9 August 2009, and a confirmation issued by 晉江市規劃建設與房產管理局 (Jinjiang Administration Bureau of Planning Construction and Real Estate\*), dated 24 July 2009, details of which are set forth above.

As we have obtained confirmations from the relevant PRC Government that we are making proper use of the buildings on the two parcels of land, our Directors believe that the possibility for the PRC Government to impose a penalty on us in respect of the above non-compliance is low. Our PRC Legal Advisers confirm that there is no legal impediment for us to obtain the land use rights relating to the parcel of land mentioned above and there is a low chance that Xinwei (China) will be penalised for the above non-compliance. Each of our Controlling Shareholders have entered into the Deed of Indemnity in favour of us in respect of, amongst other things, any payments, suits, settlement payment, cost, liability, claim, fine expense, penalty, loss, damages or expense that may be incurred or suffered by any member of our Group as a result of such non-compliance.

We intend to use the properties over the two parcels of land principally as part of our production base under our future plans and our office for our Export ODM Business. As Flyke (China) has succeeded in the public auction of the parcel of land, our Directors believe that we would be able to obtain the land use rights certificates by following the relevant land acquisition procedures and paying the land premium of RMB5.72 million.

The tenancy agreements entered into between us and Independent Third Parties for the Flyke (Guangxi) Branch Company and the Flyke (Shuitou) Branch Company have not been registered by the relevant lessor. Our PRC Legal Advisers advise that under PRC laws, the registration of the tenancy agreements is not a condition for the tenancy agreements to become effective and therefore the lack of registration of these tenancy agreements will not affect the legality of such tenancy agreements. The tenancy agreements in relation to the premises leased by Flyke (Guangxi) Branch Company and Flyke (Shuitou) Branch Company are valid, binding and enforceable under PRC laws.

As a contingency plan to deal with electricity shortages and suspensions, we have installed three electricity generators with an aggregate installed capacity of approximately 3,000 kilowatt, which our Directors believe we are capable of generating sufficient electricity for our production operations. We did not experience any material interruption of our production operations resulting from electricity shortages or suspensions during the Track Record Period.



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### RAW MATERIALS AND SUPPLIERS

We currently use various raw materials including leather, fabric and other chemical materials as our principal raw materials, and all of them are purchased from local suppliers in China. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, the average purchase prices for these principal raw materials were as follows:—

<b>Raw materials</b>	<b>For the year ended 31 December</b>			<b>For the nine months ended 30 September</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Leather (per yard) . . . . .	29.8	27.7	28.6	29.2
Fabrics (per sq. m.) . . . . .	15.3	15.9	16.2	18.0
Other chemical products (per kilogram) . . . . .	20.8	22.4	34.4	32.2

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we did not experience any material price fluctuation for our principal raw materials save for those raw materials under other chemical products. This was due to the significant price fluctuations of petroleum during the two years ended 31 December 2008.

As we source our raw materials according to our customers' confirmed purchase orders, we do not keep a large amount of inventory of raw materials. Further, we choose most of our suppliers in Jinjiang City, Fujian Province, so that we can purchase our raw materials when necessary due to the proximity. The purchase arrangements entered into between our suppliers, which are Independent Third Parties, and us are carried out by way of purchase orders following determination of the schedule of our production activities.

We have established stable business relationship for more than three years with most of our major suppliers. During the Track Record Period, we did not experience any difficulties in purchasing raw materials. We normally purchase the raw materials after confirming purchase orders from our overseas buyers and have detailed schedule arranged prior to commencement of production. Our Directors believe that we have maintained good and long term business relationships with our suppliers as we are located conveniently in Jinjiang and have a stable and steady amount of business to them. We are able to monitor the price and the supply of our raw materials closely minimising adverse impact resulting from short-term shortage or price fluctuations of raw materials.

During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we did not enter into any hedging arrangement to mitigate any possible impact on the fluctuations in the prices of our principal raw materials, such as leather, fabric and other

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chemical materials. We endeavour to maintain a short time period between the confirmed sales orders and the confirmed purchase orders of principal raw materials and hence, we did not experience any material risk on the fluctuations in the prices of raw materials.

