



Pou Sheng International (Holdings) Limited 寶勝國際(控股)有限公司

(incorporated in Bermuda with limited liability)

Stock code: 3813

Global Offering



Sole Global Coordinator and Sole Financial Advisor



Joint Bookrunners, Joint Lead Managers and Joint Sponsors



Morgan Stanley

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際（控股）有限公司

(incorporated in Bermuda with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 823,378,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 82,338,000 Shares (subject to adjustment)
Number of International Offer Shares : 741,040,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price : HK\$3.75 per Offer Share payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%
Nominal value : HK\$0.01 per Share
Stock code : 3813

Sole Global Coordinator and Sole Financial Advisor



Joint Bookrunners, Joint Lead Managers and Joint Sponsors



Morgan Stanley

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix IX to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of this prospectus, having attached thereto the documents specified in Appendix IX to this prospectus, has been filed with the Registrar of Companies in Bermuda as required by the Companies Act. The Securities and Futures Commission of Hong Kong, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date. The Offer Price will be not more than HK\$3.75 and is currently expected to be not less than HK\$2.93. Applicants for the Hong Kong Offer Shares and the Reserved Shares are required to pay, on application, the maximum Offer Price of HK\$3.75 for each Hong Kong Offer Share and Reserved Share together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to any necessary rounding and refund if the Offer Price as finally determined is lower than HK\$3.75. The Price Determination Date is expected to be on or around Friday, May 30, 2008 and, in any event, no later than Wednesday, June 4, 2008. The Offer Price will be announced in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) as soon as practicable after the Offer Price is fixed.

The Joint Bookrunners (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$2.93 to HK\$3.75 per Offer Share) at any time prior to the morning of the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event no later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. If applications for the Hong Kong Offer Shares and the Reserved Shares have been submitted prior to the day which is the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Reserved Shares" in this prospectus. If, for whatever reason, we and the Joint Bookrunners are not able to agree on the Offer Price, the Global Offering will not proceed.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Sponsors (on behalf of the Hong Kong Underwriters) if certain grounds arise at any time prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the subsection headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered or sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered to Qualified Institutional Buyers in reliance on Rule 144A or other exemption(s) from registration under the US Securities Act or outside the United States in reliance on Regulation S under the US Securities Act.

Prospective investors should consider carefully all the information set out in this prospectus and, in particular, the matters discussed in the section headed "Risk Factors" in this prospectus.

May 26, 2008

EXPECTED TIMETABLE⁽¹⁾

Application lists open⁽²⁾ 11:45 a.m. on Thursday, May 29, 2008

Latest time to lodge **WHITE, YELLOW** and

BLUE Application Forms 12:00 noon on Thursday, May 29, 2008

Latest time to give **electronic application**

instructions to HKSCC⁽³⁾ 12:00 noon on Thursday, May 29, 2008

Latest time to complete electronic applications under

White Form eIPO service through the designated

website www.eipo.com.hk⁽⁴⁾ 11:30 a.m. on Thursday, May 29, 2008

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking

transfer(s) or PPS payment transfer(s) 12:00 noon on Thursday, May 29, 2008

Application lists close 12:00 noon on Thursday, May 29, 2008

Expected Price Determination Date Friday, May 30, 2008

(1):

Announcement of:

- the Offer Price;
- an indication of the level of interest in the International Offering;
- the results of applications in the Hong Kong Public Offering and the Preferential Offering; and
- the basis of allotment of the Hong Kong Offer Shares and the Reserved Shares

to be published in the South China Morning Post (in English) and

the Hong Kong Economic Times (in Chinese) on or before Thursday, June 5, 2008

(2):

Results of allocations in the Hong Kong Public Offering and

the Preferential Offering (with successful applicants' identification

document numbers, where appropriate) to be available through a variety

of channels (see sub-section headed "How to Apply for Hong Kong

Offer Shares and Reserved Shares — IV. Publication of Results,

Dispatch/Collection of Share Certificates and Refunds of

Application Monies" in this prospectus) from Thursday, June 5, 2008

(3):

A full announcement of the Hong Kong Public Offering and

the Preferential Offering containing (1) and (2) above to be

published on the website of the Stock Exchange

at www.hkex.com.hk⁽⁵⁾ and the Company's website

at www.pousheng.com⁽⁶⁾ from Thursday, June 5, 2008

EXPECTED TIMETABLE⁽¹⁾

Dispatch of Share certificates in respect of wholly or
partially successful applications on or before⁽⁷⁾ Thursday, June 5, 2008

Dispatch of refund cheques (if applicable) on or before Thursday, June 5, 2008

Dealings in the Shares on the Stock Exchange
expected to commence on Friday, June 6, 2008

-
- (1) All times refer to Hong Kong local time unless otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Thursday, May 29, 2008, the application lists will not open on that day. See the sub-sections headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” and “How to Apply for Hong Kong Offer Shares and Reserved Shares — II. How to Apply for Reserved Shares — 5. When may applications be made — (c) Effect of bad weather conditions on the opening of the application lists” in this prospectus.
- (3) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the sub-section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — I. How to Apply for Hong Kong Offer Shares — 5. How to apply through the **White Form eIPO** service” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to or at 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Stock Exchange’s website at www.hkex.com.hk/listing/newlist/AllotmentResults.htm.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) **Share certificates will only become valid certificates of title if (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the date on which our Shares are first listed and from which dealings therein are permitted to take place on the Stock Exchange, or the Listing Date, which is expected to be Friday, June 6, 2008. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.**

You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering”, “How to Apply for Hong Kong Offer Shares and Reserved Shares” and “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering” in this prospectus for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares and Reserved Shares.

EXPECTED TIMETABLE⁽¹⁾

This prospectus is being distributed in electronic format on CD-ROM to Qualifying Yue Yuen Shareholders. The CD-ROM may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. Neither the CD-ROM nor any of its contents constitutes a public offer of securities for sale in the United States and/or any jurisdiction other than Hong Kong. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Neither the CD-ROM, any of its contents, nor any copy of it may be taken or transmitted outside of Hong Kong or distributed or redistributed, directly or indirectly, outside of Hong Kong or to any resident thereof. By accepting the CD-ROM, Qualifying Yue Yuen Shareholders are deemed to agree to be bound by the foregoing restrictions.

*A **BLUE** Application Form is being despatched to each Qualifying Yue Yuen Shareholder with an Assured Entitlement together with an electronic copy of this prospectus on CD-ROM. Printed copies of this prospectus are available at the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, during business hours at Rooms 1806–7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. on Monday, May 26, 2008 and 12:00 noon on Thursday, May 29, 2008 for exclusive collection by Qualifying Yue Yuen Shareholders. Qualifying Yue Yuen Shareholders may also collect printed copies of this prospectus from the receiving banks, details of which are set out in the section headed “How to apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus.*

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Pou Sheng International (Holdings) Limited solely in connection with the Hong Kong Public Offering, the Preferential Offering, the Hong Kong Offer Shares and the Reserved Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares or the Reserved Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of our or their respective directors, agents, employees or advisors, or any other person involved in the Global Offering.

| | <u>Page</u> |
|---|-------------|
| Expected Timetable | i |
| Contents | iv |
| Summary | 1 |
| Definitions | 18 |
| Forward-Looking Statements | 30 |
| Risk Factors | 31 |
| Information about this Prospectus and the Global Offering | 57 |
| Directors and Parties Involved in the Global Offering | 62 |
| Corporate Information | 67 |
| Industry Overview | 69 |
| History and Corporate Structure | 76 |
| Our Business | 95 |
| Financial Information | 162 |
| Future Plans and Use of Proceeds | 210 |
| Relationship with Yue Yuen Group | 212 |
| Connected Transactions | 222 |

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Waiver and Exemption from Strict Compliance with the Listing Rules and the Companies Ordinance | 230 |
| Directors, Senior Management and Employees | 232 |
| Substantial and Controlling Shareholders | 242 |
| Share Capital | 244 |
| Underwriting | 247 |
| Structure of the Global Offering | 257 |
| How to Apply for Hong Kong Offer Shares and Reserved Shares | 269 |
| Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering | 287 |
| Appendix I — Accountants' Report | I-1 |
| Appendix II — Unaudited Pro Forma Financial Information | II-1 |
| Appendix III — Profit Forecast | III-1 |
| Appendix IV — Property Valuation | IV-1 |
| Appendix V — Supervision and Regulation | V-1 |
| Appendix VI — Taxation | VI-1 |
| Appendix VII — Summary of Constitution of the Company and Bermuda Law .. | VII-1 |
| Appendix VIII — Statutory and General Information | VIII-1 |
| Appendix IX — Documents Delivered to the Registrar of Companies and Available for Inspection | IX-1 |

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety, including the Appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading sportswear retailer in the PRC and directly operated 1,324 retail outlets in the PRC as at December 31, 2007. Our retail network in the Greater China Region also includes 79 directly operated retail outlets in Hong Kong and Taiwan. The majority of our retail outlets are mono-brand stores, which we operate under the brand name of the sportswear products being distributed, with our “YY Sports” logo also displayed. We distribute sportswear products for some of the leading international and domestic sportswear brands in the PRC, offering a wide range of sports footwear, apparel and accessories. Our brand portfolio includes leading international and domestic brands such as *Nike*, *Adidas*, *Li Ning*, *Kappa*, *Reebok*, *PUMA*, *Converse*, *Hush Puppies*, *Nautica*, *Wolverine* and *Asics*. We continuously seek to add new brands to our portfolio that appeal to consumer tastes in the PRC in our retail business and brand licensee business.

It has been our strategy to expand our business by expanding our network through either forming non-wholly owned subsidiaries where we hold a majority stake or establishing joint ventures in different regions with different partners where we hold minority stakes to complement our organic growth strategy. Therefore, as part of our expansion strategy to extend the reach of our retail network, we have established regional partnerships with different regional joint venture partners, which we believe is an efficient way to extend our market presence into emerging cities in the PRC where opportunities exist for future expansion. As at December 31, 2007, we have set up 22 joint ventures in different regions in the PRC, each with a different joint venture partner who we believe is a leading retail player in their respective regional markets. Among these 22 joint ventures, we have majority interests in six which are our non-wholly owned subsidiaries, and minority interests in the other 16 which are our Regional Joint Ventures. We do not control any of our Regional Joint Ventures as we only have a minority interest in each of them. As at December 31, 2007, we had invested an aggregate amount of US\$43.5 million in the establishment of our Regional Joint Ventures and provided shareholder’s loans in an aggregate amount of US\$65.7 million to 11 of them. Our investments in our Regional Joint Ventures are substantial, and we may suffer loss if the financial performance of our Regional Joint Ventures deteriorates or is below expectation. For details, please refer to the risk factor entitled “Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have proven and well-established track records, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound” in the section headed “Risk Factors” in this prospectus. Our Regional Joint Ventures directly

SUMMARY

operated 1,936 retail outlets in the PRC and two retail outlets in Hong Kong as at December 31, 2007, and contributed approximately 7.2% and 30.4% to our profit for the financial year ended September 30, 2007 and the three months ended December 31, 2007, respectively.

As at December 31, 2007, we, along with our Regional Joint Ventures, had a presence in most of the major cities across 26 provinces, autonomous regions and municipalities directly under the central government in the PRC. Furthermore, according to an analysis conducted by Frost & Sullivan and commissioned by us, we, along with our Regional Joint Ventures, are the leading sportswear retailer in terms of the number of directly operated retail outlets in Beijing, Tianjin, Zhejiang, Jiangsu, Fujian, Hunan, Hebei, Yunnan, Jilin, Anhui, Shaanxi, Heilongjiang and Guizhou, and one of the top three sportswear retailers in almost all of the other provinces, autonomous regions and municipalities directly under the central government in the PRC. According to the same analysis, we, together with our Regional Joint Ventures, are the number one sportswear retailer for two of the top three sportswear brand companies in the PRC, namely *Adidas* and *Li Ning*, the number two sportswear retailer for *Nike*, as well as the number one sportswear retailer for *Converse*, *Kappa*, *Reebok*, *PUMA*, *Hush Puppies* and *Wolverine*, in each case in terms of the number of directly operated retail outlets in the PRC as at December 31, 2007.

To complement the reach of our directly operated retail network, we also sell sportswear products on a wholesale basis to retail sub-distributors, which in turn sell the products through the retail outlets that they operate under our supervision. As at December 31, 2007, the number of retail outlets operated by our retail sub-distributors for our retail business amounted to 747, covering many of the major cities and provinces within the PRC. Our Regional Joint Ventures also operate similar wholesale businesses with 2,232 retail outlets operated by their retail sub-distributors. Although we and our Regional Joint Ventures have limited control over the operation of the retail outlets independently operated by our and our Regional Joint Ventures' sub-distributors, respectively, they are subject to the guidance and supervision of the brand companies of the products which they distribute and are also subject to our and our Regional Joint Ventures' supervision, respectively. For details, please refer to the sub-section headed "Our Business — Our Retail Business — Management of our retail sub-distributors — Supervision of our retail sub-distributors" in this prospectus.

Apart from our retail business, we operate a brand licensee business where we are the exclusive brand licensee for certain international brands, namely *Converse*, *Wolverine* and *Hush Puppies*, in the PRC and other territories in the Greater China Region. Our exclusive brand licensee arrangement with *Converse* in the PRC will terminate on December 31, 2008. We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011 subject to a term sheet that we entered into with Converse Inc. in June 2007, which sets out the key provisions of a proposed distributorship agreement to be entered into between the two parties. Under the term sheet, we are granted the right to be the exclusive distributor of *Converse's* products in the PRC subject to our meeting certain goals and targets for store openings and providing certain required services to the stores as stipulated in a retail rollout plan to be developed annually and updated as determined by Converse Inc. We expect the changing of our business relationship with *Converse* to have a negative impact on our profit performance in the future. For details, please refer to the risk factor entitled "We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future" in the

SUMMARY

section headed “Risk Factors” in this prospectus. The brand license agreements we have entered into with these brands give us flexibility with respect to setting the price of products, supply chain management, product design, marketing and development, and product promotion. We primarily sell products under licensed brands to retail distributors including ourselves, which together with their retail sub-distributors operated 3,254 retail outlets as at December 31, 2007. This includes the retail outlets directly operated by us and our retail sub-distributors distributing products under those licensed brands. All such retail outlets are subject to our supervision. For details, please refer to the sub-section headed “Our Business — Our Brand Licensee Business — Management of retail outlets operated by our retail distributors” in this prospectus. We believe that our brand licensee business model gives us the potential to achieve better profitability than under the typical distribution arrangement.

In addition, we possess in-house manufacturing and IT capabilities, the combination of which we believe sets us apart from other sportswear retailers in the PRC. At our Taicang factory, as at the Latest Practicable Date, we manufactured for five brands, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*, solely for sale to our OEM/ODM customers. We have self-developed a proprietary “ERP” system that seamlessly connects to our other in-house developed “MIS” systems, including the “POS” and “CRM” systems, all of which form an integrated network and provide our senior management with sales, inventory and other critical management reporting data. For details, please refer to the sub-section headed “Our Business — Our Strategies — Develop and implement an end-to-end supply chain solution to improve operational efficiency” in this prospectus.

To further support our retail network expansion, we have a dedicated property leasing and management unit that acquires or leases large scale retail spaces in attractive locations which are then sub-divided and leased to us or third party retail distributors.

We experienced significant growth in revenue and profit during the Track Record Period and the three months ended December 31, 2007. Our revenue amounted to US\$207.2 million, US\$373.0 million and US\$555.9 million for the financial years ended September 30, 2005, 2006 and 2007, respectively, representing a CAGR of 63.8%, while net profit before minority interests for the same periods amounted to US\$6.0 million, US\$21.0 million and US\$43.9 million, respectively, representing a CAGR of 170.5%. Our revenue amounted to US\$185.0 million and our net profit before minority interests amounted to US\$19.7 million for the three months ended December 31, 2007, representing an increase of 82.1% and 164.3% over the three months ended December 31, 2006. Our significant growth was primarily due to the expansion of our retail network and was also, to a certain extent, contributed by our investments in the newly established Regional Joint Ventures, which do not have a proven and well-established track record. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures” in this prospectus. The following table sets out a breakdown of our revenue according to our business segments, which are divided into retail business, brand licensee business, manufacturing business and property leasing and management business, and shows their respective contribution by percentage to our total revenue for the periods indicated.

SUMMARY

| | Financial year ended September 30, | | | | | | Three months ended December 31, | | | |
|---|------------------------------------|---------------|----------------|---------------|----------------|---------------|---------------------------------|---------------|----------------|---------------|
| | 2005 | | 2006 | | 2007 | | 2006 (unaudited) | | 2007 | |
| | US\$ | % of total | US\$ | % of total | US\$ | % of total | US\$ | % of total | US\$ | % of total |
| | thousands | revenue | thousands | revenue | thousands | revenue | thousands | revenue | thousands | revenue |
| Retail business | 128,973 | 62.3% | 232,866 | 62.4% | 355,244 | 63.9% | 68,259 | 67.2% | 126,971 | 68.6% |
| <i>Sales to end customers from our directly operated retail outlets</i> | 108,711 | 52.5% | 174,021 | 46.6% | 266,188 | 47.9% | 47,172 | 46.4% | 95,408 | 51.6% |
| <i>Sales to our retail sub-distributors on a wholesale basis</i> | 20,262 | 9.8% | 58,845 | 15.8% | 89,056 | 16.0% | 21,087 | 20.8% | 31,563 | 17.0% |
| Brand licensee business | 57,395 | 27.7% | 95,301 | 25.6% | 133,187 | 23.9% | 20,941 | 20.6% | 36,758 | 19.9% |
| Manufacturing business | 20,809 | 10.0% | 44,793 | 12.0% | 67,053 | 12.1% | 12,408 | 12.2% | 20,897 | 11.3% |
| Property leasing and management business | — | N/A | — | N/A | 419 | 0.1% | — | N/A | 402 | 0.2% |
| Total | <u>207,177</u> | <u>100.0%</u> | <u>372,960</u> | <u>100.0%</u> | <u>555,903</u> | <u>100.0%</u> | <u>101,608</u> | <u>100.0%</u> | <u>185,028</u> | <u>100.0%</u> |

The gross profit margin for our retail business for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007 was 34.9%, 33.1%, 33.1% and 34.2%, respectively, while the gross profit margin for our brand licensee business for the same periods was 51.4%, 51.9%, 49.3% and 48.6%, respectively.

PRICE ADJUSTMENT MECHANISM

Under some of the joint venture agreements and call option agreements that we entered into with our partners, there is a price adjustment mechanism pursuant to which if the financial performance achieved by a relevant joint venture, namely a Price Adjustment JV, exceeds an agreed benchmark, we will be required to make additional capital contributions to such Price Adjustment JV in the future, and this amount can be substantial. For some of the Price Adjustment JVs, this price adjustment mechanism may be triggered on or before June 30, 2009. For the three months ended December 31, 2007, the Price Adjustment JVs generated a total net profit of approximately US\$14.3 million. Based on the current estimates and assuming all other applicable conditions stipulated in the joint venture agreements are met, if the average actual net profit of each Price Adjustment JV during its profit evaluation period exceeds the specified profit benchmark by the same percentage for all the Price Adjustment JVs such that the aggregate sum of the average actual net profit of all the Price Adjustment JVs reaches approximately US\$45.0 million to US\$60.0 million, we will be required to make additional capital contributions in aggregate amounts of approximately US\$6.7 million to US\$48.5 million, respectively. The above figures are for illustrative purposes only. They are provided on the basis that all the average actual net profits exceed the respective specified profit benchmarks by the same percentage which may not be the case. Depending on the average actual net profit of each Price Adjustment JV, even if the aggregate sum of the average actual net profit of the Price Adjustment JVs reaches the amount stated above, we may be required to make an additional capital contribution greater than the indicative range illustrated above. You should also note that since each Price Adjustment JV has a different ending date for its profit evaluation period ranging from July 31, 2008 to August

SUMMARY

31, 2010, the capital contribution may be triggered at different points in time pursuant to the terms and conditions in each joint venture agreement that we entered into with each Price Adjustment JV. For details of our investments in our Regional Joint Ventures, their operational details, the price adjustment mechanism and the risks related to our investments, please refer to the sub-sections headed “Our Business — Our Investments in Joint Ventures — Arrangements with our joint ventures — Price adjustment mechanism”, “History and Corporate Structure — Investments in Regional Joint Ventures” and “Financial Information — Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures”, and the risk factor entitled “We may be required to make additional capital contribution to our Price Adjustment JVs in the future pursuant to the price adjustment mechanism, which may be triggered on or before June 30, 2009” in the section headed “Risk Factors” in this prospectus.

CALL OPTIONS

Our Regional Joint Ventures are important to our long term growth as we believe they could help us expand our retail network, as well as expand the brand portfolio that we carry. However, the Directors are also aware of the various inherent operational and financial risks relating to our investments in these Regional Joint Ventures due to the emerging nature of the retail sportswear industry in the PRC, as well as our lack of any long term cooperation history with some of the Regional Joint Ventures partners. To allow us to monitor the performance of our Regional Joint Ventures over a period of time and only commit additional capital to those Regional Joint Ventures that meet our performance expectation, we have entered into call option agreements with our partners in 15 Regional Joint Ventures, and also the minority shareholders of three of our non-wholly owned subsidiaries. Our call options in these 18 companies, which are our Call Option JVs, give us the right (but not the obligation) exercisable solely at our discretion to acquire from any one or more of our Call Option JVs’ partners up to their entire equity interest in the relevant Call Option JVs. As we have the sole discretion to exercise the call options, the call option arrangement allows us to assess the performance of each Call Option JV individually before deciding whether or not it is economically beneficial to acquire our partner’s equity interest. We believe it is prudent from a commercial perspective to enter into such arrangements. As at December 31, 2007, we had invested an aggregate amount of US\$50.8 million in the establishment of the Call Option JVs and provided shareholder’s loans in an aggregate amount of US\$62.9 million to the Call Option JVs in which we have minority interests.

As consideration for our Call Option JVs’ partners granting us the call options, we have agreed to issue certain numbers of Shares as call option premium to them at the Global Offering although some of the Call Option JVs’ partners have agreed that they are to receive cash in lieu of Shares for part, or in some cases all, of the call option premium Shares that we have agreed to issue to each of them. As part of the International Offering, we are offering Shares for subscription by professional and institutional investors to satisfy the cash portion of the call option premium and, in addition, we will issue an aggregate of 85,702,000 Shares (the “Call Option Premium Shares”) to our Call Option JVs’ partners as the Shares portion of the call option premium. Therefore, part of the net proceeds to us from the Global Offering will be used to pay such cash portion of the call option premium. For details, please refer to the sub-section headed “Future Plans and Use of Proceeds — Use of Proceeds from the Global Offering” in this prospectus. The Call Option Premium Shares represent approximately 2.4% of our issued share capital immediately after the Global Offering, the Capitalization Issue and the issuance of the Call

SUMMARY

Option Premium Shares, assuming the Over-allotment Option is not exercised. The Call Option Premium Shares will be issued to our Call Option JVs' partners upon the Global Offering becoming unconditional, but these Shares will not form part of the Hong Kong Public Offering or the International Offering. The total value of the call option premium, including the cash portion and the Shares portion, represents an aggregate amount of approximately US\$62.4 million (assuming that the Offer Price is fixed at the high end of HK\$3.75 per Share on the Price Determination Date) or US\$48.8 million (assuming that the Offer Price is fixed at the low end of HK\$2.93 per Share on the Price Determination Date).

Each call option is exercisable by us in stages within five years commencing from the expiry of the first six months from the commencement of Listing. An amount to be determined representing the option expenses will be deducted from the exercise price of the call option, such amount being expected to be no more than the amount of the call option premium. For details of the rationale for entering into the call option arrangements, the call option premium and the risks related to it, the exercising of the call options and their accounting treatments, please refer to the sub-sections headed "Our Business — Our Investments In Joint Ventures — Call option agreements" and "Financial Information — Critical Accounting Policies — Accounting treatment of call options", and the risk factor entitled "We will not be able to get back the consideration we will pay for the call options granted to us by our Call Option JVs' partners if the Call Option JVs become unprofitable or financially unsound or we decide not to exercise the call options, and the fair value of the call options may decline" in the section headed "Risk Factors" in this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and future prospects are underpinned by a combination of our competitive strengths, which are set out below:

- One of the largest sportswear retailers in the PRC with an extensive nationwide retail network.
- Partner to leading brand companies targeting a broad range of customers.
- Strong heritage and relationship with Yue Yuen.
- Strong in-house IT capabilities.
- Highly experienced senior management team supported by localized retail management team and dedicated brand management team.

OUR STRATEGIES

We aim to strengthen our position as the leading sportswear retailer in the PRC by implementing the strategies below:

- Continue to expand our retail network and geographical coverage.

SUMMARY

- Continue to diversify our brand and product portfolio to target a broader range of customer segments.
- Continue to develop our brand licensee business.
- Develop and implement an end-to-end supply chain solution to improve operational efficiency.
- Continue to build the “YY Sports” brand name.
- Selectively pursue strategic investment opportunities and enhance returns through introduction of best practices.

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks are set out in the section headed “Risk Factors” in this prospectus and are summarized below:

Risks Relating to Our Company and Our Business

- We may fail to manage the growth of our retail network effectively.
- We may fail to manage and expand our brand portfolio effectively.
- Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have a proven and well-established track record, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound.
- We may be required to make additional capital contributions to our Price Adjustment JVs in the future pursuant to the price adjustment mechanism, which may be triggered on or before June 30, 2009.
- We will not be able to get back the consideration we will pay for the call options granted to us by our Call Option JVs’ partners if the Call Option JVs become unprofitable or financially unsound or we decide not to exercise the call options, and the fair value of the call options may decline.
- Failure to maintain good relationships with brand partners or to secure competitive terms may adversely affect our profitability.
- We will become the exclusive distributor of *Converse’s* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future.
- The growth of our manufacturing business may be restricted by the business separation mechanisms that we have agreed with our controlling shareholder, Yue Yuen.

SUMMARY

- Our reputation and relationship with brand companies could be harmed if authorized retail distributors or sub-distributors are not managed in accordance with our standards.
- Our sales depend on the popularity of our branded products, as well as consumer preferences and spending patterns, which are outside our control.
- We have limited flexibility on the pricing of our products in our retail business.
- Our ability to meet demand for our merchandize is dependent, in part, on our ability to maintain an optimal level of inventory.
- We depend upon the services of key personnel.
- Our business may be adversely affected if we cannot recruit and retain suitable staff for our operations.
- We may fail to sustain the same level of retail outlet sales and new retail outlets may fail to break even within our projected time frames.
- We may fail to secure space for our retail outlets on commercially reasonable terms.
- We may be forced to relocate our retail outlets due to title defects affecting some of the properties in the PRC that we lease.
- We operate in a competitive market which may result in lower profit margins.
- Our business relies on the reliable performance of our IT systems.
- We rely on a few major customers in our manufacturing business.
- We may not be able to obtain sufficient quantities of required quality raw materials in a timely manner or at acceptable prices.
- Our production activities are and will continue to be conducted in concentrated locations and may be subject to damages to or disruptions at our production facilities.
- We are exposed to risks associated with our newly established property leasing and management business.
- We may fail to develop and implement our end-to-end supply chain solution.
- We may fail to successfully build our “YY Sports” brand name.
- We may continue to incur net current liabilities in the future, which may expose us to certain liquidity risks.
- The interests of Yue Yuen may differ from those of our other shareholders.

SUMMARY

- We have limited control over the ultimate retail sales by our sub-distributors in our retail business, and distributors and sub-distributors in our brand licensee business and the retail outlets which they operate.
- We may fail to integrate future acquired businesses successfully.
- We may be exposed to product liability claims.
- If we fail to obtain or maintain all required licenses, permits and approvals, or if we are required to take actions to obtain such licenses, permits and approvals which are time-consuming or costly, our business operations may be materially and adversely affected.

Risks Relating to the PRC

- Political and economic policies of the PRC government affect our business and results of operations.
- We may be subject to a slowdown in the PRC economy.
- We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.
- Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws.
- We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.
- There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.
- It may be difficult to effect service of process on, or to enforce judgments against, our Directors or our senior management members who reside in the PRC and Taiwan in connection with disputes brought in courts outside the PRC and Taiwan, respectively.
- Changes in foreign exchange regulations may adversely affect us.
- Payment of dividends and transfer of funds may be subject to restrictions under PRC law.
- We may be subject to acts of God, acts of war and epidemics which are beyond our control and which may cause damage, loss or disruption to our business.
- Certain facts and statistics in this prospectus relating to the PRC economy and the sportswear industry in the PRC are derived from various governmental official publications and may not be fully reliable.

SUMMARY

Risks Relating to the Global Offering

- There has been no prior market for our Shares. The liquidity and market price of our Shares following the Global Offering may be volatile.
- Investors will experience dilution in pro forma net tangible book value because the Offer Price is higher than the net tangible book value per Share.
- There may be a dilutive effect on the earnings per Share associated with the Pre-IPO Shares Subscription Plan and issuance of Shares to joint venture partners.
- Future sales, or perceived sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.
- You may face difficulties in protecting your interests because we are incorporated under Bermuda law and Bermuda law may provide different remedies to minority shareholders than the laws of Hong Kong and other jurisdictions.
- Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth the summary combined income statement and balance sheet data of our Company for the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2006 and 2007. We have derived the summary combined income statement and balance sheet data from our audited combined financial statements set forth in the accountants' report set out in Appendix I to this prospectus, which have been prepared in accordance with HKFRS, including HKAS and interpretations promulgated by the HKICPA.

Combined income statements

| | Financial year ended September 30, | | | Three months ended December 31, | |
|---|------------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| | 2005 | 2006 | 2007 | 2006 (unaudited) | 2007 |
| | (US\$ thousands) | | | | |
| Revenue | 207,177 | 372,960 | 555,903 | 101,608 | 185,028 |
| Cost of sales | <u>(128,355)</u> | <u>(233,793)</u> | <u>(354,893)</u> | <u>(63,531)</u> | <u>(116,991)</u> |
| Gross profit | 78,822 | 139,167 | 201,010 | 38,077 | 68,037 |
| Other income and gain | 6,078 | 8,760 | 14,226 | 3,824 | 11,426 |
| Selling and distribution costs | (56,874) | (84,579) | (118,842) | (23,404) | (44,183) |
| Administrative expenses | (17,844) | (31,332) | (37,423) | (8,116) | (13,464) |
| Share of results of associates | — | 58 | 108 | 134 | 1,027 |
| Share of results of jointly controlled entities | — | — | 3,049 | — | 4,964 |
| Interests on bank borrowings wholly repayable within five years | <u>(1,846)</u> | <u>(3,750)</u> | <u>(3,710)</u> | <u>(1,341)</u> | <u>(3,410)</u> |
| Profit before taxation | 8,336 | 28,324 | 58,418 | 9,174 | 24,397 |
| Taxation | <u>(2,311)</u> | <u>(7,312)</u> | <u>(14,484)</u> | <u>(1,730)</u> | <u>(4,719)</u> |
| Profit for the year/period | <u>6,025</u> | <u>21,012</u> | <u>43,934</u> | <u>7,444</u> | <u>19,678</u> |
| Attributable to: | | | | | |
| Equity holders of the Company | 3,315 | 11,383 | 31,927 | 5,676 | 16,170 |
| Minority interests | <u>2,710</u> | <u>9,629</u> | <u>12,007</u> | <u>1,768</u> | <u>3,508</u> |
| | <u>6,025</u> | <u>21,012</u> | <u>43,934</u> | <u>7,444</u> | <u>19,678</u> |
| Earnings per share — basic ⁽¹⁾ | 1.22 US cents | 3.30 US cents | 2.42 US cents | 0.57 US cents | 0.90 US cents |

(1) The calculation of basic earnings per Share is based on profit attributable to equity holders of the Company for each of the year of the ended September 30, 2005, 2006 and 2007, the three months ended December 31, 2006 and 2007, and the weighted average number of 271,766,677, 345,302,354, 1,318,337,062, 988,516,464 and 1,801,243,642 ordinary Shares were in issue during such periods, respectively.

SUMMARY

Combined balance sheets

| | The Group | | | | The Company |
|---|---------------------|---------|---------|--------------------|--------------------|
| | As at September 30, | | | As at December 31, | As at December 31, |
| | 2005 | 2006 | 2007 | 2007 | 2007 |
| | (US\$ thousands) | | | | |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Inventories | 56,823 | 59,802 | 112,375 | 151,228 | — |
| Trade and other receivables. | 36,163 | 54,743 | 101,596 | 123,103 | — |
| Prepaid lease payments. | 51 | 51 | 125 | 128 | — |
| Financial derivative assets | — | — | — | 65,355 | — |
| Amounts due from related parties | 131 | 1,257 | 20,616 | 4,767 | — |
| Pledged bank deposits | — | — | — | 6,444 | — |
| Bank balances and cash | 23,385 | 44,672 | 90,936 | 120,192 | — |
| | 116,553 | 160,525 | 325,648 | 471,217 | — |
| Non-current Assets | | | | | |
| Property, plant and equipment | 36,285 | 40,376 | 102,056 | 119,039 | — |
| Deposits for acquisition of property, plant and equipment | — | — | 13,286 | 19,357 | — |
| Prepaid lease payments. | 2,387 | 2,336 | 5,169 | 5,153 | — |
| Goodwill | — | — | 2,101 | 2,101 | — |
| Interests in associates. | — | 5,698 | 10,922 | 12,711 | — |
| Loan to an associate | — | — | — | 2,738 | — |
| Interests in jointly controlled entities. | — | — | 33,036 | 42,257 | — |
| Loans to jointly controlled entities | — | — | 39,915 | 62,922 | — |
| Rental deposits and prepayments | 4,320 | 5,726 | 21,797 | 24,482 | — |
| | 42,992 | 54,136 | 228,282 | 290,760 | — |
| Total Assets | 159,545 | 214,661 | 553,930 | 761,977 | — |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 33,150 | 55,212 | 114,458 | 122,110 | — |
| Financial derivatives liabilities | — | — | — | 61,391 | — |
| Amounts due to related parties | 31,324 | 38,243 | 112,382 | 113,951 | — |
| Tax payable | 958 | 4,079 | 9,101 | 9,257 | — |
| Unsecured bank borrowings | 65,090 | 65,465 | 105,327 | 208,978 | — |
| | 130,522 | 162,999 | 341,268 | 515,687 | — |
| Non-Current Liabilities | | | | | |
| Unsecured bank borrowings | — | — | 25,273 | 25,273 | — |
| Total Liabilities. | 130,522 | 162,999 | 366,541 | 540,960 | — |
| EQUITY | | | | | |
| Share capital and paid up capital | 16,051 | 17,101 | 53,488 | 65,488 | — |
| Reserves | 6,524 | 19,267 | 84,929 | 103,125 | — |
| Equity attributable to equity holders of the Company | 22,575 | 36,368 | 138,417 | 168,613 | — |
| Minority interests | 6,448 | 15,294 | 48,972 | 52,404 | — |
| Total Equity and Minority Interests | 29,023 | 51,662 | 187,389 | 221,017 | — |
| Total Liabilities, Equity and Minority Interests | 159,545 | 214,661 | 553,930 | 761,977 | — |

SUMMARY

The balance sheets as at September 30, 2005, 2006 and 2007 of the Company are not presented as the Company was incorporated on November 4, 2007. As at December 31, 2007, the Company had one issued ordinary Share of US\$1 each outstanding and minimal assets on the balance sheet.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING SEPTEMBER 30, 2008

Forecast consolidated profit attributable

to the equity holders of the Company

for the financial year ending September 30, 2008⁽¹⁾⁽³⁾ not less than US\$68 million
(approximately HK\$530 million)

Unaudited pro forma forecast earnings per Share⁽²⁾⁽³⁾ US\$0.019
(approximately HK\$0.148)

(1) *The profit forecast has been prepared on the bases and assumptions set out in Appendix III to this prospectus.*

(2) *The calculation of the unaudited pro forma forecast earnings per Share is based on (i) the forecast consolidated profit attributable to the equity holders of the Company for the financial year ending September 30, 2008, and (ii) a total of 3,550,000,000 Shares were in issue during the entire year assuming that the Global Offering, the Capitalization Issue and the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner were completed on October 1, 2007. This calculation has not taken into account any Shares which may be issued upon the exercise of the Over-allotment Option or the Shares to be issued to the Call Option JVs' partners upon exercising of the call options. This calculation has also not taken into account the Shares to be issued under the Pre-IPO Share Subscription Plan that will not be vested until one year after the grant date, which is after the end of the financial year ending September 30, 2008.*

(3) *The numbers shown in the table above have taken into account the minority interest held by Sports Group and Jollyard in the subsidiaries of the Group, which amounted to approximately US\$11 million from October 1, 2007 to the completion date of the Reorganization. Pursuant to the Reorganization, the entire interests in those subsidiaries held by Sports Group and Jollyard were transferred to our Group. In exchange, Sports Group and Jollyard will become the Shareholders of our Company. As such, there will be no further minority interest expense in relation to Sports Group and Jollyard after completion of the Reorganization. Assuming the Reorganization was completed on October 1, 2007, the unaudited pro forma forecast earnings per Share would be US\$0.022 (approximately HK\$0.172).*

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We estimate that the net proceeds receivable by us from the Global Offering will be approximately HK\$2,568 million, after deducting underwriting commissions and estimated offering expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$3.34 per Offer Share, being the midpoint of the indicative Offer Price range set forth in this prospectus. We intend to use the net proceeds from the Global Offering for the following purposes:

- approximately HK\$819 million, or 32%, will be used to expand our retail network and geographical coverage for our retail and brand licensee businesses, which includes the opening of new retail outlets in prime locations of both major and emerging cities, the establishment of alternative retail formats such as sports complexes and multi-brand stores, the purchase of properties complementary to the expansion of our retail network

SUMMARY

and the acquisition, investment or entering into partnership with leading regional retailers. No specific properties had been identified as acquisition targets as at the Latest Practicable Date;

- approximately HK\$936 million, or 36%, will be used to repay a portion of our bank borrowings, which include the entire balance of the additional bank borrowings of approximately US\$120 million that are expected to be raised prior to Listing for repaying the borrowings due to the minority shareholders of the subsidiaries of Yue Yuen and the subsidiaries of Yue Yuen;
- approximately HK\$512 million, or 20%, will be used to repay the bank borrowings that we borrowed for the purposes of providing shareholder's loans to some of our Regional Joint Ventures. Any remaining proceeds allocated to repayment of bank borrowings under this sub-paragraph and the sub-paragraph above will be used to repay part of our existing current bank borrowings of US\$209 million as at December 31, 2007, which as at such date consist of short term bank loans with interest rates ranging from 5.02% to 7.23% per annum and maturity dates ranging from January 7, 2008 to December 11, 2008, and long term bank loans with interest rates ranging from 4.52% to 7.29% per annum and maturity dates ranging from July 10, 2010 to March 31, 2012;
- approximately HK\$148 million, or 6%, will be used to pay the cash portion of the call option premium which we have agreed to provide to some of our Call Option JVs' partners;
- approximately HK\$102 million, or 4%, will be used to expand our manufacturing capacity at the Taicang factory; and
- the remaining approximately HK\$51 million, or 2%, will be used to increase our promotional and marketing activities for our brand licensee business, as well as further build our "YY Sports" brand through local and national advertising and promotional campaigns and unified branding that will reinforce the customer recognition of us as a leading sportswear retailer in the PRC.

To the extent that the net proceeds of the Global Offering receivable by us are not immediately applied for the above purposes or if we are unable to effect any part of our future development plans as intended, and to the extent permitted by the relevant laws and regulations, we intend to deposit the proceeds into interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorized financial institutions in Hong Kong so long as it is in our best interests. We will disclose the same in the relevant annual report of our Company.

The net proceeds of the Global Offering, after deducting underwriting commissions and estimated expenses payable by us in the Global Offering and assuming the Over-allotment Option is not exercised, are estimated to be (i) approximately HK\$2,895 million if the Offer Price as finally determined is HK\$3.75, being the highest point of the indicative Offer Price range; (ii)

SUMMARY

approximately HK\$2,568 million if the Offer Price as finally determined is HK\$3.34, being the midpoint of the indicative Offer Price range; and (iii) approximately HK\$2,240 million if the Offer Price as finally determined is HK\$2.93, being the lowest point of the indicative Offer Price range, respectively. In the event that the Offer Price is set at the lowest point of the indicative Offer Price range, the application of the net proceeds for repayment of bank borrowings as mentioned above will not be subjected to any corresponding reduction, and at least HK\$1,448 million will still be applied to repay our bank borrowings as described above. Under such circumstances, the application of the net proceeds for the other purposes as mentioned above may be reduced accordingly and reallocated to repay the bank borrowings as mentioned above. We do not expect our current business plans will be materially affected if the Offer Price is set at the low end as our current business expansion plan can be adjusted accordingly in light of the immediate funding available in accordance with the use of proceeds as disclosed in this prospectus. If appropriate, we may finance the shortfall by internal cash resources and/or seek other forms of financing which may include additional bank borrowings.

Any additional net proceeds that we would receive from any exercise at any price within the stated Offer Price range, in full or in part, of the Over-allotment Option, may be applied in the manner and proportions stated above. In the event the Over-allotment Option is exercised in full, we estimate that the net proceeds to us, after deducting underwriting commissions and estimated offering expenses payable by us in the Global Offering, will be (i) approximately HK\$3,344 million if the Offer Price as finally determined is HK\$3.75, being the highest point of the indicative Offer Price range; (ii) approximately HK\$2,968 million if the Offer Price as finally determined is HK\$3.34, being the midpoint of the indicative Offer Price range; and (iii) approximately HK\$2,591 million if the Offer Price as finally determined is HK\$2.93, being the lowest point of the indicative Offer Price range, respectively.

DIVIDEND AND DIVIDEND POLICY

No dividends have been paid or declared by our Company since the date of our incorporation. You should note that historical dividend distributions are not indicative of our future dividend policy.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The declaration of, payment of and amount of dividends will be subject to the discretion of our Directors in accordance with our Bye-laws. In addition, any final dividends for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including but not limited to our future operations and earnings, financial condition, capital requirements and surplus, payments by subsidiaries of cash dividends to us, future prospectus and other factors that our Directors may consider relevant.

Subject to the above factors, we currently expect to distribute as dividends approximately 20% to 30% of our net profits available for distribution in each financial year beginning from the financial year ending September 30, 2008. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. However, there is no guarantee that dividends will be paid in the future.

SUMMARY

THE GLOBAL OFFERING

The Global Offering consists of:

- the offer by us of initially 82,338,000 Shares, being the Hong Kong Offer Shares, to be offered for subscription by the public in Hong Kong, referred in this prospectus as the Hong Kong Public Offering; and
- the offer by us of initially 741,040,000 Shares, being the International Offer Shares, outside the United States (including to professional and institutional investors within Hong Kong), in offshore transactions in reliance on Regulation S under the US Securities Act and the United States to qualified institutional buyers in reliance on Rule 144A or another available exemption from registration under the US Securities Act, referred to in this prospectus as the International Offering; the International Offering also includes the Preferential Offering, under which we are offering up to 41,591,000 Shares, being the Reserved Shares, for subscription by Qualifying Yue Yuen Shareholders.

The number of Hong Kong Offer Shares and International Offer Shares, or together, the Offer Shares, is subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus.