We are granted credit periods of an average of 30 to 90 days by our suppliers. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, our five largest suppliers accounted for approximately 42.7%, 33.4%, 21.8% and 33.4%, respectively, of the aggregate amount of purchases, and our largest supplier accounted for approximately 18.8%, 9.8%, 5.3% and 8.7%, respectively, of the aggregate amount of purchases.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors, owns more than five per cent. of our issued Shares or the share capital of any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers during the Track Record Period.

### QUALITY ASSURANCE

Our Directors believe that reliable product quality is one of the key factors to our success and hence, our product quality control procedures are stringent. Starting from the sourcing of raw materials to packaging of our finished products, we apply stringent quality control procedures to monitor the entire production process.

We have developed comprehensive and effective quality management systems and have since October 2000 been certified as ISO 9001:2000 compliant on the quality management systems by China Quality Certification Centre. In December 2005, the *Flyke* brand sports shoes were granted “*Products Exempted from Quality Surveillance Inspection*” (產品質量國家免檢) for a period of three years.

As of 30 September 2009, we had 55 quality control staff. Our quality control process starts in the product design and development stage when we consider the types of functionality and the raw materials to be used for the production process, such as anti-bending, anti-wearing, skid-proofing, waterproofing, adhesiveness, heat-resistance, pliability, appearance and other qualities according to types of products. At the raw material sourcing stage, we employ comprehensive criteria in selecting our suppliers and conduct tests on substantially all of the raw materials and other components by various tests including inspections and safety testings to ensure that they meet our quality standards. At each stage of the production process, we arrange for our quality control staff conduct interim inspection of all semi-finished products at the production lines and those of the outsourced manufacturers. After completing the final production stage, our quality control staff conduct sample tests randomly on some of the finished products in accordance with both domestic and international standards for sampling of finished products, including the GB/T2828 《計數抽樣檢驗程序》 issued by International Standardisation Management Committee (國際標準化管理委員會) and MIL-STD-1916 developed by the U.S. Army, which includes testing on packaging, labelling and all results shall be recorded on the relevant forms.

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If certain goods are found to be of unacceptable standard, further tests will be done or such products will be rejected or repaired, depending on the acceptable quality level as set out in the testing standards. We conduct detailed statistical analyses of failed samples in order to ascertain the overall production performance and to minimise quantity of defective products.

In respect of our Export ODM Business, we maintain close working relationship with our customers. Not only do we strictly follow all the requirements of our customers in respect of their requested terms and conditions of the manufacturing process. Our customers also send their quality control staff to visit us and inspect our products and production facilities on a regular basis prior to delivery to them.

### INTELLECTUAL PROPERTY RIGHTS

Our Directors believe that our brand and our trademarks and patents are important to our further business development. We have registered a number of trademarks for the *Flyke* brand and the *Flyke* products under different classes in China. We have used the brand for all of our sportswear distributed in China for the purpose of promoting brand loyalty and recognition.

Under the Exclusive Distribution Agreements, our authorised distributors are required to report to us if they are aware of any infringement of our intellectual property rights and any counterfeit products and they also agree not to do any act that would adversely affect the image of the *Flyke* brand in the course of conducting business. Our authorised retailers are required to report to our authorised distributors of the same. During the Track Record Period, we identified cases of counterfeit products bearing the *Flyke* brand, and we reported such cases to the relevant PRC government authorities for them to take follow-up investigations. As of the Latest Practicable Date, we were not aware of any material infringement of the *Flyke* brand.

To protect our intellectual property rights, as of 30 September 2009, we had registered 25 trademarks in China and had applied for the registration of nine trademarks in China. We have also submitted 19 patent applications in China. Further information on our intellectual property rights is set forth in the section headed “Further Information About the Business of our Group — 2. Intellectual property” in Appendix VI to this prospectus.

### OUR COMPETITORS

The branded sports shoes and sportswear industry in China has seen continuous growth in recent years. According to the Euromonitor Report, the total spending on sportswear by consumers in China for the three years ended 31 December 2008 were approximately RMB61.0 billion, RMB76.0 billion and RMB101.0 billion, respectively. We expect that this industry will continue to grow with the continuous growth of the Chinese economy and accordingly this industry may be highly competitive with both international and domestic brands and new brands entering into the market. We may face competition from our competitors in terms of product design and brand image, product quality, pricing and distribution network. However, our Directors believe that our competitive advantages will enable us to remain competitive.