SUMMARY

OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

| | <u>Based on an Offer Price of HK\$2.93 per Share</u> | <u>Based on an Offer Price of HK\$3.75 per Share</u> |
|---|--|--|
| Our Company's market capitalization upon completion of the Global Offering ⁽¹⁾ . . . | HK\$10,401.5 million | HK\$13,312.5 million |
| Unaudited pro forma adjusted net tangible asset value per Share ⁽²⁾⁽³⁾ | US\$0.13 (equivalent to approximately HK\$1.01) | US\$0.16 (equivalent to approximately HK\$1.25) |

(1) *The calculation of market capitalization is based on 3,550,000,000 Shares expected to be in issue following the completion of the Global Offering, the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner and the Capitalization Issue assuming that the Over-allotment Option is not exercised. The calculation has not taken into consideration any Shares to be issued under the Pre-IPO Share Subscription Plan which will not be vested until one year after the grant date, which is after the end of the financial year ending September 30, 2008. It has also not taken into account the Shares to be issued to the Call Option JVs' partners upon our exercising of any of the call options.*

(2) *The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis of a total of 3,445,022,000 Shares were in issue after the Global Offering and the Capitalization Issue, assuming that the Over-allotment Option is not exercised. The calculation has not taken into consideration any Shares to be issued under the Pre-IPO Share Subscription Plan, the Shares to be issued to the Call Option JVs' partners upon the exercising of any of our call options or the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner.*

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings.

| | |
|-----------------------------|--|
| “Administration Commission” | the Administration Commission of Taicang Economic Development Zone |
| “affiliate” | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person |
| “Application Form(s)” | WHITE application form(s), YELLOW application form(s), BLUE application form(s) and GREEN application form(s) or, where the context so requires, any of them, relating to the Global Offering |
| “Assured Entitlement” | the entitlement of a Qualifying Yue Yuen Shareholder to apply for Reserved Shares under the Preferential Offering on the basis of an assured allotment of one Reserved Share for every integral multiple of 40 Yue Yuen Shares held by each Qualifying Yue Yuen Shareholder as at 5:00 p.m. on the Record Date |
| “Banking Ordinance” | the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Board” | the board of directors of our Company |
| “business day” | any day (excluding Saturdays, Sundays or public holidays) on which banks in Hong Kong are generally open for business |
| “Business Separation Deed” | the deed entered into between our Company and Yue Yuen on May 23, 2008 governing their respective manufacturing operations |
| “BVI” | the British Virgin Islands |
| “Bye-laws” | the bye-laws of our Company as amended from time to time |
| “CAGR” | compound annual growth rate |

DEFINITIONS

| | |
|---|---|
| “Call Option JVs” and each a “Call Option JV” | 15 of our Regional Joint Ventures, namely Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司), Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司), Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司), Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司), Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司), Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司), Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司), Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司), Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司), Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司), Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司), Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司), Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司) and Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司), and three of our non-wholly owned subsidiaries, namely Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司), Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), all of which are established in the PRC with limited liability |
| “Capitalization Issue” | the issue of 2,631,544,000 Shares to be made upon capitalization of an amount of HK\$26,315,440 standing to the credit of the share premium account of the Company referred to in the sub-section headed “Statutory and General Information — A. Further Information about our Company — 4. Resolutions of the Company’s sole Shareholder passed on May 14, 2008” in Appendix VIII to this prospectus |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |

DEFINITIONS

| | |
|---------------------------------|--|
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “Companies Act” | the Companies Act 1981 of Bermuda |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “our Company” and “the Company” | Pou Sheng International (Holdings) Limited (寶勝國際(控股)有限公司), an exempted company incorporated under the laws of Bermuda with limited liability on November 14, 2007 |
| “CRM” | customer relation management |
| “Director(s)” | the director(s) of our Company as at the date of this prospectus |
| “ERP” | enterprise resource planning |
| “Fractional Shareholders” | holders of Yue Yuen Shares, whose names appear on the register of members of Yue Yuen and are shown as holding fewer than 40 Yue Yuen Shares as at 5:00 p.m. on the Record Date, other than the Overseas Yue Yuen Shareholders |
| “Frost & Sullivan” | Frost & Sullivan, an independent market research and growth consulting company based in the United States of America |
| “GDP” | gross domestic product |
| “Global Offering” | the Hong Kong Public Offering and the International Offering (which includes the Preferential Offering) |
| “Greater China Region” | the PRC, Hong Kong, Macau and Taiwan |
| “Green Application Form(s)” | the application form(s) to be completed by White Form eIPO service provider designated by the Company |

DEFINITIONS

| | |
|--|--|
| “our Group”, “the Group”, “we” and “us” | our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors |
| “HK\$” or “Hong Kong dollars” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKAS” | Hong Kong Accounting Standards |
| “HKFRS” | Hong Kong Financial Reporting Standards issued by the HKICPA |
| “HKICPA” | Hong Kong Institute of Certified Public Accountants |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Offer Shares” | the 82,338,000 Offer Shares initially being offered for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) |
| “Hong Kong Public Offering” | the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms |
| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offering whose names are set out in the sub-section headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus |

DEFINITIONS

| | |
|------------------------------------|---|
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated May 23, 2008 relating to the Hong Kong Public Offering entered into, among others, our Company, the Joint Sponsors and the Hong Kong Underwriters, as further described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus |
| “independent third party(ies)” | a person(s) or company(ies) who/which is or are independent of and not connected with our Company and our connected persons |
| “INEDs” | independent non-executive Directors |
| “International Offering” | the offer and sale of the International Offer Shares to Qualified Institutional Buyers in the United States in reliance on Rule 144A or another exemption under the US Securities Act, and outside the United States in reliance on Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Offer Shares” | the 741,040,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the International Offering together, where relevant, with any additional Shares issued or sold pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus). International Offer Shares also include up to 41,591,000 Reserved Shares to be offered under the Preferential Offering |
| “International Offering Agreement” | the purchase agreement relating to the International Offering expected to be entered into, among others, our Company, the Joint Bookrunners and the International Underwriters on or around May 30, 2008, as further described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — International Offering” in this prospectus |
| “International Underwriters” | the group of underwriters, led by the Joint Bookrunners, of the International Offering, whose names are set out in the sub-section headed “Underwriting — Underwriters — International Underwriters” in this prospectus |
| “Joint Bookrunners” | Merrill Lynch International and Morgan Stanley Asia Limited |

DEFINITIONS

| | |
|--|---|
| “Joint Lead Managers” and “Joint Sponsors” | Merrill Lynch Far East Limited and Morgan Stanley Asia Limited |
| “Jollyard” | Jollyard Investments Limited, a company incorporated in the British Virgin Islands with limited liability on July 3, 1998, which is ultimately and wholly owned by Ms. SHIH Ching I, an independent third party. Jollyard is a substantial shareholder of our Company |
| “Latest Practicable Date” | May 12, 2008, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus |
| “Listing” | the listing of our Shares on the Main Board |
| “Listing Committee” | the listing sub-committee of the board of directors of the Stock Exchange |
| “Listing Date” | June 6, 2008, being the date on which dealings in our Shares are expected to commence on the Main Board |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “Macau” | the Macau Special Administrative Region of the PRC |
| “Main Board” | the stock exchange (excluding the option market) operated by the Stock Exchange prior to the establishment of the Growth Enterprise Market of the Stock Exchange, which continues to be operated by the Stock Exchange independently from and in parallel with the Growth Enterprise Market of the Stock Exchange |
| “Major Focus” | Major Focus Management Limited, a company incorporated in the British Virgin Islands with limited liability on May 8, 2007 which is wholly owned by Yue Yuen |
| “Manfield” | Manfield Developments Limited, a company incorporated in the British Virgin Islands with limited liability on December 13, 1994, which is indirectly wholly owned by Yue Yuen |
| “Master Purchase Agreement” | the master purchase agreement relating to footwear and sportswear products and accessories dated May 23, 2008, being the non-exempt continuing connected transactions entered into between our Company and Yue Yuen |

DEFINITIONS

| | |
|----------------------------------|---|
| “Memorandum” | the memorandum of association of our Company |
| “MIS” | management information system |
| “Mr. C. J. Tsai” | TSAI Chi Jui, a substantial shareholder of Yue Yuen |
| “Mr. Huang” | HUANG Tsung Jen, our chief executive officer, president and executive Director |
| “NT\$” | New Taiwan dollars, the lawful currency of Taiwan |
| “OEM/ODM” | original equipment/design manufacturing whereby products are manufactured, in whole or in part, in accordance with the designs of the customer and are marketed under the customer’s brand name |
| “Offer Price” | the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.75 and which is expected to be not less than HK\$2.93, and which price is to be agreed upon by us and the Joint Bookrunners (on behalf of the Underwriters) on or before the Price Determination Date |
| “Offer Share(s)” | the Hong Kong Offer Share(s) and the International Offer Share(s) |
| “Over-allotment Option” | the option granted by us to the International Underwriters exercisable by the Joint Bookrunners on behalf of the International Underwriters pursuant to which our Company may be required to allot and issue up to an additional aggregate of 123,506,000 new Shares (in aggregate representing approximately 15% of the Shares initially being offered under the Global Offering) to cover over-allocation in the International Offering, the details of which are described in the sub-section headed “Structure of the Global Offering — Over-allotment Option and Stabilization” in this prospectus |
| “Overseas Yue Yuen Shareholders” | registered holders of Yue Yuen Shares whose addresses on the register of members of Yue Yuen were outside Hong Kong on 5:00 p.m. on the Record Date |
| “PBOC Rate” | the exchange rate for foreign exchange transactions set daily by the People’s Bank of China based on the previous day’s the PRC interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets |

DEFINITIONS

| | |
|-------------------------------------|--|
| “Personal Data (Privacy) Ordinance” | the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “POS” | point-of-sale |
| “Pou Chen” | Pou Chen Corporation, a company incorporated in Taiwan with limited liability on September 4, 1969 with its shares listed on the Taiwan Stock Exchange Corporation since January 19, 1990. Pou Chen is the ultimate holding company of our Group |
| “PRC” or “China” | the People’s Republic of China, which, unless otherwise stated, excludes Hong Kong, Macau and Taiwan for the purposes of this prospectus |
| “PRC GAAP” | generally accepted accounting principles in the PRC |
| “Preferential Offering” | the preferential offer to the Qualifying Yue Yuen Shareholders of up to 41,591,000 Reserved Shares (representing approximately 5.1% of the Offer Shares initially available under the Global Offering), out of the Offer Shares being offered under the International Offering at the Offer Price on and subject to the terms and conditions stated herein and in the BLUE Application Form, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “Pre-IPO Share Subscription Plan” | our pre-IPO share subscription plan adopted pursuant to a written resolution of our sole Shareholder passed on May 14, 2008, the principal terms of which are summarized in the sub-section headed “Statutory and General Information — E. Share-based Remuneration Schemes — 2. Pre-IPO Share Subscription Plan” set out in Appendix VIII to this prospectus |

DEFINITIONS

| | |
|--|---|
| “Price Adjustment JVs” and each a “Price Adjustment JV” | 12 of our Regional Joint Ventures, namely Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司), Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司), Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司), Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司), Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司), Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司), Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司), Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司), Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司), Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) and Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司), and one of our non-wholly owned subsidiaries, namely Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), all of which are established in the PRC with limited liability |
| “Price Determination Date” | the date, expected to be on or around Friday, May 30, 2008, on which the Offer Price is to be fixed by agreement between us and the Joint Bookrunners (on behalf of the Underwriters) |
| “Qualified Institutional Buyers” | qualified institutional buyers within the meaning of Rule 144A |
| “Qualifying Yue Yuen Shareholders” | holders of Yue Yuen Shares, whose names appear on the register of members of Yue Yuen as holding 40 or more Yue Yuen Shares at 5:00 p.m. on the Record Date, other than the Overseas Yue Yuen Shareholders |
| “Record Date” | May 21, 2008, being the record date for ascertaining the Assured Entitlements |

DEFINITIONS

| | |
|---|--|
| “Regional Joint Ventures” and each a “Regional Joint Venture” | 16 of our joint venture companies, namely, Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司), Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司), Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司), Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司), Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司), Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司), Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司), Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司), Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司), Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司), Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司), Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司), Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司), Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) and Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司), all of which are established in the PRC with limited liability |
| “Regulation S” | Regulation S under the US Securities Act of 1933, as amended |
| “Reorganization” | the reorganization of the Group in preparation for the listing of the Shares on the Stock Exchange described in the sub-section headed “Statutory and General Information — A. Further Information about our Company — 5. Reorganization” set out in Appendix VIII to this prospectus |
| “Reserved Shares” | the Offer Shares available in the Preferential Offering and which are to be allocated out of the International Offer Shares |
| “Rest Assured” | Rest Assured Limited, a company incorporated in the British Virgin Islands, with limited liability on January 2, 1996, which is beneficially owned in equal shares by Mr. C. J. Tsai, Mr. Tsai David Nai Fung and Mr. Huang |

DEFINITIONS

| | |
|---------------------------|--|
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Rule 144A” | Rule 144A under the US Securities Act |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | ordinary share(s) of nominal value of HK\$0.01 each in the share capital of our Company |
| “Shareholder(s)” | holder(s) of our Share(s) |
| “Share Option Scheme” | the share option scheme conditionally approved pursuant to a written resolution of the sole Shareholder passed on May 14, 2008, a summary of the principal terms of which is summarized in the sub-section headed “Statutory and General Information — E. Share-based Remuneration Schemes — 1. Share Option Scheme” set out in Appendix VIII to this prospectus |
| “Share Swap JV” | Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司), a company established in the PRC with limited liability which is our non-wholly owned subsidiary |
| “Sole Global Coordinator” | Merrill Lynch Far East Limited |
| “Sports Group” | Sports Group Limited, a company incorporated in the British Virgin Islands with limited liability on January 8, 1999 and wholly owned by Mr. Huang |
| “Stabilizing Manager” | Merrill Lynch Far East Limited |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Symphony” | Symphony Holdings Limited, a company incorporated under the laws of Bermuda with limited liability whose ordinary shares are listed on the Main Board with stock code 1223 |
| “Symphony Group” | Symphony and its subsidiaries |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Track Record Period” | the three financial years ended September 30, 2005, 2006 and 2007 |

DEFINITIONS

| | |
|------------------------------------|--|
| “Underwriters” | the Hong Kong Underwriters and the International Underwriters |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Offering Agreement |
| “US” or “United States” | the United States of America |
| “US Securities Act” | the United States Securities Act of 1933, as amended |
| “US\$” or “US dollars” | United States dollars, the lawful currency of the US |
| “White Form eIPO” | the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO <u>www.eipo.com.hk</u> |
| “White Form eIPO Service Provider” | the White Form eIPO service provider designated by our Company, as specified on the designated website <u>www.eipo.com.hk</u> |
| “Yue Yuen” | Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and listed on the Main Board with stock code 551 and, where the context requires, includes its subsidiaries |
| “Yue Yuen Group” | at any time, Yue Yuen and its subsidiaries at that time (excluding our Group) |
| “Yue Yuen Shares” | ordinary shares with a nominal value of HK\$0.25 each in the share capital of Yue Yuen |

In this prospectus, the English names of the PRC Government authorities or PRC entities are translations of their Chinese names and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- cyclical changes and future development in the sportswear retail industry;
- the competitive markets for products we manufacture and the products we sell;
- financial condition and performance;
- general political and economic conditions, particularly those related to the PRC;
- expansion, consolidation or other trends in our industry;
- possible disruptions to our retail operations or manufacturing processes due to natural and human-induced disasters;
- exchange rate fluctuations and developing legal systems, particularly relating to the PRC;
- regulations and restrictions, including tariffs and environmental regulations;
- changes to our expansion plans and use of capital expenditures;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- difficulty in realizing the benefits of our business plan and strategies.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in the section headed “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements which reflect our management’s view only at the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus may not occur.

RISK FACTORS

Prospective applicants for the Offer Shares should carefully consider all of the information set forth in this prospectus and, in particular, the following risk factors in connection with an investment in us. You should pay particular attention to the fact that a very substantial part of our business is located in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and results of operation could be materially and adversely affected by risks and uncertainties including those described below. The trading price of our Shares may decline due to these risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR COMPANY AND OUR BUSINESS

We may fail to manage the growth of our retail network effectively.

We have experienced rapid growth in recent years. As at December 31, 2007, we and our Regional Joint Ventures directly operated a total of 3,341 retail outlets in the Greater China Region, 1,403 of which were operated by us, carrying a number of brands. Our business plan calls for the opening, or acquiring through strategic acquisitions, of new stores in both existing and new geographic markets. However, there are a number of factors which could affect our ability to open or acquire new stores. These factors could also affect the ability of the newly opened or acquired stores to achieve sales and profitability levels comparable with our existing stores or to become profitable at all. These factors include:

- our ability to identify suitable sites and locations for our retail outlets;
- our ability to negotiate acceptable concession/rental terms for those retail outlets;
- our ability to maintain an efficient and cost effective operation;
- the availability of adequate management and financial resources;
- our ability to hire, train and retain skilled personnel;
- our ability to adapt our logistics and other operational and management systems to an expanded network of our retail outlets;
- continued consumer demand for our products at levels which can support acceptable profit margins; and
- our ability to obtain all necessary governmental and other third party consents.

Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce, including our ability to recruit qualified personnel with the necessary experience to operate our new retail outlets in the new markets that

RISK FACTORS

we are entering into. We cannot assure you that our personnel, procedures, system and controls will be effectively managed to support our future growth. If we fail to manage our growth effectively, our financial condition and results of operations could be adversely affected.

We may fail to manage and expand our brand portfolio effectively.

Our retail business and brand licensee business together accounted for approximately 90.0%, 88.0%, 87.8% and 88.5% of our revenue for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. Our ability to maintain our existing distributorship agreements and brand license agreements and to enter into new agreements with brand companies is therefore critical to the growth of our business.

Our distributorship agreements, which generally have a term of one to two years, may be renewed based on negotiations between the brand companies and us. Factors that the brand companies may consider in negotiations may include our sales performance during previous contract terms, our compliance with the brand companies' general policies and procedures, general market conditions and the brand companies' overall development strategies and plans. Some of these factors are not within our control. There is therefore no assurance that we will be able to renew our existing distributorship agreements or to renew them on terms favorable to us or at all.

Our brand license agreements generally have a term of three to five years. Whether or not the agreements are renewed upon expiration is dependent upon a number of factors, including the brand licensors and our overall development plans and strategies, general market conditions and relationships with our brand licensors during previous contract terms. All of our current brand license agreements provide for guaranteed minimum royalty payments and guaranteed minimum sales volumes which, if not achieved, would enable the brand licensors to terminate the agreements before the end of the contractual terms. In addition, the brand license agreements typically provide for termination rights for the brand licensors upon the occurrence of a variety of other events, including but not limited to our breach of non-competition undertakings and territory exclusivity provisions and change of control. There is no assurance that our existing brand license agreements will not be terminated prematurely by the brand licensors or that we will be able to renew the existing brand license agreements on terms favorable to us or at all.

During the Track Record Period and up to the Latest Practicable Date, save for the mutual termination of our brand license agreement with *Asics* on December 31, 2005 and the alteration of our business relationship with *Converse* in the PRC starting from January 1, 2009 onwards (for details, please see the risk factor entitled "We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future" below), we did not experience any non-renewal or early termination of any of our distributorship or brand license agreements with brand companies or brand licensors and were not involved in any litigation or dispute with any of our brand licensors. We paid the guaranteed minimum royalty and met the minimum sale volumes stipulated by the relevant distributorship and brand license agreements during the Track Record Period and the three months ended December 31, 2007.

RISK FACTORS

We constantly seek to diversify and expand the brand and product portfolio that we carry by partnering with new brand companies through distributorship agreements or brand license agreements. However, whether we will be able to establish new partnerships with new brand companies is dependent upon a number of factors, including whether there will be suitable brand companies seeking new distributors or licensees in our existing markets, whether our distribution and manufacturing infrastructure and our corporate culture would be a good match with those brand companies, whether our competitors would be able to offer terms more favorable than ours to those brand companies and whether those brand companies may perceive that we have a conflict of interest. There is no assurance that we can enter into new distributorship or brand license agreements that will support our growth.

Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have a proven and well-established track record, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound.

As part of our strategy to expand the reach of our retail network, we established 16 Regional Joint Ventures during 2006 and 2007 which, as at December 31, 2007, directly operated an aggregate of 1,938 retail outlets in the Greater China Region. Our Regional Joint Ventures have a presence in 23 provinces, autonomous regions and municipalities directly under the central government in the PRC. All of our Regional Joint Venture partners are independent of one another. As at December 31, 2007, we had invested an aggregate amount of US\$43.5 million in the establishment of the Regional Joint Ventures and provided shareholder's loans in an aggregate amount of US\$65.7 million to 11 of them in order to satisfy their working capital requirements. In addition to our capital commitment, we have entered into call option arrangements with our Call Option JVs' partners, which include 15 Regional Joint Ventures and three of our non-wholly owned subsidiaries, that will require us to provide call option premium to them in consideration for our partners granting us the call options over their equity interests in the Call Option JVs. The total value of the call option premium, including the cash portion and the Shares portion, represents an aggregate amount of approximately US\$62.4 million (assuming that the Offer Price is fixed at the high end of HK\$3.75 per Share) or US\$48.8 million (assuming that the Offer Price is fixed at the low end of HK\$2.93 per Share). For the financial year ended September 30, 2007 and the three months ended December 31, 2007, our Regional Joint Ventures contributed an aggregate attributable net income of approximately US\$3.2 million and US\$6.0 million, respectively, to our combined income statement, representing 7.2% and 30.4% of our profit for the periods indicated, respectively. Our equity interests in the Regional Joint Ventures range from 30% to 50%, and we do not have control over any of them. For details, please refer to the sub-section headed "Our Business — Our Investments in Joint Ventures" in this prospectus.

Our significant growth during the Track Record Period and the three months ended December 31, 2007 was, to a certain extent, attributable to our newly established Regional Joint Ventures, which may not have a proven and well-established track record. Some of our Regional Joint Ventures also operate in relatively remote provinces or geographical regions in the PRC and primarily distribute less well-known domestic sportswear brands, and the operating performance of their directly operated retail outlets is generally weaker than our own directly operated retail outlets. Our Regional Joint Venture partners may also operate their retail outlets in a manner that

RISK FACTORS

is different to us. Our suggestions with respect to the management and operations of these Regional Joint Ventures may not be adopted since we do not control them. While our long term strategy for our investments in our Regional Joint Ventures includes introducing our best practices in various areas such as retail outlet management, customer services, financial management, IT systems and other operational areas to them, there is no assurance that this process will be successful or that they will be able to integrate our best practices into their operations. There is no assurance that the operations and financial performance of our Regional Joint Ventures will be, or continue to be, successful or profitable, and our profit may subsequently be adversely affected by losses suffered by any of our Regional Joint Ventures. If any of the 15 Regional Joint Ventures that are subject to call option arrangements becomes unprofitable or financially unsound, the fair value of our call option over the equity interest of our partners' in such Regional Joint Ventures may decline. Such decline in fair value will be recorded in our income statements at each of our balance sheet dates and therefore may have negative impact on our financial results in the future.

In addition, in the event that our Regional Joint Ventures become unprofitable or financially unsound, none of the joint venture agreements that we have entered into with our Regional Joint Venture partners contains any termination clause exercisable by us to terminate our investments and cash out from our investments in the Regional Joint Ventures.

We may be required to make additional capital contributions to our Price Adjustment JVs in the future pursuant to the price adjustment mechanism, which may be triggered on or before June 30, 2009.

Under the joint venture agreements and call option agreements that we entered into with the Price Adjustment JVs' partners, there is a price adjustment mechanism to the initial investment we made in the Price Adjustment JVs which is determined by the financial performance achieved by the Price Adjustment JVs during a specified profit evaluation period. If (i) the average actual annual net profit of a Price Adjustment JV during a specified profit evaluation period (typically two years) exceeds a specified benchmark and (ii) at least two of the other relevant operating results, for example, the annual revenue and the aggregate floor size of the retail outlets that it operates, exceed the specified benchmarks, we will be required to make additional capital contributions (but not by way of transferring our equity interest in such Price Adjustment JV to our Price Adjustment JV's partner) to such Price Adjustment JV which will be calculated as a multiple of the difference between such average actual annual net profit and the estimated specified benchmark net profit during the profit evaluation period. For the three months ended December 31, 2007, the Price Adjustment JVs generated a total net profit of approximately US\$14.3 million. Based on the current estimates and assuming all other applicable conditions stipulated in the joint venture agreements are met, if the average actual net profit of each Price Adjustment JV during its profit evaluation period exceeds the specified profit benchmark by the same percentage for all the Price Adjustment JVs such that the aggregate sum of the average actual net profit of all the Price Adjustment JVs reaches approximately US\$45.0 million to US\$60.0 million, we will be required to make additional capital contributions in aggregate amounts of approximately US\$6.7 million to US\$48.5 million, respectively. The above figures are for illustrative purposes only. They are provided on the basis that all the average actual net profits exceed the respective specified profit benchmarks by the same percentage which may not be the case. Depending on the average actual net profit of each Price Adjustment JV, even if the

RISK FACTORS

aggregate sum of the average actual net profit of the Price Adjustment JVs reaches the amount stated above, we may be required to make an additional capital contribution greater than the indicative range illustrated above. You should also note that since each Price Adjustment JV has a different ending date for its profit evaluation period ranging from July 31, 2008 to August 31, 2010, the capital contribution may be triggered at different points in time pursuant to the terms and conditions in each joint venture agreement that we entered into with each Price Adjustment JV. On the other hand, if the average actual annual net profit of a Price Adjustment JV during such profit evaluation period is below the specified benchmark and none of the two relevant operating benchmarks is met, our Price Adjustment JV's partner will be required to compensate us either by cash or by transferring a portion of its equity interest in such Price Adjustment JV at its election, which will be calculated as a multiple of the difference between the estimated specified benchmark net profit and the average actual annual net profit during the profit evaluation period. For some of the Price Adjustment JVs, the price adjustment mechanism may be triggered on or before June 30, 2009. Since this price adjustment mechanism may or may not be triggered in the future and was, in any event, not triggered on the date when the relevant joint venture agreements were entered into, such mechanism was not initially treated as our cost of investment in the Price Adjustment JVs. In the event that the mechanism is triggered in the future and that we are required to make additional capital contributions, our cost of investment in the Price Adjustment JVs will increase and thus creating goodwill on us. The additional consideration to be paid by us or our Price Adjustment JVs' partners (as the case may be) shall be accounted for as adjustments to the cost of investment in the Price Adjustment JVs. Therefore, we may be required to make additional capital contributions to some of the Price Adjustment JVs in the future, and there is no assurance that our additional capital contribution will in turn have a positive impact on our future financial condition or results of operations. As at the Latest Practicable Date, we cannot ascertain the average actual annual net profit which the relevant Price Adjustment JVs will be able to achieve in the future, and therefore, we cannot ascertain the additional capital contribution or the maximum possible amount that we may be obliged to further invest into these Price Adjustment JVs pursuant to the price adjustment mechanism. Our cash flows could be adversely affected in the event that we are required to make additional capital contribution under the price adjustment mechanism, and we may not have adequate financing in place to satisfy our obligations, thereby causing a breach of the joint venture agreements or the call option agreements (as the case may be) that we have entered into with the Price Adjustment JVs. In such case, our Price Adjustment JVs' partners may commence legal proceedings (including arbitration proceedings) against us for damages (or other appropriate remedies under PRC law) arising out of such breach of contract.

We will not be able to get back the consideration we will pay for the call options granted to us by our Call Option JVs' partners if the Call Option JVs become unprofitable or financially unsound or we decide not to exercise the call options, and the fair value of the call options may decline.

To allow us to monitor the performance of our joint ventures over a period of time and to only commit additional capital to those individual joint ventures that meet our performance expectation, we have entered into call option agreements with our partners in the Call Option JVs. For details about their identities, financial performance, the geographical regions where they operate, the operational information about their retail outlets and the brands which they carry, please refer to the sub-section headed "Our Business — Our Investments in Joint Ventures — Call option agreements" in this prospectus. This call option arrangement gives us the right (but

RISK FACTORS

not the obligation) exercisable solely at our discretion to acquire from any one or more of the Call Option JVs' partners up to their entire equity interest in the relevant Call Option JVs. As consideration for our Call Option JVs' partners granting us the call options, we have agreed to provide cash and issue certain number of Shares (the "Call Option Premium Shares") as call option premium to each of the Call Option JVs' partners at the Global Offering. For details of the call option premium, please refer to the sub-section headed "Our Business — Our Investments in Joint Ventures — Call option agreements — Call option premium" in this prospectus.

In the event that our Call Option JVs become unprofitable or financially unsound or we decide not to exercise the call options, none of the call option agreements that we have entered into with our Call Option JVs' partners obliges our Call Option JVs' partners to compensate us (whether by cash or in any other form) for the Call Option Premium Shares that we will have already issued to them. In such case, the fair value of our call options may also decline. Such decline in fair value will be recorded in our income statements at each of our balance sheet dates and therefore may have a negative impact on our financial results in the future. In addition, none of the call option agreements that we have entered into contains any termination clause exercisable by us to terminate our investments and cash out from our investments in the Call Option JVs.

Failure to maintain good relationships with brand partners or to secure competitive terms may adversely affect our profitability.

We rely on a limited number of brands in our retail business and brand licensee business. For the three months ended December 31, 2007, the revenue contributed by the top three brands that we carry was approximately 81.1%. For our retail business, our distributorship agreements with the top three brand companies in terms of revenue will expire on December 31, 2008, June 30, 2008 and December 31, 2008, respectively. For our brand licensee business, our exclusive brand license with *Converse* in respect of (i) the PRC, (ii) Hong Kong and Macau and (iii) Taiwan will expire on (i) December 31, 2008, (ii) December 31, 2010 and (iii) December 31, 2012, respectively. Our exclusive brand license with *Hush Puppies* in respect of (i) the PRC and (ii) Taiwan will expire on (i) December 31, 2012 and (ii) December 31, 2010, respectively. Our exclusive brand license with *Wolverine* in respect of the PRC, Hong Kong and Taiwan will expire on December 31, 2009. Should the brand companies or the brand licensors terminate their distributorship or brand license agreements with us prematurely, or should they decide not to renew their agreements after expiration, our sales and results of operations could be materially and adversely affected.

The success of our business and our growth depends to a significant extent on our relationships with the brand companies for which we act as a distributor or licensee. The brand companies that we currently work with include well-known international brands such as *Nike*, *Adidas*, *Reebok* and *Converse*. For our retail business, we source our products from brand companies directly. For our brand licensee business, we source our licensed products through two channels: (i) we contract with manufacturers authorized by brand licensors to manufacture licensed products designed by us; or (ii) we purchase finished or partially finished products from suppliers authorized by our brand licensors directly. We believe the popularity and strength of the brands that we carry have been important to our success. However, as owners of well-known international brands, the relevant brand companies enjoy strong bargaining power vis-à-vis their

RISK FACTORS

distributors and licensees. We typically enter into distributorship or brand license agreements with the brand companies based on standard form contracts provided by the brand companies, with only key commercial terms open to negotiations. For brand license agreements, these terms include royalty, guaranteed minimum royalty, territory and term of the contracts, and for distributorship agreements, these terms include discount rates for our purchase, sales target and payment terms. If we are unable to maintain good relationships with the brand companies, we may not be able to secure competitive terms, and our cost may increase. We may also be unable to enjoy full support from the brand companies in terms of marketing and promotion of the brand names using their capital and public relation resources, product development, personnel training, intellectual property and other business know-how. In addition, it is also possible that we may be unable to acquire sufficient quantities of particular models or an appropriate mix of merchandize at acceptable prices. For brands of which we act as a distributor, our ability to establish additional retail outlets in our existing markets and to penetrate new markets depends on the brand companies' willingness and ability to supply sufficient quantities of products to our new retail outlets. The inability or unwillingness of these brand companies to supply to us at acceptable prices could lead to a decrease in our profits. Furthermore, our failure to maintain good relationships with the brand companies may also lead to non-renewal or even early termination of existing agreements, which could lead to a significant decrease in our sales.

We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future.

We have been the exclusive brand licensee of *Converse* since 1993. Pursuant to agreements dated December 30, 2002 (and amended on January 1, 2003, December 1, 2004, and August 7, 2007), January 1, 2005 and January 1, 2008 that we entered into with Converse Inc., we are currently the exclusive brand licensee of Converse Inc. with respect to the designing, developing, manufacturing and selling of athletic and leisure footwear, apparel and accessories under the *Converse* brand name and trademarks in the PRC, Hong Kong, Macau and Taiwan. The license in respect of the PRC will expire on December 31, 2008.

Instead of continuing our exclusive brand licensee business with *Converse* in the PRC, we entered into a term sheet with Converse Inc. in June 2007 which sets out the key provisions of a proposed distributorship agreement to be entered into between the two parties, pursuant to which we will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, after the expiration of the current brand license agreement. Under the term sheet, we are granted the right to be the exclusive distributor of *Converse's* products in the PRC subject to our meeting certain goals and targets for store openings and providing certain required services to the stores as stipulated in a retail rollout plan to be developed annually and updated as determined by Converse Inc. We are currently in the process of negotiating the terms and conditions of our exclusive distributorship agreement with Converse Inc. As our brand licensee business generally has a higher profit margin than our retail business, we expect the changing of our business relationship with *Converse* to have a negative impact on our financial performance in the future and such negative financial impact may not be insignificant.

RISK FACTORS

We will continue to be the exclusive brand licensee of *Converse* in Hong Kong, Macau and Taiwan. For details of our business arrangement with *Converse*, please refer to the section sub-headed “Our Business — Our Brand Licensee Business — Brand portfolio and exclusive license agreements” in this prospectus.

The growth of our manufacturing business may be restricted by the business separation mechanisms that we have agreed with our controlling shareholder, Yue Yuen.

Our manufacturing facilities in the Taicang factory were set up primarily to manufacture smaller batch orders for emerging domestic brand companies in the PRC. We currently manufacture for five brands at these facilities, being *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*. For the three months ended December 31, 2007, the revenue attributable to our manufacturing business was US\$20.9 million, representing approximately 11.3% of our combined revenue. In order to clearly separate our manufacturing business from that of our controlling shareholder, Yue Yuen, we have entered into the Business Separation Deed with Yue Yuen under which we have provided certain non-compete undertakings not to produce for any brands except the brands that we currently produce, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*, the brand that we may produce in the future, namely *XTEP*, and the brands which the Yue Yuen Group has first declined to produce. As a result, we may not be able to produce for any new brands and the growth of our manufacturing business may be restricted. There is no assurance that the revenue or profit attributed to our manufacturing business may increase in the future. For details, please refer to the sub-section headed “Relationship with Yue Yuen Group — Certain Undertakings between Yue Yuen and us” in this prospectus.

Our reputation and relationship with brand companies could be harmed if authorized retail distributors or sub-distributors are not managed in accordance with our standards.

Under our retail business and our brand licensee business, we sell merchandize to sub-distributors or retail distributors on a wholesale basis, respectively, who then sell to end customers through their own retail outlets or their retail sub-distributors on a wholesale basis. We typically require retail distributors or sub-distributors to follow our pre-set retail procedures, store layouts and policies in respect of marketing activities, daily operations and customer service. However, since we do not directly operate these retail outlets, our level of control over such retail outlets is limited, and there is no assurance that these authorized third party retail outlets will always be managed according to the required standard of quality and service. Therefore, our reputation and our relationship with the brand companies could be damaged, which in turn could have an adverse effect on our business, results of operations and financial condition.

Our sales depend on the popularity of our branded products, as well as consumer preferences and spending patterns, which are outside our control.

Our sales are dependent, in part, on the strength and reputation of the brands that we carry, and are subject to consumers’ perception of the products that we sell. In our retail business, the products that we sell are designed and produced by the brand companies. In our brand licensee business, although we are authorized to conduct a limited scope of design and product development, our designs are subject to the approval by the relevant brand licensors. Therefore, we generally have limited or no control over the designs and development of the products that we sell. The success of our operations depends in part on the brand companies’ marketing abilities,

RISK FACTORS

our own ability to select new models from our suppliers that gain customer acceptance, and our ability to make available sufficient quantities of attractive and popular merchandize to satisfy consumer demand. In particular, the performance of our retail outlets is sensitive to local consumer spending patterns. People in different geographical locations of the PRC have different shopping patterns and tastes. If we or the brand companies whose products we sell are unable to respond promptly to changing customer demands, demand for our products may decrease and our sales may be adversely and significantly affected. Conversely, if we or the brand companies fail to anticipate increased consumer demand for our products, we may experience inventory shortages, which would result in lost sales and could negatively impact our profitability. Any negative publicity in connection with the brands or the brand companies may also damage the reputation of the brands and result in a decrease in our sales.

In addition, it may take considerable time and require significant resources to successfully launch a new brand under our brand licensee business that appeals to our customers. Accordingly, we cannot guarantee that any new brand licensed products that we may introduce and distribute in the future will be profitable.

We have limited flexibility on the pricing of our products in our retail business.

In our retail business where we act as a retail distributor for brand companies, we, and the retail sub-distributors that we supervise, are obliged to comply with uniform retail prices set by the brand companies. We are not allowed to offer discounts on new products typically until 60 to 75 days after the launch of the products at our retail outlets. We therefore have very limited flexibility on the pricing of the products. Should we experience slow movements of certain items due to mispricing by the brand companies or other factors, we may not be able to dispose of excessive inventory through markdowns or promotional sales in a timely manner or at all. As a result, our working capital requirements may increase, our sales and profits may decrease, and our results of operations and financial condition may be negatively and materially affected.

Our ability to meet demand for our merchandize is dependent, in part, on our ability to maintain an optimal level of inventory.

Maintaining an optimal level of inventory is important to our business. We believe our inventory levels allow us to respond to customer demand effectively and to maintain a range of merchandize at our stores. At the same time, we aim to minimize excessive inventories which would result in higher levels of write-offs, and in turn increase our cost of sales. If we over-stock inventory, our required working capital will increase and we will incur additional financing costs. If we under-stock inventory, our ability to meet consumer demand and our operating results may be adversely affected.

We depend upon the services of key personnel.

Our future success depends heavily upon the continued services of our senior executives, including Mr. HUANG Tsung Jen, who is our co-founder and chief executive officer, and Mr. LEE Chung Wen, who is our chief strategic officer and one of our executive Directors, and other key employees. We rely on their expertise in developing business strategies, managing business operations, developing sales and marketing strategies and strengthening our relationships with brand companies. If one or more of our senior executives or key employees were unable or

RISK FACTORS

unwilling to continue in their present positions, we may not be able to replace them in time or at all. If any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements that we have entered into with our key employees could be enforced, particularly in the PRC, where most of these key employees reside, in light of the uncertainties within the PRC legal system. Please refer to the risk factor entitled “There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations” below. If one or more of our senior executives or key employees were unable or unwilling to continue in their present positions, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel. We may not be able to attract or retain replacement personnel that we will need to achieve our strategic objectives at costs similar to the current costs.

Our business may be adversely affected if we cannot recruit and retain suitable staff for our operations.

Our continued growth depends in part on our ability to recruit and retain suitable staff. As we expand our retail network, we will need to hire experienced staff who are knowledgeable of the local market and the sportswear retail industry to operate the retail outlets that we open. We have faced increasing competition for management and skilled personnel with significant knowledge and experience in the sportswear retail sector in the PRC. In addition, we have seen an increasing trend in labor costs in the PRC recently, which has had a direct impact on our staff costs. We may need to offer better compensation and other benefits in order to attract and retain key personnel in the future and that may materially affect our costs and profitability. We cannot assure you that we will have the resources to fully satisfy our staffing needs as we continue to grow our business in the future or that our operating expenses will not significantly increase.

We may fail to sustain the same level of retail outlet sales and new retail outlets may fail to break even within our projected time frames.

The success of our retail operations is dependent on a number of factors, such as our ability to introduce merchandize which responds successfully and effectively to local consumer preferences, the success of the marketing efforts by us and the brand companies, and our ability to compete with other retail distributors and sub-distributors of sportswear.

We are constantly reviewing our sales performance data, both by retail outlet and by region. Our expansion strategies are intended to benefit our growth in the long term. However, it takes time for new retail outlets to break even or reach the same level of profitability as mature retail outlets and, as we expand our retail network by adding new retail outlets, we may experience a decrease in average sales per retail outlet at least initially. Should the new retail outlets experience prolonged delays in breaking even or achieving our desired level of profitability, our overall profitability may be affected. In addition, in our existing retail outlets, whether we will be able to sustain or continue to grow our sales per retail outlet is subject to a number of factors, including the local GDP and consumer spending power and spending pattern, the pedestrian flow of the area where our retail outlets are located and the competition that we encounter, many of which are outside of our control. If we are unable to increase retail outlet sales in line with increasing costs, our overall performance and profitability will be adversely affected.

RISK FACTORS

We may fail to secure space for our retail outlets on commercially reasonable terms.

The rental expense associated with our retail business included in selling and distribution expenses increased by 44.7%, 47.0% and 69.4% from the financial year ended September 30, 2005 to the financial year ended September 30, 2006, from the financial year ended September 30, 2006 to the financial year ended September 30, 2007 and from the three months ended December 31, 2006 to the three months ended December 31, 2007, respectively. When we expand our retail network by adding new retail outlets, availability of retail space at desirable locations and on acceptable terms is one of the key factors that we consider. We are cautious in the selection of our retail outlets, and we take into account factors such as the convenience and accessibility of the sites to our target customer groups, the expected pedestrian flow and the degree of surrounding competition. We may not be able to obtain suitable sites for new retail outlets on terms that are acceptable to us, and our expansion plans and our growth may be adversely affected.

Our existing retail outlets are typically located in department stores, in leased properties on street level or in shopping malls with high levels of pedestrian traffic flow, under concession or lease agreements. The majority of the concession agreements and the lease agreements in respect of our existing retail outlets are for a term of one to three years. Our ability to renew existing concessions and leases upon their expiry is crucial to our operations and profitability. In addition, owing to the rapid rental increases in the PRC, particularly in large cities, we may not be able to renew the existing arrangements on terms and conditions that are acceptable to us or may have to renew such arrangements on a more expensive basis, thus increasing our costs of operations. If we fail to renew arrangements on terms commercially acceptable to us, we may have to incur additional costs in relocating our retail outlets to less attractive locations. In addition, competitors may move into the retail spaces previously occupied by us. We may therefore lose customers of those retail outlets.

We may be forced to relocate our retail outlets due to title defects affecting some of the properties in the PRC that we lease.

As at December 31, 2007, 41 of the leased properties that we occupied had legal title defects. Of these leased properties, 12 were used as either our office premises or warehouses, one was used for training, one was used as flats, eight were used as sports complexes under our property management and leasing business, whereas the remaining 19 were primarily used as our retail outlets. These 19 leased properties occupy a gross retail floor area of approximately 2,764 square meters, representing less than 2% of the gross retail floor area used by us as at December 31, 2007. For the three months ended December 31, 2007, we estimate that the revenue generated by these 41 leased properties amounted to approximately US\$2.2 million, representing less than 2% of the total revenue generated by our retail business. We were not able to obtain the relevant building ownership rights certificates or consent for sub-lease because the relevant landlords had refused to provide us with such relevant certificates or consent for sub-lease. The lessors may not have either their land use right certificates or title certificates or may not have procured consent from their landlord for sub-lease. Since the revenue generated by these leased properties is not significant to our total retail revenue and that none of these leased properties are our “flagship” stores, we believe that these leased properties are not crucial to our business and operations. However, if any of such defects of title for these occupied properties is not cured, we may lose

RISK FACTORS

our rights to use some of these properties, and our business and operations may be severely disrupted. Furthermore, as at December 31, 2007, 121 leased properties had not been registered with the relevant PRC authorities as required by the applicable PRC regulations. For the three months ended December 31, 2007, we estimate that the revenue generated by these 121 leased properties amounted to approximately US\$6.5 million, representing less than 4% of our total revenue and less than 6% of the revenue attributable to our retail business. Of these leased properties, 43 were used as either our office premises or warehouses, 54 were primarily used as our retail outlets, six were used as sports complexes under our property leasing and management business and the remaining 18 leased properties were used for other ancillary purposes. These 54 leased properties used as our retail outlets occupy a gross retail floor area of approximately 14,811 square meters, representing less than 11% of the gross retail area used by us as at December 31, 2007. We do not believe that the failure of registration alone will affect the validity or performance of these leases. We are urging our landlords to cooperate with us to complete the required registrations, since tenants alone cannot effect registrations under the applicable PRC regulations. However, if the required registrations are not effected, the relevant government authorities have the right to request both our landlords and us to complete the registrations. If there is any dispute as to the ownership rights or the validity of the leases of these properties, the relevant retail outlets may have to be vacated and relocated elsewhere. As a result, we may incur additional expenses in relocation and we may not be able to identify other properties which are comparable in size and location. In such cases, our business and financial condition may be affected. We will continue to liaise with the relevant landlords with a view to rectifying those leased properties with defective titles after Listing. However, there is no assurance as to when such defects may be rectified or at all. We have obtained an indemnity from our controlling shareholder, Yue Yuen, in respect of the losses and expenses arising as a result of a relocation or vacation. For details, please refer to the sub-section headed “Statutory and General Information — F. Other Information — 1. Tax and other indemnities” in Appendix VIII to this prospectus.

We operate in a competitive market which may result in lower profit margins.

The sportswear retail industry in the PRC is competitive with no practical barriers to entry. We experience competition from other retail distributors in the geographical markets in which we currently operate and expect to face similar competition in the markets which we plan to enter. We compete with other retail distributors and sub-distributors primarily for brands and retail outlet locations. Some of our competitors may have more financial and human resources, better access to attractive retail outlet locations, more competitive pricing strategies or closer relationships with brand companies. A number of different competitive factors could have a material adverse effect on our operational results and financial condition. Competition may lead to, among other things, stricter terms in agreements with brand companies, higher costs for retail space and lower sales per retail outlet, all of which could have a material adverse impact on our results of operations and financial condition and lower our profit margins. For the three financial years ended September 30, 2007 and for the three months ended December 31, 2007, our gross profit margin was 38.0%, 37.3%, 36.2% and 36.8%, respectively, and our net profit margin was 2.9%, 5.6%, 7.9% and 10.6%, respectively.

RISK FACTORS

Our business relies on the reliable performance of our IT systems.

The sportswear retail industry in the PRC is evolving quickly, requiring our systems, including IT systems, to be constantly upgraded and improved. We invested approximately RMB31.1 million in our IT systems during the Track Record Period and the three months ended December 31, 2007. Based on the current outlook of our IT system, we expect to invest approximately RMB87.7 million in the next five years for the development, modification and maintenance of our IT systems. We make use of our IT systems to monitor all aspects of our businesses and rely to a significant extent on such systems for the efficient operation of our business, including without limitation, the monitoring of inventory levels and the allocation of products to our retail outlets. We did not experience any IT system breakdown during the Track Record Period and the three months ended December 31, 2007. However, our IT systems may not always operate without interruption and may encounter temporary abnormality and become obsolete, which may affect our ability to maintain connectivity with our brand companies. It is also important that we constantly review our existing IT systems, identify new business needs, provide IT solutions, and upgrade our systems. We may not always be successful in developing, installing, running and migrating to new software or systems as required by our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from the investment immediately. All of these may have a material adverse impact on our operations and profitability.

We have not taken out insurance to cover the risk of business interruption as a result of failure of our IT systems or otherwise. Also, we cannot guarantee that the level of security we currently maintain is adequate or that our systems can withstand intrusions from or prevent improper usage by third parties. Our failure to continue our operations without interruption due to any of these reasons may adversely affect our results of operations.

We rely on a few major customers in our manufacturing business.

Our manufacturing business accounted for approximately 10.0%, 12.0%, 12.1% and 11.3% of our total revenue for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. For the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, we had three, four, five and five brand customers for our manufacturing business, respectively, with whom we have developed relationships for periods ranging from six months to over four years. We rely on a few major customers for our manufacturing business, with the largest customer accounting for approximately 83.2%, 70.2%, 57.4% and 51.4% of our manufacturing business revenue for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. In the event one or more major customers discontinues their business relationship with us, our business, operating results and financial condition may be adversely affected. For details about the segment results for our manufacturing business, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business segments” in this prospectus.

RISK FACTORS

We may not be able to obtain sufficient quantities of required quality raw materials in a timely manner or at acceptable prices.

In our manufacturing business, we rely on a pool of suppliers to supply us with raw materials such as rubber, synthetics and nylon. To maintain our operations, we must obtain from our suppliers sufficient quantities of the required quality raw materials at acceptable prices and in a timely manner. As a common practice in the industry, to maintain flexibility, we do not have any long term supply contracts with our suppliers, but instead, we work on an order-by-order basis. Unfavorable fluctuations in the price, quality and availability of raw materials could have a negative effect on our profit margins and our ability to meet the demands of our customers.

Apart from the suppliers nominated by our customers, our main sources of raw materials are suppliers with whom we have maintained business relationships for many years. For the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, we had four, five, five and five major raw material suppliers for our manufacturing business, respectively, with whom we developed relationships for over three years. Our top five suppliers together accounted for approximately 30.4%, 33.6%, 34.4% and 31.6% of our total purchase of raw materials in our manufacturing business for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. Furthermore, the total cost of raw materials accounted for approximately 45.6%, 47.1%, 43.6% and 49.4% of the total cost of sales in our manufacturing business for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively.

If the supply of our raw materials is substantially reduced or if there are significant increases in prices, we may have to incur additional costs to maintain our production schedules, thereby decreasing our profit margin. We may not be able to pass along these cost increases to our customers. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient raw materials when required, the resulting loss of production volume could adversely impact our ability to deliver products to our customers in a timely manner, which could harm our reputation, relationships with our OEM/ODM customers and financial performance.

Our production activities are and will continue to be conducted in concentrated locations and may be subject to damages to or disruptions at our production facilities.

We conduct our manufacturing activities at concentrated facilities in Taicang, PRC. Operating hazards, natural disasters or other unanticipated events, including power interruptions, water shortages, storms, fires, explosions, earthquakes, terrorist attacks, wars, labor disputes and strikes or adverse local government regulations and actions could significantly impair our ability to produce products and operate our business, as well as delay our activities. Our facilities and certain equipment located in our facilities are difficult to replace and could require substantial replacement lead-time. Unforeseeable events may also destroy inventory located in our production facilities. The occurrence of such an event could result in substantial costs and diversion of resources and our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We are exposed to risks associated with our newly established property leasing and management business.

As a supplement to our retail business and brand licensee business, we have established a dedicated property leasing and management unit in December 2006 that acquires or leases large scale retail spaces at attractive locations which are then sub-divided and leased to us or third party retail distributors. We believe that our property leasing and management unit improves our ability to secure retail space and gives us better control of the overall shopping experience for our customers. However, we have limited experience in property acquisition, management and lease operations and may therefore face risks and challenges that we are unfamiliar with, including the risk of failing to attract tenants to occupy retail spaces, obtain all the necessary approvals and title or registration documents and collect rentals from our tenants. In addition, property acquisition requires significant capital expenditure, and we may not be able to make a profit from our investment for a prolonged period of time or at all. If our property leasing and management business is unsuccessful, our financial condition and results of operations could be materially and adversely affected.

We may fail to develop and implement our end-to-end supply chain solution.

We are developing our end-to-end supply chain solution which, once fully implemented, will improve manufacturing flexibility and supply chain management, and shorten the time to market, thus allowing us and our brand companies to better respond to the rapid changes in consumer demand. The end-to-end supply chain solution is in the testing/trial phase, and as such we cannot be sure that our end-to-end supply chain solution can be implemented in the foreseeable future or at all or, when implemented, that we will fully enjoy the benefits that the solution is designed to bring to us. If this is the case, our operational results could be affected, and our expansion plans and competitive strengths may be impacted.

We may fail to successfully build our “YY Sports” brand name.

We believe our ability to foster positive recognition of our business from our customers is crucial. Accordingly, even though we do not own any sportswear brands ourselves, one of our strategies is to continue to build the “YY Sports” brand name as a leading sportswear retailer in the PRC, through which we hope to raise our customers’ awareness of our corporate image and increase their loyalty to our brand name. Measures that we take in this regard include displaying our “YY Sports” logo at our retail outlets, offering consistent store experiences and high-quality customer service and increasing customer loyalty through our VIP customer program. However, there can be no assurance that these measures will be successful. The failure of this strategy may adversely affect our business and may damage the reputation and value of our “YY Sports” brand.

We may continue to incur net current liabilities in the future, which may expose us to certain liquidity risks.

As at September 30, 2005, 2006 and 2007 and December 31, 2007, we had net current liabilities of US\$14.0 million, US\$2.5 million, US\$15.6 million and US\$44.5 million, respectively, which primarily resulted from our use of short-term borrowings to finance our working capital requirements and long-term capital investments. We had net operating cash outflow of US\$23.0 million for the financial year ended September 30, 2005. The net operating

RISK FACTORS

cash outflow during this period was primarily due to an increase in inventories and trade and other receivables during that financial year in anticipation of our future growth. We also had net operating cash outflow of US\$5.0 million and US\$35.8 million for the three months ended December 31, 2006 and 2007, respectively. The net operating cash outflow during these periods was primarily because we had a practice of increasing our inventories during such periods to a level higher than the usual inventory level that we maintained in anticipation of the upcoming peak sales season which generally fall within the following Chinese lunar new year holiday period in the PRC during the first quarter of each calendar year. We had a gearing ratio (which is calculated as total bank borrowings divided by total equity) of approximately 106.0% as at December 31, 2007. We may continue to have net current liabilities in the future. Our net current liabilities position exposes us to certain liquidity risks. Our future liquidity, the payment of trade and other payables, and the repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Our operating cash flows could be adversely affected by numerous factors, including increased market competition, decreased demand for our products and higher raw material prices. Servicing our debt and other fixed payment obligations will further divert our cash flow from our operations and planned capital expenditures. Furthermore, the interest cost of such obligations could impair our future profitability. For details of our cash flow and our net current liabilities, please refer to the sub-sections headed “Financial Information — Liquidity and Capital Resources” and “Financial Information — Net Current Liabilities” in this prospectus.

The interests of Yue Yuen may differ from those of our other shareholders.

Prior to the Global Offering and issuance of Shares to the Call Option JVs’ partners and the Share Swap JV’s partner, our controlling shareholder, Yue Yuen, beneficially owned 75.5% of our outstanding Shares. Immediately following the Global Offering, the Capitalization Issue and issuance of Shares to the Call Option JVs’ partners and the Share Swap JV’s partner, Yue Yuen will beneficially own 56.0% of our outstanding Shares (assuming the Over-allotment Option is not exercised), or approximately 54.1% if the Joint Bookrunners (on behalf of the International Underwriters) exercise their Over-allotment Option in full. Through its shareholding, Yue Yuen can exercise significant influence on whether any corporate transaction or other matters submitted to Shareholders for approval are approved, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. The interests of Yue Yuen as our controlling shareholder may differ from the interests of our other shareholders. If the interests of our controlling shareholder conflict with the interests of our other shareholders, those shareholders could be disadvantaged by the actions of our controlling shareholder.

We have limited control over the ultimate retail sales by our sub-distributors in our retail business, and distributors and sub-distributors in our brand licensee business and the retail outlets which they operate.

For the wholesale portion of our retail business, which is further discussed in the sub-section headed “Our Business — Our Retail Business — Our retail network” in this prospectus, and substantially all of our brand licensee business, we rely on contractual arrangements with our distributors or sub-distributors to operate the retail outlets that sell our products. Although we

RISK FACTORS

supervise them on a regular basis in various areas such as inventory, merchandizing and sales technique and provide them with regular store management training, our control over the ultimate retail sales by our distributors, sub-distributors and the retail outlets which they operate is limited. If our distributors, sub-distributors and the retail outlets that they operate experience difficulties in selling our products in the retail market, they may attempt to liquidate their excessive inventory build-up through aggressive discounts, which may damage the image and the value of the branded products that we distribute. Furthermore, our distributors, sub-distributors and the retail outlets which they operate may face difficulties with respect to their management, operation and financial performance in the future which may lead to reduced purchases from us by our distributors or sub-distributors, which would adversely affect our results.

We may fail to integrate future acquired businesses successfully.

To enhance our growth, market shares and competitiveness, we may selectively acquire other sportswear retail businesses or assets that we believe would benefit us in terms of product and brand mix or distribution network. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. We may experience:

- difficulties in integrating the acquired business, its personnel, its operations, its assets or its products into our existing business;
- delays or failure in realizing the benefits of the acquired business, its assets or its products;
- diversion of our management's time and attention from other business concerns;
- potential challenges in managing the increased scope and complexity of our operations;
- higher costs of integration than we anticipated;
- difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business; or
- difficulties in obtaining all necessary governmental and other third party approvals.

The benefits of an acquisition may take considerable time to materialize, and we cannot assure you that any particular acquisition will produce the intended benefits. In particular, newly-acquired businesses may have corporate cultures and operational management different from ours. Our success in integrating acquisitions into our operations will depend on our ability to spread our corporate philosophy and operating methods to companies we have acquired such that acquired companies will remain or become more competitive. If we fail to integrate any acquired businesses successfully into our existing operations, our results of operations could be adversely affected.

RISK FACTORS

We may be exposed to product liability claims.

We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. In our retail business, brand licensee business and manufacturing business, we are exposed to product liability claims. According to the relevant PRC laws and regulations, consumers may choose to sue the retailer, the distributor, the manufacturer or the brand companies for damages caused by defective products. Although we expect that normally we would have recourse against others for losses caused by defective products, we may have to pay damages to the consumers first before we can seek compensation or indemnification from others. In the event that we are found to be liable for any product liability claim which is initiated due to, among other things, injuries caused by things such as hidden broken needles in our apparel, toxic materials in the raw materials used in our products or lack of adequate protection afforded by our products, we could be required to pay substantial monetary damages. Even if we successfully defend ourselves against a claim, or successfully claim back compensation from others, we may need to spend a substantial amount of money and time in defending such a claim and in seeking compensation, and our reputation could suffer. During the Track Record Period and the three months ended December 31, 2007, we were not involved in any litigation relating to product liability, but there can be no assurance that we will not be involved in any such litigation in the future.

If we fail to obtain or maintain all required licenses, permits and approvals, or if we are required to take actions to obtain such licenses, permits and approvals which are time-consuming or costly, our business operations may be materially and adversely affected.

Retail operations such as ours are subject to a significant number of licenses, permits and approvals in the PRC, such as those relating to fire prevention, public health and safety. Our ability to continue to operate our existing and new retail outlets and to successfully implement our expansion strategies into new businesses is dependent upon our obtaining, maintaining and renewing (where necessary) the relevant regulatory approvals under PRC law. If we are unsuccessful in obtaining or renewing such approvals, we may be prohibited from continuing our operations, and we may have to expend considerable time and costs in order to sustain our business.

RISKS RELATING TO THE PRC

Political and economic policies of the PRC government affect our business and results of operations.

At present, the PRC is a developing economy. It differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- growth rate;

RISK FACTORS

- the control of foreign exchange; and
- the allocation of resources.

Prior to the PRC government's adoption of the "Open Door" reform policies in 1978, the PRC had a planned economy. Since then, the PRC government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 30 years. With its economic reform policies, the PRC has since transitioned into a more market-oriented economy. However, we cannot predict whether changes in the PRC's political, economic and social conditions and policies, or in relevant laws and regulations, will adversely affect our current or future business, operational results or financial condition.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions and credit availability from lending institutions. The PRC government has recently articulated the need to control economic growth again and to tighten lending. Stricter lending policies in the PRC may affect our ability to obtain financing, thus reducing our ability to fund our business and implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten lending, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

We may be subject to a slowdown in the PRC economy.

Most of our business assets and operations are located in the PRC, and substantially all of our revenue is derived from our operations in the PRC. Many factors affect the level of consumer spending in the sportswear industry, including interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, the availability of consumer credit, taxation, stock market performance, unemployment and consumer confidence. We believe that PRC consumers tend to spend more when the economy is experiencing strong growth and when they have more disposable income for personal consumption. As a result, the state of the economy in the PRC has a significant impact on our historical and future performance, operational results and profitability. Since the late 1970s, the PRC economy has recorded one of the world's fastest growth rates in terms of GDP. However, we cannot assure you that such growth will sustain and continue in the future. In addition, a slowdown in the economies of the United States, members of the European Union and certain Asian nations with which the PRC has important trade relationships, may adversely affect the economic growth of the PRC. Furthermore, with accession of the PRC to the WTO, changes and developments in the consumer and retail market may be volatile and unpredictable. For instance, the reduction in tariffs on foreign products after the liberalization of the PRC market and further entry of international brands may intensify the competition in the PRC market. This may have a material adverse impact on our business, financial condition and results of operations. We cannot assure you that our financial condition and results of operations, as well as our future prospects, will not be adversely affected by an economic downturn in the PRC. Any future slowdowns or declines in the PRC economy or consumer spending would adversely affect our business, operating results and financial conditions.

RISK FACTORS

We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.

Under the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) that took effect on January 1, 2008, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to a uniform 25% enterprise income tax rate as to their global income. It is, however, currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC. We may be deemed a PRC resident enterprise for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the new PRC Enterprise Income Tax Law or the implementation regulations.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws.

Under the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and implementation regulations issued by the State Council, the sources of the investment income of “non-resident enterprises”, such as dividends and bonus, are determined by the location of the enterprise that makes such payment. The source of the dividends payable to our investors is Bermuda, therefore, our PRC legal advisors have confirmed that investors do not have to pay any tax with respect to the dividends declared by our Company under the relevant PRC laws if we are considered a PRC non-resident enterprise.

However, as the PRC Enterprise Income Tax Law was implemented very recently, there has not been any precedent that the local tax authorities can make reference to when they decide what constitutes a “de facto management body”, and no further clarification is provided by the local tax authorities. If our operation organization within the PRC is considered a “de facto management body”, we may be categorized as a PRC resident enterprise under the PRC Enterprise Income Tax Law. Under such circumstances, we may be required to pay income tax on our income derived within or outside the PRC. For details, please refer to the risk factor headed “We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income” above. As a consequence, dividends payable to our foreign investors and gain on the sale of our Shares may be subject to taxes under the new PRC Enterprise Income Tax Law.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

Our Company is a holding company incorporated in Bermuda and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us.

RISK FACTORS

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our combined PRC entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards which differ in many aspects from generally accepted accounting principles in other jurisdictions including HKFRS. Our combined PRC entities are also required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of associations, which are not available for distribution as cash dividends. As a result, our combined PRC entities are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business. Under the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by enterprises incorporated in the PRC to “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into. If our Company or our non-PRC incorporated subsidiaries are considered “non-resident enterprises”, any dividend that we or any such subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at the 10% rate (or lower treaty rate).

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

A large part of our operations are conducted in the PRC. The PRC legal system is based on written statute and prior court decisions can be cited only as a reference and are not binding precedents. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action you may take against us in the PRC.

It may be difficult to effect service of process on, or to enforce judgments against, our Directors or our senior management members who reside in the PRC and Taiwan in connection with disputes brought in courts outside the PRC and Taiwan, respectively.

Substantially all of our Directors and senior management members reside in the PRC and Taiwan and a significant portion of our assets, and the assets of such persons, are located in the PRC and Taiwan. Accordingly, it may be extremely difficult for you to effect service of process on, or to enforce any judgment against, us or such persons, in respect to litigation brought in courts outside the PRC and Taiwan.

RISK FACTORS

Furthermore, neither the PRC nor Taiwan has treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts with each other or with the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC and Taiwan of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

In addition, a party seeking to enforce a foreign judgment in Taiwan, except under limited circumstances (i.e. essential remittances by a company or a firm whose accumulated amount of foreign exchange purchased or sold within one year has not exceeded US\$50 million; or essential remittances by an association or an individual whose accumulated amount of foreign exchange purchased or sold within one year has not exceeded US\$5 million), would be required to obtain foreign exchange approval from the Central Bank of Taiwan for the remittance out of Taiwan of any amounts recovered in respect of such judgment denominated in a currency other than New Taiwan dollars.

Changes in foreign exchange regulations may adversely affect us.

The majority of our revenue and expenditures are denominated in Renminbi. We will require foreign currencies for dividend payment (if any) to our Shareholders after the Global Offering. Our reporting currency is US dollars. As a result, any restriction on currency exchange may limit the ability of our subsidiaries to use Renminbi to pay dividends to us, purchase goods, and service and repay any foreign currency-denominated indebtedness. In addition, any depreciation or appreciation of Renminbi may affect our financial position reported in our financial statements.

The Renminbi is not a freely convertible currency. Under the current foreign exchange regulations in the PRC, following completion of the Global Offering, our PRC subsidiaries may make payment of dividends without prior approval from the PRC State Administration for Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through PRC banks licensed to engage in foreign currency transactions. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC, in which case our production and capital expenditure plans may be adversely affected.

Payment of dividends and transfer of funds may be subject to restrictions under PRC law.

Distributions by our subsidiaries in the PRC to us other than dividends may be subject to governmental approval and taxation. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. These limitations on the free flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions in a timely manner.

RISK FACTORS

We may be subject to acts of God, acts of war and epidemics which are beyond our control and which may cause damage, loss or disruption to our business.

Our business is subject to general economic and social conditions in the Greater China Region. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people of the Greater China Region. Some cities in the PRC and Taiwan are under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought. Our business, operating results and financial condition may be adversely affected in a material respect if such natural disasters occur.

Epidemics may adversely affect consumption patterns. For example, the outbreak of severe acute respiratory syndrome or SARS in 2003 and the outbreak of avian flu in 2004 in Asia had an adverse impact on the economy of the PRC and other parts of Asia. The occurrence of an epidemic is beyond our control and there is no assurance that such an outbreak will not happen again. Any epidemic occurring in areas in which we operate, or even in areas in which we do not operate, may adversely affect our business, operating results and financial condition in a material respect.

Acts of war and terrorism may cause damage or disruption to us, our employees, our facilities, our distribution channels and our markets, any of which could materially impact our sales, cost of sales, overall operating results and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict.

Certain facts and statistics in this prospectus relating to the PRC economy and the sportswear industry in the PRC are derived from various governmental official publications and may not be fully reliable.

Certain facts and statistics in this prospectus relating to the PRC, the PRC economy, the retail sector and other related sectors of the PRC are derived from various governmental official publications. However, we cannot guarantee the quality or reliability of such governmental official publications. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced and extracted from such governmental official publications, they have not been independently verified by us, the Sole Global Coordinator, the Joint Sponsors, the Underwriters, nor any of their or our affiliates or advisors. We, therefore, make no representation as to the accuracy of such facts and statistics from governmental official publications, which may not be consistent with other information compiled within or outside the PRC.

Possibly due to inadequate or ineffective collection methods or discrepancies between governmental official publications and market practice and other problems, the official statistics in this prospectus relating to the PRC economy and the retail sector and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official facts or official statistics.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior market for our Shares. The liquidity and market price of our Shares following the Global Offering may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price, which will be determined as a result of negotiations between us and the Joint Bookrunners (on behalf of the Underwriters), may differ from the market price of our Shares after the Global Offering. There is no assurance that the listing of our Shares on the Stock Exchange will result in the development of an active and liquid public market for our Shares following the Global Offering or in the future or, if it does develop, that it will be sustained after the listing or that the market price of our Shares will not decline below the Offer Price.

The trading price of our Shares could also be subject to significant volatility in response to, among other factors:

- investors' perception of us and our future business plans;
- variations in our operating results;
- changes in our pricing policy as a result of the presence of competitors;
- changes in our senior management personnel; and
- general economic and other factors in the PRC and our other principal markets.

Investors will experience dilution in pro forma net tangible book value because the Offer Price is higher than the net tangible book value per Share.

The Offer Price of our Shares will be higher than the net tangible book value per Share immediately prior to the Global Offering. Accordingly, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of US\$0.13 per Share (approximately HK\$1.01 per Share) assuming an Offer Price of HK\$2.93, and US\$0.16 per Share (approximately HK\$1.25 per Share) assuming an offer Price of HK\$3.75. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution in their ownership percentage.

There may be a dilutive effect on the earnings per Share associated with the Pre-IPO Shares Subscription Plan and issuance of Shares to joint venture partners.

We have adopted the Pre-IPO Share Subscription Plan pursuant to which we have conditionally granted to our employees right to subscribe for an aggregate of 124,252,000 Shares at a discount of 30% to the Offer Price per Share. If the Shares under the Pre-IPO Share Subscription Plan are subscribed in full, they will represent approximately 3.5% of the issued share capital of our Company immediately after completion of the Global Offering, the Capitalization Issue and issuance of Shares to the Call Option JVs' partners and Share Swap JV's partner (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option). Details of the Pre-IPO Share Subscription Plan are set out in the sub-section headed "Statutory and General Information — E. Share-based Remuneration Schemes — 2. Pre-

RISK FACTORS

IPO Share Subscription Plan” in Appendix VIII to this prospectus. In addition, we will issue Shares to some of our Call Option JVs’ partners and Share Swap JV’s partner as part, or in some cases all, of the consideration for granting us certain rights over their equity interests in the relevant joint ventures (the “JV Partners’ Shares”). We will also issue Shares to our Call Option JVs’ partners when we choose to exercise our call options to acquire the equity interests in the Call Option JVs held by our Call Option JVs’ partners in the future (the “Call Option Shares”). Please see the sub-section headed “Our Business — Our Investments in Joint Ventures — Call option agreements” in this prospectus for details.

Issuance of Shares pursuant to the Pre-IPO Share Subscription Plan and issuance of the Call Option Shares will result in the increase in the number of Shares in issue after such Shares issuance, and thus may result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share. The fair value of the Shares granted under the Pre-IPO Share Subscription Plan will be amortized over a vesting period of five years (for a portion of the invitations to the eligible person to subscribe under the plan) or ten years (for the remaining portion of the invitations). For details of the vesting conditions under the Pre-IPO Share Subscription Plan, please refer to the sub-section headed “Statutory and General Information — E. Share-based Remuneration Schemes — 2. Pre-IPO Share Subscription Plan — (f) Vesting conditions and time of subscription” set out in Appendix VIII to this prospectus. We expect the Pre-IPO Share Subscription Plan will have an impact on our income statements for the years ending September 30, 2008 to September 30, 2018. Assuming the fair value of the Shares granted under the Pre-IPO Share Subscription Plan is equal to the difference between the subscription price made available to the eligible persons and the Offer Price, approximately US\$0.6 million and US\$1.9 million are expected to be charged to our income statements for the two years ending September 30, 2009, respectively, and the Pre-IPO Share Subscription Plan will continue to have financial impact on us for the remaining eight years ending September 30, 2018. Based on the profit forecast prepared on the basis and assumptions set out in Appendix III to this prospectus and assuming that the Global Offering, the Capitalization Issue and issuance of the JV Partners’ Shares were completed on October 1, 2007 and a total of 3,550,000,000 Shares were in issue during the entire year (not taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, the Call Option Shares or the Shares to be issued under the Pre-IPO Share Subscription Plan and Call Option Shares), our unaudited pro forma forecast basic earnings per Share attributable to our equity holders may decrease.

Future sales, or perceived sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

Future sales by us or our controlling shareholders of substantial amounts of our Shares in the public markets after the Global Offering could adversely affect market prices prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Global Offering due to contractual and legal restrictions on resale. You should refer to the sub-sections headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings to the Stock Exchange pursuant to the Listing Rules” and “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertaking pursuant to the Hong Kong Underwriting Agreement” in this prospectus for a more detailed discussion of the restrictions that may apply to future sales of our Shares.

RISK FACTORS

After these restrictions lapse, the market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

The Shares held by Yue Yuen after the close of the Global Offering are subject to certain lock-up periods, the details of which are set out in the sub-sections headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings to the Stock Exchange pursuant to the Listing Rules” and “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertaking pursuant to the Hong Kong Underwriting Agreement” in this prospectus. After such restrictions expire, Yue Yuen may or may not dispose of our Shares. If Yue Yuen opts to sell our Shares, such sale or perceived sale of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

You may face difficulties in protecting your interests because we are incorporated under Bermuda law and Bermuda law may provide different remedies to minority shareholders than the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by the Memorandum and the Bye-laws and by the Companies Act 1981 of Bermuda and the common law of Bermuda. The laws of Bermuda relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong, the United States and other jurisdictions. These differences may mean that our minority shareholders may have different remedies than they would have under the laws of Hong Kong, the United States or other jurisdictions. Please refer to the section headed “Summary of Constitution of the Company and Bermuda Law” in Appendix VII to this prospectus.

Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, including in the Hong Kong Economic Journal (香港信報) on May 8, 2008, which included certain financial information, financial projections, and other information about us. We have not authorized the disclosure of any such information in the press or media, and that such information was not sourced from us. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your investment decisions as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

APPLICATION FOR LISTING ON THE MAIN BOARD

We have applied to the Listing Committee for approval for the listing of, and permission to deal in, the Shares in issue and the Offer Shares being offered pursuant to the Global Offering (including the additional shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares to be issued to partners of our Call Option JVs and Share Swap JV, Shares to be issued pursuant to the Capitalization Issue, Shares to be issued under the Pre-IPO Share Subscription Plan and Shares which may fall to be issued on the exercise of the options which may be granted under the Share Option Scheme.

No part of our Shares or loan capital is listed or dealt in on any other stock exchange and no such list or permission to list is being or proposed to be sought in the near future.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares and the Reserved Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms as set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Hong Kong Public Offering or the Preferential Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of our or their respective directors, agents, employees or advisors, or any other party involved in the Hong Kong Public Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for the Hong Kong Offer Shares and the Reserved Shares are set out in the sections headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” and “Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering” in this prospectus and in the relevant Application Forms.

UNDERWRITING

Pursuant to the terms of the Underwriting Agreements, the Hong Kong Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters. The Hong Kong Public Offering and the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

International Offerings are subject to the conditions set out in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus. In particular, we and the Joint Bookrunners (on behalf of the Underwriters) must agree on the Offer Price. The Hong Kong Underwriting Agreement and the International Offering Agreement are inter-conditional upon each other.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, May 30, 2008, and, in any event, not later than Wednesday, June 4, 2008. If, for whatever reason, we and the Joint Bookrunners are not able to agree on the Offer Price, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person applying for the Hong Kong Offer Shares under the Hong Kong Public Offering and the Reserved Shares under the Preferential Offering will be required, or be deemed by his application of the Shares, to confirm that he is aware of the restrictions on the offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Hong Kong Offer Shares and the Reserved Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation and may not be used for any such purpose.

United States

The Shares have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the US Securities Act.

In addition, until 40 days after the commencement of this offering of the Shares, an offer or sale of Shares within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The International Underwriters propose to offer the International Offer Shares (i) outside the United States in accordance with Regulation S and (ii) only to the Qualified Institutional Buyers in the United States in accordance with Rule 144A or another exemption from, or in a transaction not subject to, registration under the US Securities Act. Each of the International Underwriters has agreed that, except as permitted in the International Offering Agreement, it will not offer, sell or deliver the International Offer Shares into or within the United States.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of securities described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the securities that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of securities described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the securities have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by an underwriter with a view to the final placement of the securities as contemplated in this prospectus. Accordingly, no purchaser of the securities, other than an underwriter, is authorized to make any further offer of the securities on behalf of the sellers or an underwriter.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended. Accordingly, each International Underwriter has represented, warranted and agreed that the Offer Shares that it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any Offer Shares in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law of Japan, as amended, and other relevant laws and regulations of Japan.

The PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC (except qualified domestic institutional investors).

Bermuda

No offer of the Offer Shares will be made in Bermuda by means of any documents to any person, firm or company regarded as a resident of Bermuda for Bermuda exchange control purposes.

HONG KONG BRANCH REGISTER OF MEMBERS

Our Company’s principal register of members will be maintained by its principal registrar, Butterfield Fund Services (Bermuda) Limited in Bermuda and our Company’s branch register of members will be maintained by its Hong Kong branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HONG KONG STAMP DUTY

Dealings in the Shares registered on our branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. For details, please refer to the sub-section headed “Taxation — Hong Kong Taxation — Stamp Duty” in Appendix VI to this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Shares or exercising any rights attached thereto. None of our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of our and their respective directors, agents, employees or advisors, or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or dealing in the Shares or exercising any rights attached thereto.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-Allotment Option and stabilization are set out in the sub-section headed “Structure of the Global Offering — Over-allotment Option and Stabilization” in this prospectus.

CURRENCY TRANSLATION

Unless otherwise stated in this prospectus, amounts denominated in Renminbi, US dollars and Hong Kong dollars have been translated, for the purpose of illustration only, at the following noon buying rate in the city of New York for cable transfers as certified by the Federal Reserve Bank of New York on May 6, 2008:

US\$1.00 : HK\$7.7931
US\$1.00 : RMB6.9860

No representation is made that the Renminbi, Hong Kong dollars or US dollars amounts referred to herein could have been or can be converted into US dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all.

LANGUAGE

If there is any inconsistency between the Chinese names of the PRC entities and the Taiwanese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| Name | Address | Nationality |
|---|--|-------------|
| Chairman and non-executive Director | | |
| TSAI David, Nai Fung (蔡乃峰) | No. 37, YongKan Street Neighbor 1 Yongan Village Situncyu Township Taichung City Taiwan | Taiwanese |
| Vice-chairman and non-executive Director | | |
| KU Edward, Yu-Sun (顧渝生) | No. 3811, Sutton Court Gateway Apartment Tsimshatsui Kowloon Hong Kong | American |
| Executive Directors | | |
| HUANG Tsung Jen (黃宗仁) | No. 81 Fonggong Road Nantun District Taichung Taiwan | Taiwanese |
| LEE Chung Wen (李宗文) | 28-2, Lane 61 Lyn-Yi Street Taipei Taiwan | Taiwanese |
| HUANG Chun Hua (黃春華) | Room 1101, No. 22 333 Lane Fangdian Road Pudong New Area Shanghai PRC | Chinese |
| CHANG Karen Yi-Fen (張挹芬) . . . | 8th Floor, Richmond Court 113 Robinson Road Hong Kong | American |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| Name | Address | Nationality |
|--|---|-------------|
| Non-executive Director | | |
| TSAI Pei Chun (蔡佩君) | Flat F, 20/F. Starcrest Tower 2 No. 9 Star Street Wan Chai Hong Kong | Taiwanese |
| Independent non-executive Directors | | |
| CHEN Huan-Chung (陳煥鐘) | 4F., No. 20, Lane 263 Fuhe Road, Yonghe City Taipei County 234 Taiwan | Taiwanese |
| HU Sheng-Yih (胡勝益). | 2/F., No. 18, 6 Alley 123 Lane, 5 Sec. Nan-King East Road Taipei Taiwan | Taiwanese |
| MAK Kin Kwong (麥建光). | M6, Floral Villas 18 Tso Wo Road Saikung Hong Kong | Chinese |
| CHENG Ming Fun Paul (鄭明訓) . . | 5J Grenville House 1-3 Magazine Gap Road Hong Kong | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

**Sole Global Coordinator and
Sole Financial Advisor**

Merrill Lynch Far East Limited
15th Floor, Citibank Tower
3 Garden Road
Central
Hong Kong

**Joint Lead Managers
and Joint Sponsors**

Merrill Lynch Far East Limited
15th Floor, Citibank Tower
3 Garden Road
Central
Hong Kong

Morgan Stanley Asia Limited
30th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

Joint Bookrunners

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley Asia Limited
30th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to the Company

As to Hong Kong law:

Richards Butler
in association with Reed Smith LLP
20th Floor, Alexandra House
16–20 Chater Road
Central
Hong Kong

As to US law:

Simpson Thacher & Bartlett LLP
35th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC law:

Commerce & Finance Law Offices
6th Floor, NCI Tower
A12, Jianguomenwai Avenue
Beijing 100022
PRC

As to Bermuda law:

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

As to Taiwan law:

LCS & PARTNERS
5th Floor, No. 8, Sinyi Road
Sec. 5, Taipei
Taiwan

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to the Underwriters

As to Hong Kong and US law:
Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
15th Floor, Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
PRC

Auditors and reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Property valuer

Savills Valuation and Professional
Services Limited
23rd Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Receiving bankers

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road
Central

Industrial and Commercial Bank of China
(Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
Kowloon
Hong Kong

CORPORATE INFORMATION

| | |
|---|---|
| Registered office | Clarendon House 2 Church Street Hamilton HM 11 Bermuda |
| Head office and principal place of business in Hong Kong | Suites 3108–11, 31st Floor Tower 6, The Gateway 9 Canton Road Tsimshatsui Kowloon Hong Kong |
| Company's website address | <u>www.pousheng.com</u> |
| Company secretary | NG Lok Ming, William |
| Qualified accountant | CHONG Yim Kuen, FCCA, CPA |
| Authorized representatives | CHANG Karen Yi-Fen 8th Floor, Richmond Court 113 Robinson Road Hong Kong TSAI Pei Chun Flat F, 20th Floor Starcrest Tower 2 No. 9 Star Street Wan Chai Hong Kong |
| Members of the audit committee | MAK Kin Kwong (<i>Chairman</i>) CHENG Ming Fun Paul TSAI Pei Chun |
| Members of the remuneration committee | KU Edward, Yu-Sun (<i>Chairman</i>) CHEN Huan-Chung HU Sheng-Yih |
| Principal share registrar and transfer office | Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke, HM 08 Bermuda |

CORPORATE INFORMATION

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
Level 18
HSBC Main Building
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
10th Floor, Standard Chartered Building
4–4A Des Voeux Road
Central
Hong Kong

Bank of America, N.A.
42nd Floor, Two International Finance Centre,
8 Finance Street,
Central,
Hong Kong

Bank of China (Hong Kong) Limited
Unit 702–706
The Gateway Tower 3
21 Canton Road
Kowloon
Hong Kong

Compliance advisor

Taifook Capital Limited
25th Floor, New World Tower
16–18 Queen's Road Central
Central
Hong Kong

INDUSTRY OVERVIEW

OVERVIEW

The performance of the PRC sportswear industry is driven primarily by the growth of the PRC economy and in particular the increase in disposable income in the PRC as well as market acceptance of sportswear. We believe the sportswear industry in the PRC is benefiting from compelling industry fundamentals such as rapid economic growth, urbanization and increasing disposable income. In addition, the 2008 Beijing Olympic Games is expected to significantly increase the PRC public's interest in, and awareness of, sports and fitness and stimulate consumer spending in general and, in particular, on sportswear goods.

According to Frost & Sullivan, an independent market research and consulting company, the total expenditure on sportswear in the PRC was US\$3.8 billion in 2006, which has grown rapidly at a CAGR of 30.8% from US\$1.3 billion in 2002. In addition, total expenditure on sportswear and related products per capita in the PRC was US\$2.9 in 2006, which lags far behind many developed countries such as the United States, Canada, the United Kingdom, Germany, France, Australia, Japan, Korea and Singapore where per capita sportswear expenditure ranged from US\$18–US\$214 for the same period. Total expenditure on sportswear in the PRC is projected to grow at a CAGR of 21.3% between 2007 and 2011, which is significantly faster than in the developed countries.

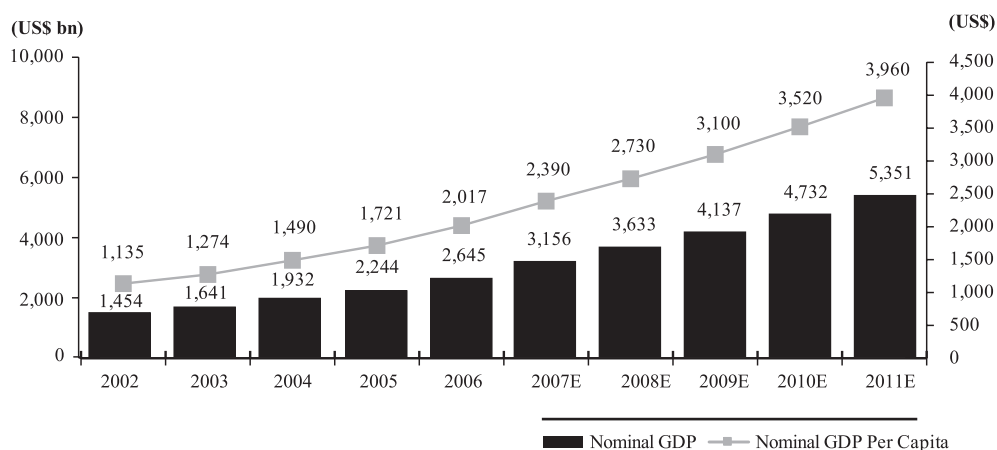
RAPID ECONOMIC GROWTH, URBANIZATION AND INCREASING DISPOSABLE INCOME

PRC Economic Growth

The PRC economy has grown significantly since the “Open Door” market liberalization policies initiated by the PRC government in the late 1970s. Economic growth was further spurred by the launch of special economic zones along the coastal region of the PRC in the early 1990s. According to the National Bureau of Statistics of China, the PRC economy has been experiencing steady growth with nominal gross domestic product (the “nominal GDP”) growing at a CAGR of approximately 16.1% per annum from US\$1,454 billion in 2002 to US\$2,645 billion in 2006. The nominal GDP per capita increased from US\$1,135 to US\$2,017 during the same period. According to the Economist Intelligence Unit (“EIU”), the GDP per capita is projected to further increase to US\$3,960 in 2011. The chart below sets forth the historical and projected nominal GDP and nominal GDP per capita in the PRC for the periods indicated.

INDUSTRY OVERVIEW

Nominal GDP and Nominal GDP Per Capita in the PRC



Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from the EIU

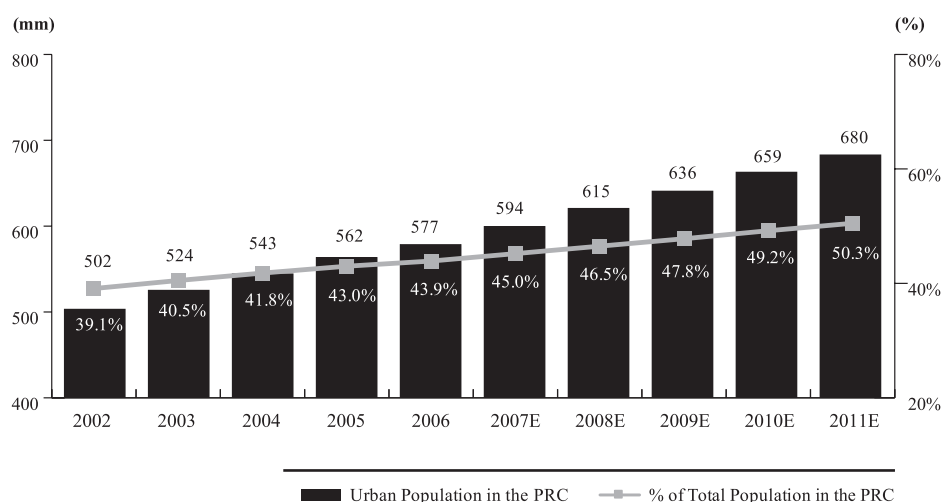
Urbanization

According to Euromonitor International (“Euromonitor”)¹, industrialization has accelerated urbanization through the migration of rural populations towards urban areas and the transformation of towns into cities or districts. According to the National Bureau of Statistics of China, the total urban population in the PRC increased by 74.9 million or approximately 14.9% from 2002 to 2006. In 2006, the total urban population was 577.1 million, which accounted for approximately 43.9% of the total population and is projected to reach 50.3% of the total population in 2011, according to Frost & Sullivan. The following chart sets forth the historical and projected urban population in the PRC for the periods indicated.

¹ Euromonitor International is an independent provider of market and competitor intelligence.

INDUSTRY OVERVIEW

Urban Population in the PRC from 2002 to 2011E

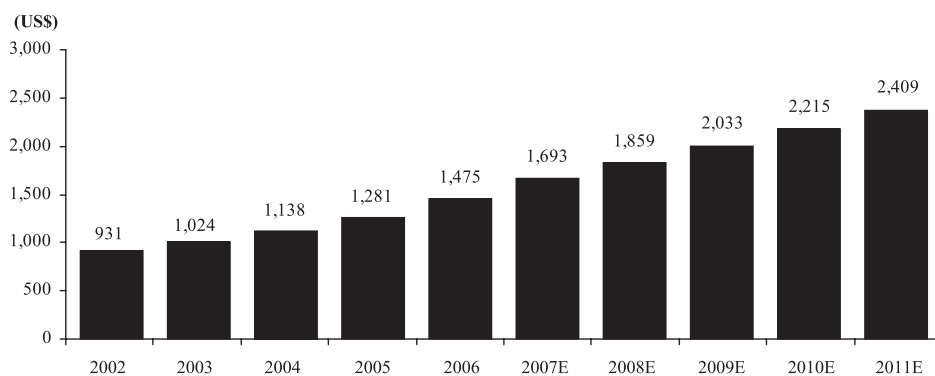


Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan

Disposable Income Growth of Urban Households

With the rapid growth of the PRC economy, income levels of urban households have increased and living standards have improved. According to the National Bureau of Statistics of China, the annual per capita disposable income of urban households in the PRC increased at a CAGR of 12.2% from US\$931 in 2002 to US\$1,475 in 2006. According to the Frost & Sullivan, the per capita annual disposable income of urban households in the PRC is projected to further increase to US\$2,409 in 2011. The following chart sets forth the historical and projected per capita annual disposable income of urban households in the PRC for the periods indicated.

Per Capita Disposable Income of Urban Households in the PRC



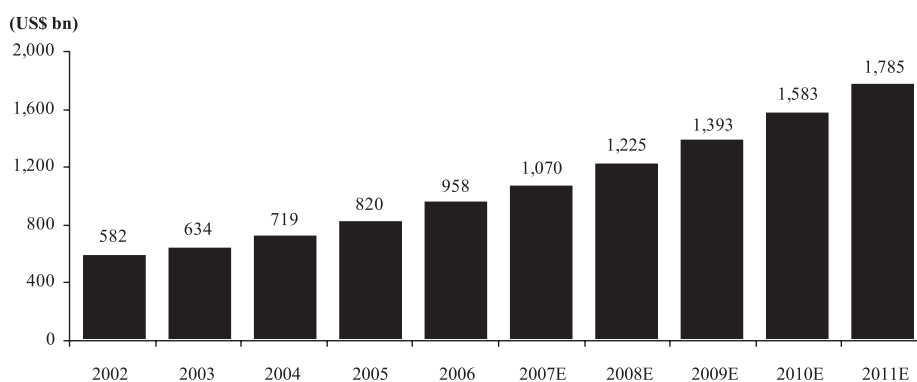
Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan

INDUSTRY OVERVIEW

STRONG RETAIL GROWTH AND CHANGING CONSUMPTION PATTERNS

The growing consumption power of urban consumers is a key driver of the development of the retail industry in the PRC. Consumer spending, as measured by total retail sales value, has grown at a CAGR of approximately 13.3% per annum from US\$582 billion in 2002 to US\$958 billion in 2006. According to Frost & Sullivan, the total retail sales value is projected to further increase to US\$1,785 billion in 2011. The chart below illustrates the growth in consumer spending in the PRC for the period indicated.

Total Retail Sales Value in the PRC from 2002 to 2011E



Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan.

As per capita nominal GDP continues to grow which resulted in more affluent consumers in the PRC, demand for mid- to high-end branded products with better designs and quality will increase. We believe this shift in consumption patterns in the PRC will result in a gradually expanding target customer base for us.

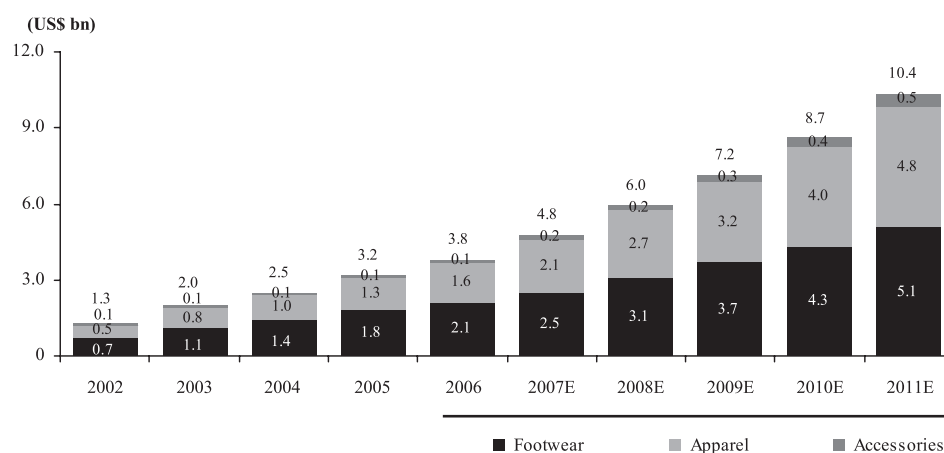
THE PRC SPORTSWEAR MARKET

Overview

The PRC sportswear market, which includes footwear, apparel and accessories, has expanded rapidly in recent years. According to Frost & Sullivan, total expenditure on sportswear in the PRC increased from US\$1.3 billion in 2002 to US\$3.8 billion in 2006, representing a CAGR of 30.8% in that period. Frost & Sullivan projects expenditure on sportswear to grow at 21.3% annually between 2007 and 2011 to reach US\$10.4 billion in 2011. The following chart sets forth the historical and projected expenditure on sportswear in the PRC by type of sportswear for the periods indicated.

INDUSTRY OVERVIEW

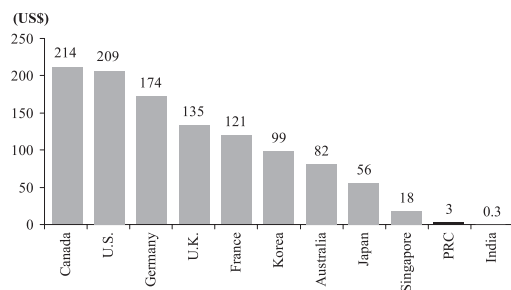
Total Sportswear Consumption in the PRC by Type of Products



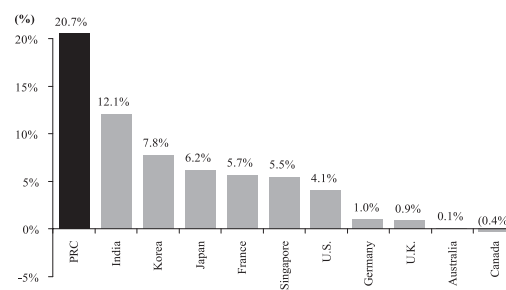
Source: Frost & Sullivan

The growth potential of the sportswear market in the PRC is further demonstrated by the rapidly growing expenditure on sportswear per capita. According to Frost & Sullivan, sportswear expenditure per annum per capita in the PRC was US\$2.9 in 2006, which lags far behind many developed countries such as the United States, Canada, the United Kingdom, Germany, France, Australia, Japan, Korea and Singapore. However, Frost & Sullivan projects annual sportswear expenditure per capita in the PRC to grow at 20.7% annually between 2007 and 2011, which is significantly faster than the same countries named above. The following charts set forth per capita sportswear expenditure in 2006 and the projected growth rate of sportswear expenditure per capita from 2007 to 2011 for the PRC and various other countries:

Total Sportswear Expenditure per Capita in 2006



2007E–2011E CAGR of Total Sportswear Expenditure per Capita



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Key Industry Growth Drivers

Major factors contributing to the growth of the PRC sportswear market include the overall growth of nominal GDP, rising income levels, shifting consumption patterns of increasingly affluent urban consumers and increasing retail demand for sportswear products.