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Our competitors may have better brand recognition and awareness, significant market shares and strengthened financial resources for their business and products development. Nonetheless, our Directors believe that the branded sportswear industry in China has ample business opportunities for different brands with different pricing and focused markets. On this basis, our Directors believe that we have the following advantages over our competitors:—

### **We have vertically integrated business models**

Our vertically integrated business models comprise all business functions, including product research and development, production, marketing and sales of sports shoes and Soles, which enable us to monitor and control each component of our business, to reduce our cost and hence, we can react promptly to changes in market trends and consumers' preference.

### **We have a focused target market with appropriate product portfolio**

We position the *Flyke* brand as fashionable and leisure sportswear for young customers in second- and third-tier cities in China. By focusing on these markets, we avoid direct and fierce competition with international brands which are usually focusing on first-tier cities with relative strong brand recognition and loyalty.

Our sports shoes, sportswear and sports accessories are focusing on leisure and trendy designs with latest shoe technology and affordable prices. Our Directors believe that these can be differentiated from other domestic brands in the market. We also have price advantages over other international brands amongst our target customers. Our Directors therefore believe that we can build a more distinguished brand image by focusing on a niche medium-end market.

### **We can leverage our experience gained in the Export ODM Business for the *Flyke* products**

We are able to grasp the latest trends and customer preferences in overseas markets, which have significant influence on the domestic market in China. We can leverage the market information obtained from such overseas markets to facilitate the design of the *Flyke* products to meet the needs of consumers in China.

### **The *Flyke* brand has established market recognition and distribution network**

The *Flyke* brand has gained brand recognition since its launch in April 2004. The brand has obtained various awards and accreditation with detailed information set forth in the paragraphs under “\_\_\_ — Awards and certifications” above. The distribution network of the *Flyke* products has also expanded significantly, with the number of the authorised retail stores operated directly by our authorised distributors or by operators which are Independent Third Parties increased to 1,125 as of 30 September 2009 and 1,169 as of the Latest Practicable Date. We believe that we have obtained a stable foothold in the sports footwear and apparel industry in China with our existing brand recognition and distribution network, which can further fuel our growth in the future.

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### PRODUCT LIABILITY INSURANCE

We have not maintained general product liability insurance for our products on the basis that it is not an industry practice in China. Such insurance is also not required by the applicable laws and regulations in China. During the Track Record Period, we did not experience any material claim of any liability arising from or involving the use of our products by our customers and/or consumers which result in material and negative impact on our business.

### OUR EMPLOYEES AND WORK SAFETY MATTERS

As of 30 September 2009, we had a total of 3,238 employees, all of whom were located in China. The following table sets forth an analysis of our employees by department as of 30 September 2009:—

<b>Functions</b>	<b>Number of employees</b>
Management and administration . . . . .	58
Production and procurement . . . . .	2,892
Quality control . . . . .	55
Sales and marketing <sup>1</sup> . . . . .	73
Finance and accounting . . . . .	18
Product design and development . . . . .	<u>142</u>
<b>Total</b> . . . . .	<b><u><u>3,238</u></u></b>

*Note:—*

<sup>1</sup> Our sales and marketing department had 60 staff members responsible for the sales and marketing matters for the *Flyke* products and 13 staff members responsible for our Export ODM Business.

In accordance with the applicable laws and regulations in China, we provide our employees with training programmes on work safety including trainings on the safety use of the relevant equipment according to the prescribed rules. We also conduct regular inspection and maintenance checks on our safety equipment to ensure they are in compliance with the applicable national or industrial standards in respect of their design, manufacture, installation and use.

Our Directors are aware of the importance of work safety and we have in place safety guidelines and operating manuals setting out the production processes.

In China, employers are required to provide various social insurance coverage for their employees. We participate in various plans to cover pension, work-related injury insurance, unemployment insurance and medical insurance.