In addition, the rising popularity of sports and an increasing trend of consciousness of fitness and fashion are expected to drive demand for sportswear in the PRC. The increased popularity of sports and fitness in the PRC is evidenced by the 61.9% increase in sporting events from 1995 to 2006 held in the PRC, as illustrated in the following table.

| | 1995 | 2000 | 2006 |
|--|--------|--------|--------|
| Number of sporting events held by sports commissions at and above county level from 1995 to 2006. | 24,880 | 26,196 | 40,281 |

Source: *Chinese Statistical Yearbook (2007)*

In addition, the PRC government has consistently promoted competitive athletics and athletic programs for the general public. In July 2001, the PRC won the right to host the 2008 Olympic Games in Beijing. We expect that the 2008 Beijing Olympic Games will significantly increase the PRC public's interest in, and awareness of, sports and fitness. Furthermore, we expect that the 2008 Beijing Olympic Games will stimulate consumer spending generally, and in particular, consumer spending on sportswear goods.

Market Segmentation

Regarding the major brand companies in the sportswear market in the PRC, according to Frost & Sullivan, there are approximately 100 sportswear brands in the PRC, with approximately 45% market share of these brands being international brands and the rest being local brands. The table below illustrates the historical market shares in terms of sales for major sportswear brands in the PRC.

Market Share of Sportswear Brands in terms of Sales

| | 2004 | 2005 | 2006 |
|---------------------------|--------|--------|--------|
| <i>Nike</i> | 11.0% | 13.1% | 16.7% |
| <i>Adidas</i> | 6.8% | 12.3% | 15.6% |
| <i>Li Ning</i> | 8.7% | 9.6% | 10.5% |
| <i>Kappa</i> | 0.5% | 0.8% | 2.8% |
| <i>Reebok</i> | 1.4% | 1.5% | 1.7% |
| <i>PUMA</i> | 0.9% | 1.1% | 1.3% |
| <i>Converse</i> | 0.7% | 0.5% | 0.7% |
| <i>Others</i> | 70.0% | 61.1% | 50.7% |
| Total | 100.0% | 100.0% | 100.0% |

Source: *Frost & Sullivan*

INDUSTRY OVERVIEW

The top international sportswear brands, such as *Nike* and *Adidas*, have been able to expand their market shares in the PRC due to their extensive distribution channels, strong brand awareness, sophisticated product development and innovative marketing strategies at the expense of less established, lower-end brands. International brands have developed a strong following amongst young urban consumers who are showing increasing fashion and brand-consciousness.

According to Frost & Sullivan, as at December 31, 2007, there were over 100 major sportswear retailers in the PRC and the five largest sportswear retailers constituted over 45% of the sportswear retail market in the PRC in terms of sales, whereas we and our Regional Joint Ventures together constituted approximately 17.4% of the total market share. The top international sportswear brands rely heavily on distributors to distribute their products to consumers through retail outlets in department store counters, street-level stores or shopping-mall stores. In selecting their distributors, they prefer to partner with retailers with nationwide distribution capabilities, knowledgeable sales forces, experienced management teams and sufficient resources to support rapid expansion.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and growth consulting company based in the United States with over 40 years of industry experience, to conduct an analysis of, and to report on, the sportswear market in the PRC for the period from 2002 to 2011. The report commissioned has been prepared by Frost & Sullivan independent of our influence, and the fees we paid to Frost & Sullivan for the report commissioned reflect market rates.

The Frost & Sullivan report we commissioned includes information on the PRC sportswear market such as market share and ranking of brand companies and sportswear retailers, sales value, total sportswear consumption, consumption per capita and other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC sportswear industry. Primary research involves interviewing leading industry participants including sportswear brand companies and sportswear retailer. Secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected total sportswear consumption and total retail sales value in the PRC were obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers such as level of brand awareness, product variety, awareness of sporting activities, etc., mapped against available projected drivers obtained through interviews with industry experts and participants.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

Prior to our Reorganization, we operated as an integral part of our parent, Yue Yuen Group. We started our business in July 1992 when Yue Yuen began negotiations with the predecessor of Converse Inc. in relation to the license to distribute *Converse* sportswear in the PRC. *Converse* was our first brand licensor in our brand licensee business, for which we started acting as an exclusive brand licensee in the PRC pursuant to a brand license agreement entered into between a wholly owned subsidiary of Yue Yuen and Converse Inc. in July 1993.

In 1998, Yue Yuen decided to further develop its sportswear retail business in the PRC. Consistent with its approach towards setting up new joint ventures, Yue Yuen was only willing to commit to part of the joint venture business at the initial stage. Yue Yuen therefore formed a joint venture, Selangor Gold Limited, with Mr. Huang, our executive Director and chief executive officer. As Ms. SHIH Ching I (“Ms. Shih”) was a business acquaintance of Mr. Huang then, Mr. Huang invited Ms. Shih to invest in the new joint venture as a silent investor. It was understood that Ms. Shih would not participate in the operation and management of the business. Ms. Shih made her investment through an investment holding company, Jollyard, wholly owned by her. Save for her interest in Jollyard, Ms. Shih is a third party independent of our Company, the Yue Yuen Group, or any of their respective directors or shareholders. Selangor Gold Limited was set up and was then owned as to 50% by Yue Yuen, 25% by Mr. Huang and the remaining 25% by Jollyard.

In January 2000, we became an exclusive brand licensee for *Hush Puppies* footwear products in Taiwan pursuant to a brand license agreement between Wolverine World Wide, Inc. and Pau Yuen Trading Corporation (寶原興業股份有限公司), a subsidiary of Yue Yuen.

To further expand our brand licensee business, we established Dedicated Group Limited in 2001, which was 70% owned by Yue Yuen, 15% owned by Sports Group (which is wholly owned by Mr. Huang) and 15% owned by Jollyard. In April and October 2002, Dedicated Group Limited entered into a brand license agreement with Asics Corporation and with Wolverine World Wide, Inc., respectively, pursuant to which we, through Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司) (and from October 2006, through Baoxin (Chengdu) Trading Company Limited (寶信(成都)商貿有限公司) in respect of the agreement with Wolverine World Wide, Inc.), became the exclusive brand licensee for *ASICS* sportswear and *Hush Puppies* footwear products, respectively, in the PRC. Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司) is 100% beneficially owned by the Group (10% of its equity interest is held by an independent third party on trust for the Group). The agreement with Asics Corporation was later terminated in December 2005. We have then become a distributor of *ASICS* sportswear in the PRC, since January 2007.

Leveraging on the experience we had gathered from the brand licensee business, we established Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) in April 2001 and commenced our retail business. With 14 directly operated retail outlets, Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) distributed products of a number of leading international sportswear brands, including *Nike*, *Adidas* and *Reebok* in Beijing. We initially owned 70% of the equity interest in Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司), the beneficial

HISTORY AND CORPORATE STRUCTURE

ownership of which was subsequently increased to 100% when we acquired the remaining 29% equity interest from our local partner in 2002. The remaining 1% equity interest is held by an independent third party on trust for the Group. In September 2002, our retail business expanded to areas outside Beijing through the establishment of Beijing Baosheng Daoji Sports Goods Company Limited Dalian Branch (北京寶盛道吉體育用品有限公司大連分公司). In 2003, we further expanded our retail business to Guangdong and Shanghai through Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司), which started to distribute sportswear products for a number of leading international sportswear brands such as *Nike*, *Adidas*, *Converse*, *Reebok* and *ASICS*. During the same year, to streamline our operations, we began to reorganize our business into two broad divisions, namely the retail business and the brand licensee business. In 2004, we established five non-wholly owned subsidiaries, namely Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司), Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司), Fuzhou Baomin Trading Company Limited (福州寶閩貿易有限公司), Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司) and Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司) in different regions to expand our retail network for distribution of sportswear products under sportswear brands such as *Nike*, *Adidas* and *Reebok*.

In January 2004, to support the expansion of our operations, we established Charming Technology Limited, a company that is dedicated to the development of the MIS system for application in our retail business and brand licensee business. At the time of establishment, Charming Technology Limited was 51% owned by Yue Yuen, 24.5% owned by Mr. Huang and 24.5% owned by Jollyard.

In November 2004, we added *Wolverine* to the brand portfolio of our brand licensee business pursuant to a brand license agreement entered into between Selangor Gold Limited and Wolverine World Wide, Inc., whereby we became the exclusive brand licensee for *Wolverine* footwear in the PRC through Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司), in Hong Kong through Yue Ming International Ltd and in Taiwan through Pau Yuen Trading Corporation (寶原興業股份有限公司). The agreement contains a term of five years.

Leveraging on our success in the PRC sportswear industry, we expanded our brand licensee and retail businesses to other regions in the Greater China Region, including Taiwan, Hong Kong and Macau. In January 2005, we became the exclusive brand licensee for *Converse* footwear products in Taiwan through Pau Yuen Trading Corporation (寶原興業股份有限公司), and in Hong Kong and Macau through Yue Ming International Ltd, respectively, pursuant to a brand license agreement that Selangor Gold Limited entered into with Converse Inc.

In April 2005, we established Diodite Limited, our wholly owned subsidiary, to distribute sportswear brands including *Nautica*, *ASICS*, *PUMA* and *Fila*, primarily in Shanghai. We were subsequently requested by the brand owner of *Fila*, who is an independent third party, to transfer to it all the products of the *Fila* brand which we had stocked and the shops leased by us which sell *Fila* products. After September 1, 2007, we no longer distribute products of the *Fila* brand.

HISTORY AND CORPORATE STRUCTURE

We also established the following subsidiaries during the financial year ended September 30, 2005:

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Group as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Other shareholders and the percentage of interest held by them as at the Latest Practicable Date |
|--|--|--|--|
| Pau Zhi Trading Corporation (寶智企業股份有限公司)/ June 17, 2005 | 90% | NT\$5,000,000 | The remaining 10% is owned by various local individuals ⁽¹⁾ . |
| Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司)/ September 14, 2005 | 72% | The registered capital of RMB20,000,000 had been fully paid up. | The remaining 28% is owned by Weifang Liwei Economic and Trading Company Limited (濰坊力威經貿有限公司) ⁽¹⁾ . |
| Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司)/ September 28, 2005 | 100% | The registered capital of US\$2,100,000 had been fully paid up. | N/A |

(1) Independent third parties except Mr. Lin Tien-Te, who is one of our senior management and a director of our subsidiaries, Pau Yuen Trading Corporation (寶原興業股份有限公司) and Pau Zhi Trading Corporation (寶智企業股份有限公司).

For the financial year ended September 30, 2005, a total of approximately US\$6.1 million of capital was injected by Manfield, a company indirectly wholly owned by Yue Yuen, Jollyard and Sports Group into A-Grade Holdings Limited, Wellmax Business Group Limited, Charming Technology Limited, Business Network Holdings Limited, Technico Business Group Limited, Yusheng (Taicang) Footware Company Limited (裕盛(太倉)鞋業有限公司) and Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司), all of which are now wholly owned by us (except Business Network Holdings Limited, which was disposed to an independent third party in November 2007).

During the financial year ended September 30, 2005, we acquired from Zou Ding Liu (鄒丁鵬), an independent third party, 15% of her equity interest in Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司), so that we became the holder of a total of 90% equity interest in Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司) with the remaining 10% of the equity interest held on trust by Zou Ding Liu (鄒丁鵬) for the Group. In the same year, we also acquired from each of Gong Yi (龔璽) and Du Zhihong (杜志鴻), both independent third parties, 7.5% of their respective equity interest in Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司) so that we became the holder of a total of 85% equity interest in Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司). Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司) was established in 2002 whose 72% equity interest was held by Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司). It was subsequently de-registered in September 2006.

HISTORY AND CORPORATE STRUCTURE

In December 2006, we established Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), a joint venture in which we owned a 51% interest to further expand our retail business. The remaining 49% interest is ultimately owned by an individual who is an independent third party. With directly operated retail outlets in Yunnan, Guizhou and Guangxi, Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) distributes products from brand companies including *Li Ning*, *Kappa*, *Nike* and *Adidas*.

To support the expansion of our retail network, in December 2006 we established Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) to opportunistically secure attractive large scale retail spaces either through acquisitions or through long term leases.

Prior to 2003, the PRC did not permit foreign invested entities to engage in retail sales and all our sales were carried out through PRC-incorporated companies. The Administrative Measures on Foreign Investment in Commercial Sectors (《外商投資商業領域管理辦法》) (“Administrative Measures”) promulgated in April 2004 relaxed limitations on foreign investment in the retail sector. For further details about the Administrative Measures, please refer to the sub-section headed “Our Business — Legal Proceedings and Compliance — Foreign investment in retail enterprises — Administrative Measures and Distribution Circular” in this prospectus. Since then, we began to reorganize our retail business in the PRC into foreign-invested enterprises primarily held through our two subsidiaries, A-Grade Holdings Limited and Wellmax Business Group Limited, both were 70% owned by Yue Yuen, 15% owned by Sports Group and 15% owned by Jollyard. The shareholdings in both subsidiaries owned by Yue Yuen, Sports Group and Jollyard were subsequently changed into 70%, 12.5% and 17.5%, respectively, in November 2006. At the same time, the shareholdings in Selangor Gold Limited and Dedicated Group Limited (as between Jollyard and Sports Group only) which are engaged in the brand licensee business and Charming Technology Limited were also restructured pursuant to a series of share transfers, following which the percentage shareholdings in each of these three companies owned by Yue Yuen, Jollyard and Mr. Huang (either held directly or through Sports Group) were changed into 70%, 17.5% and 12.5%, respectively, in November 2006. These share transfers involved Yue Yuen acquiring from Jollyard and Mr. Huang part of their then respective shareholdings in Selangor Gold Limited and Charming Technology at a consideration of approximately US\$5.96 million and US\$65,000, respectively.

In December 2006, following the abovementioned adjustment of shareholdings, Manfield, Jollyard and Sports Group together made a capital injection in the aggregate amount of approximately US\$44 million into A-Grade Holdings Limited (US\$21.5 million), Wellmax Business Group Limited (US\$21 million) and Selangor Gold Limited (US\$1.5 million) to facilitate the further development of our business. After the capital injection, each of A-Grade Holdings Limited, Wellmax Business Group Limited and Selangor Gold Limited was 70% owned by Manfield, 17.5% owned by Jollyard and 12.5% owned by Sports Group.

HISTORY AND CORPORATE STRUCTURE

During the financial year ended September 30, 2006, we also established the following subsidiaries:

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date |
|--|---|---|---|
| Dragonlight Group Limited/ March 22, 2006 | 100% | US\$1 | N/A |
| Profit Concept Group Limited/ August 10, 2006 | 51% | US\$100 | The remaining 49% is ultimately owned by an individual ⁽¹⁾ . |
| Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司)/ January 5, 2006 | 100% | The registered capital of US\$8,880,000 had been fully paid up. | N/A |
| Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司)/ March 10, 2006 | 100% | The registered capital of US\$10,000,000 had been fully paid up. | N/A |
| Shanghai Baoyuan Sports Goods Company Limited (上海寶原體育用品商貿有限公司)/ January 20, 2006 | 100% | The registered capital of US\$10,000,000 had been fully paid up. | N/A |
| Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司)/ March 27, 2006 | 90% | The registered capital of US\$7,400,000 had been fully paid up. | The remaining 10% is owned by Cheng Su Nan (鄭夙男) ⁽²⁾ . |
| Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司)/ May 23, 2006 | 90% | The registered capital of US\$4,500,000 had been fully paid up. | The remaining 10% is owned by Glorious Win Developments Limited ⁽¹⁾ . |
| Baoxin (Chengdu) Trading Company Limited (寶信(成都)商貿有限公司)/ September 6, 2006 | 100% | The registered capital of US\$5,000,000 had been fully paid up. | N/A |
| Diodite (China) Sports Goods Company Limited (笛亞泰(中國)體育用品有限公司)/ May 25, 2006 | 100% | The registered capital of US\$20,000,000 had been fully paid up. | N/A |

HISTORY AND CORPORATE STRUCTURE

| <u>Name of company/Date of incorporation/establishment</u> | <u>Percentage of interest held by the Company as at the Latest Practicable Date</u> | <u>Issued and fully paid share capital/registered capital as at the Latest Practicable Date</u> | <u>Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date</u> |
|---|---|---|---|
| Guangzhou Baoyuan Trading Company Limited (廣州寶元貿易有限公司)/ December 23, 2005 | 100% | The registered capital of US\$2,470,000 had been fully paid up. | N/A |
| Nanning Baoguan Sports Goods Company Limited (南寧寶冠體育用品有限公司)/ October 27, 2005 | 100% | The registered capital of US\$1,300,000 had been fully paid up. | N/A |

(1) *Independent third parties.*

(2) *Cheng Su Nan (鄭夙男) was a substantial shareholder of Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司) which was deregistered on March 27, 2007.*

(3) *Details of the Regional Joint Ventures established in 2006 are disclosed in the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus.*

There was a total of approximately US\$1.05 million of capital injected into Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) for the financial year ended September 30, 2006.

During the financial year ended September 30, 2006, we acquired from Rest Assured, a company beneficially owned in equal proportion by Mr. C. J. TSAI, Mr. TSAI David Nai Fung and Mr. Huang, 30% of its equity interest in Pau Yuen Trading Corporation (寶原興業股份有限公司) at a total consideration of approximately US\$618,000, so that we became the holder of 90% equity interest in Pau Yuen Trading Corporation (寶原興業股份有限公司). Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司) and Great Sea Holdings Limited became our wholly owned subsidiaries when we acquired from Rest Assured 20% of its respective interests in the two companies at a total consideration of US\$1.2 million and US\$15,000, respectively. We also acquired from Wang Cheng Min (王澄民) the remaining 30% equity interest in Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司) at a total consideration of RMB600,000, so that we became the holder of 100% equity interest in Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司). The consideration for all these acquisitions were calculated by reference to the then net book value of the relevant companies.

For the financial year ended September 30, 2007, a total of approximately US\$67.2 million of capital was injected by Manfield, Jollyard, Sports Group, Mr. Huang and YY Sports Holdings Limited into Selangor Gold Limited, A-Grade Holdings Limited, Dedicated Group Limited, Wellmax Business Group Limited, Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司), Diodite Limited and Dragonlight Group Limited, all of which will be wholly owned by us immediately after the Reorganization.

HISTORY AND CORPORATE STRUCTURE

During the financial year ended September 30, 2007, we acquired from Jollyard and Mr. Huang part of their then respective shareholdings in Selangor Gold Limited and Charming Technology at a consideration of approximately US\$5.96 million and US\$65,000, respectively, so that after such acquisition, Selangor Gold was owned as to 70% by us, 17.5% by Jollyard and 12.5% by Sports Group and Charming Technology Limited was owned as to 70% by us, 17.5% by Jollyard and 12.5% by Mr. Huang.

For the three months ended December 31, 2007, there was a total of US\$12 million of capital injected into Taicang Yusheng Sports Goods Company Limited (太倉裕盛體育用品有限公司).

During the financial year ended September 30, 2007 and up till the Latest Practicable Date, we established the following subsidiaries and associates:

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date |
|---|---|---|---|
| YY Sports Holdings Limited/ October 31, 2006 | 100% | US\$1 | N/A |
| Richwin Management Limited/ July 12, 2007 | 100% | US\$1 | N/A |
| Brightup Group Limited/ September 12, 2007 | 100% | HK\$1 | N/A |
| Treasure Chain International Limited/ October 2, 2007 | 100% | US\$1 | N/A |
| Rainbow Faith Investments Limited ⁽³⁾ / August 21, 2007 | 100% | HK\$200 | N/A |
| Hillside Investments Limited ⁽³⁾ / August 17, 2007 | 100% | HK\$200 | N/A |
| Gorgeous Time Limited ⁽³⁾ / July 5, 2007 | 100% | HK\$200 | N/A |
| Nice Palace Investments Limited/ July 5, 2007 | 100% | HK\$200 | N/A |
| Favour Mark Holdings Limited ⁽³⁾ / August 17, 2007 | 100% | HK\$200 | N/A |
| Diodite (Hong Kong) Limited ⁽³⁾ / December 12, 2007 | 100% | HK\$100 | N/A |
| Hong Kong Dragonlight Limited ⁽³⁾ / December 12, 2007 | 100% | HK\$100 | N/A |

HISTORY AND CORPORATE STRUCTURE

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date |
|--|---|---|--|
| Shengdao (Hong Kong) Limited ⁽³⁾ / December 12, 2007 | 100% | HK\$100 | N/A |
| Dragonlight (China) Sports Goods Company Limited (龍光(中國)體育用品有限公司)/ November 15, 2006 | 100% | The registered capital of US\$36,000,000 had been fully paid up. | N/A |
| Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司)/ March 20, 2007 | 100% | The registered capital of RMB5,000,000 had been fully paid up. | N/A |
| Dalian Baoshun Sports Goods Company Limited (大連寶順體育用品有限公司)/ July 6, 2007 | 100% | The registered capital of RMB2,000,000 had been fully paid up. | N/A |
| Shaanxi Baoxiang Sports Goods Company Limited (陝西寶祥體育用品有限公司)/ April 11, 2007 | 100% | The registered capital of RMB2,000,000 had been fully paid up. | N/A |
| Jinan Baoyue Sports Goods Company Limited (濟南寶岳體育用品有限公司)/ June 7, 2007 | 72% | The registered capital of RMB2,000,000 had been fully paid up. | It is indirectly owned by the Group through Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司). |
| Hefei Baoxun Sports Goods Trading Company Limited (合肥寶勛體育用品商貿有限公司)/ September 18, 2007 | 100% | The registered capital of RMB1,000,000 had been fully paid up. | N/A |
| Wuxi Baoyuan Sports Goods Trading Company Limited (無錫寶原體育用品商貿有限公司)/ September 17, 2007 | 100% | The registered capital of RMB1,000,000 had been fully paid up. | N/A |
| Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司)/ August 27, 2007 | 100% | The registered capital of RMB5,000,000 had been fully paid up. | N/A |

HISTORY AND CORPORATE STRUCTURE

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date |
|---|---|---|---|
| Yucheng (Kunshan) Sports Goods Company Limited (裕程(昆山)體育用品有限公司)/ July 20, 2007 | 100% | The registered capital of USD10,000,000 had been fully paid up. | N/A |
| Shanghai Shengdao Sports Goods Company Limited (上海勝道體育用品有限公司)/ May 25, 2007 | 100% | The registered capital of RMB100,000 had been fully paid up. | N/A |
| Guizhou Shengdao Sports Goods Development Company Limited (貴州勝道體育用品開發有限公司)/ June 20, 2007 | 100% | The registered capital of RMB17,500,000 had been fully paid up. | N/A |
| Chengdu Shengdao Sports Goods Company Limited (成都勝道體育用品有限公司)/ December 13, 2007 | 100% | The registered capital of RMB106,400,000 had been fully paid up. | N/A |
| Guangzhou Shengdao Sports Goods Company Limited (廣州勝道體育用品有限公司)/ February 4, 2008 | 100% | The registered capital of it was RMB100,000,000, RMB20,000,000 had been paid up. | N/A |
| Shanghai Haodong Trading Company Limited (上海好動商貿有限公司)/ December 27, 2007 | 100% | The registered capital of RMB10,000,000 had been fully paid up. | N/A |
| Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司)/ March 17, 2008 | 100% | The registered capital of RMB5,000,000 had been fully paid up. | N/A |
| Xinjiang Baoxin Sports Goods Company Limited (新疆寶新體育用品有限公司)/ March 4, 2008 | 100% | The registered capital of RMB5,000,000 had been fully paid up. | N/A |
| Ningxia Baojia Sports Goods Company Limited (寧夏寶佳體育用品有限公司)/ January 17, 2008 | 100% | The registered capital of RMB2,000,000 had been fully paid up. | N/A |

HISTORY AND CORPORATE STRUCTURE

| Name of company/Date of incorporation/establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Issued and fully paid share capital/registered capital as at the Latest Practicable Date | Minority shareholder and the percentage of interest held by it as at the Latest Practicable Date |
|--|---|---|---|
| Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司)/ July 2, 2007 | 60% | The registered capital of RMB50,000,000 had been fully paid up. | The remaining 40% is owned by Qiu Xiao Jie (邱小杰), a substantial shareholder and a director of a subsidiary of the Group, and Xu Feng (徐風) ⁽¹⁾ (each holding 20% of the equity interest). |
| Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司)/ July 24, 2007 | 60% | The registered capital of RMB87,500,000 had been fully paid up. | The remaining 40% is owned by Lu Shan (盧山), Lu Li (盧力) ⁽¹⁾ and Lu Yi (盧毅) (holdings 16%, 16% and 8% respectively). Mr. Lu Shan (盧山) and Mr. Lu Yi (盧毅) are directors of Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) and one of our other subsidiaries. |
| Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司)/ July 19, 2007 | 49% | The registered capital of RMB20,000,000 had been fully paid up. | It is indirectly owned by the Group through Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). |
| Tianjin Baozhe Sports Goods Company Limited (天津寶哲體育用品有限公司)/ August 6, 2007 | 49% | The registered capital of RMB20,000,000 had been fully paid up. | It is indirectly owned by the Group through Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). |
| Shanghai Baohong Sports Goods Company Limited (上海寶宏體育用品有限公司)/ September 17, 2007 | 49% | The registered capital of RMB5,000,000 had been fully paid up. | It is indirectly owned by the Group through Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). |

(1) Independent third parties.

(2) Details of the Regional Joint Ventures established in 2007 are disclosed in the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus.

(3) We established these Hong Kong companies in 2007 to serve as intermediate holding companies for the PRC entities in the future for taxation purposes.

HISTORY AND CORPORATE STRUCTURE

On November 15, 2007, Manfield, Jollyard, Sports Group transferred all of their respective shares in Business Network Holdings Limited to Gerossa Management Limited, which is an independent third party, at a total consideration of US\$1,000, which was settled in cash.

Investments in the Regional Joint Ventures

In addition, during the financial year ended September 30, 2007 and till the Latest Practicable Date, our investments in the Regional Joint Ventures are set forth below:

| Name of the Regional Joint Venture/ Date of establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Amount of capital investment as at the Latest Practicable Date | Joint Venture Partners and the percentage interest held by them as at the Latest Practicable Date |
|--|---|---|--|
| Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司)/ April 10, 2007 | 50% | The registered capital of RMB64,280,000 had been fully paid up./ RMB32,140,000 was invested by the Group. | The remaining 50% is owned by Qiu Xiao Jie (邱 小杰) who is a substantial shareholder and a director of a subsidiary of the Group. |
| Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司)/ September 7, 2007 | 50% | The registered capital of RMB53,600,000 had been fully paid up./ RMB26,800,000 was invested by the Group. | The remaining 50% is owned by an individual ⁽¹⁾ . |
| Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖 有限公司)/ November 28, 2006 | 50% | The registered capital of RMB92,000,000 had been fully paid up./ RMB46,000,000 was invested by the Group. | The remaining 50% is owned by four individuals ⁽¹⁾ . |
| Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司)/ August 3, 2007 | 50% | The registered capital of RMB32,000,000 had been fully paid up./ RMB16,000,000 was invested by the Group. | The remaining 50% is owned by two individuals ⁽¹⁾ . |
| Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司)/ August 20, 2007 | 50% | The registered capital of RMB14,200,000 had been fully paid up./ RMB7,100,000 was invested by the Group. | The remaining 50% is owned by Shanghai Zeyou Trading Development Company Limited (上海澤 友貿易發展有限公司) ⁽¹⁾ . |
| Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品 有限公司)/ October 13, 2006 | 50% | The registered capital of RMB40,000,000 had been fully paid up./ RMB20,000,000 was invested by the Group. | The remaining 50% is owned by seven individuals ⁽¹⁾ . |

HISTORY AND CORPORATE STRUCTURE

| Name of the Regional Joint Venture/ Date of establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Amount of capital investment as at the Latest Practicable Date | Joint Venture Partners and the percentage interest held by them as at the Latest Practicable Date |
|--|---|---|---|
| Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司)/ July 20, 2007 | 50% | The registered capital of RMB21,420,000 had been fully paid up./ RMB10,710,000 was invested by the Group. | The remaining 50% is owned by two individuals ⁽¹⁾ . |
| Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司)/ September 12, 2006 | 50% | The registered capital of RMB40,000,000 had been fully paid up./ RMB20,000,000 was invested by the Group. | The remaining 50% is owned by an individual ⁽¹⁾ . |
| Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司)/ August 30, 2007 | 50% | The registered capital of RMB11,000,000 had been fully paid up./ RMB5,500,000 was invested by the Group. | The remaining 50% is owned by Guiyang Nanming Tengwei Trading Company Limited (貴陽南明滕威貿易有限公司) ⁽¹⁾ . |
| Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司)/ September 27, 2007 | 50% | The registered capital of it was RMB18,000,000, RMB12,000,000 of which had been paid up./ RMB6,000,000 was invested by the Group. | The remaining 50% is owned by Wenzhou City Yijia Sports Commercial Complex Company Limited (溫州市一家體育商城有限公司) ⁽¹⁾ . |
| Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司)/ September 12, 2007 | 49% | The registered capital of it was RMB35,290,000, RMB17,292,100 of which had been paid up./ RMB17,292,100 was invested by the Group. | The remaining 51% is owned by two individuals ⁽¹⁾ . |
| Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司)/ June 5, 2007 | 49% | The registered capital of it was RMB60,000,000, and has been fully paid up./ RMB29,400,000 was invested by the Group. | The remaining 51% is owned by an individual ⁽¹⁾ . |
| Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司)/ March 28, 2007 | 45% | The registered capital of RMB32,909,100 had been fully paid up./ RMB14,809,100 was invested by the Group. | The remaining 55% is owned by an individual ⁽¹⁾ . |
| Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司)/ July 4, 2007 | 45% | The registered capital of RMB50,000,000 had been fully paid up./ RMB22,500,000 was invested by the Group. | The remaining 55% is owned by three individuals ⁽¹⁾ . |

HISTORY AND CORPORATE STRUCTURE

| Name of the Regional Joint Venture/ Date of establishment | Percentage of interest held by the Company as at the Latest Practicable Date | Amount of capital investment as at the Latest Practicable Date | Joint Venture Partners and the percentage interest held by them as at the Latest Practicable Date |
|---|--|---|---|
| Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發 有限公司)/ September 7, 2007 | 40% | The registered capital of RMB25,000,000 had been fully paid up./ RMB10,000,000 was invested by the Group. | The remaining 60% is owned by Shaanxi Wuhuan Investment Management Company Limited (陝西五 環投資管理有限公司) ⁽¹⁾ . |
| Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展 有限公司)/ August 13, 1998 | 30% | The registered capital of it was RMB78,000,000, RMB73,059,255 of which had been paid up./ RMB73,059,255 was invested by Farsighted International Limited. | It is wholly owned by Farsighted International Limited, which is 30% owned by the Group. The remaining 70% of Farsighted International Limited is ultimately owned by an individual ⁽¹⁾ . |

(1) Independent third parties.

Trust arrangements

In respect of some of our PRC subsidiaries, namely Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司), Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司), Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) and Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司) (together the “Relevant PRC Subsidiaries”) and their subsidiaries, namely, Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司), Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司), Fuzhou Baomin Trading Company Limited (福州寶閩貿易有限公司), Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司) and Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司), we have put in place trust arrangements between their holding company (which is incorporated in the BVI) such that the trustee (Technic Holdings Corporation, which is the holding company and a wholly owned subsidiary of Yue Yuen) holds the equity interests in these Relevant PRC Subsidiaries through a PRC wholly owned subsidiary, Dongguan Baoyuan Footwear Company Limited (東莞寶元鞋業有限公司), on behalf of the beneficiaries (Selangor Gold Limited and Dedicated Group Limited). Under these trust arrangements, Technic Holdings Corporation agreed to follow the instructions of Selangor Gold Limited or Dedicated Group Limited (as the case may be) to be given from time to time to transfer the relevant equity interests in the PRC subsidiaries to persons nominated by Selangor Gold Limited or Dedicated Group Limited (as the case may be), and to collect the relevant consideration on their behalf. Technic Holdings Corporation will also pay any dividends received from the Relevant PRC Subsidiaries in accordance with the instructions of Selangor Gold Limited or Dedicated Group Limited (as the case may be) to be given from time to time. We are entitled to exercise control and enjoy all economic benefits arising from the equity interest of the Relevant PRC Subsidiaries.

HISTORY AND CORPORATE STRUCTURE

Before December 11, 2003, certain legal restrictions in the PRC prohibited investment in the retail business by foreign investors. The purpose of setting up these trust arrangements was because Selangor Gold Limited and Dedicated Group Limited did not have a PRC domestic subsidiary at the relevant time and as Technic Holdings Corporation had an existing PRC incorporated subsidiary at that time, Dongguan Baoyuan Footwear Company Limited (東莞寶元鞋業有限公司), that PRC entity was used to set up the Relevant PRC Subsidiaries. However, given that it was our intention that all retail operations would be grouped under Selangor Gold Limited and Dedicated Group Limited instead of Technic Holdings Corporation, which engages in manufacturing, the trust arrangements were put in place after establishment of each of the Relevant PRC Subsidiaries first commencing in 1998.

After the setting up of new PRC entities within our Group, the assets and operations have been transferred out of our Relevant PRC Subsidiaries into such companies within our Group. These Relevant PRC Subsidiaries have now ceased operations and they currently do not possess any material assets and operations. As at the Latest Practicable Date, four of these companies, Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司), Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司), Fuzhou Baomin Trading Company Limited (福州寶閩貿易有限公司) and Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司) have been liquidated. It is the intention of the Group that all the Relevant PRC Subsidiaries will be liquidated. However, under the PRC laws, they cannot be liquidated until and unless their relevant subsidiaries have been liquidated. As such, not all of these Relevant PRC Subsidiaries could commence their liquidation procedures as at the Latest Practicable Date. It is expected that all such Relevant PRC Subsidiaries will be put under liquidation by the end of 2008.

In accordance with HKAS 27 “Consolidated and Separate Financial Statements” issued by the HKICPA, the results of the Relevant PRC Subsidiaries can be consolidated into the results of our Group. Prior to the existence of these trust arrangements, the results of the Relevant PRC Subsidiaries were consolidated into the results of Yue Yuen. Our PRC legal advisers have confirmed that after December 11, 2003, the trust arrangements do not contravene the applicable laws and regulations of the PRC, including those in relation to legal restrictions on foreign investments in the PRC retail business. Although the trust arrangements were put in place prior to December 11, 2003 and as such there may have been a breach of the then relevant laws relating to legal restrictions on foreign investments in the PRC retail business, our PRC legal advisers confirmed that the legal consequence today is minimal, if any. We have been advised by our PRC legal advisers that in accordance with article 29 of the Laws of the People’s Republic of China on Administrative Penalty, no administrative penalty may be imposed on acts done in contravention of the laws of the PRC after two years of the commission of the relevant act or if the act has ceased, two years from the date of such cessation, namely December 11, 2005. This is the case whether or not the Relevant PRC Subsidiaries have been liquidated. Up to the Latest Practicable Date, we have not received any notification from the relevant PRC government authorities in relation to a contravention of the laws relating to legal restrictions on foreign investments in the PRC retail business.

HISTORY AND CORPORATE STRUCTURE

Taicang factory

In order to supplement our retail and brand licensee business operations in the PRC, we established a factory in Taicang in 2002 which commenced shoe production in September 2003. In 2004, we established a shoe mould manufacturing facility in our Taicang factory which commenced production in June 2005. We then no longer relied on shoe moulding capacity of third parties, which reduced transportation costs and shortened shoe mould repair time for us. As of December 31, 2007, we ran 15 production lines at our Taicang factory in the PRC producing for five brands, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*.

Regional Joint Ventures

As part of our expansion strategy, we have set up a number of joint ventures, each with a different joint venture partner who we believe has the relevant industry experience, management expertise and local market knowledge in the respective regional markets in the PRC. For details of our investment in these joint ventures, please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus.

REORGANIZATION

To prepare for the Global Offering, we underwent the Reorganization. The Reorganization involved our Company acquiring the interests then held by Jollyard, Sports Group and Mr. Huang in some of our subsidiaries and resulted in our Company becoming the holding company of its present subsidiaries. The Reorganization was completed on May 23, 2008. For details of the steps involved in the Reorganization, please refer to the sub-section headed “Statutory and General Information — A. Further Information about our Company — 5. Reorganization” in Appendix VIII to this prospectus.

Our retail operations have been operated under different subsidiaries of Yue Yuen. Prior to the Reorganization, we grouped all of our retail operations under one holding company, YY Sports Holdings Limited, which acts as the intermediate holding company of our businesses. The corporate restructuring involved the grouping of Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司), Yusheng (Taicang) Footwear Company Limited (裕盛(太倉)鞋業有限公司), Taicang Yusheng Sports Goods Company Limited (太倉裕盛體育用品有限公司), Diodite Limited, Shengdao (Hong Kong) Limited, Dragonlight Group Limited and Richwin Management Limited under YY Sports Holdings Limited.

There have been no change or transfer to the businesses and personnel as they have been under the same operating subsidiaries both prior to and after the Reorganization. As part of the Reorganization, the following events took place:

- (a) the transfer by Manfield to Treasure Chain International Limited of:
 - (i) 700 ordinary shares of US\$1 each in Selangor Gold Limited;
 - (ii) 6,300 ordinary shares of US\$1 each in Wellmax Business Group Limited;
 - (iii) 6,300 ordinary shares of US\$1 each in A-Grade Holdings Limited;

HISTORY AND CORPORATE STRUCTURE

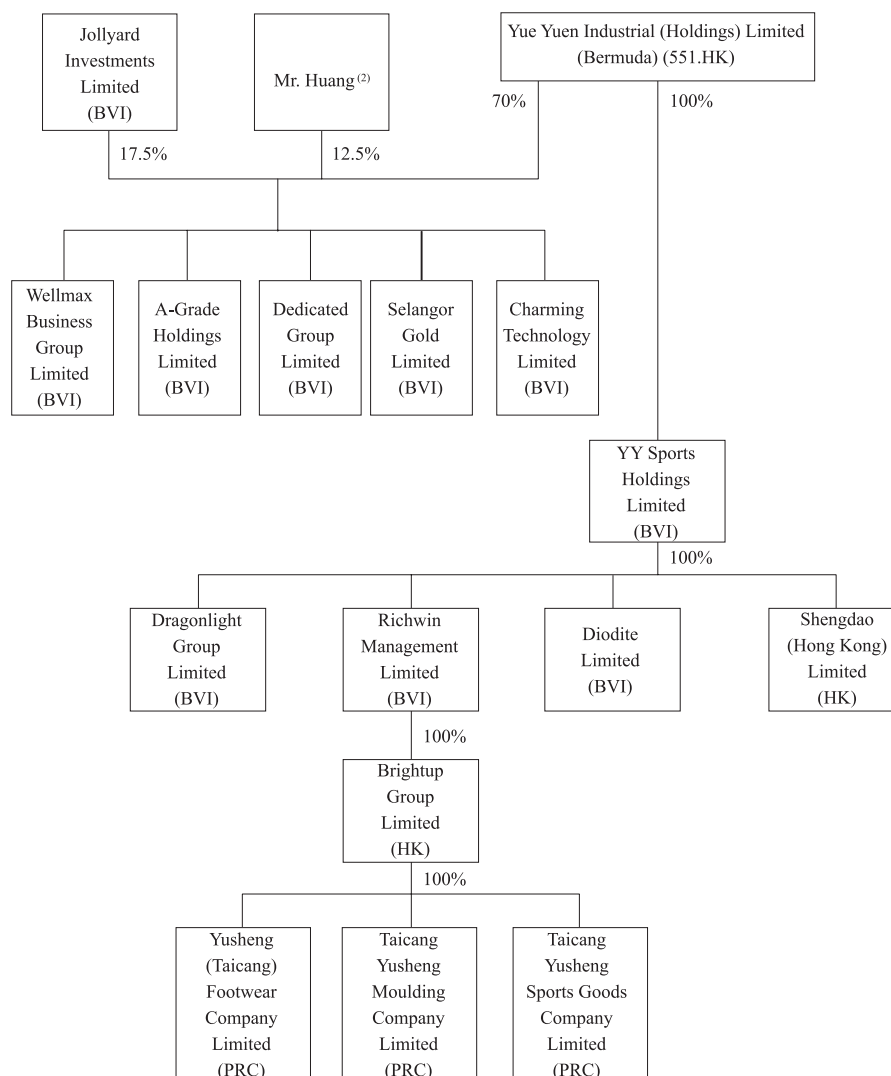
- (iv) 140 ordinary shares of US\$1 each in Charming Technology Limited; and
- (v) 700 ordinary shares of US\$1 each in Dedicated Group Limited;
- (b) the transfer by Jollyard to Treasure Chain International Limited of:
 - (i) 175 ordinary shares of US\$1 each in Selangor Gold Limited;
 - (ii) 1,575 ordinary shares of US\$1 each in Wellmax Business Group Limited;
 - (iii) 1,575 ordinary shares of US\$1 each in A-Grade Holdings Limited;
 - (iv) 35 ordinary shares of US\$1 each in Charming Technology Limited; and
 - (v) 175 ordinary shares of US\$1 each in Dedicated Group Limited;
- (c) the transfer by Sports Group to Treasure Chain International Limited of:
 - (i) 125 ordinary shares of US\$1 each in Selangor Gold Limited;
 - (ii) 1,125 ordinary shares of US\$1 each in Wellmax Business Group Limited;
 - (iii) 1,125 ordinary shares of US\$1 each in A-Grade Holdings Limited;
 - (iv) 25 ordinary shares of US\$1 each in Charming Technology Limited; and
 - (v) 125 ordinary shares of US\$1 each in Dedicated Group Limited;
- (d) in consideration of the above transfers, our Company issued and allotted:
 - (i) 75,493 new Shares to Major Focus;
 - (ii) 13,944 new Shares to Jollyard; and
 - (iii) 10,563 new Shares to Sports Group.

HISTORY AND CORPORATE STRUCTURE

CORPORATE STRUCTURE OF OUR GROUP

Our Company was incorporated in Bermuda on November 14, 2007. For details of the changes to our share capital since our incorporation, please refer to Appendix VIII to this prospectus.

The following chart sets out our Group and shareholding structure immediately prior to the Reorganization⁽¹⁾.

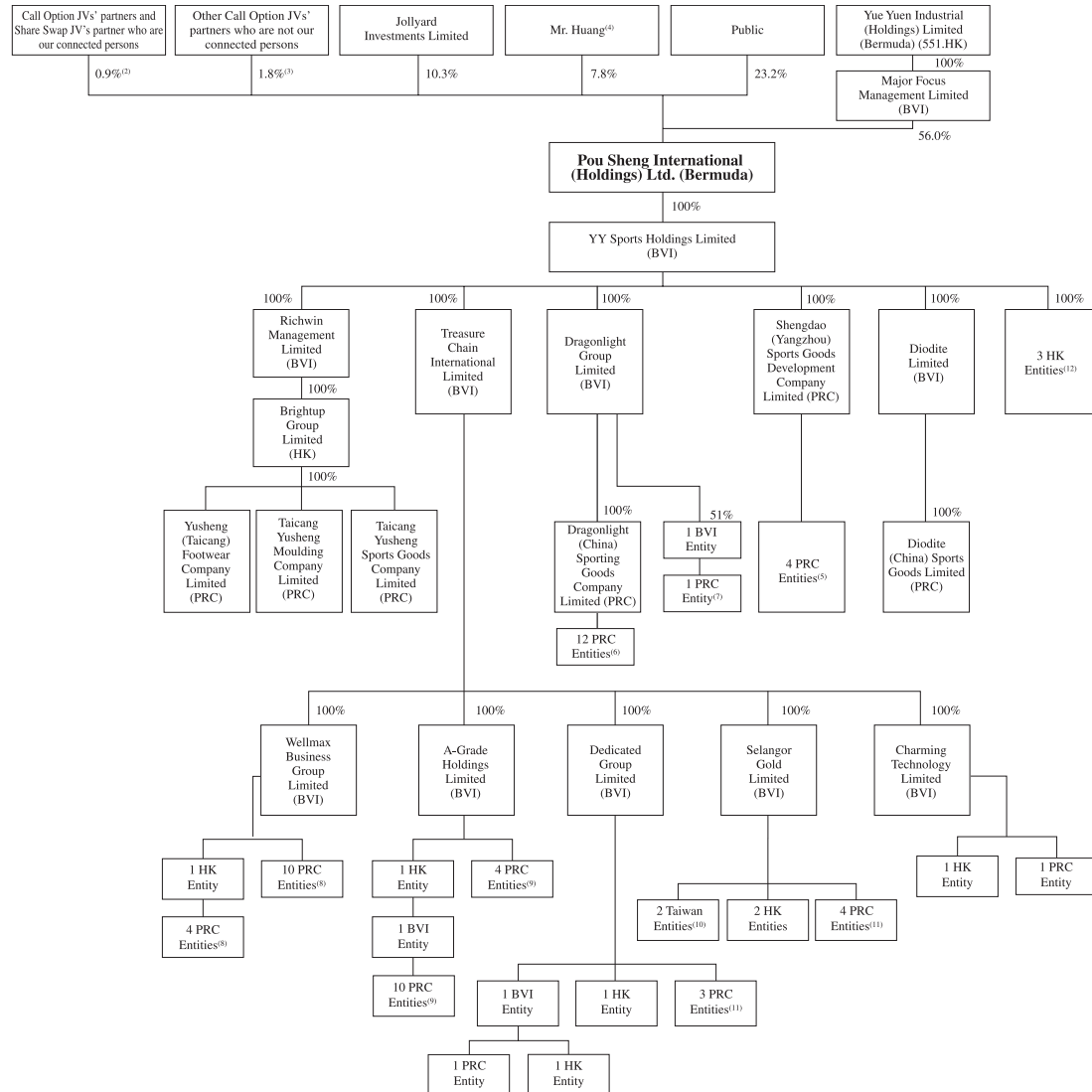


(1) Each of our Company's subsidiaries shown in the chart above has interests, directly or indirectly, in one or more subsidiaries, jointly controlled entities or associated companies, which are not shown in the chart above.