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In accordance with the applicable laws of the PRC, we are required to contribute to social insurance plans for our employees in China. The payment base of Xinwei (China) and Flyke (China) is appraised and specified by the local competent authority in charge of social insurance. During the three years ended 31 December 2008 and the nine months ended 30 September 2009, we made social insurance contributions for our employees in China of approximately RMB54,000, RMB60,000, RMB704,000 and RMB362,000, respectively. According to confirmations issued by 晉江市勞動和社會保障局 (Jinjiang City Labour and Social Security Bureau\*) dated 9 September 2009 and 晉江市地方稅務局外稅分局 (Jinjiang City Local Taxation Bureau (Other Taxation Division)\*) dated 17 August 2009, both Flyke (China) and Xinwei (China) had made social insurance contributions for their employees in accordance with the requirements concerning the payment base and the rate of social insurance and are not imposed any penalty. Our PRC Legal Advisers have reviewed the confirmations set forth above and confirm that we have made contribution according to the required proportion and based on an agreed basis following discussions with the competent local authority of social insurance in light of factors including nature of our business, our operating conditions, the number of workers employed by us and our remuneration level. There was no outstanding social insurance payment and we had not received any administrative penalty for default or delay in such payment.

In accordance with the applicable laws of the PRC, enterprises located in Jinjiang are required to contribute to housing fund for employees in China, and where possible should contribute to housing fund for employees who are farmers original. We provide accommodation to our staff and have not contributed to housing fund for our employees. Our PRC Legal Advisers confirm that no contribution to housing fund for employees who are farmers original is not in breach of the local relevant provisions. In December 2009, both Flyke (China) and Xinwei (China) established housing fund accounts and, upon the request of the local housing fund authority, Flyke (China) and Xinwei (China) had repaid the housing fund for employees who were not farmers original for the year ended 31 December 2009. However, as Xinwei (China) and Flyke (China) did not establish housing fund account prior to December 2009 and did not contribute to housing fund for employees who are not farmers original prior to January 2009, they are in breach of the relevant provision on housing fund and the local competent authority may impose a penalty of RMB10,000 to RMB50,000. The failure to establish housing fund account and make the housing fund contribution by Flyke (China) and Xinwei (China) in the past was because we had provided accommodation and there has been significant turnover of workers who were mostly farmers original not entitled to housing fund contribution. The employees affected by such non-compliance may take legal action against Flyke (China) and Xinwei (China), and our maximum aggregate legal liabilities are estimated to be approximately RMB38,400. Each of our Controlling Shareholders have entered into the Deed of Indemnity in favour of us in respect of, amongst other things, any payments, suits, settlement payment, cost, liability, claim, fine expense, penalty, loss, damages or expense that may be incurred or suffered by any member of our Group as a result of such non-compliance. Pursuant to confirmations issued by the local housing fund authority 泉州市住房公積金管理中心晉江市管理部 (Quanzhou Housing Fund Management Centre Jinjiang Management Branch\*) dated 30 December 2009, both Flyke (China) and Xinwei (China) have made housing fund contributions for their employees since January 2009 and were not subject to any penalty (including the preceding penalties thereof, if any) until then from the relevant governmental authority in this regard. Both Flyke (China) and Xinwei (China) established housing fund accounts in December



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2009 and have, upon the request of the local housing fund authority, repaid the housing fund for employees who were not farmers original for the year ended 31 December 2009 and started to make housing fund contributions for their employees since January 2009 and will continue to contribute to the housing fund account in compliance with the requirements of the local housing fund authority.

During the Track Record Period, we complied with all the applicable labour laws and regulations in all material aspects and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major accident in the course of their employment and we have never been subject to disciplinary actions with respect to the labour protection issues.

Our PRC Legal Advisers confirm that we will not be responsible for violation of laws, rules and regulations by our contract manufacturers. Our Directors confirm that we have not been held liable for any violation of laws, rules and regulations by our outsourced manufacturers and suppliers during the Track Record Period.

### ENVIRONMENTAL MATTERS

Under the current PRC national and local environmental protection laws and regulations, any enterprise which discharges waste water, waste products and polluted air is required to seek approval from the relevant environmental protection authorities as part of the approving process for setting up such enterprise in the PRC. The relevant PRC laws and regulations also require any such enterprise to have wastewater, waste products and polluted air treatment facilities that meet the relevant environmental standards and to have the pollutants treated before being discharged. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and fines for the discharge of pollutants which are insufficiently treated. The relevant laws and regulations also empower relevant governmental authorities to close down any enterprise that causes serious pollution.

According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public health hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection.

These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Companies are also required to carry out an environmental impact assessment before commencing construction of production facilities, to install pollution treatment facilities which meet the relevant environmental standards and to treat pollutants before discharge.