(2) Interests held either directly by Mr. Huang or through Sports Group Limited, which is wholly owned by Mr. Huang.

HISTORY AND CORPORATE STRUCTURE

The following chart sets out our Group and shareholding structure immediately after completion of the Global Offering, the Capitalization Issue and issuance of Shares to the Call Option JV's partners and the Share Swap JV's partner, assuming that the Over-allotment Option is not exercised.⁽¹⁾



(1) Entities not named above include entities that are our subsidiaries, jointly controlled entities and associates. The above structure excludes subsidiaries of companies which are not our subsidiaries.

(2) This includes the Shares which we agreed to issue to (i) the Call Option JV's partners of Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司), Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) as part, or all, of the Call Option Premium Shares pursuant to the call option agreements and (ii) the Share Swap JV's partner pursuant to the share swap agreement, that we entered into with them. Since all these Call Option JV's partners and the Share Swap JV's partner are our connected persons (as defined in the Listing Rules), the Shares issued to them will not count in the public float of our Company. These Shares are subject to a 6-month lock-up arrangement pursuant to which our partners may not deal in these Shares

HISTORY AND CORPORATE STRUCTURE

until six months after dealings in the Shares commence on the Stock Exchange. For details about the call option arrangements and the share swap arrangement, please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures — Call option agreements” in this prospectus.

- (3) This includes the Shares which we agreed to issue to our Call Option JVs’ partners (save for the Call Option JVs’ partners of Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司), Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) and our Share Swap JV’s partner) as Call Option Premium Shares pursuant to the call option agreements that we entered into with them. These Shares are subject to a 6-month lock-up arrangement pursuant to which our partners may not deal in these Shares until six months after dealings in the Shares commence on the Stock Exchange. Since none of these Call Option JVs’ partners is our connected person (as defined in the Listing Rules) and none of the other requirements under Rule 8.24 of the Listing Rules are applicable so as to treat them as not being members of “the public”, the Shares issued to these Call Option JVs’ partners count towards the public float of our Company and our Company satisfies the minimum 25% public float requirement for the purposes of Rule 8.08 of the Listing Rules. For details about the call option arrangements, please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures — Call option agreements” in this prospectus.
- (4) Interests held either directly by Mr. Huang or through Sports Group Limited, which is wholly owned by Mr. Huang.
- (5) We hold 60% equity interest in two out of the four PRC entities, which are accounted for as our subsidiaries. We also hold 100% equity interest in the remaining two PRC entities.
- (6) Out of the 12 PRC entities, 11 are our Regional Joint Ventures in which we hold 50% or less than 50% equity interests. The remaining 1 PRC entity is our wholly owned subsidiary.
- (7) We hold 51% equity interest in this joint venture which is accounted for as our subsidiary.
- (8) Out of the 14 PRC entities, two are our Regional Joint Ventures in which we hold less than 50% equity interests. We also hold 72% equity interest in one joint venture and its subsidiary which are accounted for as our subsidiaries. The remaining ten PRC entities are our wholly owned subsidiaries.
- (9) Out of the 14 PRC entities, three are our Regional Joint Ventures in which we hold 50% or less than 50% equity interests. We also held 90% equity interests in two joint ventures which are accounted for as our subsidiaries. Immediately upon Listing, we will have acquired the remaining 10% equity interest in one of these two joint ventures, namely (Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司), which will then become our wholly owned subsidiary. As such, immediately before Listing, nine out of the 14 PRC entities are our wholly owned subsidiaries.
- (10) We hold 90% equity interests in these two Taiwan entities which are accounted for as our subsidiaries.
- (11) Out of the four PRC entities held by Selangor Gold Limited, two have ceased operation and are preparing for liquidation. Out of the four PRC entities held by Dedicated Group Limited, three have ceased operation and are preparing for liquidation. It is expected that the liquidation of these companies will complete in 2008.
- (12) These three Hong Kong entities are inactive and do not have any operation.

For a more detailed disclosure on our subsidiaries, please refer to the sub-section headed “Accountants’ Report — Particulars of Subsidiaries” in Appendix I to this prospectus. Please also refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus for further discussion on the Regional Joint Ventures.

OUR BUSINESS

OVERVIEW

We are a leading sportswear retailer in the PRC and directly operated 1,324 retail outlets in the PRC as at December 31, 2007. Our retail network in the Greater China Region also includes 79 directly operated retail outlets in Hong Kong and Taiwan. The majority of our retail outlets are mono-brand stores, which we operate under the brand name of the sportswear products being distributed, with our “YY Sports” logo also displayed. We distribute sportswear products for some of the leading international and domestic sportswear brands in the PRC, offering a wide range of sports footwear, apparel and accessories. Our brand portfolio includes leading international and domestic brands such as *Nike*, *Adidas*, *Li Ning*, *Kappa*, *Reebok*, *PUMA*, *Converse*, *Hush Puppies*, *Nautica*, *Wolverine* and *Asics*. We continuously seek to add new brands to our portfolio that appeal to consumer tastes in the PRC in our retail business and brand licensee business.

It has been our strategy to expand our business by expanding our network through either forming non-wholly owned subsidiaries where we hold a majority stake or establishing joint ventures in different regions with different partners where we hold minority stakes to complement our organic growth strategy. Therefore, as part of our expansion strategy to extend the reach of our retail network, we have established regional partnerships with different regional joint venture partners, which we believe is an efficient way to extend our market presence into emerging cities in the PRC where opportunities exist for future expansion. As at December 31, 2007, we have set up 22 joint ventures in different regions in the PRC, each with a different joint venture partner who we believe is a leading retail player in their respective regional markets. Among these 22 joint ventures, we have majority interests in six which are our non-wholly owned subsidiaries, and minority interests in the other 16 which are our Regional Joint Ventures. We do not control any of our Regional Joint Ventures as we only have a minority interest in each of them. As at December 31, 2007, we had invested an aggregate amount of US\$43.5 million in the establishment of our Regional Joint Ventures and provided shareholder’s loans in an aggregate amount of US\$65.7 million to 11 of them. Our investments in our Regional Joint Ventures are substantial, and we may suffer loss if the financial performance of our Regional Joint Ventures deteriorates or is below expectation. For details, please refer to the risk factor entitled “Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have proven and well-established track records, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound” in the section headed “Risk Factors” in this prospectus. Our Regional Joint Ventures directly operated 1,936 retail outlets in the PRC and two retail outlets in Hong Kong as at December 31, 2007, and contributed approximately 7.2% and 30.4% to our profit for the financial year ended September 30, 2007 and the three months ended December 31, 2007, respectively.

As at December 31, 2007, we, along with our Regional Joint Ventures, had a presence in most of the major cities across 26 provinces, autonomous regions and municipalities directly under the central government in the PRC. Furthermore, according to an analysis conducted by Frost & Sullivan and commissioned by us, we, along with our Regional Joint Ventures, are the leading sportswear retailer in terms of the number of directly operated retail outlets in Beijing, Tianjin, Zhejiang, Jiangsu, Fujian, Hunan, Hebei, Yunnan, Jilin, Anhui, Shaanxi, Heilongjiang and Guizhou, and one of the top three sportswear retailers in almost all of the other provinces, autonomous regions and municipalities directly under the central government in the PRC.

OUR BUSINESS

According to the same analysis, we, together with our Regional Joint Ventures, are the number one sportswear retailer for two of the top three sportswear brand companies in the PRC, namely *Adidas* and *Li Ning*, the number two sportswear retailer for *Nike*, as well as the number one sportswear retailer for *Converse*, *Kappa*, *Reebok*, *PUMA*, *Hush Puppies* and *Wolverine*, in each case in terms of the number of directly operated retail outlets in the PRC as at December 31, 2007.

To complement the reach of our directly operated retail network, we also sell sportswear products on a wholesale basis to retail sub-distributors, which in turn sell the products through the retail outlets that they operate under our supervision. As at December 31, 2007, the number of retail outlets operated by our retail sub-distributors for our retail business amounted to 747, covering many of the major cities and provinces within the PRC. Our Regional Joint Ventures also operate similar wholesale businesses with 2,232 retail outlets operated by their retail sub-distributors. Although we and our Regional Joint Ventures have limited control over the operation of the retail outlets independently operated by our and our Regional Joint Ventures' sub-distributors, respectively, they are subject to the guidance and supervision of the brand companies of the products which they distribute and are also subject to our and our Regional Joint Ventures' supervision, respectively. For details, please refer to the sub-section headed “— Our Retail Business — Management of our retail sub-distributors — Supervision of our retail sub-distributors” below.

Apart from our retail business, we operate a brand licensee business where we are the exclusive brand licensee for certain international brands, namely *Converse*, *Wolverine* and *Hush Puppies*, in the PRC and other territories in the Greater China Region. Our exclusive brand licensee arrangement with *Converse* in the PRC will terminate on December 31, 2008. We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011 subject to a term sheet that we entered into with Converse Inc. in June 2007, which sets out the key provisions of a proposed distributorship agreement to be entered into between the two parties. Under the term sheet, we are granted the right to be the exclusive distributor of *Converse's* products in the PRC subject to our meeting certain goals and targets for store openings and providing certain required services to the stores as stipulated in a retail rollout plan to be developed annually and updated as determined by Converse Inc. We expect the changing of our business relationship with *Converse* to have a negative impact on our profit performance in the future. For details, please refer to the risk factor entitled “We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future” in the section headed “Risk Factors” in this prospectus. The brand license agreements we have entered into with these brands give us flexibility with respect to setting the price of products, supply chain management, product design, marketing and development, and product promotion. We primarily sell products under licensed brands to retail distributors including ourselves, which together with their retail sub-distributors operated 3,254 retail outlets as at December 31, 2007. This includes the retail outlets directly operated by us and our retail sub-distributors distributing products under those licensed brands. All such retail outlets are subject to our supervision. For details, please refer to the sub-section headed “— Our Brand Licensee Business — Management of retail outlets operated by our retail distributors” below. We believe that our brand licensee business model gives us the potential to achieve better profitability than under the typical distribution arrangement.

OUR BUSINESS

In addition, we possess in-house manufacturing and IT capabilities, the combination of which we believe sets us apart from other sportswear retailers in the PRC. At our Taicang factory, as at the Latest Practicable Date, we manufactured for five brands, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*, solely for sale to our OEM/ODM customers. We have self-developed a proprietary “ERP” system that seamlessly connects to our other in-house developed “MIS” systems, including the “POS” and “CRM” systems, all of which form an integrated network and provide our senior management with sales, inventory and other critical management reporting data. For details, please refer to the sub-section headed “— Our Strategies — Develop and implement an end-to-end supply chain solution to improve operational efficiency” below.

To further support our retail network expansion, we have a dedicated property leasing and management unit that acquires or leases large scale retail spaces in attractive locations which are then sub-divided and leased to us or third party retail distributors.

We experienced significant growth in revenue and profit during the Track Record Period and the three months ended December 31, 2007. Our revenue amounted to US\$207.2 million, US\$373.0 million and US\$555.9 million for the financial years ended September 30, 2005, 2006 and 2007, respectively, representing a CAGR of 63.8%, while net profit before minority interests for the same periods amounted to US\$6.0 million, US\$21.0 million and US\$43.9 million, respectively, representing a CAGR of 170.5%. Our revenue amounted to US\$185.0 million and our net profit before minority interests amounted to US\$19.7 million for the three months ended December 31, 2007, representing an increase of 82.1% and 164.3% over the three months ended December 31, 2006. Our significant growth was primarily due to the expansion of our retail network and was also, to a certain extent, contributed by our investments in the newly established Regional Joint Ventures, which do not have a proven and well-established track record. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures” in this prospectus. The following table sets out a breakdown of our revenue according to our business segments, which are divided into retail business, brand licensee business, manufacturing business and property leasing and management business, and shows their respective contribution by percentage to our total revenue for the periods indicated.

| | Financial year ended September 30, | | | | | | Three months ended December 31, | | | |
|---|------------------------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|---------------------------------|-----------------------|-------------------|-----------------------|
| | 2005 | | 2006 | | 2007 | | 2006 (unaudited) | | 2007 | |
| | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue |
| Retail business | 128,973 | 62.3% | 232,866 | 62.4% | 355,244 | 63.9% | 68,259 | 67.2% | 126,971 | 68.6% |
| <i>Sales to end customers from our directly operated retail outlets</i> | 108,711 | 52.5% | 174,021 | 46.6% | 266,188 | 47.9% | 47,172 | 46.4% | 95,408 | 51.6% |
| <i>Sales to our retail sub-distributors on a wholesale basis</i> | 20,262 | 9.8% | 58,845 | 15.8% | 89,056 | 16.0% | 21,087 | 20.8% | 31,563 | 17.0% |
| Brand licensee business | 57,395 | 27.7% | 95,301 | 25.6% | 133,187 | 23.9% | 20,941 | 20.6% | 36,758 | 19.9% |
| Manufacturing business | 20,809 | 10.0% | 44,793 | 12.0% | 67,053 | 12.1% | 12,408 | 12.2% | 20,897 | 11.3% |
| Property leasing and management business | — | N/A | — | N/A | 419 | 0.1% | — | N/A | 402 | 0.2% |
| Total | <u>207,177</u> | <u>100.0%</u> | <u>372,960</u> | <u>100.0%</u> | <u>555,903</u> | <u>100.0%</u> | <u>101,608</u> | <u>100.0%</u> | <u>185,028</u> | <u>100.0%</u> |

OUR BUSINESS

The gross profit margin for our retail business for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007 was 34.9%, 33.1%, 33.1% and 34.2%, respectively, while the gross profit margin for our brand licensee business for the same period was 51.4%, 51.9%, 49.3% and 48.6%, respectively.

PRICE ADJUSTMENT MECHANISM

Under some of the joint venture agreements and call option agreements that we entered into with our partners, there is a price adjustment mechanism pursuant to which if the financial performance achieved by a relevant joint venture, namely a Price Adjustment JV, exceeds an agreed benchmark, we will be required to make additional capital contributions to such Price Adjustment JV in the future, and this amount can be substantial. For some of the Price Adjustment JVs, this price adjustment mechanism may be triggered on or before June 30, 2009. For the three months ended December 31, 2007, the Price Adjustment JVs generated a total net profit of approximately US\$14.3 million. Based on the current estimates and assuming all other applicable conditions stipulated in the joint venture agreements are met, if the average actual net profit of each Price Adjustment JV during its profit evaluation period exceeds the specified profit benchmark by the same percentage for all the Price Adjustment JVs such that the aggregate sum of the average actual net profit of all the Price Adjustment JVs reaches approximately US\$45.0 million to US\$60.0 million, we will be required to make additional capital contributions in aggregate amounts of approximately US\$6.7 million to US\$48.5 million, respectively. The above figures are for illustrative purposes only. They are provided on the basis that all the average actual net profits exceed the respective specified profit benchmarks by the same percentage which may not be the case. Depending on the average actual net profit of each Price Adjustment JV, even if the aggregate sum of the average actual net profit of the Price Adjustment JVs reaches the amount stated above, we may be required to make an additional capital contribution greater than the indicative range illustrated above. You should also note that since each Price Adjustment JV has a different ending date for its profit evaluation period ranging from July 31, 2008 to August 31, 2010, the capital contribution may be triggered at different points in time pursuant to the terms and conditions in each joint venture agreement that we entered into with each Price Adjustment JV. For details of our investments in our Regional Joint Ventures, their operational details, the price adjustment mechanism and the risks related to our investments, please refer to the sub-sections headed “— Our Investments in Joint Ventures — Arrangements with our joint ventures — Price adjustment mechanism” below, “History and Corporate Structure — Investments in Regional Joint Ventures” and “Financial Information — Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures”, and the risk factor entitled “We may be required to make additional capital contribution to our Price Adjustment JVs in the future pursuant to the price adjustment mechanism, which may be triggered on or before June 30, 2009” in the section headed “Risk Factors” in this prospectus.

CALL OPTIONS

Our Regional Joint Ventures are important to our long term growth as we believe they could help us expand our retail network, as well as expand the brand portfolio that we carry. However, the Directors are also aware of the various inherent operational and financial risks relating to our investments in these Regional Joint Ventures due to the emerging nature of the retail sportswear industry in the PRC, as well as our lack of any long term cooperation history with some of the

OUR BUSINESS

Regional Joint Ventures partners. To allow us to monitor the performance of our Regional Joint Ventures over a period of time and only commit additional capital to those Regional Joint Ventures that meet our performance expectation, we have entered into call option agreements with our partners in 15 Regional Joint Ventures, and also the minority shareholders of three of our non-wholly owned subsidiaries. Our call options in these 18 companies, which are our Call Option JVs, give us the right (but not the obligation) exercisable solely at our discretion to acquire from any one or more of our Call Option JVs' partners up to their entire equity interest in the relevant Call Option JVs. As we have the sole discretion to exercise the call options, the call option arrangement allows us to assess the performance of each Call Option JV individually before deciding whether or not it is economically beneficial to acquire our partner's equity interest. We believe it is prudent from a commercial perspective to enter into such arrangements. As at December 31, 2007, we had invested an aggregate amount of US\$50.8 million in the establishment of the Call Option JVs and provided shareholder's loans in an aggregate amount of US\$62.9 million to the Call Option JVs in which we have minority interests.

As consideration for our Call Option JVs' partners granting us the call options, we have agreed to issue certain numbers of Shares as call option premium to them at the Global Offering although some of the Call Option JVs' partners have agreed that they are to receive cash in lieu of Shares for part, or in some cases all, of the call option premium Shares that we have agreed to issue to each of them. As part of the International Offering, we are offering Shares for subscription by professional and institutional investors to satisfy the cash portion of the call option premium and, in addition, we are offering an aggregate of 85,702,000 Shares (the "Call Option Premium Shares") to our Call Option JVs' partners as the Shares portion of the call option premium. Therefore, part of the net proceeds to us from the Global Offering will be used to pay such cash portion of the call option premium. For details, please refer to the sub-section headed "Future Plans and Use of Proceeds — Use of Proceeds from the Global Offering" in this prospectus. The Call Option Premium Shares represent approximately 2.4% of our issued share capital immediately after the Global Offering, the Capitalization Issue and the issuance of the Call Option Premium Shares, assuming the Over-allotment Option is not exercised. The Call Option Premium Shares will be issued to our Call Option JVs' partners upon the Global Offering becoming unconditional, but these Shares will not form part of the Hong Kong Public Offering or the International Offering. The total value of the call option premium, including the cash portion and the Shares portion, represents an aggregate amount of approximately US\$62.4 million (assuming that the Offer Price is fixed at the high end of HK\$3.75 per Share on the Price Determination Date) or US\$48.8 million (assuming that the Offer Price is fixed at the low end of HK\$2.93 per Share on the Price Determination Date).

Each call option is exercisable by us in stages within five years commencing from the expiry of the first six months from the commencement of Listing. An amount to be determined representing the option expenses will be deducted from the exercise price of the call option, such amount being expected to be no more than the amount of the call option premium. For details of the rationale for entering into the call option arrangements, the call option premium and the risks related to it, the exercising of the call options and their accounting treatments, please refer to the sub-sections headed "— Our Investments In Joint Ventures — Call option agreements" below and "Financial Information — Critical Accounting Policies — Accounting treatment of call options", and the risk factor entitled "We will not be able to get back the consideration we will pay for the call options granted to us by our Call Option JVs' partners if the Call Option JVs

OUR BUSINESS

become unprofitable or financially unsound or we decide not to exercise the call options, and the fair value of the call options may decline” in the section headed “Risk Factors” in this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and future prospects are underpinned by a combination of our competitive strengths, which are set out below:

One of the largest sportswear retailers in the PRC with an extensive nationwide retail network

We are a leading sportswear retailer in the PRC and directly operated 1,324 retail outlets in the PRC as at December 31, 2007. We also have investments in our Regional Joint Ventures which directly operated 1,936 retail outlets in the PRC as at December 31, 2007. We, together with our Regional Joint Ventures, are one of the largest sportswear retailers in the PRC based on the number of directly operated retail outlets, according to the analysis conducted by Frost & Sullivan and commissioned by us. We and our Regional Joint Ventures together directly operated a total of 3,260 retail outlets as at December 31, 2007 in most of the major cities across 26 provinces, autonomous regions and municipalities directly under the central government in the PRC. Our extensive retail network is complemented by the retail network operated by our retail sub-distributors, which operated 747 retail outlets covering many of the major cities and provinces within the PRC. Our Regional Joint Ventures also sell on a wholesale basis to their retail sub-distributors who operated 2,232 retail outlets under their supervision. Separately, the number of retail outlets operated by our retail distributors and sub-distributors including ourselves for our brand licensee business amounted to 3,254.

We believe our leading market position allows us to achieve a number of benefits, including the ability to leverage on our scale, industry experience and market knowledge to secure attractive locations for our stores, greater purchasing power vis-à-vis our suppliers, a larger network with which to manage our inventory level and cost efficiencies in IT, logistics and management resources. Our leading market position and brand name also provide us with an ability to better recruit and retain our store staff and management personnel who are essential to our continued growth.

Partner to leading brand companies targeting a broad range of customers

We operate a retail business in which we partner with leading international and domestic brand companies in the PRC. Our brand portfolio includes leading international and domestic brands such as *Nike*, *Adidas*, *Li Ning*, *Converse*, *Kappa*, *Reebok*, *PUMA*, *Hush Puppies*, *Nautica*, *Wolverine* and *Umbro*. Each of the brands has a distinctive brand image, character and style. For a detailed description of the brands we offer, please refer to the sub-section headed “— Our Retail Business — Our brand portfolio” below. We believe the diversity of our brand portfolio allows us to cater to a broad range of customers across age, gender, activity and income. We further believe that the brand strength of the products that we sell has been and will continue to be critical to growing our sales and expanding our market share.

OUR BUSINESS

Strong heritage and relationship with Yue Yuen

Immediately after the completion of the Global Offering, Yue Yuen will continue to be our controlling shareholder through its wholly owned subsidiary, Major Focus, holding 56.0% of our share capital (assuming that the Over-allotment Option is not exercised).

As a leading sportswear retailer in the PRC, we aim to be the preferred retail partner to the brand companies. We have a strong relationship with Yue Yuen who, as the largest sports footwear manufacturer globally, has developed a strong reputation among and long-term relationships with most of the leading sportswear companies. We are well positioned to benefit from Yue Yuen's existing relationships with brand companies who wish to increase their sales in the PRC, by offering to open additional retail outlets to sell their products or by entering into brand license arrangements with them. Notwithstanding the above, we operate our retail and brand licensee businesses independently from Yue Yuen and our operation has not relied on the relationships between Yue Yuen and the brand companies. We have our own senior management team and brand management team which comprise dedicated staff members recruited by us and which are separate and independent from those of Yue Yuen. They liaise directly with brand companies on behalf of us, including the terms of distribution arrangements, and have developed long-term relationships with the brand companies. While we operate our business independently from Yue Yuen, we believe our relationship with Yue Yuen, which will not conduct any sportswear retail sales of its own following completion of the Reorganization pursuant to the Business Separation Deed, will enhance our attractiveness to brand companies as their preferred retail partner.

In addition, the know-how in manufacturing that we have inherited from Yue Yuen equips us with better insights into our manufacturing business and our Taicang factory's operations. Under our manufacturing business, we also have a separate and independent senior management team and sales team from that of Yue Yuen which have independent access to the brand companies.

Strong in-house IT capabilities

We are committed to attaining the highest standards in retail management and have developed strong in-house IT capabilities consisting of our ERP, POS and CRM systems to enhance our operating efficiency. Our internal ERP system, the "Yuen Sheng System", was designed and developed in-house and is operated through a dedicated team of over 110 IT professionals as at the Latest Practicable Date. It seamlessly integrates into our other self-developed MIS systems, including the POS and CRM systems, etc., and covers all of our directly operated retail network as well as certain retail outlets operated by our retail sub-distributors. This integrated network combines customer information with sales and inventory data and provides our senior management with a comprehensive view of our retail operation.

We believe the Yuen Sheng System is an important tool to help us manage our budgeting, human resources and inventory effectively, as it enables us to compile and analyze key performance data, customer sales data and feedback quickly and efficiently. As a result, we are able to better understand customers' changing preferences and optimize our inventory levels across our retail and logistics network accordingly.

OUR BUSINESS

We further believe our IT platform is easily scalable, which facilitates the integration of newly established retail outlets or retail outlets acquired by us. Our Regional Joint Ventures are in the process of adopting the Yuen Sheng System.

Highly experienced senior management team supported by localized retail management team and dedicated brand management team

We have an experienced senior management team with extensive operating expertise and an in-depth understanding of the sportswear retail market in the PRC. Our chairman, Mr. TSAI David Nai Fung, and chief executive officer, Mr. Huang, each has over 30 years of experience in the sportswear industry. Our chief financial officer, Ms. CHANG Karen Yi-Fen, has many years of experience in corporate finance and financial management. Each of the remaining executive Directors, namely Mr. LEE Chung Wen and Mr. HUANG Chun Hua, have more than 15 years of experience in the sportswear industry and have been with us for more than 15 years. We believe that the stability of our senior management team and their business experience and knowledge of the industry and products have constituted and will continue to constitute some of the key elements of our success.

Our senior management team is supported by experienced local retail management teams led by a district general manager for each sales region. These district managers bring significant value to us as a result of their intimate understanding of local customer demand and spending patterns, market trends and regulations. They are responsible for ensuring that the quality standards of our operations are maintained even as we are expanding rapidly. We also have an experienced brand management team which is responsible for managing long standing relationships with our brand partners and serve as the principal contact point between brand companies and our retail management teams.

In order to align the interests of our core management team and key employees with those of our Shareholders, we have put in place certain performance-based incentive programs, including an employee share option scheme as well as a Pre-IPO Share Subscription Plan. For details, please refer to the sub-section headed “Statutory and General Information — E. Share-based Remuneration Schemes” in Appendix VIII to this prospectus. We believe such programs will help us recruit, incentivize and retain suitable management personnel.

OUR BUSINESS

OUR STRATEGIES

We aim to strengthen our position as the leading sportswear retailer in the PRC by implementing the strategies below:

Continue to expand our retail network and geographical coverage

We plan to expand our retail network by entering into new leases and concession agreements in attractive locations for our department store counters, street-level stores and shopping-mall stores in our existing markets, where we believe the strong consumer demand gives us significant potential for further market penetration. We also intend to further increase our market presences in emerging cities in the PRC, where we believe the increasing spending power of the population in these emerging markets represents an attractive opportunity for further expansion. For details, please refer to the sub-section headed “— Our Strategies — Selectively pursue strategic investment opportunities and enhance returns through introduction of best practices” below.

In each of our sales districts, we have a dedicated team of professionals who evaluate prospective new retail outlet locations by conducting detailed analyses of the projected customer demand profile for each new location. For details about our retail outlet opening policy, please refer to the sub-section headed “— Our Retail Business — Management of our retail outlets — Opening of additional retail outlets” below. We have also established a dedicated property leasing and management unit that acquires or leases large scale retail spaces at attractive locations which are then sub-divided and leased to us or third party retail distributors. We believe that this property leasing and management unit improves our ability to opportunistically secure attractive retail spaces at reasonable terms and gives us better control of the overall shopping experience for our customers.

We continuously seek to optimize our retail network in terms of store format and location. While we will continue to focus our mono-brand format strategy on our department stores, street-level stores and shopping-mall stores where there are high levels of customer traffic, we will also explore alternative formats such as establishing additional sports complexes and multi-brand stores, the latter of which offers a selection of sports products of different brands categorized and shelved according to their functions. We believe our sports complexes and multi-brand store formats offer our customers, especially family shoppers, an appealing one-stop shopping experience. For a description of our sports complexes, please refer to the sub-section headed “— Our Retail Business — Formats of our retail outlets — Street-level stores and shopping-mall stores” below.

Continue to diversify our brand and product portfolio to target a broader range of customer segments

We plan to increase the number and diversity of the brands and product lines that we carry. We have designated teams constantly seeking opportunities to partner with new brand companies or with existing brand companies in new product lines, in both cases where we believe there is market potential and would be complementary to our existing portfolio. For instance, we plan to introduce more activity-based product lines such as *Converse* basketball footwear series, and lifestyle-based product lines such as *NK360*, *Adidas Kids*, *Adidas Classic*, and the *Hush Puppies*

OUR BUSINESS

women's footwear series. We believe that providing a larger and more diversified product assortment to our target markets will further expand our customer base, enhance our competitiveness and increase the attractiveness of our sports complexes.

Continue to develop our brand licensee business

We will continue to expand our brand licensee business which typically grants us exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set the retail price of products under the licensed brands. Given this greater control of the value chain, we believe that our brand licensee business model gives us the potential to achieve better profitability than under typical distribution arrangements.

As at the Latest Practicable Date, we were the exclusive brand licensee for *Converse*, *Hush Puppies* and *Wolverine*. We intend to leverage our success to date to secure new licensee opportunities. We evaluate each potential new licensed brand on the basis of the prevailing or potential market demand for the brand, the economics specific to the agreement as well as the ability to complement as opposed to compete with our existing portfolio of licensed brands and products.

Develop and implement an end-to-end supply chain solution to improve operational efficiency

Our extensive retail network, together with our in-house IT platform and manufacturing capabilities, uniquely enables us to develop and implement an end-to-end supply chain solution that will improve operational efficiency for all participants along our supply chain which include the brand companies, manufacturers and retailers. One of the key benefits of the end-to-end supply chain solution is that it will enable both the brand companies and us to review the daily in-store sales data, product inventory levels and feedback from store managers, and therefore to more dynamically assess consumer demand. As a result, we will be able to place orders in smaller batches and replenish inventory from brand companies more quickly, which in turn allows us to optimize overall inventory levels and lower capital commitments, minimize discounting and hence maximize our profitability and the profitability of the brand companies. We believe our ability to offer and implement such solution in the future will distinguish us from other sportswear retailers in the PRC.

Continue to build the “YY Sports” brand name

We believe that the purchasing decisions of our customers are influenced not only by the brands of the products that we distribute at our retail outlets, but also by the level of recognition of our “YY Sports” brand name by our customers.

To enhance our brand recognition, we plan to further build our “YY Sports” brand name by offering customers a consistent and pleasant shopping experience. In all of our retail outlets, we will continue to further differentiate ourselves by offering customers high quality customer services. To ensure the consistent delivery of a high standard of customer services, our management uses a set of key performance indicators in evaluating retail outlet and individual sales person performance and in setting performance goals. We also offer on-the-job training to all of our in-store employees to improve their retail management skills and abilities. In addition,

OUR BUSINESS

we conduct a “mystery shoppers” program, whereby selected managers will periodically visit a retail outlet unannounced and check the quality and level of service offered in that retail outlet. To improve customer awareness of and to strengthen customer loyalty to our “YY Sports” brand name, we also plan to further develop our VIP customer program to offer more promotion campaigns for targeted customers. We will continue to conduct selective store promotional campaigns for our newly opened retail outlets. We also plan to promote our “YY Sports” brand name through local and national advertising and promotional campaigns to enhance our brand image and recognition as the preferred sportswear retailer in the PRC.

Selectively pursue strategic investment opportunities and enhance returns through introduction of best practices

As part of our strategy to further expand our retail network in the PRC, we will continue to selectively acquire, invest in, or otherwise enter into partnerships with leading regional retailers that we believe will strengthen our existing market position, allow us to get access to new markets and enhance our competitiveness. We will carefully consider and evaluate the potential benefits brought by a potential acquisition and alliance to ensure that we will be able to successfully integrate the acquired business into our existing business platform. We believe that our relationships with many industry participants and our leading market position in the retail sportswear industry in the PRC will improve our bargaining position in making such acquisitions and alliances.

In order to maximize the returns on our investments, we will introduce our best practices in the areas of retail outlet management, customer services, financial management, IT systems and other operational experiences to the retail outlets operated by the existing and future joint ventures that we have invested or will invest in. We believe such best practices will allow our joint ventures to operate more efficiently and generate higher sales per retail outlet and profitability, and hence enhance our returns.

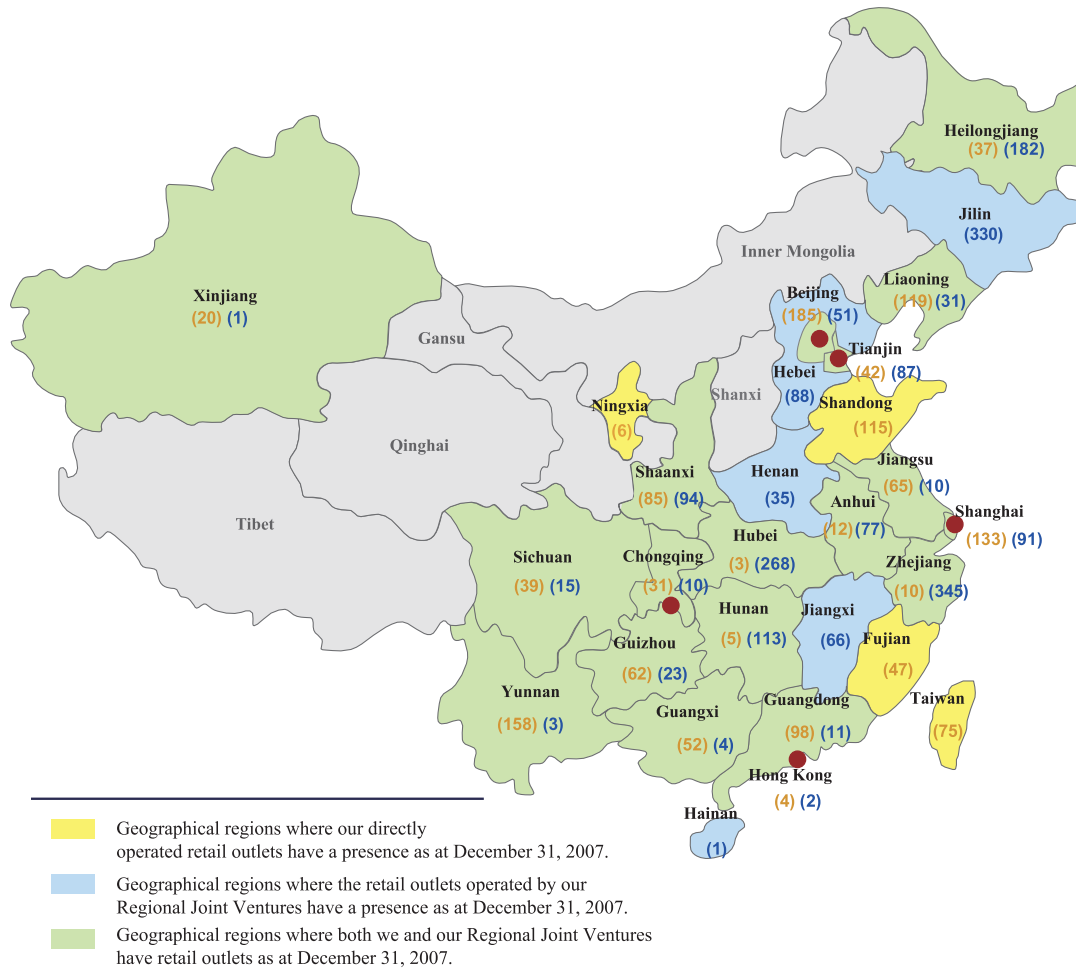
OUR RETAIL BUSINESS

We generate revenue from our retail business by selling sportswear products to end customers through our directly operated retail outlets or to retail sub-distributors on a wholesale basis. For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, revenue attributable to our retail business was US\$129.0 million, US\$232.9 million, US\$355.2 million and US\$127.0 million, respectively, which accounted for 62.3%, 62.4%, 63.9% and 68.6% of our total revenue for these periods, respectively. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business Segments” in this prospectus.

OUR BUSINESS

Our retail network

The following map shows the geographical distribution of the retail outlets in the Greater China Region that we and our Regional Joint Ventures directly operated as at December 31, 2007. The numbers of retail outlets operated by us and our Regional Joint Ventures are indicated in yellow color and blue color, respectively.



As at December 31, 2007, we operated 1,403 directly operated retail outlets in the Greater China Region including 79 directly operated retail outlets in Hong Kong and Taiwan. In addition, our Regional Joint Ventures operated 1,938 directly operated retail outlets throughout the Greater China Region including two directly operated retail outlets in Hong Kong.

Formats of our retail outlets

Department store counters

Our primary retail distribution channel for selling sportswear products is through our department store counters. As at December 31, 2007, we operated 1,033 department store counters, which constituted approximately 73.6% of our retail outlets in the Greater China Region. All of our department store counters are mono-brand stores.

OUR BUSINESS

The department stores typically allocate to us certain store space for the display and sale of sportswear products pursuant to the concession agreements that we enter into with them. We generally pay the department store a monthly concession fee which is calculated as a percentage of the monthly revenue that our department store counter generates. For some of our department store counters, we are also subject to a minimum guaranteed concession amount as stipulated in the concession agreements. The concession agreements commonly contain terms in relation to the location of our counter in the department store, the size of our counter, the duration of the agreement, the calculation basis and payment terms of the concession fees. The majority of the concession agreements are for a term of one year and renewable upon mutual consent.

For the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, our rental expenses in connection with the leasing of our department store counters amounted to US\$19.1 million, US\$28.6 million, US\$42.0 million and US\$14.2 million, respectively.

Street-level stores and shopping-mall stores

In addition to department store counters, we also utilize the following retail distribution channels:

- street-level stores, which are stand-alone retail outlets situated at street level; and
- shopping-mall stores, which are retail outlets situated inside shopping malls.

As at December 31, 2007, we operated 224 street-level stores and 146 shopping-mall stores, which constituted approximately 16.0% and 10.4% of our retail outlets in the PRC, Taiwan and Hong Kong, respectively. The majority of our street-level stores and shopping-mall stores are mono-brand stores. We only have a small number of multi-brand stores.

Our lease agreements for our street-level stores and shopping-mall stores typically contain terms such as the location and size of the store, the duration of the agreement and the amount of the rental. The rental contains a fixed component as well as, in certain cases, a variable component based on the monthly revenue generated by the retail outlet. The majority of our lease agreements are for a term of generally two to three years and renewable upon mutual consent.

For the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, our rental expenses in connection with the leasing of our street-level stores and shopping-mall stores amounted to US\$7.1 million, US\$9.4 million, US\$13.9 million and US\$5.0 million, respectively.

OUR BUSINESS

The table below shows the number of our directly operated retail outlets by format as at December 31, 2007.

| | <u>Number</u> | <u>% of total number of our retail outlets</u> |
|-------------------------------------|---------------------|--|
| Department store counters | 1,033 | 73.6% |
| Street-level stores | 224 | 16.0% |
| Shopping-mall stores | <u>146</u> | <u>10.4%</u> |
| Total | <u>1,403</u> | <u>100.0%</u> |

Some of our retail outlets are located in retail sports complexes, which are a group of mono-brand shopping-mall stores located in some of the city centers in the PRC. We believe that such retail sports complexes provide a one-stop shopping destination for sportswear products for end customers. Such retail sports complexes are either managed by third parties or by our own property leasing and management unit. We believe the retail sports complexes managed by us also enable us to promote our own “YY Sports” brand name, since our “YY Sports” logos are displayed outside of such retail sports complexes.

Save for the above, we do not classify our retail outlets into any other types.

Our wholesale network

We also sell products on a wholesale basis to our retail sub-distributors, who operated 747 retail outlets under our supervision as at December 31, 2007. Brand companies generally grant larger retailers wholesale rights in order to extend the geographical penetration of their products. All such retail outlets operated by our retail sub-distributors have to be approved by the brand companies and are required to observe retail procedures, store layouts and policies in respect of marketing activities, daily operations and customer service pre-set by the brand companies and us. For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, revenue attributable to the sale of products on a wholesale basis to our retail sub-distributors was US\$20.3 million, US\$58.8 million, US\$89.1 million and US\$31.6 million, respectively, which accounted for 15.7%, 25.3%, 25.1% and 24.9% of our retail business revenue for the periods indicated, respectively.

Our brand portfolio

Our brand portfolio includes leading international and domestic brands such as *Nike*, *Adidas*, *Li Ning*, *Kappa*, *Reebok*, *PUMA*, *Converse*, *Hush Puppies*, *Nautica*, *Wolverine* and *Umbro*. Our brand portfolio aims to cover a broad range of customer segments in the PRC in terms of age, gender, activity and income and to respond to consumer preference. We offer a wide range of sports footwear, apparel and accessories for the brand companies in our portfolio. Pursuant to the distributorship agreements with these brand companies, we and our Regional Joint Ventures are typically their authorized non-exclusive sportswear distributor in the PRC. According to the analysis conducted by Frost & Sullivan and commissioned by us, we, together with our Regional Joint Ventures, were the number one sportswear retailer for two of the top three sportswear brand

OUR BUSINESS

companies in the PRC, namely *Adidas* and *Li Ning*, the number two sportswear retailer for *Nike*, as well as the number one retailer for *Converse*, *Kappa*, *Reebok*, *PUMA*, *Hush Puppies* and *Wolverine*, all in terms of the number of directly operated retail outlets in the PRC as at December 31, 2007.

We believe that distributorship agreements represent the most common form of contractual arrangement in the PRC between brand companies and retail distributors. In our case, these agreements typically allow us to sell the sportswear products under the brand name of the brand company in the PRC on a non-exclusive basis for a specified period of time and for a specified geographical region. Pursuant to the distributorship agreements that we entered into with the sportswear brands companies, which generally have a term of one to two years, we purchase sportswear products from them for resale to end customers or to retail sub-distributors. We set forth below details of the major sportswear brands with whom we have entered into distributorship agreements.

Major brands offered by us

We primarily distribute products of the following brands:

- | | | |
|-------------------|---|---|
| <i>Nike</i> | — | <i>Nike</i> offers footwear products, apparel and accessories that cater to the athletic and recreational needs of customers. |
| <i>Adidas</i> | — | <i>Adidas</i> focuses on key global sports categories and on the sports lifestyle market, offering a broad range of footwear, apparel, and hardware such as bags and balls. |
| <i>Li Ning</i> | — | <i>Li Ning</i> offers sports footwear, apparel and accessories for sports and leisure use. |
| <i>Kappa</i> | — | <i>Kappa</i> offers a range of active and casual sports-related apparel, footwear, accessories and equipment. |
| <i>Reebok</i> | — | <i>Reebok</i> creates and markets sports and lifestyle products and offers footwear, apparel and sports-related products. |
| <i>PUMA</i> | — | <i>PUMA</i> is engaged in the development and marketing of a broad range of sports and lifestyle articles including footwear, apparel and accessories. |
| <i>Nautica</i> | — | <i>Nautica</i> offers casual apparel and footwear. |
| <i>ASICS</i> | — | <i>ASICS</i> offers sports and leisure products. |
| <i>North Face</i> | — | <i>North Face</i> offers a range of high-performance outerwear, skiwear, sleeping bags, packs and tents. |

OUR BUSINESS

Additional brands offered by our Regional Joint Ventures

Our Regional Joint Ventures distribute products of *Nike*, *Adidas*, *Li Ning*, *Kappa* and *PUMA*. In addition, our Regional Joint Ventures also distribute products of the following brands:

- Umbro* — *Umbro* designs, sources and markets football-related apparel, footwear and equipment.
- Columbia* — *Columbia's* product line includes a wide variety of outerwear, sportswear, rugged footwear and accessories.

In addition to the above brands which we and our Regional Joint Ventures distribute, we also distribute products of *Converse*, *Hush Puppies* and *Wolverine* pursuant to our brand license agreements with their brand owners. For details of the brand descriptions of *Converse*, *Hush Puppies* and *Wolverine* and our various brand license agreements with their brand owners, please refer to the sub-section headed “— Our Brand Licensee Business — Brand portfolio and exclusive brand license agreements” below.

The following table sets forth the number of our directly operated retail outlets and the retail outlets operated by our retail sub-distributors according to the brands that we distribute as at December 31, 2007:

| Brands | Directly operated retail outlets | Retail outlets operated by retail sub-distributors |
|-------------------------------|-------------------------------------|--|
| <i>Adidas</i> | 311 | 296 |
| <i>Nike</i> | 275 | 196 |
| <i>Converse</i> | 234 | 53 |
| <i>Reebok</i> | 131 | 15 |
| <i>PUMA</i> | 94 | 23 |
| <i>Li Ning</i> | 83 | 128 |
| <i>Hush Puppies</i> | 76 | 0 |
| <i>Nautica</i> | 35 | 0 |
| <i>Kappa</i> | 27 | 12 |
| <i>Asics</i> | 23 | 0 |
| <i>Wolverine</i> | 23 | 0 |
| Others | 91 | 24 |
| Total | 1,403 | 747 |

Management of our retail outlets

Opening of additional retail outlets

It is our objective to prudently expand the geographical coverage of our retail sales network across the Greater China Region.

OUR BUSINESS

We continuously look for attractive locations for the expansion of our retail network. Once we have identified an attractive location for a potential retail outlet, we will seek the relevant brand company's authorization to proceed with the opening of such retail outlet. We believe our ability to identify and secure attractive retail outlet locations is one of the key factors that attract brand companies to sell their products through us. When evaluating any prospective retail outlet location, our business development teams typically prepare a detailed retail outlet opening report before making a decision. In the report, we evaluate population size, GDP level, level of competition, size of the market for sportswear, and other economic indicators of the region, as well as the sufficiency of our human resources to open a new retail outlet at that location.

In selecting the locations for retail outlets, we generally take the following factors into consideration:

- estimated rental expenses and estimated returns on capital invested;
- estimated profitability and the time required to break even;
- existing and expected population density, pedestrian flow and vehicle traffic in the surrounding area;
- retail outlet location and layout factors, including urban planning, geographic location, available lettable area, adjacent buildings, public transport and infrastructure, as well as demographics;
- shopping habits, needs, spending patterns and power of the target consumer base;
- perceived marketing opportunities or strategic benefits to us;
- likely competition and cannibalization in the surrounding area of the proposed location; and
- authorization from the relevant brand company.

Design and appearance of our retail outlets

The majority of our retail outlets are mono-brand stores, which we operate under the brand name of the sportswear products being distributed, with our “YY Sports” logo also displayed. As at the Latest Practicable Date, our “YY Sports” logo was displayed in approximately 80% of our directly operated retail outlets, and it was also displayed in some of the retail outlets directly operated by our Regional Joint Ventures.

We aim to create a pleasant, friendly and comfortable shopping environment and experience for our customers by using a set of standardized modern interior designs and facilities, based on the general guidelines set by the relevant brand companies. In addition to adhering to these guidelines, all of our stores which carry the “YY Sports” brand name also present a consistent design and color of store fronts, merchandize display systems, information displays for promotional sales, product function cards, shopping bags, service counters, cashier counters and uniforms.

OUR BUSINESS

Operations and staffing of our retail outlets

Each of our retail outlets is supervised by a manager who is principally responsible for that retail outlet's day-to-day management and operation. Staff recruitment and payroll are the responsibilities of our district general managers. The numbers of staff differ from outlet to outlet, depending on the size, store format and sales volume. For details, please refer to the sub-section headed "— Our Retail Business — Organization and management of our retail business" below.

We believe that the performance of our retail outlet staff is critical for us to efficiently operate our retail outlets and to provide outstanding customer service. As such, we place great emphasis on the training and development of our retail outlet staff and provide in-house training programs on customer service, customer relationship management, technical skills and safety procedures. Furthermore, we require our retail outlet staff to follow our service guidelines, which provide our retail outlet staff with guidance on how to greet customers upon entry and exit, answer commonly-asked questions and handle customers' complaints.

The brand companies also provide external training programs to our retail outlet staff without charge. These training programs are generally product-related, with specific emphasis on product knowledge, product display techniques and product handling procedures.

Hours of operation vary between different retail outlets depending on the shopping habits of our customers in the locality, but are generally between 9:00 a.m. and 10:00 p.m. for seven days a week.

Retail outlet economics

We believe that our retail outlets offer attractive economics. For the 375 retail outlets that were opened prior to September 30, 2005 and were still in existence as at September 30, 2007, we had daily average sales of US\$1,136 per retail outlet for the financial year ended September 30, 2007 and for the 174 retail outlets that were opened prior to September 30, 2004 and were still in existence as at September 30, 2007, we had daily average sales of US\$1,503 per retail outlet for the three months ended December 31, 2007. For details, please refer to the sub-section headed "Financial Information — Factors affecting our Results of Operations and Financial Condition — Business Segments" in this prospectus.

The financial performance of our retail outlets is affected by various factors, including without limitation, changes in consumption patterns and consumer demand for sportswear, the location of our retail outlets, the level of competition in the local market, the brands that our retail outlets carry and the age of our retail outlets.

We strive to maximize revenue per square meter of floor area and revenue per retail outlet. To that end, we maintain a flexible in-store display layout for our retail outlets that changes periodically throughout each year to attract customers' attention for newly launched items. In addition, when allocating retail outlet space, we take into account factors such as expected customer flow, customer purchasing habits, the growth potential of different types of merchandize, seasonality, and, if applicable, brand companies' specific requests.

OUR BUSINESS

Retail pricing strategy

For our retail business, we are required to follow uniform nationwide retail prices set by the relevant brand companies in all of our directly operated retail outlets, and are restricted from offering discounts on new products until typically 60 days (for sports apparel) to 75 days (for sports footwear) after the first launch date of the products at our retail outlets. Once these restricted periods for a particular product have passed and upon meeting certain requirements set by brand companies, we are able to exercise our discretion to set discounts at a particular level and to a particular product, as we deem appropriate. For products that we intend to sell at heavily discounted prices, we will typically move those products to our discount outlets. The extent of the discount after the restricted period is decided by us subject to a limit set by the brand companies and the discount rates may vary for different regions depending on the total number of products available for sale and the inventory status of a particular product.

Retail sales return policy

We adopt a retail sales return policy that does not violate any applicable PRC laws and regulations. The sales return policy for the retail outlets will depend upon the incremental judgment of our retail outlet manager. Our general sales return policy is that we will refund or replace any products with material defects returned by our end customers who purchased such products from our retail outlets and retail sub-distributors within three months and 12 months, respectively, from the respective purchase dates. We will then return the defective products to the brand companies for a refund. For more details, please refer to the section headed “Supervision and Regulation” in Appendix V to this prospectus.

All customers in our retail business are in general subject to the retail sales return policy. For the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, our retail sales return amounted to US\$0.3 million, US\$0.8 million, US\$2.9 million and US\$1.8 million, respectively, which was net off against our revenue.

Management of our retail sub-distributors

Supervision of our retail sub-distributors

The retail outlets operated by our retail sub-distributors are supervised by us continuously on a regular basis. We require our retail sub-distributors to provide us with inventories and sales data and provide them with merchandizing and sales support. We also provide regular training to the staff of our retail sub-distributors and pay regular visits to their retail outlets to advise them on issues such as store decoration.

The retail outlets operated by the retail sub-distributors of our Regional Joint Ventures are supervised by our Regional Joint Ventures in a similar manner. We do not control the retail sub-distributors of our Regional Joint Ventures and have no transaction with them.

OUR BUSINESS

Credit control

We only dispatch products ordered by our retail sub-distributors upon receiving the purchase price in full. We have the discretion to offer credit terms to our retail sub-distributors based on their past payment records, the size of their operation as well as their business history and relationships with us.

Organization and management of our retail business

Senior management

Our senior management team is based in Shanghai and is primarily responsible for our strategic business development, nationwide marketing and brand management, financial management, senior personnel recruitment and training and internal control. Our senior management also sets performance and budget targets, and supervises our overall performance. Our senior management organizes a regional performance review meeting every quarter with our district management teams to review their sales and operational performance in the previous quarter and to prepare forecasts for the next quarter. Our district management teams also share their operational experience and market intelligence with respect to their local markets. We believe this two-way communication significantly enhances the ability of our senior management to appropriately set our overall strategy.

Regional and district management teams

We divide our retail business operations into 16 sales districts in the PRC, with our Beijing and Shanghai offices overseeing our retail operations in the Northern China and the Southern China regions, respectively. Mr. LU Ning, one of the senior management members of our Group, is the general manager for our retail business. We have two deputy general managers under his direct supervision who are responsible for the operations of our sales regions in the Northern China and the Southern China regions, respectively.

We have one district general manager for each sales district, who is under the direct supervision of the deputy general manager responsible for the operations of that district. Each of our district general managers is responsible for supervising the district management teams and compiling the accounts of his sales district. Each of the district management teams oversees the operations of our directly operated retail outlets in that particular district, such as their sales, logistics and inventory management, and provides necessary administrative and human resources support to them, as well as supervises their authorized retail sub-distributors. The deputy general managers frequently communicate with our district general managers to obtain updated information on district sales data, latest customer preferences and retail outlets opening trends. The deputy general managers act as the main channel of communication between our senior management at the headquarters level and the district management teams level.

We believe that this management structure ensures a clear division of responsibilities within our Group and an efficient implementation of strategies formulated at the headquarters level. This structure also ensures an efficient flow of market information from the retail outlets to the senior management, which is critical to our effective decision making process.

OUR BUSINESS

We also have independent management teams to manage our retail business in Taiwan and Hong Kong.

Brand management

In order to reinforce and maintain the cooperative relationships we have with brand companies, we have specialized brand managers responsible for managing our relationships with the brand companies, who serve as the principal contact point between the brand companies and our retail management teams. As most of our retail outlets are mono-brand stores, the brand managers are also responsible for negotiating with the brand companies on the approval of the location of the prospective retail outlets and other related issues. Our brand managers have been working with many of our major brand companies for several years and have established close and trusted relationships with them.

Purchasing management

Purchasing policy and strategy

As a sportswear retailer, our ability to identify and purchase a mix of merchandize which fits the latest market trends and caters to customer preferences is important to our success. To ensure an effective purchasing process, we have dedicated merchandizing teams in the regional and district management teams in each of our sales districts. Our merchandizing teams formulate their purchasing strategy based on historical sales records, customer tastes, market growth rate and the expected number of new retail outlets opening in the ensuing year.

For the sportswear products that we sell under distributorship agreements, the brand companies will provide a range of merchandize for us to purchase every quarter. Such merchandize is designed and supplied by the relevant brand companies, and the scope of merchandize is largely decided by the relevant brand companies.

Purchasing process

We typically place advance orders for new products and replenishment orders for the replenishment of our existing inventory. The purchase discount offered by the brand companies for advance orders is generally higher than that for replenishment orders. In general, we believe advance orders represent the majority of the volume of our purchases.

- ***Advance orders***

Currently, we place advance orders with the brand companies for new products four times a year. Trade fairs between our merchandizing teams and the brand companies are held quarterly. We generally place our orders to the brand companies approximately 20 days after our trade meetings with them. We normally receive products ordered pursuant to advance orders within six months from the date of ordering.

In placing advance orders, the merchandizing teams in a particular sales district will typically gather information on the demand for products and aggregate orders from our directly operated retail outlets and our retail sub-distributors, and present them to the

OUR BUSINESS

relevant brand manager. The brand manager will then review and modify the quantity of purchases from each sales district in accordance with our store expansion plans and the projected sell-through. By consolidating our purchases, we believe we can obtain more competitive terms from the brand companies.

- *Replenishment orders*

For popular and fast-selling products, we may also place additional replenishment orders with the brand companies to replenish the inventory of such products. Replenishment orders are usually placed approximately one week in advance of the anticipated delivery time.

Our ability to place accurate replenishment orders to replenish our inventory is closely connected to our ability to monitor and control our inventory levels efficiently. Our MIS system reconciles the sales data recorded by our POS system on a daily basis and submits data with respect to the inventory level at our retail outlets to our distribution centers. It will then automatically generate a request for inventory replenishment to our distribution centers when the stock level of a particular type of merchandize falls below a pre-determined level set by our management. Stock at our distribution centers will then be dispatched to the retail outlets accordingly. The MIS system also allows our merchandizing team to review our overall inventory level at both our retail outlets and distribution centers on a daily basis, and the merchandizing team will then formulate and place replenishment orders with the relevant brand companies to replenish the inventory. For details of our inventory control procedures, please refer to the sub-section headed “— Our Retail Business — Inventory Control” below.

Purchase budgeting

Prior to the beginning of each financial year, our merchandizing teams prepare detailed monthly internal budgets for our existing and new merchandize. These budgets consist of various forecasts for each category of merchandize, including the estimated amount of sales for each product, projected gross profits and margins, minimum inventory level to be maintained, inventory-to-sale ratio and the merchandize to be eliminated. The purchase budget for the replenishment of our existing inventory is mainly based on our past historical sales records, while the purchase budget for new merchandize is based on the past sales records of the brands as well as those of comparable products, projected inventory-to-sales ratio, projected monthly market demand, demographical analysis, customer feedback and customers’ buying habits and preferences.

Payment terms

Our payment arrangements with each brand company may vary. They are dependent on a number of considerations including the amount of purchases, our relationship with the brand company, and our historical payment records.

For our retail business, we generally settle invoices by way of commercial acceptance draft or telegraphic transfers. The brand companies typically extend to us credit period of 45 to 60 days after the invoice date and grant us discounts on our next purchase for early settlement of the

OUR BUSINESS

purchase price before the end of the credit period. In addition, we are entitled to a sales bonus for meeting or exceeding our annual purchase target. For details, please refer to the sub-section headed “Financial Information — Summary Results of Operations — Description of selected income statement line items — Revenue” in this prospectus.

Inventory control

In order to minimize inventory carrying costs and the use of working capital, we strive to maintain an optimal level of inventory.

Our retail outlets employ a computerized information system which captures the information including inventory movement, purchases and sales. Each model of merchandize that we offer is coded with a unique item code and each item is coded under a bar code system for identification in our POS system, which, in turn, is linked to our MIS system. The cashiers at our retail outlets will scan the bar code on the model or item code of the merchandize being sold. Sales information from each of our retail outlet’s POS terminal is collated and uploaded to our MIS system so that our MIS system can record the sales data real-time. The MIS system will then automatically generate a request to replenish daily inventory according to daily stock out data and submit such requests to our distribution centers, and coordinate delivery to most of our retail outlets within two to four working days. In case of any shortfall of merchandize from a particular region, the merchandizing division in our headquarters will coordinate the transfer of the out-of-stock merchandize from the distribution centers in other regions where such merchandize is available to the distribution center in the region where there is a shortfall. We believe, with this system in place, the inventory level of a particular model can be closely monitored and controlled.

We also conduct stock-takes at all of our retail outlets on a monthly basis and our finance team will assign staff to sample check the accuracy of the stock-take results. We also conduct stock-takes at our distribution centers at least twice a year. Records in our ERP system will be updated after every stock-take, and our management will review inventory levels in order to determine the focus of sales efforts or whether to make inventory provisions.

We believe that our profitability is reduced when our inventory is held for excessive periods of time. Accordingly, we typically move slow-selling or obsolete products to our discount outlets which are typically located in less prime locations and sell them at larger discounts. We believe our discount outlets help us dispose of the slow-moving items and reduce our inventory levels, which is beneficial to our overall profitability.

Cash management

There are two types of cash handling methods for our retail business. For our department store counters, cash is collected by the relevant department stores on our behalf. For our street-level stores and shopping-mall stores, cash is collected directly by our retail staff.

OUR BUSINESS

Department store counters

Sales proceeds are first collected by the department stores and are typically paid to us within one month of the date of our invoices issued to the relevant department stores, after deducting the concession fees payable by us, together with any other relevant fees and expenses such as marketing expenses and temporary storage fees. The rate of the concession fees is calculated as a percentage of the revenue generated by our department store counters, subject to a minimum guaranteed concession amount. For details of our concession agreements with the department stores, please refer to the sub-section headed “— Our Retail Business — Formats of our retail outlets — Department store counters” above. As at the Latest Practicable Date, we had not experienced any material default in collecting the sales proceeds of our department store counters.

Street-level stores and shopping-mall stores

With respect to our street-level stores and shopping-mall stores, all of our sales are paid for at the time of purchase by cash, credit card or debit card. Accordingly, we handle the cash inflow ourselves. We have strict internal control procedures for handling cash at all of our retail outlets, including:

- only the cashiers handle cash;
- no payments from our cash proceeds;
- daily bank deposits of cash;
- use of sequentially-numbered sales invoices to check against sales amounts and cash proceeds;
- daily reconciliation of sales against cash proceeds and retail POS system records; and
- daily sample checks by the accounting staff of the regional/head office on cash proceeds against the records of deposit of cash with the POS system records, as well as the sales invoices and reports to ensure that sales are properly recorded by the POS system.

Branding, Marketing and Customer Service Initiatives

Differentiation through branding

We recognize the importance of branding and we aim to continue to build our “YY Sports” brand name as a leading brand name for sportswear retailing in the PRC. As at the Latest Practicable Date, our “YY Sports” logo was displayed in approximately 80% of our directly operated retail outlets, and it was also displayed in some of the retail outlets directly operated by our Regional Joint Ventures. We aim to offer our customers a distinctive, consistent and comfortable shopping experience in our retail outlets, in terms of layout, product mix and customer service as well as other customer-oriented initiatives. We also plan to promote our “YY Sports” brand name through local and national advertising campaigns to enhance our own brand image and recognition as a leading sportswear retailer in the PRC.

OUR BUSINESS

Customer relationship management initiatives

We seek to maintain a high standard of customer service. We require our staff to follow a service standards manual, which places emphasis on customer service.

Promotional campaigns

For the brands with whom we have entered into distributorship agreements, advertising is primarily the responsibility of the brand companies. We believe our sales benefit significantly from the investments in marketing, promotion and advertising made by the relevant brand companies, which typically have greater financial power, human and public relations resources than us. In addition to the promotional campaigns and advertisements that are organized by the various brand companies, we also occasionally launch a variety of marketing and promotional campaigns (subject to the brand companies' approval) at our own cost, including holiday sales and grand opening promotions.

Promotional discounts and special offers play an important role in our marketing strategies. For our retail business, where we act as a distributor, we are required to follow a uniform nationwide retail pricing set by the brand companies for a defined period of time after we launched the new product. Thereafter and upon meeting certain requirements set by the brand companies, we have full discretion on applying discounts to such product. We also organize special themed promotional events and invite suppliers to participate in some of the events. The brand companies may sometimes invite celebrities to participate in such events at our retail outlets.

We have our own website at www.pousheng.com which contains a link to the website www.yy-sports.com. It contains information on the products of the various brands that we sell in our retail outlets and a database which enables our VIP customers to track their historical purchase records and points accumulated, as well as a discussion forum for the public to express their opinions on our products. This website also contains useful information about us such as the location of our retail outlets, latest news and leisure games. Visitors can apply to become a member of our website in order to receive our latest news and developments.

VIP Customer Program

We have our own CRM system and have instituted a “VIP” customer program. This program allows customers to accumulate points based on the amount they spend on purchasing our products. The points accumulated can be used to offset against the cost of further purchases and to redeem gifts. As at the Latest Practicable Date, more than 230,000 members had enrolled into this program in the Greater China Region. We believe that such program allows us to effectively track and analyze the purchasing behavior of our customers, improves customer loyalty to the “YY Sports” brand name and provides a low-cost database for direct marketing.

The VIP customer program is recognized when the points are used and is accounted for as discount on the goods sold.

OUR BUSINESS

OUR INVESTMENTS IN JOINT VENTURES

Prior to 2006, the primary expansion strategy for our retail operation has been by expanding our store network and geographical coverage through either our wholly owned subsidiaries or our non-wholly owned subsidiaries where we hold a majority stake. Since 2006, due to the rapid growth of the PRC retail sportswear industry, improving our competitiveness through accelerating our growth plan has become an important part of our business strategy. To further enhance our flexibility in expanding our footprints in the PRC, we also began to establish regional partnerships with different regional joint venture partners where we would hold minority stakes, which we believe is complementary to our primary organic growth strategy and is an efficient way to extend our market presence into emerging cities in the PRC where opportunities exist for future expansion. Therefore, it is our current strategy to expand our business through organic growth as well as establishing joint ventures in different regions with different joint venture partners. As part of our expansion strategy, we have set up a number of joint ventures, each with a different joint venture partner who we believe has the relevant industry experience, management expertise and local market knowledge in the respective regional markets in the PRC. We generally select our joint venture partners based on the following criteria:

- the consumer demographics and purchasing power of the region in which they operate;
- their previous experience in the sportswear retail industry;
- their operational experience in managing a retail distribution network;
- the historical financial and operating performance of the previously engaged retail business;
- the competitive position of the previously engaged retail business in the markets that they operate;
- the number of directly operated retail outlets under their management;
- their relationship with brand companies; and
- the number of retail outlets of the previously engaged retail business operated by sub-distributors under their supervision.

In particular, we selected joint venture partners that had at least 10 years of experience in the PRC retail industry, held senior management position with responsibility of managing multi-store retail operations, or had experience in managing relationships with retail brand companies. Currently, we have a total of 22 joint ventures in the PRC. All the joint ventures were established by us and our joint venture partners and did not involve acquisition from others of equity interests in the joint ventures. We have majority interests in six joint ventures in the PRC that are accounted for as our non-wholly owned subsidiaries. All of the joint venture partners in these joint ventures are independent of one another. We have minority interests in the other 16 joint ventures, or the Regional Joint Ventures. All of our Regional Joint Venture partners are independent of one another. Our Regional Joint Ventures are an important part of our strategy to achieve and maintain leadership position in the retail sportswear industry in the PRC. We

OUR BUSINESS

generally look to our joint venture partners of the Regional Joint Ventures to help us expand our retail network to various regions efficiently where we have little or no presence, as well as expand the brand portfolio that we distribute. As at December 31, 2007, our Regional Joint Ventures had a presence in 23 provinces, autonomous regions and municipalities directly under the central government in the PRC. As at December 31, 2007, we had invested an aggregate amount of US\$43.5 million in the establishment of our Regional Joint Ventures. For details about the risks relating to our investments in the Regional Joint Ventures, please refer to the risk factors entitled “Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have proven and well-established track record, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound” and “We may be required to make additional capital contributions to some of our Regional Joint Ventures in the future pursuant to the price adjustment mechanism, some of which may be triggered on or before June 30, 2009” in the section headed “Risk Factors” in this prospectus.

We believe that the potential cannibalization between the retail outlets operated by us, those operated by our Regional Joint Ventures and those operated by their respective sub-distributors is minimal. Generally, our business focus and that of our Regional Joint Ventures are in different regions in the PRC, resulting in very limited direct competition. The brands for which we primarily distribute are also different from those of our Regional Joint Ventures, as we mainly focus on distributing products of *Adidas* and *Nike*, while our Regional Joint Ventures mainly focus on distributing products of *Li Ning*. Brand companies furthermore work closely with retailers in deciding new store locations and will seek to authorize the opening of new retail outlets with minimum cannibalization of the existing retail outlets. Our retail sub-distributors require authorization from brand companies and us prior to the opening of new wholesale outlets, which mitigates potential cannibalization. Similarly, the retail sub-distributors of our Regional Joint Ventures require authorization from brand companies of the products they distribute as well as the respective Regional Joint Venture prior to the opening of new stores.

The table below sets forth certain information about the Regional Joint Ventures that we have invested in as at December 31, 2007. For further details of the amount of capital that we and our Regional Joint Venture partners have invested and the shareholding structure in each of the Regional Joint Ventures, please refer to the sub-section headed “History and Corporate Structure — Investments in the Regional Joint Ventures” in this prospectus.

| Regional Joint Venture | Date of establishment | Our shareholding | Number of directors appointed by us out of total number of directors | Major geographical location | Number of directly operated retail outlets | Number of retail outlets operated by its retail sub-distributor | Major brands under distribution |
|--|------------------------------|-------------------------|---|------------------------------------|---|--|--|
| 1. Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司) | September 2006 | 50% | 2 out of 4 | Jilin | 68 | 152 | <i>Adidas, Li Ning, Kappa, Disney</i> |
| 2. Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司) | October 2006 | 50% | 2 out of 4 | Jilin | 259 | 87 | <i>Nike, Adidas, Li Ning, Kappa, Reebok, PUMA, Converse, Umbro</i> |

OUR BUSINESS

| Regional Joint Venture | Date of establishment | Our shareholding | Number of directors appointed by us out of total | Major geographical location | Number of directly operated retail outlets | Number of retail outlets operated by its | Major brands under distribution |
|---|-----------------------|------------------|--|--|--|--|--|
| | | | number of directors | | | retail sub-distributor | |
| 3. Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司) | November 2006 | 50% | 2 out of 4 | Zhejiang | 215 | 237 | <i>Nike, Adidas, Li Ning, Reebok, PUMA, Converse, Columbia</i> |
| 4. Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司). | April 2007 | 50% | 2 out of 4 | Hubei | 255 | 251 | <i>Nike, Adidas, Li Ning, Reebok, PUMA, Converse, Columbia, Disney</i> |
| 5. Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司). . . | July 2007 | 50% | 2 out of 4 | Shaanxi | 67 | 72 | <i>Li Ning, PUMA, Converse</i> |
| 6. Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司) | August 2007 | 50% | 2 out of 4 | Anhui | 77 | 150 | <i>Li Ning, Kappa, Umbro</i> |
| 7. Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) | August 2007 | 50% | 2 out of 4 | Zhejiang | 28 | 1 | <i>Reebok</i> |
| 8. Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) | August 2007 | 50% | 1 out of 1 | Guizhou | 21 | 14 | <i>Converse</i> |
| 9. Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) | September 2007 | 50% | 2 out of 4 | Zhejiang, Jiangsu, Fujian | 73 | 381 | <i>Li Ning</i> |
| 10. Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) ⁽¹⁾ | September 2007 | 50% | 3 out of 5 | Zhejiang | — | — | — |
| 11. Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) | June 2007 | 49% | 2 out of 4 | Zhejiang, Shanghai, Beijing, Tianjin, Ningbo | 147 | 101 | <i>PUMA, Umbro, Columbia, Converse</i> |
| 12. Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司) | September 2007 | 49% | 2 out of 4 | Shanghai, Beijing, Tianjin, Sichuan, Hubei, Chongqing, Zhejiang, Jiangsu | 87 | 3 | <i>Esprit, Retro Girl</i> |

OUR BUSINESS

| Regional Joint Venture | Date of establishment | Our shareholding | Number of directors appointed by us out of total | Major geographical location | Number of directly operated retail outlets | Number of retail outlets operated by its | Major brands under distribution |
|--|-----------------------|------------------|--|--|--|--|---|
| | | | number of directors | | | retail sub-distributor | |
| 13. Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司) | March 2007 | 45% | 2 out of 5 | Heilongjiang, Guangxi, Tianjin, Shanghai | 208 | 179 | Nike, Li Ning, Reebok, Kappa, PUMA, Converse, Giovanni Valentino, Playboy |
| 14. Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司) | July 2007 | 45% | 2 out of 5 | Hebei, Shanghai, Guangdong | 103 | 113 | Nike, PUMA, Kappa, Giovanni Valentino |
| 15. Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) | September 2007 | 40% | 2 out of 5 | Shaanxi | 27 | 3 | NK 360, CAT, Columbia |
| 16. Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) ⁽²⁾ | August 1998 | 30% | 2 out of 7 | Hunan, Liaoning, Hebei, Henan, Shanghai, Jiangxi | 303 | 488 | Nike, Adidas, Li Ning, Kappa, Reebok, PUMA, Converse |

- (1) Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) does not have any directly operated retail outlet or retail outlet operated by any retail sub-distributor. It acquires or leases large scale retail spaces at locations which are then sub-divided and leased to retail distributors.
- (2) Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) was established in August 13, 1998. On September 11, 2006, Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) was transformed into a foreign-invested enterprise wholly owned by Farsighted Limited, a company incorporated in the BVI. Farsighted Limited is owned as to 30% and 70% by us and our joint venture partner in Farsighted Limited, respectively.

The results of these Regional Joint Ventures are reflected in our financial statements either as share of results of jointly controlled entities or as share of results of associates. For the financial year ended September 30, 2007 and the three months ended December 31, 2007, they generated an aggregate total revenue of approximately US\$196.1 million and US\$168.9 million, respectively, and attributable revenue of approximately US\$77.8 million and US\$74.2 million, respectively, and contributed an aggregate total net income of approximately US\$6.7 million and US\$13.4 million, respectively, and attributable net income of approximately US\$3.2 million and US\$6.0 million, respectively, to our combined income statement. Such attributable net income represented 7.2% and 30.4%, respectively, of our profit for the periods indicated. As at September 30, 2007 and December 31, 2007, the aggregate total net asset value and attributable net asset value of our Regional Joint Ventures were approximately US\$88.0 million and US\$112.1 million, respectively, and US\$41.0 million and US\$52.0 million, respectively. For further details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures” and our combined income statements in the accountants’ report set out in Appendix I to this prospectus.

OUR BUSINESS

Our long term strategy for our investments in the Regional Joint Ventures includes introducing our best practices in various areas such as retail outlet management, customer services, financial management, IT systems and other operational areas to them, with an option (but not an obligation) exercisable by us in our sole discretion to increase our ownership stake in most of the Regional Joint Ventures in the future should they perform up to our expectation. We believe such best practices will help the Regional Joint Ventures achieve and/or maintain their respective leading market positions, operate more efficiently and maximize the returns on our investments in them, which are factors that we will take into account in deciding whether or not it is economically beneficial to exercise our call option to acquire additional equity interest in each of the Call Option JVs. For details about our call option to acquire further equity interests in the Call Option JVs, please refer to the sub-section headed “— Our Investments in Joint Ventures — Call option agreements” below.

Arrangements with our joint ventures

We have entered into different types of arrangements with respect to the 22 joint ventures that we have invested in the PRC. The table below sets forth a summary of such arrangements. For further details, please refer to the sub-sections headed “— Our Investments in Joint Ventures — Arrangements with our joint ventures — Price adjustment mechanism” and “— Our Investments in Joint Ventures — Call option agreements” below.

| Joint venture | Nature of joint venture | Price adjustment mechanism | Call option arrangement | Date of entering into call option arrangement |
|--|--|----------------------------|-------------------------|---|
| 1. Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 2. Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司). | Jointly controlled entity ⁽¹⁾ | Yes | Yes | November 26, 2007 |
| 3. Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 4. Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | April 9, 2008 |
| 5. Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 6. Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |

OUR BUSINESS

| | <u>Joint venture</u> | <u>Nature of joint venture</u> | <u>Price adjustment mechanism</u> | <u>Call option arrangement</u> | <u>Date of entering into call option arrangement</u> |
|-----|--|--|-----------------------------------|--------------------------------|--|
| 7. | Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) . . | Jointly controlled entity ⁽¹⁾ | No | Yes | October 15, 2007 |
| 8. | Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) . . | Jointly controlled entity ⁽¹⁾ | No | Yes | October 15, 2007 |
| 9. | Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司). | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 10. | Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) | Jointly controlled entity ⁽¹⁾ | No | Yes | October 15, 2007 |
| 11. | Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) . . | Associate ⁽²⁾ | No | Yes | October 15, 2007 |
| 12. | Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司). | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 13. | Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司) | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 14. | Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司). | Jointly controlled entity ⁽¹⁾ | Yes | Yes | October 15, 2007 |
| 15. | Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) | Associate ⁽²⁾ | Yes | Yes | October 15, 2007 |
| 16. | Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) . . | Associate ⁽²⁾ | Yes | No | N/A |
| 17. | Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司). | Non-wholly owned subsidiary | No | Yes | April 9, 2008 |

OUR BUSINESS

| <u>Joint venture</u> | <u>Nature of joint venture</u> | <u>Price adjustment mechanism</u> | <u>Call option arrangement</u> | <u>Date of entering into call option arrangement</u> |
|---|--------------------------------|-----------------------------------|--------------------------------|--|
| 18. Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) | Non-wholly owned subsidiary | No | Yes | October 15, 2007 |
| 19. Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司) | Non-wholly owned subsidiary | No | No | N/A |
| 20. Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) | Non-wholly owned subsidiary | No | No | N/A |
| 21. Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) | Non-wholly owned subsidiary | No | No | N/A |
| 22. Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) | Non-wholly owned subsidiary | Yes | Yes | April 9, 2008 |

- (1) *Regional Joint Venture that is accounted for as a jointly controlled entity in the accountants' report set out in Appendix I to this prospectus under the relevant IFRS. It is an entity where we and our Regional Joint Venture partner have joint control over the economic activity of the Regional Joint Venture in accordance with the joint venture agreement that we entered into with the Regional Joint Venture partner.*
- (2) *Regional Joint Venture that is accounted for as an associate in the accountants' report set out in Appendix I to this prospectus under the relevant HKFRS as we have significant influence over the entity and it is neither our subsidiary nor jointly controlled entity.*

Equity contribution and shareholder's loan in respect of our Regional Joint Ventures

In establishing our Regional Joint Ventures, we entered into joint venture agreements with each of our joint venture partners. These agreements typically require us and our partners to contribute cash to the respective Regional Joint Ventures in proportion to the respective equity interests owned by us and our partners, and in addition, some require us to further provide a shareholder's loan to the relevant Regional Joint Ventures. The purpose of the cash and the loan is to provide working capital for the relevant Regional Joint Venture to build and expand its network in the particular regions that it operates.

As at December 31, 2007, we had injected capital in an aggregate amount of US\$43.5 million in the establishment of the 16 Regional Joint Ventures by cash, in which 13 Regional Joint Ventures are accounted for as our jointly controlled entities and the remaining three are accounted for as our associates in the accountants' report set out in Appendix I to this prospectus. Among the 13 Regional Joint Ventures which are accounted for as our jointly controlled entities, in ten of which, namely Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有

OUR BUSINESS

限公司), Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司), Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司), Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) (“Hubei Jiezhixing”), Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司), Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司), Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司), Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司), Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) and Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司), we had injected capital in an aggregate amount of US\$30.4 million by cash and provided ten shareholder’s loans to them in an aggregate amount of US\$62.9 million as at December 31, 2007. For the other three Regional Joint Ventures which are also accounted for as our jointly controlled entities, namely Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司), Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) and Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司), we had injected capital in an aggregate amount of US\$2.2 million by cash but had not provided any shareholder’s loan to them as at December 31, 2007. For the remaining three Regional Joint Ventures which are accounted for as our associates in the accountants’ report set out in Appendix I to this prospectus, namely Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司), Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) and Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司), we had injected capital in an aggregate amount of US\$10.9 million by cash and provided a shareholder’s loan of US\$2.8 million to Farsighted International Limited, the sole beneficial shareholder of Dalian Dongzhijie Sports Production Development Limited (大連東之杰運動產業發展有限公司), as at December 31, 2007. We had not provided any shareholder’s loan to Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) or Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司). For details about the amount of our shareholder’s loans to each of the relevant Regional Joint Ventures, please refer to Notes 15 and 16 of the accountants’ report set out in Appendix I to this prospectus.

As at December 31, 2007, the aggregate amount of the shareholder’s loans that we had provided to the 11 Regional Joint Ventures was higher than the aggregate amount of the capital injected for the establishment of the Regional Joint Ventures. The amount of the loans that we provided was driven by the working capital requirement of the relevant Regional Joint Venture after we have made our initial investment in it. The provisions of the relevant loans are subject to our internal approval procedures which involve the submission of a proposal by the relevant operating personnel to our senior management for their authorization and approval. We do not expect to provide further loans to any of our Regional Joint Ventures after Listing.

We provided each loan under an entrusted loan arrangement pursuant to which we first deposited a sum of money with a commercial bank in the PRC, which will then lend such money to the relevant Regional Joint Venture. We have to provide the loans in such manner because we are not licensed to carry out money lending business in the PRC. We provided these loans through our wholly owned subsidiary incorporated in the PRC, Dragonlight (China) Sports Goods Company Limited (龍光(中國)體育用品有限公司). Our PRC legal advisors have confirmed in their legal opinion that such entrusted loan arrangement does not contravene any applicable PRC

OUR BUSINESS

laws and regulations and is commonplace in the PRC. Each shareholder's loan is secured individually by the equity interests of the relevant Regional Joint Venture partners in the relevant Regional Joint Ventures. The shareholder's loans incur interest at the rate of People's Bank of China and have no fixed term of repayment, and are expected to continue after Listing. Except for the shareholder's loan we provided to Hubei Jiezhixing, none of the shareholder's loans is provided to any of our connected persons (as defined in the Listing Rules) and thus the shareholder's loans would not constitute our connected transaction under Chapter 14A of the Listing Rules if our Shares were listed on the Stock Exchange at the relevant time. For our loan to Hubei Jiezhixing, as our joint venture partner in Hubei Jiezhixing is also a substantial shareholder of one of our subsidiaries, Hubei Jiezhixing is therefore our associate (as defined in the Listing Rules). Our shareholder's loan to it constituted a continuing connected transaction under Chapter 14A of the Listing Rules which would require independent shareholders' approval if our Shares were listed on the Stock Exchange at the relevant time. The Stock Exchange has granted us a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and/or independent shareholders' approval requirements as stipulated in Rules 14A.47 and 14A.48 of the Listing Rules in connection with such continuing connected transactions. For details, please refer to the sub-sections headed "Connected Transactions — Details of Continuing Connected Transactions — Non-exempt continuing connected transactions — Financial assistance to connected persons" and "Connected transactions — Waivers" in this prospectus. We will comply with the applicable requirements of Chapter 14 and/or Chapter 14A of the Listing Rules if any other loans will be made to Hubei Jiezhixing other than those disclosed in this prospectus after Listing.

Price adjustment mechanism

Under the joint venture agreements and call option agreements that we entered into with the Price Adjustment JVs' partners, there is a price adjustment mechanism to the initial investment we made in the Price Adjustment JVs which is determined by the financial performance achieved by the Price Adjustment JVs during a specified profit evaluation period. If (i) the average actual annual net profit of a Price Adjustment JV during a specified profit evaluation period (typically two years) exceeds a specified benchmark and (ii) at least two of the other operating results, for example, the annual revenue and the aggregate floor size of the retail outlets that it operates, exceed the specified benchmarks, we will be required to make additional capital contributions (but not by way of transferring our equity interest in such Price Adjustment JV to our Price Adjustment JV's partner) to such Price Adjustment JV which will be calculated as a multiple of the difference between such average actual annual net profit and the estimated specified benchmark net profit during the profit evaluation period. For the three months ended December 31, 2007, the Price Adjustment JVs generated a total net profit of approximately US\$14.3 million. Based on the current estimates and assuming all other applicable conditions stipulated in the joint venture agreements are met, if the average actual net profit of each Price Adjustment JV during its profit evaluation period exceeds the specified profit benchmark by the same percentage for all the Price Adjustment JVs such that the aggregate sum of the average actual net profit of all the Price Adjustment JVs reaches approximately US\$45.0 million to US\$60.0 million, we will be required to make additional capital contributions in aggregate amounts of approximately US\$6.7 million to US\$48.5 million, respectively. The above figures are for illustrative purposes only. They are provided on the basis that all the average actual net profits exceed the respective specified profit benchmarks by the same percentage which may not be the case. Depending on the

OUR BUSINESS

average actual net profit of each Price Adjustment JV, even if the aggregate sum of the average actual net profit of the Price Adjustment JVs reaches the amount stated above, we may be required to make an additional capital contribution greater than the indicative range illustrated above. You should also note that since each Price Adjustment JV has a different ending date for its profit evaluation period ranging from July 31, 2008 to August 31, 2010, the capital contribution may be triggered at different points in time pursuant to the terms and conditions in each joint venture agreement that we entered into with each Price Adjustment JV. On the other hand, if the average actual annual net profit of a Price Adjustment JV during such profit evaluation period is below the specified benchmark and none of the two operating benchmarks is met, the joint venture partner in such Price Adjustment JV will be required to compensate us either by cash or by transferring a portion of its equity interest in such Price Adjustment JV at its election, which will be calculated as a multiple of the difference between the estimated specified benchmark net profit and the average actual annual net profit during the profit evaluation period. Each of our Price Adjustment JVs' partners is independent of each other and we negotiated each price adjustment mechanism with each of them independently and individually on an arm's length basis. As a result, each price adjustment mechanism has different terms and conditions, and not all of the 22 joint ventures in our Group are subject to this price adjustment mechanism. For some of the Price Adjustment JVs, this price adjustment mechanism may be triggered on or before June 30, 2009.

Since this price adjustment mechanism may or may not be triggered in the future and was, in any event, not triggered on the date when the relevant joint venture agreements were entered into, such mechanism was not initially treated as our cost of investment in the Price Adjustment JVs. In the event that the mechanism is triggered in the future, the additional consideration to be paid by us or our Price Adjustment JVs' partners (as the case maybe) shall be accounted for as adjustments to the cost of investment in the Price Adjustment JVs. As we may be required to make additional capital contribution into some of the Price Adjustment JVs, please refer to the risk factor headed "We may be required to make additional capital contribution to our Price Adjustment JVs in the future pursuant to the price adjustment mechanism, which may be triggered on or before June 30, 2009" in the section headed "Risk Factors" in this prospectus. After Listing, we will continue to inform Shareholders in our annual reports on whether or not we will need to make additional capital contribution (if any) into any of our Regional Joint Ventures. We will also comply with our obligations (including making disclosure and seeking shareholders approval where necessary) under Chapter 14 and Chapter 14A of the Listing Rules should any additional capital contribution to be made constitutes a notifiable transaction (as defined in the Listing Rules) or connected transaction (as defined in the Listing Rules) under the Listing Rules. Based on our current forecast of the business developments of our Price Adjustment JVs, we do not foresee problems in meeting the requirement to make such additional capital contribution after Listing.

Control

Certain reserved matters such as declaration of dividends, appointment of president and vice president, capital raising, amendment of the articles of association or bye-laws, setting of business objectives and investment plans require unanimous approval of the board of the Regional Joint Ventures (except for Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司)). Given that we do not own majority interests in any of the

OUR BUSINESS

Regional Joint Ventures, we have no absolute control over the board of any of them. Our joint venture partners are responsible for the day-to-day management of our Regional Joint Ventures and we have no control on their daily operation, except that we appoint the financial controller for each of our Regional Joint Ventures. Our Regional Joint Ventures source their product supplies from brand companies independently from us. There is neither any consignment sales arrangement between our Regional Joint Ventures and us nor any sales from the retail outlets operated by them to us. Except for Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司), Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司), Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) and Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司), our joint venture agreements with the respective joint venture partners of the other Regional Joint Ventures provide that in the event of disagreement on certain major corporate matters such as adjusting the amount of investment or dissolution of the relevant Regional Joint Venture, we or our joint venture partner may give notice to the other to offer to acquire all of its equity interests in the Regional Joint Venture. The party who is being offered is also allowed to make a counter-offer to acquire all the equity interests of the party making the offer. The transfer of the equity interests must be completed within ten days after the acceptance of the offer or the delivery of the counter-offer. The joint venture agreement of Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) provides that in the event of disagreement on certain major corporate matters, the matters may be referred to arbitration in accordance with the provisions of the joint venture agreement.

While our long term strategy for our investments in our Regional Joint Ventures includes introducing our best practices in various areas such as retail outlet management, customer services, financial management, IT systems and other operational areas to them, the implementation process is ongoing and there is no assurance that this process will be successful or they will be able to integrate our best practices into their operations. Similar to our distributorship agreements with brand companies, each of our Regional Joint Ventures has entered into distributorship agreements with its respective brand companies where the brand companies have the right to supervise and authorize certain operations of such Regional Joint Venture, including (i) the opening of additional retail outlets; (ii) the designing of the appearance of their retail outlets; (iii) their operations and staff training; (iv) the pricing of their products; and (v) the management of their retail sub-distributors.

None of the joint venture agreements with the joint venture partners contains any termination clause exercisable by us or the joint venture partners to cash out from the Regional Joint Ventures in the event that the relevant Regional Joint Venture becomes unprofitable or financially unsound. For details of the risks in this regard, please refer to the risk factor entitled “Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have proven and well-established track records, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound” in the section headed “Risk Factors” in this prospectus.

With respect to the six joint ventures incorporated in the PRC in which we have a controlling interest and are therefore considered as our non-wholly owned subsidiaries, namely Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司), Fujian

OUR BUSINESS

Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司), Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司), Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司), Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), our joint venture arrangements with the relevant minority shareholders of these subsidiaries generally do not contain terms similar to those described above, as we are the majority shareholders in these companies and we control them.

To the best of our knowledge and belief, there are no arrangements between the joint venture partners of the Regional Joint Ventures and Yue Yuen or between the joint venture partners themselves, other than those disclosed in this prospectus.

Call option agreements

Rationale for the call option agreements

Our Regional Joint Ventures are important to our long term growth as we believe each of our Regional Joint Venture partners is a leading retail player in their respective regional markets in the PRC, and they could help us expand our retail network to various geographical regions in the PRC efficiently where we have limited or no presence, as well as expand the brand portfolio that we carry. However, the Directors are also aware of the various inherent operational and financial risks relating to our investments in these Regional Joint Ventures due to the emerging nature of the retail sportswear industry in the PRC, as well as our lack of any long term cooperation history with some of the Regional Joint Ventures partners. Although we would only establish a joint venture with a local partner after completing a careful selection and screening process, we were cautious of the risks involved and are eager to adopt a structure that minimizes the operational and financial risks relating to our investments in the Regional Joint Ventures. As a result, we believe it is prudent from a commercial perspective to enter into call option arrangements (which give us the right (but not the obligation) exercisable solely at our discretion to acquire from any one or more of our Call Option JVs' partners up to their entire equity interest in the relevant Call Option JVs) with them which enables us to monitor the performance of each Call Option JV over a period of time and provide flexibility for us to only commit additional capital to those Call Option JVs that meet our performance expectation. The benefit of these call option arrangements is that it ensures that we will not be forced to make additional capital commitments to a Call Option JV that does not perform up to our required standard. We believe such flexibility is important in protecting us against the inherent risks relating to the emerging and fast-growing nature of the retail sportswear industry in the PRC whilst we continue to pursue our expansion strategy.

On this basis, we have entered into call option agreements with 15 Regional Joint Venture partners (for details, please refer to the table set forth under the sub-section headed “— Our Investments in Joint Ventures” above) in 15 Regional Joint Ventures (except for Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司)) which we have minority interests, and the minority shareholders of three of our non-wholly owned subsidiaries, namely Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司), Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司),

OUR BUSINESS

pursuant to which we have the right (but not the obligation) exercisable solely at our discretion to acquire from any one or more of the Call Option JVs' partners up to its entire equity interest in the Call Option JV. Each of our Call Option JVs' partners is independent of each other and we negotiated each call option arrangement with each of them independently and individually on an arm's length basis. As a result, each call option has different terms and conditions, and not all of the 22 joint ventures in our Group are subject to this call option arrangement. We believe these call option agreements may be utilized to support our future expansion plan. As we have the sole discretion to exercise any of the options, such arrangements enable us to assess the performance of each Call Option JV individually before deciding on whether or not it is economically beneficial to acquire the relevant Call Option JV. As each of the call option agreements was negotiated separately with our Call Option JVs' partners, the exercise of any one call option will not be conditional or dependent on the exercise of any other call option. Upon the exercise of each call option, the relevant Call Option JV will become our subsidiary. For further details about the exercising of these call options such as their exercise periods, please refer to the sub-section headed "— Our Investments in Joint Ventures — Call option agreements — Exercising of the call options" below.

We have also entered into a share transfer arrangement with the partner of one of our subsidiaries in which we owned a 90% majority interest, namely the Share Swap JV, pursuant to which we will issue and allot 9,276,000 Shares to the Share Swap JV's partner upon the Global Offering becoming unconditional in consideration for our acquisition of the remaining 10% equity interest in it. Pursuant to the lock-up agreement that the Share Swap JV's partner has entered into with us and the Joint Sponsors (on behalf of the Underwriters), the Shares to be issued to the Share Swap JV's partner are subject to a 6-month lock-up arrangement and the Share Swap JV's partner may not deal in such Shares until six months after dealings in the Shares commence on the Stock Exchange. As such, immediately upon Listing, the Share Swap JV will become our wholly owned subsidiary.