Our production facilities have been approved by 晋江環保局 (Jinjiang Environmental Protection Bureau\*). We have obtained the Temporary Pollutant Discharge Permit from 晋江環保局 (Jinjiang Environmental Protection Bureau\*) which confirms that during the Track Record



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Period, we complied with national and regional laws and regulations in respect of environmental protection, we have not experienced any major incident of environmental pollution and we were not subject to any administrative penalty in respect of environmental protection. In addition, we obtained the ISO 14001:1996 certification in December 2004 and the ISO 14001:2004 certification in September 2007 for our environmental management system to minimise any adverse environmental effect caused by our operations.

Our PRC Legal Advisers have confirmed that during the Track Record Period, (i) none of the members of our Group established in the PRC were imposed any administrative penalty arising from violation of environmental protection laws and regulations and (ii) our production facilities have received approval from the environmental protection authority in Jinjiang. Our Directors also confirm that we have complied with the relevant requirements of the environmental protection laws and regulations in China.

Since we do not produce a large amount of waste during the production process, our Directors do not anticipate that there will be a substantial amount of additional expenses that we may incur in the future for environment compliance matters.

Our Directors believe that our production process will not be threatened by any future environmental risk. Nevertheless, our Directors will ensure that the applicable environmental laws and regulations will be complied with by adopting measure which include, (i) strengthening the composition of the environmental protection team and implementing stringent environmental protection and compliance measures; (ii) conducting regular on-site inspection and providing training for our employees and (iii) immediately reporting to the appropriate authorities and coordinating with the authorities upon the occurrence of any incident or any non-compliance.

### LEGAL COMPLIANCE AND PROCEEDINGS

As of the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition. As confirmed by our PRC Legal Advisers, we have obtained all licenses, approvals and permits for our operations in China, and our operations comply with all the relevant requirements and rules of the competent authorities.

The Ministry of Commerce issued the Administrative Measures for Foreign Investment (the “**Measures**”) on 16 April 2004 to regulate the operating activities of foreign investment enterprises engaging in wholesale, retail, commission agent and franchised operations. Under the Measures which took effect on 1 June 2004, foreign investors are permitted to operate wholly-owned distributorship. Pursuant to the Measures, foreign investors may establish commercial enterprises and shops according to the procedures and guidelines of the Measures. In order to further simplify the approving procedures of commercial investment by foreign investors, the Ministry of Commerce issued the Notice of the Ministry of Commerce on Entrusting Local Departments to Examine and Approve Foreign Invested Commercial Enterprises (商務部關於委託地方部門審核外商投資商業企業的通知) on 9 December 2005 (the “**Approval Notice**”). The Approval Notice delegates competent commerce authorities at the provincial level and administration commissions of State economic and technology

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## BUSINESS

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development zones to process and approve certain of the matters concerning foreign investment enterprises. The Approval Notice took effect on 1 March 2006, provincial department of the Ministry of Commerce may approve applications to set up shops within the provincial administrative regions or State economic and technology development zones, provided that:—

- (a) the proposed establishment of a single shop of not more than 5,000 sq. m. in area, and not more than three shops within the region or State economic and technology development zone, and not more than 30 shops in total of the similar type by the applicant in China; or
- (b) the proposed establishment of a single shop of not more than 3,000 sq. m. in area, and not more than five shops within the region or State economic and technology development zone, and not more than 50 shops in total of the similar type by the applicant in China; or
- (c) the proposed establishment of a single shop of not more than 300 sq. m. in area. If the shop area and number of the foreign investor are more than the aforesaid, the application shall be approved by the MOC.

As of the Latest Practicable Date, we operated and managed one retail image store selling the *Flyke* products. According to our PRC Legal Advisers, the establishment of the retail image store has been approved by 福建省對外貿易及經濟合作局 (Fujian Provincial Department of Foreign Trade & Economic Cooperation Bureau) in accordance with the relevant laws and regulations, a summary of which is set forth in the paragraphs under “Applicable Laws and Regulations in China” in this prospectus. The shops directly operated and managed by us comply with the laws of China concerning consumer protection, product quality and export product quality systems, and we will ensure the flagship stores and image stores to be opened and managed by us (the details of which are set forth in the section headed “Future Plans and Use of Net Proceeds from the Global Offering” in this prospectus) will also be in compliance with such laws and regulations of China.