Financial information of the Call Option JVs and the Share Swap JV

For the financial year ended September 30, 2007 and the three months ended December 31, 2007, the Call Option JVs which we have minority interests (excluding the three Call Option JVs which are our non-wholly owned subsidiaries) (the "Minority Call Option JVs") had generated total revenue of approximately US\$98.5 million and US\$127.8 million, respectively, attributable revenue of approximately US\$48.5 million and US\$61.9 million, respectively, total net income of approximately US\$6.4 million and US\$10.4 million, respectively, and attributable net income of approximately US\$3.1 million and US\$5.1 million, respectively. As at September 30, 2007 and December 31, 2007, the Minority Call Option JVs had total net assets of approximately US\$78.0 million and US\$98.2 million, respectively, and attributable net asset of approximately US\$38.0 million and US\$47.8 million, respectively.

The table below sets out certain key financial information of the Call Option JVs and the Share Swap JV under our call option agreements with each of the Call Option JVs' partners and our share transfer agreement with the Share Swap JV's partner. The first 15 Call Option JVs in the table below are the Minority Call Option JVs which we do not control any of them. As they are not our subsidiaries, their financial results have not been consolidated into our combined financial statements in our accountants' report set out in Appendix I to this prospectus. Their

OUR BUSINESS

results were accounted for either as share of results of associates or as share of results of jointly controlled entities in our accountants' report, and for details, please refer to Notes 15 and 16 of our accountants' report set out in Appendix I to this prospectus. In order to provide you with an idea of the business circumstances of the Call Option JVs, we have extracted some of their historical financial information and presented it hereunder. You should note that the selected historical financial information for the Minority Call Option JVs has not been independently audited by our auditors. It is derived from the financial statements of each of the Minority Call Option JVs for the period from dates of their incorporation up to December 31, 2007, which were prepared in accordance with PRC GAAP. For these reasons, you should not place undue reliance on the information with respect to the Minority Call Option JVs in the table below.

| Call Option JV and Share Swap JV | The current equity interest directly or indirectly held by us as at the Latest Practicable Date | Equity interest to be acquired from our Call Option JV's partner if we exercise our call option | Total revenue for the three months ended December 31, 2007 (US\$ thousands) | Total net asset as at December 31, 2007 (US\$ thousands) | Total net profit for the three months ended December 31, 2007 (US\$ thousands) | Number of directly operated retail outlets as at December 31, 2007 |
|--|--|---|---|--|---|---|
| 1. Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司) ⁽¹⁾ | 50% | 50% | 8,918 | 7,730 | 1,664 | 68 |
| 2. Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司) ⁽¹⁾ | 50% | 50% | 8,128 | 5,769 | 382 | 259 |
| 3. Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司) ⁽¹⁾ | 50% | 50% | 21,032 | 14,995 | 1,464 | 215 |
| 4. Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) ⁽¹⁾ | 50% | 50% | 17,886 | 10,247 | 1,182 | 255 |
| 5. Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司) ⁽¹⁾ | 50% | 50% | 3,976 | 3,315 | (12) | 67 |
| 6. Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司) ⁽¹⁾ | 50% | 50% | 6,300 | 5,170 | 424 | 77 |
| 7. Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) ⁽¹⁾ | 50% | 50% | 1,024 | 2,480 | — | 28 |
| 8. Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) ⁽¹⁾ | 50% | 50% | 476 | 1,442 | — | 21 |
| 9. Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公 司) ⁽¹⁾ | 50% | 50% | 17,450 | 12,876 | 3,156 | 73 |
| 10. Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) ⁽¹⁾⁽⁶⁾ | 50% | 50% | 600 | 951 | (58) | — |
| 11. Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) ⁽¹⁾ | 49% | 51% | 2,664 | 8,323 | 125 | 147 |
| 12. Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司) ⁽¹⁾ | 49% | 51% | 5,506 | 5,555 | 506 | 87 |
| 13. Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司) ⁽¹⁾ | 45% | 55% | 16,878 | 6,793 | (347) | 208 |
| 14. Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司) ⁽¹⁾ | 45% | 55% | 11,962 | 8,867 | 1,713 | 103 |
| 15. Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道 運動產業開發有限公司) ⁽¹⁾ | 40% | 60% | 4,973 | 3,667 | 205 | 27 |

OUR BUSINESS

| Call Option JV and Share Swap JV | The current equity interest directly or indirectly held by us as at the Latest Practicable Date | Equity interest to be acquired from our Call Option JV's partner if we exercise our call option | Total revenue for the three months ended December 31, 2007 | Total net asset as at December 31, 2007 | Total net profit for the three months ended December 31, 2007 | Number of directly operated retail outlets as at December 31, 2007 |
|--|---|---|--|---|---|--|
| | | | (US\$ thousands) | (US\$ thousands) | (US\$ thousands) | |
| 16. Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) ⁽²⁾ | 72% | 28% | 7,106 | 3,247 | 207 | 121 |
| 17. Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) ⁽³⁾ | 90% | 10% | 7,728 | 4,838 | 314 | 102 |
| 18. Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) ⁽⁴⁾ | 51% | 49% | 15,422 | 10,817 | 1,050 | 216 |
| 19. Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司) ⁽⁵⁾ | 90% | 10% | 8,511 | 10,814 | 354 | 72 |

- (1) We have minority interests in each of these Call Option JVs and they are our Minority Call Option JVs. We do not have control over any of them and they are also our Regional Joint Ventures. For details of their dates of establishment, the geographical regions which they operate, the number of retail outlets operated by their retail sub-distributors and major brands under distribution, please refer to the sub-section headed “— Our Investments in Joint Ventures” above.
- (2) Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) was established in the PRC as our non-wholly owned subsidiary on September 14, 2005. The remaining 28% equity interest is owned by Weifang Liwei Economic and Trading Company Limited (濰坊力威經貿有限公司), an independent third party of our Group. Its retail outlets directly operate in Shandong and distributes brands including Adidas, Nike, Reebok, Kappa and Converse. As it is our subsidiary, its financial results are consolidated into our combined financial statements in our accountants' report set out in Appendix I to this prospectus.
- (3) Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) was established in the PRC as our non-wholly owned subsidiary on May 23, 2006. The remaining 10% equity interest is owned by Glorious Win Developments Limited, an independent third party of our Group. Its retail outlets directly operate in Fujian and distributes brands including Adidas, Nike, Converse, Reebok and PUMA. As it is our subsidiary, its financial results are consolidated into our combined financial statements in our accountants' report set out in Appendix I to this prospectus.
- (4) Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) was established in the PRC with limited liability on December 5, 2006. Its entire equity interest is held by Profit Concept Group Limited, an investment holding company incorporated in the BVI on August 10, 2006. Profit Concept Group Limited is our 51% own subsidiary with the remaining 49% equity interest ultimately owned by an individual who is an independent third party of our Group. With directly operated retail outlets in Yunnan, Guizhou and Guangxi, it distributes products from brand companies including Li Ning, Kappa, Nike and Adidas. As it is our subsidiary, its financial results are consolidated into our combined financial statements in our accountants' report set out in Appendix I to this prospectus.
- (5) Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司) was established in the PRC as our non-wholly owned subsidiary on March 27, 2006. The remaining 10% equity interest is ultimately owned by an individual, Cheng Su Nan (鄭夙男), who is an independent third party of our Group. Its retail outlets operate in Sichuan and distributes the brands including Adidas, Nike, Converse and PUMA. As it is our subsidiary, its financial results are consolidated into our combined financial statements in our accountants' report set out in Appendix I to this prospectus. Immediately upon Listing, we will have acquired the remaining 10% equity interest from Cheng Su Nan (鄭夙男) and Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司) will then become our wholly owned subsidiary.

OUR BUSINESS

- (6) *Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) does not have any directly operated retail outlet. It acquires or leases large scale retail spaces at locations which are then sub-divided and leased to retail distributors.*

Call option premium

All of the call option agreements have similar structures. Given the retail sportswear industry in the PRC is expanding and consolidating rapidly and based on our experience from the negotiation of our call option agreements with our Call Option JVs' partners, we believe that it is necessary to provide an upfront option premium as consideration to each of the Call Option JVs' partners in order to make it commercially attractive for them to enter into the call option arrangements. Therefore, as consideration for our Call Option JVs' partners granting us the call options, we have agreed to issue a certain number of Shares as call option premium to each of the Call Option JVs' partners upon the Global Offering becoming unconditional, although some of the Call Option JVs' partners have agreed that they are to receive cash in lieu of Shares for part, or in some cases all, of the call option premium Shares that we have agreed to issue to them (the "Call Option Premium"). The Call Option Premium therefore consists of a cash portion and a Shares portion. We will fund the cash portion by offering an equivalent amount of the Shares that those Call Option JVs' partners have agreed to accept cash in lieu of Shares for subscription by professional and institutional investors in the International Offering at the Offer Price, and use the net proceeds from such subscription to pay the relevant Call Option JVs' partners in cash. Therefore, part of the net proceeds to us from the Global Offering will be used to pay such cash portion of the Call Option Premium. For details, please refer to the sub-section headed "Future Plans and Use of Proceeds — Use of Proceeds from the Global Offering" in this prospectus. The Shares portion will be settled by issuing Shares to the relevant Call Option JVs' partners upon the Global Offering becoming conditional (the "Call Option Premium Shares"). While the Call Option Premium Shares will be issued to our Call Option JVs' partners upon the Global Offering becoming unconditional, they will not form part of the Hong Kong Public Offering or the International Offering. We did not provide the Call Option Premium for the purposes of benefiting any particular Call Option JV's partner. Instead, the Call Option Premium was paid to each of the Call Option JVs' partners, who are all independent of each other, as a commercial incentive for them to grant the call options to us. Providing them with this commercial incentive to grant us the call options is particularly important given that we believe our major competitors are also actively seeking their partnerships in a rapidly expanding and consolidating market.

The amount of the Call Option Premium that we have agreed to provide to each Call Option JV's partner is equal to 15% of the value of the joint venture partner's interest in the underlying Call Option JV (to be determined based on an agreed estimated net profit of the Call Option JV attributable to the joint venture partner's equity interest in such Call Option JV as at the date of the call option agreement and the estimated price earning multiple of our Company based on the final Offer Price as determined on the Price Determination Date), which was individually negotiated between us and each Call Option JV's partner on arm's length basis based on various factors, including (but not limited to) (i) the prevailing market conditions; (ii) the risks associated with investing in such Call Option JVs which are generally confined to a specific geographical region in the PRC; and (iii) the benefits associated with obtaining absolute control on such Call Option JVs. According to HKAS, these call options are classified as financial assets at fair value. Any gain or loss arising from the change in the fair value of a financial asset shall be recognized as gain or loss in our income statement. For details, please see the section headed "Financial

OUR BUSINESS

Information — Critical Accounting Policies — Accounting treatment of call options” in this prospectus. We have engaged Savills Valuation and Professional Services Limited (“Savills Valuation”), an independent valuer, to value each of the 15 call options granted to us on or before December 31, 2007, namely all the call options regarding the Call Option JVs except the three call options regarding Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), which were granted to us on April 9, 2008. Based on the valuation results of Savills Valuation, we and the Joint Sponsors are of the view that the Call Option Premium that we have agreed to pay to each of the relevant Call Option JVs’ partners is fair and reasonable.

We are offering Shares for subscription by professional and institutional investors as part of the International Offering to satisfy the cash portion of the Call Option Premium and are issuing an aggregate of 85,702,000 Call Option Premium Shares at the Offer Price to our Call Option JVs’ partners as the Shares portion of the Call Option Premium. The Call Option Premium Shares will represent approximately 2.4% of our issued share capital immediately after the Global Offering, the Capitalization Issue and their issuance, assuming the Over-allotment Option is not exercised. Each Call Option JV’s partner will receive its Call Option Premium Shares upon the Global Offering becoming unconditional, representing less than approximately 0.5% of our issued share capital immediately after the Global Offering, the Capitalization Issue and the issuance of the Call Option Premium Shares. The total value of the Call Option Premium will represent an aggregate amount of approximately US\$62.4 million (assuming that the Offer Price is fixed at the high end of HK\$3.75 per Share on the Price Determination Date) or US\$48.8 million (assuming that the Offer Price is fixed at low end of HK\$2.93 per Share on the Price Determination Date). The aggregate amount of the Call Option Premium is higher than the aggregate amount of US\$50.8 million that we had invested in the establishment of the Call Option JVs as at December 31, 2007 and the aggregate net income of US\$6.4 million and US\$12.0 million generated by the Call Option JVs for the financial year ended September 30, 2007 and the three months ended December 31, 2007, respectively. Pursuant to the lock-up agreements that the relevant Call Option JVs’ partners have entered into with us and the Joint Sponsors (on behalf of the Underwriters), these Call Option Premium Shares are subject to a 6-month lock-up arrangement and the Call Option JVs’ partners may not deal in the Call Option Premium Shares issued to them until six months after dealings in the Shares commence on the Stock Exchange. In the event that our Call Option JVs become unprofitable or financially unsound or we decide not to exercise our call options, none of the call option agreements that we have entered into with our Call Option JVs’ partners obliges our Call Option JVs’ partners to compensate us (whether by cash or in any other forms) for the Call Option Premium that we will have already provided to them. For details of the risks in this regard, please refer to the risk factor entitled “We will not be able to get back the consideration we will pay for the call options granted to us by our Call Option JVs’ partners if the Call Option JVs become unprofitable or financially unsound or we decide not to exercise the call options” in the section headed “Risk Factors” in this prospectus.

Exercising of the call options

If we choose to exercise our call option over a particular Call Option JV, the consideration will be satisfied by the issue and allotment of new Shares to that particular Call Option JV’s partner. The call options are exercisable after the end of each profit evaluation period of each Call Option JV and within five years commencing from the expiry of the first six months from the commencement of dealings in the Shares on the Stock Exchange and no new Shares will be

OUR BUSINESS

issued to our Call Option JVs' partners during such six-month period pursuant to Rule 10.08 of the Listing Rules. The Call Option JVs have one, two or three profit evaluation periods. In respect of the Call Option JVs with one profit evaluation period, the relevant call options may be exercised in full after the expiry of the first profit evaluation period. In respect of the Call Option JVs with two or three profit valuation periods, the relevant call options may be exercised in part after the expiry of each profit evaluation period, with the remaining portion to be exercised after the expiry of the last profit evaluation period of the relevant Call Option JV. During the call option period, each of the Call Option JVs' partners agreed not to transfer or dispose of its equity interest in the relevant joint venture without our prior written consent. In respect of most of the Call Option JVs, the holders of equity interests in the relevant Call Option JV have pre-emptive rights over equity interests held by the other holders. In addition, in respect of most of the Call Option JVs, matters in relation to capital structure such as increase of investment amount (whether or not to be invested by third party) require unanimous consent from the directors.

In the event we exercise a specific call option, the value of interest in the Call Option JV pursuant to the call option in each stage will be determined based on the following formula:

$$\text{Call Option JV's value} = A \times B \times C \times (1 - D)$$

Where:

- A = The achieved net profit during a specific evaluation year within the profit evaluation period of such Call Option JV attributable to the joint venture partner's equity interest in such Call Option JV
- B = Percentage share of the Call Option JV's value that may be exercised during a specific evaluation year within the profit evaluation period as specified in the call option agreement of such Call Option JV
- C = The then prevailing price earnings multiple of our Company at the time of the exercise of such call option
- D = An agreed upon discount in the range of 15% to 25%, which was individually negotiated between us and such joint venture partner on an arm's length basis

An amount to be determined representing the option expenses will be deducted from the exercise price of the call option, such amount being expected to be no more than the amount of the Call Option Premium.

There is no certainty that any of the call options will be exercised. If any of the call options is exercised after Listing, we will comply with the applicable requirements under the Listing Rules if the exercising of any of them triggers any disclosure requirement or requires shareholders' approval under Chapter 14 or Chapter 14A of the Listing Rules. In addition, we will comply with the relevant requirements under PRC law if and when we choose to exercise the call options.

OUR BUSINESS

OUR BRAND LICENSEE BUSINESS

Apart from our retail business, we also operate a brand licensee business pursuant to the exclusive brand license agreements we have entered into with certain international brand companies. These agreements typically grant us exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set the retail price of products under the licensed brands in specified geographical locations within the Greater China Region for a specified period of time. We believe this type of licensing arrangement with brand companies distinguishes us from other retail distributors and represents a recognition by brand companies of (i) the success and scale of our retail network in the Greater China Region; (ii) our experience and extensive knowledge of the preferences and tastes of our end customers and market trends in the Greater China Region; and (iii) the reputation of our parent company, Yue Yuen. We sell our brand licensed products through the retail outlets operated by our retail distributors and sub-distributors and through our directly operated retail outlets operated under our retail business.

For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, revenue attributable to our brand licensee business was US\$57.4 million, US\$95.3 million, US\$133.2 million and US\$36.8 million, respectively, and accounted for 27.7%, 25.6%, 23.9% and 19.9% of our revenue, respectively. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business segments” in this prospectus.

Brand portfolio and exclusive brand license agreements

Our brand licensee business covers three brands, namely *Converse*, *Hush Puppies* and *Wolverine*. We set forth the details of our brand licensors below.

Converse

We have been the exclusive brand licensee of *Converse* since 1993. *Converse* offers a diverse portfolio of sportswear products including lifestyle men’s and women’s footwear and apparel.

Pursuant to agreements dated December 30, 2002 (and amended on January 1, 2003, December 1, 2004 and August 7, 2007), January 1, 2005 and January 1, 2008 that we entered into with Converse Inc. and its predecessor, we are currently the exclusive brand licensee of Converse Inc. with respect to the designing, developing, manufacturing and selling of athletic and leisure footwear, apparel and accessories under the *Converse* brand name and trademarks in the PRC, Hong Kong, Macau and Taiwan. The license in respect of (i) the PRC, (ii) Hong Kong and Macau and (iii) Taiwan will expire on (i) December 31, 2008, (ii) December 31, 2010 and (iii) December 31, 2012, respectively.

As our current exclusive brand license agreement with *Converse* in respect of the PRC will expire on December 31, 2008, we entered into a term sheet of key provisions of a proposed distributorship agreement between Converse Inc. and Selangor Gold Limited with Converse Inc. on June 14, 2007, pursuant to which we will become the exclusive distributor of all the footwear, apparel and accessories products under the *Converse* brand in the PRC from January 1, 2009 to December 31, 2011, after the expiration of the current brand license agreement. Under the term

OUR BUSINESS

sheet, we are granted the right to be the exclusive distributor of *Converse's* products in the PRC subject to our meeting certain goals and targets for store openings and providing certain required services to the stores as stipulated in a retail rollout plan to be developed annually and updated as determined by Converse Inc. We are currently in the process of negotiating our distributorship agreement with Converse Inc., which will set out the detailed terms and conditions of our distributorship agreement with Converse Inc. in the future.

Hush Puppies

We have been the exclusive brand licensee of *Hush Puppies* in Taiwan since 2000 and in the PRC since 2002. *Hush Puppies* offers primarily premium men's and women's footwear and to lesser extent apparel and accessories.

Pursuant to two agreements, the first dated January 1, 2000 (amended on July 1, 2001 and August 31, 2005) and the second dated October 1, 2002 (amended on October 1, 2006 and December 14, 2006), that we entered into with Wolverine World Wide, Inc., we are currently the exclusive brand licensee of Wolverine World Wide, Inc. with respect to the sale of footwear under the *Hush Puppies* brand name and trademarks in the PRC and Taiwan. The licenses in respect of the PRC and Taiwan will expire on December 31, 2012, and December 31, 2010, respectively.

Wolverine

We have been the exclusive brand licensee of *Wolverine* in the Greater China Region since 2004. *Wolverine* offers footwear, as well as apparel and gear, specialized for outdoor work and outdoor sports.

Pursuant to an agreement dated November 1, 2004, we are the exclusive brand licensee of Wolverine World Wide, Inc. with respect to the manufacturing and sale of footwear, apparel, accessory and other products under the *Wolverine* brand name and trademarks in the PRC, Hong Kong and Taiwan. The license will expire on December 31, 2009.

Sourcing of licensed products

We source our licensed products through two channels: (i) we contract with manufacturers authorized by brand licensors to manufacture licensed products designed by us; or (ii) we purchase finished or partially finished products from suppliers authorized by our brand licensors directly. We also have access to the international product lines of our brand licensors.

Under our arrangements with our brand licensors, we have the right to design the products ourselves, subject to the approval of our brand licensors. Compared to our retail business, our brand licensee business gives us additional flexibility to adapt the products we have selected from the brand companies to dynamic market trends by offering products with fashionable designs suitable for PRC customers. We believe our product design capability is an important foundation for our past success and a key factor to allow us to continue to expand our brand licensee business going forward.

OUR BUSINESS

Product research, design and development

We have a dedicated product team for each of our licensed brands. Each of our product teams comprises five to 20 designers and product developers who work together with our brand licensors to create designs for the current and upcoming seasonal collections. We offer an average of 200 to 900 designs for each of the licensed brands each season.

Our product design and development process consists mainly of the following stages:

- *Research*

Our designers analyze past sales performance, customer surveys, market conditions and competitors' products to formulate overall design concepts. Our brand licensors may supply us with their own information and data, such as designs, plans, artwork or other materials relating to the design and manufacturing of our licensed products.

- *Design and development*

We design licensed products manufactured by our authorized contract manufacturers. Our designers produce sketches of possible product designs according to their understanding of the trends for the upcoming season and are responsible for the selection of color and raw materials, fabric order and pattern development. The product designs are subject to the approval by the brand licensors. Our designers then work together with our product development teams to convert the designs into product samples for product selection. A final sample selection is determined when we have assessed product pricing by taking various factors into account, such as cost of production.

Manufacturing of licensed products

After we have designed the product, we outsource the production to authorized contract manufacturers. In 2007, we engaged approximately 100 contract manufacturers to process and produce our licensed products. We have not experienced any disruption to our supply chain during the Track Record Period and the three months ended December 31, 2007 that had a material adverse impact on our results of operations or financial condition.

We are required to seek our brand licensors' approval for the contract manufacturers we propose to engage. In selecting our contract manufacturers, we take into account the overall track record, experience and reputation, including their compliance with applicable laws and regulations, of the potential candidates. We also evaluate our contract manufacturers and scrutinize the quality of their production regularly. Each of our contract manufacturers is subject to our annual evaluation and assessment in terms of product quality and timely delivery of the licensed products we ordered. We monitor the operation and performance of our contract manufacturers by sample checking each batch of products delivered to us. In the event of failure to meet our product quality requirements or late delivery of products, we will report to the relevant contract manufacturers and will seek to address the problem in a timely manner.

OUR BUSINESS

All finished products are delivered to our distribution centers following completion of the manufacturing process. For details of our distribution centers, please refer to the sub-section headed “— Logistics Management and Distribution” below.

Purchasing process for licensed products from international product lines of brand licensors

We also source some of our licensed products by purchasing them directly from the international product lines of our brand licensors. Unlike our retail business, where we source sportswear products directly from, and pay purchase prices to, brand companies, we make purchases of licensed products directly from the suppliers appointed by the brand licensors. We do not purchase from the brand licensors and we settle purchase prices directly with their appointed suppliers.

For licensed products under the *Converse* brand, we purchase part of the licensed products from international product lines directly from the brand licensor’s appointed manufacturers.

For licensed products under the *Wolverine* and *Hush Puppies* brands, the brand licensors notify us from time to time the kind of products that we may source from their international product lines. We then send out our purchase orders for the review and approval by the brand licensors, who will, upon approving our purchase orders, instruct their authorized manufacturers or their own production and distribution facilities to provide the ordered products to us.

We normally receive the ordered products from the brand licensors within approximately 90 days from the date of placing of our purchase orders.

Payment terms

We are obliged to pay our brand licensors annual royalties pursuant to the brand license agreements we entered into with them. Annual royalties generally consist of (i) a minimum guaranteed component and (ii) a variable component typically determined by the percentage of net sales, factory cost for sourcing the products from brand licensors or the invoice price of the licensed products we sold to customers. For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, we paid royalties of approximately US\$4.8 million, US\$9.2 million, US\$13.6 million and US\$3.4 million to our brand licensors, respectively.

For licensed products which we purchase directly from the appointed suppliers of our brand licensors, we typically settle payments by way of letters of credit and telegraphic transfers.

For licensed products which we purchase from our contract manufacturers, we usually pay for our purchases, which are denominated in Renminbi, approximately within 30 days after receipt of delivery from our contract manufacturers and after sample checking of the licensed products.

Marketing and promotion

We invest significantly in marketing and promotional activities for our licensed brands in order to ensure customer awareness of our licensed products and create strong recognition within our target markets. Pursuant to the brand license agreements with the brand licensors, we are

OUR BUSINESS

obliged to allocate a percentage of our net sales or factory cost of all the products sourced or purchased each year for the advertisement, marketing and promotion of our licensed products in our sales regions.

Upon receiving licensed products either produced by our authorized contract manufacturers or purchased from the international product lines of our brand licensors, we will proactively conduct value-added activities such as promotional and marketing campaigns, visual merchandizing and product assortment mainly at our own cost. To enhance publicity of the licensed products, we undertake advertising campaigns in the print media, including magazines and newspapers, on television as well as other media such as public posters, billboards, banners and light boxes for our licensed brands. We also conduct road shows, special functions as well as in-store promotion campaigns designed to attract customers through attractive window displays, billboards and inflatable outdoor displays.

We have a dedicated marketing team to plan and organize marketing campaigns and indoor or outdoor functions at our own initiative and expenses for each of our licensed brands in each of Guangzhou, Shanghai, Taipei and Hong Kong. We also operate and maintain regional websites for each of our licensed brands in the PRC.

Our publicity materials relating to licensed products, such as advertising, brochures, press releases and television commercials, are subject to the approval of the brand licensors.

Pricing

We have the flexibility to set and adopt a uniform retail price for our licensed products at a level which we consider appropriate and to determine the discount levels that can be accepted by our retail distributors. In determining the prices of our licensed products, we usually take into account the prevailing market demand and supply, the cost of the licensed products, and prices set by our competitors for similar items. We typically will not allow our retail distributors or our directly operated retail outlets to offer discounts on our licensed products until at least 45 to 60 days after the first launch date.

Management of retail outlets operated by our retail distributors

We sell our licensed products on a wholesale basis to our retail distributors and our retail outlets operated under our retail business. We had 484, 554, 612 and 620 retail distributors under our brand licensee business as at September 30, 2005, 2006 and 2007 and December 31, 2007, respectively. Our retail distributors, which we supervise but do not directly operate, sell our licensed products under our supervision throughout the PRC as well as in Hong Kong and Taiwan (as the case may be) through the retail outlets operated by them and their retail sub-distributors. As at December 31, 2007, our retail distributors and their retail sub-distributors (including ourselves for our brand licensee business) operated an aggregate of 3,254 retail outlets in the Greater China Region. All such retail outlets are required to observe our pre-set retail procedures, store layouts and policies in respect of marketing activities, daily operations and customer service. Based on the following systems in place to closely supervise the operations of our retail distributors, the risk of inventory accumulation at our retail distributors' level is expected to be minimal.

OUR BUSINESS

Selection of retail distributors

We carefully evaluate candidates to be our retail distributors and undertake independent due diligence on each of them to ensure that only candidates meeting our standards are awarded distributorship. We generally consider the following factors when selecting our retail distributors:

- experience and previous track record in the retail of sportswear;
- number and locations of existing retail outlets and a detailed plan for opening of retail outlets;
- expected sales volume; and
- sufficiency of financial resources.

In addition, the selection of retail sub-distributors operating under the supervision of our retail distributors is also subject to our approval.

Store opening and store formats of our retail distributors

Retail distributors are required to make written applications to our sales department to open new retail outlets. In reviewing applications, our sales department considers a number of factors including the site location and the layout plan of the retail outlet, the available site area, marketing opportunities and estimated projected sales. Our sales department may also conduct research on these factors to verify the applications filed by potential retail distributors.

We have a standard set of guidelines set by our headquarters and brand companies in respect of the design, space planning and layout of the retail outlets of our retail distributors and their retail sub-distributors so as to ensure that they convey a consistent image of our licensed brands. For marketing and image consistency purpose, our retail distributors are required to obtain our permission on the major conditions of the retail outlets, such as location, layout and available area of the retail outlets that they plan to operate. The operating expenses related to retail outlets, including rental expenses, are borne by the respective retail distributors.

Supervision of and support for retail distributors

Supervision

We closely supervise the retail outlets operated by our retail distributors. Each of our regional sales departments consists of a client manager who is responsible for the daily contact with and monitoring of the retail outlets operated by our retail distributors located in their regions. We supervise our retail distributors in the following ways:

- Retail distributors grading system

We have adopted a grading system for admitting and categorizing our retail distributors. Our retail distributors are categorized into six classes in accordance with their performance including sales revenue, sales channels and expansion of retail network. Different tiers of retail distributors enjoy different privileges and purchase discounts for

OUR BUSINESS

purchases made through pre-orders at our sales fairs. In contrast, for purchases made through replenishment orders, a uniform discount rate typically applies to all retail distributors regardless of their grading. The prices that our retail distributors pay for their purchases under advance orders are determined with reference to the discount rate applicable to their tier and the uniform retail price fixed by us that end customers need to pay for our licensed products.

We review the grading of our retail distributors four times a year.

- Daily operations

The retail outlets operated by our retail distributors are required to follow retail procedures and policies set by us and brand companies in respect of marketing activities, daily operations and customer service. To ensure that we keep abreast of how our retail distributors operate their retail outlets and to minimize the risk of inventory accumulation at our retail distributors' level, our retail distributors are required to exchange information with us, such as movements of merchandize and inventory data, on a monthly basis at a minimum, and regularly report to us on customer acceptance and preferences of the licensed products that they sell. We encourage our retail distributors to adopt our Yuen Sheng System so that we are able to track inventory data on a frequent basis. We also visit the retail outlets operated by our retail distributors regularly to inspect the quality of service they provide, advise on product variety and inventory turnover day, and design merchandizing plans for them. Based on the information provided by our retail distributors, we are not aware of any stock up of inventory by them during the Track Record Period and the three months ended December 31, 2007.

- Return policy

We will refund or replace any licensed products with material defects returned by our retail distributors within 12 months from the delivery date.

We expect our retail distributors to supervise their retail sub-distributors based on similar standards.

Support

We provide various types of support to our retail distributors. For instance, we assist and advise our retail distributors to determine the optimal purchase order size and product mix for our licensed products. We may also provide display shelves and promotional gifts to certain qualified retail distributors free of charge. We may further provide on-site training sessions in customer service and product knowledge to our retail distributors.

OUR BUSINESS

Sales arrangements and credit control

We organize trade meetings with our retail distributors four times a year. After each trade meeting, our retail distributors place orders to source their licensed products with us. Upon receipt of the orders from our retail distributors, we then place orders through one of the two channels mentioned in the sub-section headed “— Our Brand Licensee Business — Sourcing of licensed products” above.

We require our retail distributors to pay 3% to 5% of the purchase price as deposit upon placing orders with us. We generally grant them a credit term of 30 to 60 days from the invoice date, depending on various factors such as their past trading records, amount of the orders and their business relationship with us. We deliver licensed products to our retail distributors before the product launch date.

We did not enter into any consignment agreement with our retail distributors during the Track Record Period and the three months ended December 31, 2007. Since we sell our licensed products on a wholesale basis, we regard our retail distributors and retail outlets operated by our retail business as our end customers and record sales upon delivery of the licensed products to them.

On a consolidation basis, the intra-group sales of licensed products to our directly operated retail outlets in our retail business is eliminated. For details, please refer to the accountants' report set out in Appendix I to this prospectus.

Contractual arrangements with retail distributors

We normally enter into standard one-year contracts with our retail distributors, renewable at our discretion at expiration subject to the retail distributors' satisfactory performance during the previous contract term.

LOGISTICS MANAGEMENT AND DISTRIBUTION

As at December 31, 2007, we had 30 distribution centers that serve both our retail business and our brand licensee business across the PRC with a total area of approximately 45,800 square meters. The products that our merchandizing team purchases are delivered to our regional distribution centers by the suppliers of the brand companies within ten to 20 days before the estimated product launch date. After delivery, our regional distribution center will collect and re-pack the delivered product according to the exact specification in the product allocation list provided by the merchandizing team and deliver most of the merchandize directly to our directly operated retail outlets or to retail distributors within two to four working days.

We deliver our merchandize directly to our directly operated retail outlets and to retail distributors, primarily through the services provided by independent contractors or through our own product delivery teams in certain regions. As such, we do not maintain a large delivery team or many vehicles for the delivery of our merchandize. Our staff at our distribution centers are responsible for coordinating the product receipt and delivery services. In order to maintain the high service standard for the team, we set key performance indices for our logistics teams on pick-and-pack accuracy, delivery time, space management, and stock take discrepancy.

OUR BUSINESS

The computer systems of our distribution centers are networked to our MIS system, which not only assists in our product procurement, store-to-store transfer, logistics and inventory management, but also assists our distribution centers to manage outbound seasonal ordering, product replenishment, deliveries and return shipment.

COMPETITION

The sportswear industry is fast-growing and competitive. According to Frost & Sullivan, as at December 31, 2007, there were over 100 major sportswear retailers in the PRC, and the five largest sportswear retailers constituted over 45% of the total market share of the sportswear retail market in the PRC in terms of sales. We and our Regional Joint Ventures together constituted approximately 17.4% of the total market share. Please refer to the sub-section headed “Industry Overview — The PRC Sportswear Market” in this prospectus for information about the sportswear market in the PRC. While we have few competitors on a nationwide level across the whole Greater China Region such as Belle International Holdings Limited, we continue to face competition from a variety of local retail distributors in each of the regions that we operate.

We are one of the largest sportswear retailers in the PRC based on the number of directly operated retail outlets according to the analysis conducted by Frost & Sullivan and commissioned by us. Although the PRC sportswear industry is competitive with no practical barriers to entry, we believe we enjoy a competitive edge over our competitors in the PRC because of our extensive retail network and leading market position, which requires substantial time and capital investment to build. Please refer to the sub-section headed “— Our Competitive Strengths — One of the largest sportswear retailers in the PRC with an extensive nationwide retail network” above.

We believe that we will be able to maintain our competitiveness and remain a leading sportswear retailer in the Greater China Region by implementing the strategies set out under the sub-section headed “— Our Strategies” above.

OUR MANUFACTURING BUSINESS

Production facility

We established our manufacturing plant in Taicang, Jiangsu Province in 2002 for the production of footwear for sale by our OEM/ODM customers. As at December 31, 2007, the Taicang factory covered an aggregate gross floor area of approximately 177,351 square meters. There were more than 7,400 employees working at this factory, which had the capacity to produce approximately eight million pairs of footwear and 7,000 units of moulds per year. We believe our manufacturing capacity in Taicang provides us with the foundation and potential to develop a vertically integrated business model comprising product design and development, production, marketing and promotion, distribution and retail in the future.

As at the Latest Practicable Date, our customers included *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*. All the products produced by our Taicang factory are sold to OEM/ODM customers. During the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, our Taicang factory produced approximately 2.2 million, 3.5 million, 6.0 million and 1.7 million pairs of shoes, respectively.

OUR BUSINESS

For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, revenue attributable to our manufacturing business was US\$20.8 million, US\$44.8 million, US\$67.1 million and US\$20.9 million, respectively, and accounted for 10.0%, 12.0%, 12.1% and 11.3% of our revenue, respectively. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business Segments” in this prospectus.

We currently run 15 production lines at our Taicang factory. We are planning to expand our production capacity to 26 production lines over the next few years. However, in order to clearly separate our manufacturing business from that of our controlling shareholder, Yue Yuen, we have entered into the Business Separation Deed with Yue Yuen under which we have provided certain undertakings not to produce for any brands except the brands that we currently produce, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*, the brand that we may produce in the future, namely *XTEP*, and the brands which the Yue Yuen Group has first declined to produce. As a result, we may not be able to produce for any new brands and the growth of our manufacturing business may be restricted. Please refer to the risk factor headed “The growth of our manufacturing business may be restricted by the existing business separation mechanisms that we have agreed with our controlling shareholder, Yue Yuen” under the section headed “Risk Factors” in this prospectus.

As at the Latest Practicable Date, our Taicang factory had complied with all environmental rules and regulations and obtained all required permits and environmental approvals applicable to it. Since its establishment, the Taicang factory has conformed and adhered to the performance standards and quality requirements consistent with other factories operated by Yue Yuen Group.

Credit terms

We typically grant our OEM/ODM customers credit terms ranging from seven to 60 days after the invoice date. For some of our OEM/ODM customers, we may also require them to pay a percentage of the purchase price as deposit prior to the delivery of the finished products. As at December 31, 2007, we had not experienced any material default in the collection of our accounts receivable from our OEM/ODM customers.

Procurement of raw materials

We are primarily responsible for the procurement of substantially all of the raw materials used to manufacture our products. Occasionally, our OEM customers also specifically request us to source a portion of raw materials, such as high technology materials used for production of some of our products, from designated raw materials suppliers. We purchase raw materials in bulk to increase our bargaining power and achieve favorable pricing.

The principal raw materials used in our footwear production are rubber, synthetics and nylon.

Quality control

We place considerable emphasis on product quality which we believe is a crucial aspect of our operations. As such, we have established a strict quality control system and a set of quality standards. To ensure that the products meet our quality requirements, our staff from our

OUR BUSINESS

production department periodically conducts on-site inspections in certain intermediate stages of the production process. Our staff from our quality control department also performs quality control and sample checking on the finished products before the finished products are dispatched to our OEM/ODM customers.

Logistics

Our OEM/ODM customers are typically responsible for delivery of our finished footwear products.

Return policy

We will refund our OEM/ODM customers for any defective footwear products.

OUR PROPERTY LEASING AND MANAGEMENT BUSINESS

To complement and support our retail network expansion, we established our property leasing and management business in December 2006. As at September 30, 2007, we have made a capital investment in the sum of US\$36.0 million. Under the property leasing and management business, we have a dedicated property leasing and management unit that acquires or leases large scale retail spaces at attractive locations which are then sub-divided and leased to us or retail distributors. We believe that this property leasing and management unit improves our ability to opportunistically secure attractive retail spaces at reasonable terms and gives us better control of the overall shopping experience of our customers.

Our property leasing and management unit manages our retail sports complexes, which are a group of mono-brand shopping-mall stores located in the city centers in the PRC. We believe that our retail sports complexes enable us to promote our own “YY Sports” brand, since our “YY Sports” logos are displayed outside of our sports retail sports complexes.

As at December 31, 2007, our property leasing and management unit operated ten properties in major cities such as Shanghai, Chengdu and Wuhan, of which we own three of them. We entered into long term lease agreements for five properties and made annual lease payments in the amount of RMB21.0 million. For the remaining two properties, we do not have any lease arrangements with the landlords. Instead, we have agreed with the landlords of such properties to share the revenue generated from sub-dividing and leasing such properties. These leased properties occupy a gross floor area of approximately 20,775 square meters. The revenue generated from our property leasing and management business for the financial year ended September 30, 2007 and the three months ended December 31, 2007 amounted to US\$0.4 million and US\$0.4 million, respectively, which constituted approximately 0.1% and 0.2% of our total revenue for these periods, respectively. For details, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business segments” in this prospectus.

OUR BUSINESS

LARGEST CUSTOMERS AND SUPPLIERS

Largest customers

In respect of our retail business, our customers are end customers of our products and retail sub-distributors. In respect of our brand licensee business, our customers are our retail distributors. In our manufacturing business, our customers are OEM/ODM customers. The percentage of revenue attributable to our top five customers in aggregate was less than 10% of our consolidated revenue during the Track Record Period and the three months ended December 31, 2007.

Largest suppliers

In respect of our retail business, our suppliers are the brand companies of whom we are distributors. In respect of our brand licensee business, our suppliers are the brand companies of whom we are exclusive brand licensee, and the contract manufacturers. In respect of our manufacturing business, our suppliers are suppliers of our raw materials for our footwear production. In 2007, our five largest suppliers accounted for approximately 25.7%, 22.4%, 6.4%, 4.6% and 4.1%, respectively, of our revenue. In 2006, our five largest suppliers accounted for approximately 29.8%, 21.7%, 9.2%, 6.9% and 5.2%, respectively, of our revenue. In 2005, our five largest suppliers accounted for approximately 31.9%, 18.1%, 4.7%, 4.6% and 2.7%, respectively, of our revenue. All of these suppliers are either brand companies or contract suppliers of brand companies. To the knowledge of the Directors, save for Mr. TSAI David Nai Fung who holds 52,200 shares of the Class B shares of Nike, Inc., which accounted for 0.01% of its total shares outstanding as of August 31, 2007, none of our Directors, or their respective associates, or our existing Shareholders as at the Latest Practicable Date, had any interest in any of our five largest suppliers.

MANAGEMENT INFORMATION SYSTEM AND INFORMATION TECHNOLOGY

We believe that an efficient management information system significantly improves product procurement, inventory and logistics management, and financial and cash management, and helps us minimize costs of maintaining inventory, achieve better retail space allocation, and improves our overall sales performance. During the Track Record Period and the three months ended December 31, 2007, we have invested approximately RMB31.1 million in various information system hardwares and softwares and related services. We maintain a computerized information system which integrates the functions of merchandizing, stock replenishment, procurement and distribution, sales, and financial management. All of our directly operated retail outlets and distribution centers are equipped with standard MIS systems which enable our head office and our branch offices to analyze and record sales details and to track inventory on a timely basis.

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

For details of the information system we employ, please refer to the sub-section headed “— Our Competitive Strengths — Strong in-house IT capabilities” above.

OUR BUSINESS

PROPERTY

Land

As at March 31, 2008, we owned the land use rights of two parcels of land with a site area of approximately 273,360 square meters, on which 23 buildings are constructed for our business activities and operations in the PRC and two buildings are being constructed for the expansion of our Taicang factory. The total gross floor area of the buildings under construction will be approximately 50,127 square meters. We had paid full consideration for our land use rights in the PRC.

Owned buildings

As at March 31, 2008, we owned 42 premises that support our business activities and operations in the PRC. All of them are being used as office buildings, retail outlets, production facilities or dormitories. The total gross floor area of these buildings is approximately 191,802 square meters. We have building ownership certificates for all the buildings.

We lease some of our retail space to third parties to operate their own retail outlets, primarily through our property leasing and management unit. We typically enter into standard tenancy agreements with our tenants, who are required to pay fixed rental fees to us on a monthly basis. A majority of these tenancy agreements cover a term of one to four years and contain an option to renew. For the three months ended December 31, 2007, we received rental and property management income in the sum of US\$0.4 million from our tenants.

In addition, as at March 31, 2008, we also owned two buildings under construction. We are processing the completion examination procedures for the building, which is a prerequisite required by law for obtaining the building ownership certificate in respect of the building under construction.

Leased Properties

The rental expense associated with our retail business increased by 44.7%, 47.0% and 69.4% from the financial year ended September 30, 2005 to the financial year ended September 30, 2006, from the financial year ended September 30, 2006 to the financial year ended September 30, 2007, and from the three months ended December 31, 2006 to the three months ended December 31, 2007, respectively. As at March 31, 2008, we leased 230 premises that support our business activities and operations in the PRC, with a total floor area of approximately 193,247 square meters. All of them are being used as retail outlets, office buildings, staff dormitory or distribution centers.

As at December 31, 2007, 41 of the leased properties that we occupied had legal title defects. Of these leased properties, 12 were used as either our office premises or warehouses, one was used for training, one was used as flats, eight were used as sports complexes under our property management and leasing business, whereas the remaining 19 were primarily used as our retail outlets. These 19 leased properties occupy a gross retail floor area of approximately 2,764 square meters, representing less than 2% of the gross retail floor area used by us as at December 31, 2007. For the three months ended December 31, 2007, we estimate that the revenue generated

OUR BUSINESS

by these 41 leased properties amounted to approximately US\$2.2 million, representing less than 2% of the total revenue generated by our retail business. We were not able to obtain the relevant building ownership rights certificates or consent for sub-lease because the relevant landlords had refused to provide us with such relevant certificates or consent for sublease. The lessors either may not have their land use right certificates or title certificates or may not have procured consent from their landlord for sublease. Since the revenue generated by these leased properties is not significant to our total retail revenue and that none of these leased properties are our “flagship” stores, we believe that these leased properties are not crucial to our business and operations. However, if any of such defects of title for these occupied properties is not cured, we may lose our rights to use some of these properties, and our business and operations may be disrupted.

In addition, as at December 31, 2007, 121 leased properties had not been registered with the relevant PRC authorities as required by the applicable PRC regulations. For the three months ended December 31, 2007, we estimate that the revenue generated by these 121 leased properties amounted to approximately US\$6.5 million, representing less than 4% of our total revenue and less than 6% of the revenue attributable to our retail business. Of these leased properties, 43 were used as either our office premises or warehouses, 54 were primarily used as our retail outlets, six were used as sports complexes under our property leasing and management business and the remaining 18 leased properties were used for other ancillary purposes. These 54 leased properties used as our retail outlets occupy a gross retail floor area of approximately 14,811 square meters, representing less than 11% of the gross retail area used by us as at December 31, 2007. As such, we do not believe that the failure of registration alone will affect the validity or performance of these leases. We are urging our landlords to cooperate with us to complete the required registrations, since tenants alone cannot effect registrations under the applicable PRC regulations. However, if the required registrations are not effected, the relevant government authorities have the right to request both our landlords and us to complete the registrations. Also, under the relevant PRC laws and regulations, leases that have not been registered do not bind third parties such as lessee who has registered its lease or mortgagee of the leased property. In such situations, although we have the rights to be compensated by the lessor due to the lessor’s breach of the lease agreement between the lessor and us, we cannot claim any right to continue the lease over the disagreement of the registered lessee and have no right to continue the lease if the subject property has been mortgaged and then disposed of by the mortgagee. There has been no illegal use of these leased properties by us and the leased properties are not subject to any judicial or administrative confiscation orders.

None of these leased properties is our “flagship store”. In light of the revenue contribution of these leased properties and that none of these properties are “flagship stores”, we are of the view that these properties alone do not form a crucial part of the Group’s business and operations. We also believe that the risk of being evicted from these properties is low. In the event that we are evicted from such leased properties, we are of the view that we will not encounter significant difficulty in identifying alternative locations, although we do not continuously maintain a list of alternative locations. We have also adopted certain measures to minimize disruption caused in the event of relocation from these properties, such as gathering information of vacant premises on a regular basis, maintaining good relationships with local property agencies and ensuring that all moveable furniture, fixtures and inventories in these properties can be relocated to the new premises. As such, we do not believe it is necessary to have a definitive contingency plan. In the unlikely event of an eviction, we estimate that it would take approximately two to six months for

OUR BUSINESS

us to relocate to new premises. We estimate the relocation costs and loss of sales due to relocation on an aggregated basis, would be approximately US\$6.0 million, in respect of all these leased properties.

We are of the view that the risk of forced eviction from these leased properties due to our landlords' lack of title documents and/or failure to register the leases is limited. If we are not able to use any of these properties due to the lack of the requisite title or registration documents, we may seek alternative properties. As at the Latest Practicable Date, we have not encountered any issues, evictions or fines. Even if we are unable to continue leasing these properties as a result of any disputes arising due to title encumbrances or failure to register the leases, our PRC legal advisors have advised us that we maintain our right of recourse on the rental deposits attributable to those leased properties.

We will continue to liaise with the relevant landlords with a view to rectifying those leased properties with defective titles after Listing. However, there is no assurance as to when such defects may be rectified or at all. On May 23, 2008, each of Yue Yuen, Jollyard, Sports Group and Mr. Huang entered into a deed of indemnity to indemnify our Group from, among others, any losses, damages, liabilities, costs, expenses or operating and business losses arising from the prohibition from the using or occupation of or the eviction from any of the properties currently leased and/or occupied by any member of the Group in the PRC and the relocation of the business from any of such properties. For details, please refer to the sub-section headed "Statutory and General Information — F. Other Information — 1. Tax and other indemnity" in Appendix VIII to this prospectus.

In the future, the Group will put in place a policy which involves checking the title certificates of the relevant property before entering into new lease arrangements. If the landlord fails to produce proof of proper title but the management decides that the Group should nevertheless lease the relevant property (because the terms are favorable or the property is at a prime location), the Group may still enter into such lease but will continue to liaise with the landlord with a view to rectifying any defects in title. However, the Group will, prior to entering into such lease, conduct a cost-benefit analysis to compare the relevant expenses and loss of profits involved in a possible relocation with the benefit (possibly arising from capturing more revenue in a prime location or lower costs because of favourable terms) that may arise from leasing such property. If the benefits outweigh the costs, the Company may still lease such property.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights primarily consist of the trademarks (including our own trademarks and the license right to our licensed trademarks), the patent rights and copyrights of the system developed by our subsidiary, Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) and the domain names we use for the marketing and sales of our merchandize. Details of our intellectual property rights are set out under the sub-section headed "Statutory and General Information — F. Further Information about Our Business — 2. Our intellectual property rights" in Appendix VIII to this prospectus.

OUR BUSINESS

We recognize the importance of protecting and enforcing our intellectual property rights. In addition to seeking and maintaining registration of intellectual property rights under appropriate categories and in appropriate jurisdictions, we also closely monitor and collect information on counterfeit products from various sources, including our retail distributors and sub-distributors.

We are not aware of any material infringement of our intellectual property rights during the Track Record Period and the three months ended December 31, 2007, and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights and avoid any losses as a result of infringement of the intellectual property rights of third parties by our suppliers. As at the Latest Practicable Date, we were not aware of any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

INSURANCE

We carry insurance covering risks such as loss and theft of, and damage to, properties (including our fixed assets and our inventories in all of our retail outlets and distribution centers), public liability, employee compensation and goods in transit. As at December 31, 2007, the total value of net tangible assets covered by our insurance was approximately US\$100 million. We are of the view that this amount is adequate.

We do not maintain insurance against product liability for products we sell, since our standard purchase contracts obligate the suppliers to bear this liability. Furthermore, it is not compulsory to maintain product liability insurance under PRC law.

LEGAL PROCEEDINGS AND COMPLIANCE

Our PRC legal advisors are of the opinion that we have complied with the relevant laws and regulations set forth in Appendix V to this prospectus in all material aspects, including laws and regulations relating to foreign investment in retail enterprises, environmental protection and labor (including but not limited to the PRC Labor Contract Law (《中華人民共和國勞動合同法》)) and safety, and have obtained all licenses, approvals, permits and certificates from appropriate regulatory authorities for our business operations in the PRC.

Legal proceedings

As at the Latest Practicable Date, we were not aware of any current, pending or threatened litigation, arbitration proceedings or administrative proceedings against us or any of our subsidiaries or any of our Directors which could have a material adverse effect on our financial condition or results of operation.

OUR BUSINESS

Environmental Matters

Retail and brand licensee businesses

In respect of our retail and brand licensee business, we have not engaged in any business operations that may cause environmental pollution and other public hazards, and our retail distributors or sub-distributors have not imposed any environmental condition as part of the pre-conditions to placing order for our products.

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

Manufacturing business

For details of the environmental laws and regulations that we are subject to, please refer to Appendix V to this prospectus.

We believe that our production process does not generate hazards that have any significant adverse effects on the environment. Our environmental protection measures are adequate to comply with all applicable current local and national PRC regulations, given our largely labor-intensive production process does not require the consumption of high levels of energy. Furthermore, due to the composition of the products which we manufacture, there is minimal waste discharge, noise, water or air pollution. Also, all the trash and remaining waste resulted from the production process are delivered to professional waste treatment for recycling. As at the Latest Practicable Date, save as disclosed below, no administrative sanctions, penalties or punishments had been imposed upon us for the violation of any environmental laws or regulations. We will continue to monitor and manage the operation of the Taicang factory strictly to ensure due compliance with the applicable environmental laws, regulation and requirement imposed by our customers on environmental protection. We will carry out relevant measures including, but not limited to, appointing the head of our Taicang factory, who has decades of experience in operating apparel production plants, to cooperate with our in-house legal advisors in formulating and implementing environmental protection measures; conducting regular on-site inspections and providing relevant training to our staff; establishing a maintenance department responsible for the maintenance and upgrading of equipment; making required filings in a timely manner; obtaining relevant approvals with the assistance of our PRC legal advisors and reporting and coordinating with relevant competent authorities in case of any incident of non-compliance.

Based on the certification issued by Taicang Environmental Protection Bureau on December 7, 2007, the Company has complied with the applicable PRC laws and regulations on environmental protection since its establishment. Wastes produced during the production process have been discharged according to the relevant standards. The Company has not incurred any administrative penalty due to environmental protection matters since its establishment.

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

OUR BUSINESS

Our PRC legal advisors have confirmed that during 2005, 2006 and 2007, (i) we complied with the relevant environmental rules and regulations in all material respects and have obtained all required permits and environmental approvals for our production facilities, (ii) no material environmental pollution incident was discovered, and (iii) no significant penalty of any kind was imposed on us.

We consider the protection of the environment to be of great importance and have implemented measures in the operation of our manufacturing business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations. These measures include returning waste from production to professional chemical waste disposal company for disposal purposes, reducing the level of air pollution by controlling the emission of dust from our production process and cooperating with our suppliers to develop more environmental friendly raw materials that will be used in the manufacturing of our products. Greening project has also been an important part in the development of our Taicang factory.

On December 7, 2007, we were granted an environment confirmation letter by the Environmental Protection Bureau of Taicang evidencing our compliance with the applicable environmental protection laws and regulations.

For the financial year ended September 30, 2007, we incurred a cost of approximately US\$0.2 million for implementing pollution preventive measures in our Taicang factory. The budget for the financial year ending September 30, 2008 is approximately US\$0.3 million.

Labor and Safety Matters

For details of labor and safety laws and regulations that we are subject to, please refer to Appendix V to this prospectus.

We base our safety rules on government regulations and customer requirements and require all employees and secondees to follow these safety rules. We also conduct safety training for them.

Based on the above laws and regulations, during our operation, we enter into individual labor contracts with our employees to cover matters such as wages, employee benefits, training programs, confidentiality obligations for commercial secrets, and grounds for termination. For our employees in the PRC, we also participate in various mandatory insurance plans, including pension contribution plan, medical insurance plan, unemployment insurance plan, maternity insurance plan and personal injury insurance plan required by the national rules, and for some of the employees in Shanghai, the combined social security plan required by the local rules. In the view of our PRC legal advisors, the various mandatory insurance plans we participate in are in accordance with national rules and regulations. The combined social security plan is in accordance with the Interim Measures on Combined Social Security Plan for Non-Shanghai Residential Employees (《上海市外來從業人員綜合保險暫行辦法》) enacted by the Shanghai government and includes a work-related injury (or unexpected injury) insurance plan, a medical insurance plan and a pension allowance plan. Such combined social security plan is in accordance with the fundamental guidelines and principles of national rules and regulations regarding social insurance.

OUR BUSINESS

We have complied with the Production Safety Law by procuring all our employees to follow our safety rules, which are based on the applicable government regulations and customer requirements, and conducting routine safety training for them.

During the Track Record Period and the three months ended December 31, 2007, we have complied with all applicable labor and safety laws and regulations in all material respects according to the recognition documents issued by the local tax authorities at the places where each subsidiary operates.

We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees, especially those working in the Taicang factory. Such measures include ensuring that the design, installation, use and maintenance of our equipments meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, providing suitable protective devices to the employees and requiring them to properly wear those devices. In addition, our human resources management team, which is headed by a human resources manager with close to 15 years of experience in human resources management and who is familiar with the applicable labor protection and social securities laws, is responsible for formulating and implementing safety guidelines and operational procedures and standards.

Our PRC legal advisors have confirmed that our operations are in compliance with the current applicable labor and safety laws and regulations in all material respects.

Government Regulations

As at the Latest Practicable Date, our business operations in the PRC, Taiwan and Hong Kong were not subject to any specific license requirements other than those generally applicable to companies and businesses operating in the PRC, Taiwan and Hong Kong. We have obtained all the necessary licenses and permits for our business operations in the PRC, Taiwan and Hong Kong and have complied with all relevant laws and regulations necessary for conducting our business operations.

Foreign investment in retail enterprises

The principal PRC laws and regulations governing foreign investment in retail enterprises are the Administrative Measures on Foreign Investments in Commercial Sectors (《外商投資商業領域管理辦法》) (“Administrative Measures”), Circular of the Ministry of Commerce on Relevant Issues concerning the Expansion of the Business Scope for Foreign-invested Non-commercial Enterprises to include Distribution (《商務部關於外商投資非商業企業增加分銷經營範圍有關問題的通知》) (“Distribution Circular”), PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》) (“Competition Law”), PRC Law on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (“Consumer Protection Law”) and PRC Product Quality Law (《中華人民共和國產品質量法》) (“Product Quality Law”).

Administrative Measures and Distribution Circular

The principal PRC legal provisions governing foreign investment in retail enterprises are the Administrative Measures which were promulgated by the Ministry of Commerce on April 16, 2004 and implemented with effect from June 1, 2004.

The PRC began to open the retail sector to foreign investment in the early 1990s. In 1992, the State Council introduced qualifications and conditions for foreign investment in commercial retail enterprises with the promulgation of the “Approval and Reply Concerning the Use of Foreign Investment in the Commercial Retail Sector” (《關於商業零售領域利用外資問題的批覆》). In 1999, the former PRC State Economic and Trade Commission and the former PRC Ministry of Foreign Trade and Economic Cooperation jointly promulgated the “Interim Measures on Foreign Investment in Commercial Enterprises” (《外商投資商業企業試點辦法》), relating to joint venture partners and geographic restrictions for foreign investment in the commercial sector.

Following the PRC’s accession to the WTO and in fulfillment of its WTO commitments, the PRC government promulgated the Administrative Measures which removed the conditions for joint venture partners and geographic restrictions provided in previous regulations. The revised “Catalogue for the Guidance of Foreign Investment Industries” (《外商投資產業指導目錄》) was implemented with effect from April 1, 2002 and stipulates that foreign majority ownership would be permitted by no later than December 11, 2003. Under the Administrative Measures, foreign investors are permitted to engage in the operation of distribution services on a wholly owned basis from December 11, 2003 onwards. A foreign-invested commercial enterprise must fulfill the following requirements:

- have a minimum registered capital in compliance with relevant provisions of the PRC Company Law and comply with relevant provisions on the registered capital and total investment of foreign-invested enterprise; and
- for a foreign-invested commercial enterprise have a term not exceeding thirty years in general; for a foreign-invested commercial enterprise established in central and western China for a term not exceeding forty years in general.

In addition, foreign investors may apply to set up both commercial enterprises and stores at the same time. A foreign-invested commercial enterprise intending to open stores must fulfill the following requirements:

- where an application is made for the establishment of a store at the same time as the application for the establishment of a commercial enterprise, the enterprise must comply with relevant provisions on city development and urban commercial development; and
- where the application for the establishment of a store is made by a foreign-invested commercial enterprise whose establishment has been approved, in addition the enterprise must have completed the joint annual examination on foreign invested enterprises and its registered capital must be fully paid-up.

OUR BUSINESS

On April 2, 2005, the Ministry of Commerce promulgated the Distribution Circular which came into effect on the same date. The Distribution Circular further stipulates that a non-commercial foreign-invested enterprise is allowed to expand its business scope to include distribution activities, subject to relevant procedures, examinations and approvals as set out in the Distribution Circular.

To further simplify the approval procedures for foreign investment in commercial sectors, 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》) (the “Notice”) on December 9, 2005 which entrusts the administrative departments of commerce at the provincial level to examine and approve the foreign invested commercial enterprises. The Notice took effect from March 1, 2006.

In accordance with the Notice, the provincial commercial departments are entitled to examine and approve an application by a foreign-invested retail enterprise to open stores within its provincial administrative region or national economic and development zone if any one of the following conditions is satisfied: (a) the area of a single store to be opened does not exceed 5,000 square meters and the total number of stores does not exceed three within that region or national economic and development zone and the total number of the same type of stores to be opened throughout the PRC by the applicant does not exceed 30; or (b) the area of a single store does not exceed 3,000 square meters and the total number of stores does not exceed five within that region or national economic and development zone; and the total number of the same type of stores to be opened throughout the PRC does not exceed 50; or (c) the area of each single store does not exceed 300 square meters. Approvals from the Ministry of Commerce of the PRC should be obtained if the size and the number of stores to be opened by a foreign investor exceed the aforementioned threshold.

Prior to the promulgation of the Administrative Measures, we carried out our retail business in the PRC through our relevant PRC-incorporated subsidiaries. Since the promulgation of the Administrative Measures, we began to reorganize and group our retail business in the PRC under different foreign-invested enterprises which we hold them through various wholly owned subsidiaries incorporated in the BVI. As part of our reorganization, we have put in place trust arrangements between the holding company (being Technic Holdings Corporation, which is incorporated in the BVI) of the relevant PRC subsidiaries, which were set up to carry out our retail business prior to the relaxation of the relevant restrictions in carrying out retail business in the PRC, such that the trustee (being Technic Holdings Corporation) holds on behalf of the beneficiaries (being, Selangor Gold Limited and Dedicated Group Limited, which are our non-wholly owned subsidiaries) the equity interests in these PRC-incorporated subsidiaries. For details about the trust arrangement, please refer to the sub-section headed “History and Corporate Structure — Our History — Trust arrangements” in this prospectus.

Competition Law

The principal legal provisions governing market competition are set out in the Competition Law and the recently enacted Antimonopoly Law.

The Competition Law was promulgated on September 2, 1993 and implemented with effect from December 1, 1993.

OUR BUSINESS

The Competition Law provides that business operators shall not undermine their competitors by engaging in improper market activities such as:

- infringement of trademark rights or confidential business information;
- false publicity through advertising or other means, or forgery and dissemination of false information that compromises the goodwill of competitors or the reputation of their products; and
- other improper practices, including bribery, cartels, “dumping” sales (sales at below-cost prices) and illegally offering “prizes” as sales rebates.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of its business license as well as incurrance of criminal liability.

Moreover, the PRC has recently promulgated the Antimonopoly Law on August 30, 2007 and it will take effect from August 1, 2008.

The Antimonopoly Law provides that business operators shall not eliminate or restrict competition by engaging in activities such as:

- entering into horizontal agreements with competitors to collectively fix prices or divide markets;
- entering into vertical agreements to fix the price for resale to a third party or to restrict the minimum price for resale to a third party;
- abusing the dominant market position;
- conducting concentrations (as defined under the Antimonopoly Law) without first obtaining approvals from relevant authorities; and
- abusing intellectual property rights.

Consumer Protection Law

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law, which was promulgated on October 31, 1993 and implemented with effect from January 1, 1994. The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- consumer goods and services must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by it;

OUR BUSINESS

- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices or upon the request by a consumer;
- ensuring the quality, functionality, applications and duration of use of the goods or services under normal use and ensuring that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities for guaranteed repair, replacement and return or other liability in accordance with national regulations or any agreement with the consumer; and
- not setting unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices, etc.

Violations of the Consumer Protection Law may result in fines and other criminal liability. In addition, the business operator will be ordered to suspend operations and its business license can be revoked.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

Product Quality Law

The principal legal provisions governing product liability are set out in the Product Quality Law, which was promulgated on February 22, 1993 and implemented with effect from September 1, 1993. The Product Quality Law imposes following obligations on business operators:

- they must adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- they must adopt measures to keep products for sale in good quality;
- they must not sell invalid or deteriorated products;
- they must comply with product-labeling provisions;
- they must not mislead customers about the origin of a product, or falsely use the name and address of another producer;

OUR BUSINESS

- they must not forge or falsely use another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and
- they must not mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard products as meeting standards.

Violations of the Product Quality Law may result in the imposition of fines or other criminal liability. In addition, the business operator can be ordered to suspend its operations and its business license can be revoked.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller may have the right to recover from the manufacturer any compensation it has paid and vice versa.

NO SIGNIFICANT INTERRUPTIONS

There have been no interruptions in our businesses that may have a significant effect on our financial position during the Track Record Period and the three months ended December 31, 2007.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited combined financial statements, including the notes thereto, as set forth in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRS, including HKAS and Interpretations promulgated by the HKICPA. You should read the entire accountants' report set out in Appendix I to this prospectus and should not rely merely on the information contained in this section.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors which we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading sportswear retailer in the PRC and directly operated 1,324 retail outlets in the PRC as at December 31, 2007. As part of our expansion strategy to extend the reach of our retail network, we have established 22 joint ventures in different regions in the PRC. Among these 22 joint ventures, we have majority interests in six which are our non-wholly owned subsidiaries, and minority interests in the other 16 which are our Regional Joint Ventures. We do not control any of our Regional Joint Ventures as we only have minority interests in each of them. Our Regional Joint Ventures directly operated 1,936 retail outlets in the PRC as at December 31, 2007, and contributed approximately 7.2% and 30.4% to our profit for the financial year ended September 30, 2007 and the three months ended December 31, 2007, respectively. Our Greater China Region's retail network also includes 79 directly operated retail outlets in Hong Kong and Taiwan and two retail outlets directly operated by the Regional Joint Ventures in Hong Kong. We also sell sportswear products on a wholesale basis to retail sub-distributors, which in turn sell the products through the retail outlets that they operate under our supervision. The number of retail outlets operated by our retail sub-distributors for our retail business amounted to 747, covering many of the major cities and provinces within the PRC. Our Regional Joint Ventures also operate similar wholesale businesses with 2,232 retail outlets operated by their retail sub-distributors. Our retail business, which comprises sales to our end customers through our directly operated retail network and to our retail sub-distributors, contributed US\$127.0 million of revenue for the three months ended December 31, 2007, representing 68.6% of total revenue for the period indicated.

Apart from our retail business, we also operate a brand licensee business where we are the exclusive brand licensee for certain international brands, namely *Converse*, *Wolverine* and *Hush Puppies*, in the PRC and other territories in the Greater China Region. Our exclusive brand licensee arrangement with *Converse* in the PRC will terminate on December 31, 2008 and we will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011 subject to a term sheet that we entered into with Converse Inc. in June 2007, which sets out the key provisions of a proposed distributorship agreement to be entered into

FINANCIAL INFORMATION

between the two parties. Under the term sheet, we are granted the right to be the exclusive distributor of *Converse's* products in the PRC subject to our meeting certain goals and targets for store openings and providing certain required services to the stores as stipulated in a retail rollout plan to be developed annually and updated as determined by Converse Inc. We expect the changing of our business relationship with *Converse* to have a negative impact on our profit performance in the future. For details, please refer to the risk factor entitled “We will become the exclusive distributor of *Converse's* products in the PRC from January 1, 2009 to December 31, 2011, which may have a negative impact on our financial performance in the future” in the section headed “Risk Factors” in this prospectus. The brand license agreements we have entered into with these brands give us flexibility with respect to setting the price of products, supply chain management, product design, marketing and development, and product promotion. We primarily sell products under licensed brands to retail distributors including ourselves, which together with the sub-distributors operated 3,254 retail outlets as at December 31, 2007. We believe that our brand licensee business model gives us the potential to achieve better profitability than under the typical retail distribution arrangement. Our brand licensee business contributed US\$36.8 million of revenue for the three months ended December 31, 2007, representing 19.9% of total revenue for the period indicated.

In addition, we possess in-house manufacturing capabilities through our Taicang factory where we manufacture for five brands, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*. Our manufacturing business contributed US\$20.9 million of revenue for the three months ended December 31, 2007, representing 11.3% of total revenue for the period indicated.

We also have a dedicated property leasing and management unit that acquires or leases large scale retail spaces in attractive locations which are then sub-divided and leased to us or third party retail distributors. Our property leasing and management business contributed US\$0.4 million of revenue for the three months ending December 31, 2007, representing 0.2% of total revenue for the period indicated.

We experienced significant growth in revenue and profit during the Track Record Period and the three months ended December 31, 2007. Our revenue amounted to US\$207.2 million, US\$373.0 million and US\$555.9 million for the financial years ended September 30, 2005, 2006 and 2007, respectively, representing a CAGR of 63.8%, while net profit before minority interests for the same periods amounted to US\$6.0 million, US\$21.0 million and US\$43.9 million, respectively, representing a CAGR of 170.5%. Our revenue amounted to US\$185.0 million and our net profit before minority interests amounted to US\$19.7 million for the three months ended December 31, 2007, representing an increase of 82.1% and 164.3% over the three months ended December 31, 2006. Our significant growth was primarily due to the expansion of our retail network and was also, to a certain extent, contributed by our investments in the newly established Regional Joint Ventures, which do not have a proven and well-established track record. For details of the impact of our investments in the Regional Joint Ventures on our financial results, please refer to the sub-section headed “— Factors affecting our Results of Operations and Financial Condition — Investments in the Regional Joint Ventures” below.

As at December 31, 2007, we had invested an aggregate amount of US\$43.5 million in the establishment of our Regional Joint Ventures and provided shareholder's loans in an aggregate amount of US\$65.7 million to 11 of them. We have also entered into call option agreements with

FINANCIAL INFORMATION

our partners in 15 Regional Joint Ventures and the minority shareholders of three of our non-wholly owned subsidiaries. Our call options in these 18 companies, which are our Call Option JVs, give us the right (but not the obligation) exercisable solely at our discretion to acquire from any one or more of our Call Option JVs' partners up to their entire equity interest in the relevant Call Option JVs. As consideration for our Call Option JVs' partners granting us the call options, we have agreed to issue certain numbers of Shares as call option premium to them upon the Global Offering becoming unconditional although some of the Call Option JVs' partners have agreed that they are to receive cash in lieu of Shares for part, or in some cases all, of the call option premium Shares that we have agreed to issue to each of them. The call option premium Shares that we have agreed to issue to them will represent an aggregate amount of approximately 2.4% of our issued share capital immediately after the Global Offering, the Capitalization Issue and the issuance of the Call Option Premium Shares, assuming the Over-allotment Option is not exercised. The total value of the call option premium including the cash portion and the Shares portion will represent an aggregate amount of approximately US\$62.4 million (assuming that the Offer Price is fixed at the high end of HK\$3.75 per Share on the Price Determination Date) or US\$48.8 million (assuming that the Offer Price is fixed at the low end of HK\$2.93 per Share on the Price Determination Date).

BASIS OF PRESENTATION

Our Company was incorporated in Bermuda on November 14, 2007. On April 29, 2008, our Company entered into a reorganization agreement with Manfield, Jollyard, Sports Group and Mr. Huang, pursuant to which we underwent the Reorganization to rationalize our business and corporate structure in preparation for Listing. As a result of the Reorganization, our Company was interposed between our current shareholders and our current subsidiaries and associates. For more details, please refer to the section headed "History and Corporate Structure" in this prospectus.

The Group resulting from the Reorganization continues to be controlled by Yue Yuen and therefore is regarded as a continuing entity. Accordingly, the financial information has been prepared on the basis as if our Company had always been the holding company of the Group as set out in Note 1 to the accountants' report in Appendix I to this prospectus.

The combined income statements, combined cash flow statements and combined statement of changes in equity for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007 include the results, changes in equity and cash flows of the companies comprising the Group and have been prepared as if our Company had always been the holding company of the Group and in accordance with the respective equity interests in the individual companies attributable to Yue Yuen throughout the Track Record Period and the three months ended December 31, 2007, while the results of the companies comprising the Group attributable to the shareholders other than Yue Yuen were accounted for as minority interests. The minority interests during the Track Record Period and the three months ended December 31, 2007 included the equity interests in those subsidiaries held by Sports Group, Jollyard and the minority shareholders of Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司). Pursuant to the Reorganization, the entire interests in those subsidiaries held by Sports Group and Jollyard are transferred to the Group. In exchange, Sports Group and Jollyard will become shareholders of our Company.

FINANCIAL INFORMATION

The Group's principal operations are conducted in the PRC. The financial information is presented in US dollars, that are different from the functional currency of the Group which is Renminbi, because US dollars are the functional currency of Yue Yuen and the directors consider that US dollars are preferable when controlling and monitoring the performance and financial position of the Group.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Consumer spending and changes in consumption patterns and consumer demand for sportswear in the PRC

We conduct a substantial part of our operations in the PRC. Economic growth in the PRC drives the level of disposable income and consumer spending, which in turn affects the level of demand for the products we distribute. The PRC has experienced significant economic growth in recent years, with nominal GDP growing at a CAGR of approximately 16.1% from 2002 through 2006, according to the National Bureau of Statistics of China. The rapid growth of the PRC economy has led to accelerated urbanization and a rise in living standards and per capita disposable income. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households in the PRC increased at a CAGR of 12.2% from US\$931 in 2002 to US\$1,475 in 2006, and according to Frost & Sullivan, it is projected to further increase to US\$2,409 in 2011. As per capita disposable income has increased, consumer spending has also increased. We believe such increase in consumer spending will continue to be a key driver for the growth of the sportswear retail industry in the PRC. For details about increase in annual disposable income and growth in consumer spending in the PRC, please refer to the sections headed "Industry Overview — Rapid Economic Growth, Urbanization and Increasing Disposable Income — Disposable income growth of urban households" and "Industry Overview — Strong Retail Growth and Changing Consumption Patterns" in this prospectus.

Expansion of our retail network

Our ability to increase revenue is directly affected by the number of retail outlets in our retail network. In recent years, we have expanded our retail network rapidly. The following table sets forth the information with respect to the number of our directly operated retail outlets for the periods indicated.

| | Financial year ended September 30, | | | Three months ended |
|---|------------------------------------|------|-------|--------------------|
| | 2005 | 2006 | 2007 | December 31, 2007 |
| Number of directly operated retail outlets at the beginning of the period | 300 | 594 | 669 | 1,199 |
| Number of directly operated retail outlets at the end of the period | 594 | 669 | 1,199 | 1,403 |

FINANCIAL INFORMATION

The following table sets forth the information with respect to the amount of retail space occupied by our directly operated retail outlets for the periods indicated.

| | As at September 30, | | | As at |
|--------------------------|---------------------|--------|---------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | (in square meters) | | | 2007 |
| Retail space occupied by | | | | |
| directly operated retail | | | | |
| outlets | 57,481 | 71,783 | 128,558 | 147,760 |

In addition to our directly operated retail outlets, we also sell products on a wholesale basis to our retail sub-distributors. As at December 31, 2007, our retail sub-distributors operated 747 retail outlets for our retail business. Our retail distributors including ourselves, together with their retail sub-distributors, operated 3,254 retail outlets for our brand licensee business. We believe the continuing expansion of our retail sub-distributors will continue to be an important factor to enhance our retail reach and market penetration.

Our sales per retail outlet differs from location to location. The differences in sales per retail outlet are generally driven by a number of factors including the locations of the retail outlets, the brands that the retail outlets carry, the pricing of products at the retail outlet, the maturity of our retail outlets, the level of competition in the area surrounding the retail outlets and the spending patterns and purchasing power of the target population. For more details, please refer to the sub-section headed “Our Business — Our Retail Business — Management of our retail outlets” in this prospectus.

The table below sets out the number of our directly operated retail outlets and our unaudited daily average sales per retail outlet with respect to our directly operated retail outlets that have opened more than 24 months at the end of each period⁽¹⁾⁽²⁾.

| | Financial year ended September 30, | | | | | | | | | Three months ended December 31, | | | | | |
|---|------------------------------------|---------------------------------------|--------------------------------------|--------------------------|---------------------------------------|--------------------------------------|--------------------------|---------------------------------------|--------------------------------------|---------------------------------|---------------------------------------|--------------------------------------|--------------------------|---------------------------------------|--------------------------------------|
| | 2005 ⁽³⁾ | | | 2006 | | | 2007 | | | 2006 | | | 2007 | | |
| | Number of retail outlets | Daily average sales per retail outlet | Daily average sales per square meter | Number of retail outlets | Daily average sales per retail outlet | Daily average sales per square meter | Number of retail outlets | Daily average sales per retail outlet | Daily average sales per square meter | Number of retail outlets | Daily average sales per retail outlet | Daily average sales per square meter | Number of retail outlets | Daily average sales per retail outlet | Daily average sales per square meter |
| | (US\$) | (US\$) | | (US\$) | (US\$) | | (US\$) | (US\$) | | (US\$) | (US\$) | | (US\$) | (US\$) | |
| Opened prior to September 30, 2003 ⁽⁴⁾ | 140 | 1,126 | 12.0 | 118 | 1,337 | 12.6 | 101 | 1,609 | 14.8 | 114 | 1,393 | 13.5 | 97 | 1,827 | 17.2 |
| Opened prior to September 30, 2004 ⁽⁵⁾ | | | | 202 | 1,226 | 11.2 | 174 | 1,503 | 13.3 | 190 | 1,315 | 12.1 | 169 | 1,673 | 14.9 |
| Opened prior to September 30, 2005 ⁽⁶⁾ | | | | | | | 375 | 1,136 | 11.2 | | | | 357 | 1,260 | 12.3 |

- (1) For the purpose of calculating the daily average sales per retail outlet, we have not taken into account the period of time during which our directly operated retail outlets underwent renovation.
- (2) For the directly operated retail outlets that we acquired from third parties, we deemed the acquisition date as the date of opening of such retail outlets for the purpose of calculating the daily average sales per retail outlet.
- (3) We have adopted and run our internal ERP system, the “Yuen Sheng System”, in some of our directly operated retail outlets since January 1, 2005. For the purpose of calculating the daily average sales per retail outlet and the average sales per square meter, we have not included sales data prior to January 1, 2005.

FINANCIAL INFORMATION

- (4) This includes retail outlets that were opened prior to September 30, 2003 and were still in existence at the end of each period indicated.
- (5) This includes retail outlets that were opened prior to September 30, 2004 and were still in existence at the end of each period indicated.
- (6) This includes retail outlets that were opened prior to September 30, 2005 and were still in existence at the end of each period indicated.

For the 1,046 retail outlets which were opened after September 30, 2005 and which were still in operation as at December 31, 2007, the daily average sales per retail outlet and the daily average sales per square meter for the three months ended December 31, 2007 was US\$804.5 and US\$7.8, respectively.

The following table sets out a breakdown of our retail business revenue derived from (a) our directly operated retail outlets, which are further divided by geographical region and (b) our retail sub-distributors, for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2006 and 2007, and their respective contribution by percentage to our total revenues from our retail business for the periods indicated.

| | Financial year ended September 30, | | | | | | Three months ended December 31, | | | |
|---|------------------------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|---------------------------------|-----------------------|-------------------|-----------------------|
| | 2005 | | 2006 | | 2007 | | 2006 (unaudited) | | 2007 | |
| | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue |
| Revenue from our directly operated outlets | | | | | | | | | | |
| Eastern region ⁽¹⁾ | 24,116 | 18.7% | 35,263 | 15.1% | 47,878 | 13.5% | 6,021 | 8.8% | 16,601 | 13.1% |
| Southern region ⁽²⁾ | 14,883 | 11.5% | 18,783 | 8.1% | 28,606 | 8.1% | 7,125 | 10.5% | 12,257 | 9.7% |
| Western region ⁽³⁾ | 13,522 | 10.5% | 15,862 | 6.8% | 36,817 | 10.4% | 4,734 | 6.9% | 15,041 | 11.8% |
| Northern region ⁽⁴⁾ | 53,107 | 41.2% | 93,289 | 40.1% | 137,559 | 38.7% | 24,299 | 35.6% | 42,025 | 33.1% |
| Taiwan and Hong Kong | 3,083 | 2.4% | 10,824 | 4.6% | 15,328 | 4.3% | 4,993 | 7.3% | 9,484 | 7.5% |
| Sub-total | 108,711 | 84.3% | 174,021 | 74.7% | 266,188 | 75.0% | 47,172 | 69.1% | 95,408 | 75.2% |
| Revenue from retail sub- distributors. | 20,262 | 15.7% | 58,845 | 25.3% | 89,056 | 25.0% | 21,087 | 30.9% | 31,563 | 24.8% |
| Total retail business revenue | 128,973 | 100.0% | 232,866 | 100.0% | 355,244 | 100.0% | 68,259 | 100.0% | 126,971 | 100.0% |

- (1) Eastern region includes Anhui, Jiangsu, Jiangxi, Shanghai and Zhejiang.
- (2) Southern region includes Fujian, Guangdong, Guangxi and Hainan.
- (3) Western region includes Chongqing, Guizhou, Henan, Hubei, Hunan, Sichuan, Xizang and Yunnan.
- (4) Northern region includes Beijing, Gansu, Hebei, Heilongjiang, Inter Mongolia, Jilin, Liaoning, Ningxia, Qinghai, Shaanxi, Shandong, Shanxi, Tianjin and Xinjiang.

Business segments

Our business consists of four business segments: (i) retail business; (ii) brand licensee business; (iii) manufacturing business; and (iv) property leasing and management business. We are primarily engaged in the retail business and brand licensee business, which generated 63.9% and 23.9% of our revenue, respectively, for the financial year ended September 30, 2007, and 68.6% and 19.9% of our revenue, respectively, for the three months ended December 31, 2007. Each business segment has distinct growth prospects, margins and business risks.

FINANCIAL INFORMATION

The following table sets out a breakdown of our revenue according to our business segments, divided into retail business, brand licensee business, manufacturing business and property leasing and management business, and shows their respective contribution by percentage to our total revenue for the periods indicated.

| | Financial year ended September 30, | | | | | | Three months ended December 31, | | | |
|---|------------------------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|---------------------------------|-----------------------|-------------------|-----------------------|
| | 2005 | | 2006 | | 2007 | | 2006 (unaudited) | | 2007 | |
| | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue | US\$ thousands | % of total revenue |
| Retail business | 128,973 | 62.3% | 232,866 | 62.4% | 355,244 | 63.9% | 68,259 | 67.2% | 126,971 | 68.6% |
| <i>Sales to end customers from our directly operated retail outlets</i> | 108,711 | 52.5% | 174,021 | 46.6% | 266,188 | 47.9% | 47,172 | 46.4% | 95,408 | 51.6% |
| <i>Sales to our retail sub-distributors on a wholesale basis</i> | 20,262 | 9.8% | 58,845 | 15.8% | 89,056 | 16.0% | 21,087 | 20.8% | 31,563 | 17.0% |
| Brand licensee business | 57,395 | 27.7% | 95,301 | 25.6% | 133,187 | 23.9% | 20,941 | 20.6% | 36,758 | 19.9% |
| Manufacturing business | 20,809 | 10.0% | 44,793 | 12.0% | 67,053 | 12.1% | 12,408 | 12.2% | 20,897 | 11.3% |
| Property leasing and management business | — | N/A | — | N/A | 419 | 0.1% | — | N/A | 402 | 0.2% |
| Total | <u>207,177</u> | <u>100.0%</u> | <u>372,960</u> | <u>100.0%</u> | <u>555,903</u> | <u>100.0%</u> | <u>101,608</u> | <u>100.0%</u> | <u>185,028</u> | <u>100.0%</u> |

For information on the reasons for the fluctuation in revenues for each business segment, please refer to the paragraphs headed “Revenue” for the relevant periods indicated in the sub-section headed “— Period to Period Comparison of Historical Operating Results” below.

The following table sets out the segment results and segment result margins according to our business segments, divided into retail business, brand licensee business, manufacturing business and property leasing and management business, for the periods indicated. Segment results are prepared in accordance with HKAS 14 for accounting purposes only. For further details on segment results, please refer to Note 5 of the accountants’ report set out in Appendix I to this prospectus.

| | Financial year ended September 30, | | | | | | Three months ended December 31, | | | |
|--|------------------------------------|---|--------------------|---|--------------------|---|---------------------------------|---|--------------------|---|
| | 2005 | | 2006 | | 2007 | | 2006 (unaudited) | | 2007 | |
| | Segment results | Segment results margin ⁽¹⁾ | Segment results | Segment results margin ⁽¹⁾ | Segment results | Segment results margin ⁽¹⁾ | Segment results | Segment results margin ⁽¹⁾ | Segment results | Segment results margin ⁽¹⁾ |
| (US\$ thousands, except percentage) | | | | | | | | | | |
| Retail business | 3,324 | 2.6% | 12,535 | 5.4% | 26,926 | 7.6% | 4,569 | 6.7% | 8,185 | 6.4% |
| Brand licensee business | 6,373 | 10.8% | 17,201 | 16.6% | 28,283 | 19.3% | 4,194 | 18.9% | 8,492 | 19.4% |
| Manufacturing business | 1,958 | 9.1% | 4,256 | 9.3% | 8,220 | 12.3% | 1,592 | 12.8% | 3,229 | 15.5% |
| Property leasing and management business | — | N/A | — | N/A | (990) | N/M | — | N/A | (552) | N/M |

(1) Segment results margin is calculated based on segmental revenue before elimination of inter-segmental sales.

FINANCIAL INFORMATION

“Segment results” refers to the segment results of our income statement that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, excluding other income, interest expense, income tax expenses and unallocated general administrative expenses and head office expenses.

Investments in the Regional Joint Ventures

As part of our expansion strategy to extend the reach of our retail network, we have established 22 regional partnerships with different regional joint venture partners, which we believe is an efficient way to extend our market presence into emerging cities in the PRC where opportunities exist for future expansion. We believe each of our joint venture partners is a leading retail player in their respective regional markets. Amongst these 22 joint ventures, we have majority interests in six which are our non-wholly owned subsidiaries, and minority interests in the other 16 which are our Regional Joint Ventures. Our equity interests in the Regional Joint Ventures range from 30% to 50%, and we do not control any of our Regional Joint Ventures. Our Regional Joint Ventures directly operated 1,936 retail outlets in the PRC as at December 31, 2007.

As our Regional Joint Ventures are not our subsidiaries, their financial results have not been consolidated into our combined financial statements in our accountants’ report set out in Appendix I to this prospectus. Although their financial results are not consolidated into our Group’s, their results were accounted for either as share of results of associates and share of results of jointly controlled entities in our accountants’ report, and therefore impacted on our income statements. For the financial year ended September 30, 2007 and the three months ended December 31, 2007, they generated an aggregate total net income of approximately US\$6.7 million and US\$13.4 million, respectively, and contributed attributable net income of approximately US\$3.2 million and US\$6.0 million, respectively, to our combined income statement. The attributable net income contributed by our Regional Joint Ventures represented 7.2% and 30.4% of our profit for the periods indicated, respectively.

The table below sets out certain key financial information of our Regional Joint Ventures for the three months ended December 31, 2007 or as at December 31, 2007. The selected historical financial information here has not been independently audited by our auditors and it is derived from the financial statements of each of the Regional Joint Ventures for the period from the dates of their incorporation up to December 31, 2007, prepared in accordance with PRC GAAP. For these reasons, you should not place undue reliance on this information.

| Regional Joint Ventures | Total revenue for the three months ended December 31, 2007 ⁽¹⁾ | Total net asset as at December 31, 2007 | Total net profit for the three months ended December 31, 2007 | Number of directly operated retail outlets as at December 31, 2007 |
|--|---|--|--|---|
| | (US\$ thousands) | | | |
| 1. Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司) ⁽²⁾ | 8,918 | 7,730 | 1,664 | 68 |
| 2. Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司) ⁽²⁾ | 8,128 | 5,769 | 382 | 259 |

FINANCIAL INFORMATION

| Regional Joint Ventures | Total revenue for the three months ended December 31, 2007 ⁽¹⁾ | Total net asset as at December 31, 2007 | Total net profit for the three months ended December 31, 2007 | Number of directly operated retail outlets as at December 31, 2007 |
|---|---|--|--|---|
| | (US\$ thousands) | | | |
| 3. Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司) ⁽²⁾ . . | 21,032 | 14,995 | 1,464 | 215 |
| 4. Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) ⁽²⁾ | 17,886 | 10,247 | 1,182 | 255 |
| 5. Shaanxi Jixian Longyue Sports Goods Company Limited (陝西極限龍躍體育用品有限公司) ⁽²⁾ . . | 3,976 | 3,315 | (12) | 67 |
| 6. Hefei Tengrui Sports Goods Company Limited (合肥騰瑞體育用品有限公司) ⁽²⁾ | 6,300 | 5,170 | 424 | 77 |
| 7. Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) ⁽²⁾ | 1,024 | 2,480 | — | 28 |
| 8. Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) ⁽²⁾ | 476 | 1,442 | — | 21 |
| 9. Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) ⁽²⁾ | 17,450 | 12,876 | 3,156 | 73 |
| 10. Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) | 600 | 951 | (58) | — ⁽³⁾ |
| 11. Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) ⁽²⁾ | 2,664 | 8,323 | 125 | 147 |
| 12. Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司) ⁽²⁾ | 5,506 | 5,555 | 506 | 87 |
| 13. Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司) ⁽²⁾ | 16,878 | 6,793 | (347) | 208 |
| 14. Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司) ⁽²⁾ | 11,962 | 8,867 | 1,713 | 103 |
| 15. Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) ⁽²⁾ | 4,973 | 3,667 | 205 | 27 |
| 16. Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) ⁽⁴⁾ | 41,127 | 13,877 | 2,947 | 303 |

(1) Total revenue includes revenue generated by the directly operated retail outlets of our Regional Joint Ventures, revenue generated by their retail sub-distributors, as well as revenue generated by their property management and leasing business. Therefore, total revenue here does not only represent revenue generated by the directly operated retail outlets in the retail business of our Regional Joint Ventures.

FINANCIAL INFORMATION

- (2) *These Regional Joint Ventures are also our Call Option JVs. For details of our call option arrangements with our Call Option JVs' partners in each of them, please refer to the sub-section headed "Our Business — Our Investments in Joint Ventures — Call option agreements" in this prospectus.*
- (3) *Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) does not have any directly operated retail outlet. It acquires or leases large scale retail spaces at locations which are then sub-divided and leased to retail distributors.*
- (4) *Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) was established in August 13, 1998. On September 11, 2006, Dalian Dongzhijie Sports Production Development Company Limited (大連東之杰運動產業發展有限公司) was transformed into a foreign-invested enterprise wholly owned by Farsighted Limited, a company incorporated in the BVI. Farsighted Limited is owned as to 30% and 70% by us and our joint venture partner in Farsighted Limited, respectively.*

To the best of the knowledge of our Directors, not less than 60% of the total revenue of the Regional Joint Ventures is derived from their retail related business operations, with the remainder predominantly generated from their wholesale business operations.

The gross floor area of our directly operated retail outlets generally range from approximately 40 to 300 square meters, whereas the gross floor area of the retail outlets directly operated by our Regional Joint Ventures generally range from approximately 40 to 350 square meters. In any event, we believe the operating performance of our own directly operated retail outlets and the average revenue per directly operated retail outlet in our retail business was generally better than that of our Regional Joint Ventures. We believe the fact that we do not control any of our Regional Joint Ventures and that they do not have the benefit of our well-established operation systems are one of the factors causing the differentiation in operating performance. For details, please see the risk factor entitled "Our investments in the Regional Joint Ventures may not be successful as they operate in a manner different to us and do not have a proven and well-established track record, and our joint venture agreements with the Regional Joint Venture partners do not allow us to cash out from our investments if the relevant Regional Joint Venture becomes unprofitable or financially unsound" in the section headed "Risk Factors" in this prospectus. We also believe that since many of our directly operated retail outlets in existence as at December 31, 2007 were opened prior to September 30, 2005 and had a longer operation history than the directly operated retail outlets of our newly established Regional Joint Ventures as at the same date, the maturity of our retail outlets also contributed to the higher operating performance of our directly operated retail outlets than those of our Regional Joint Ventures. While the operating performance of the directly operated retail outlets of the Regional Joint Ventures was generally weaker than that of our directly operated retail outlets, we intend to introduce our best practices in various areas such as retail outlet management, customer services, financial management, IT systems and other operational areas to the Regional Joint Ventures so as to gradually enhance their operational performance over time.

Our brand portfolio and distribution arrangements with brand companies

We and our Regional Joint Ventures offer an extensive range of sports footwear, apparel and accessories across a number of brands. Our success in expanding our business is dependent on the number of brands we carry and the terms and conditions agreed between the brand companies and us, pursuant to which we distribute their products, including but not limited to duration, pricing policy, discounts, subsidies, credit terms and royalties. For most of the brands we carry, we have entered into distributorship agreements with brand companies whereby we purchase products from

FINANCIAL INFORMATION

brand companies on a wholesale basis at a discount for resale to the end consumers. In other cases, we have entered into brand license agreements with brand companies whereby we are the exclusive brand licensees for products under those brands in specified geographical areas. The cost structures and profit margins differ between the two distribution arrangements. For details, please refer to the sub-section headed “Our Business — Our Strategies — Continue to develop our brand licensee business” in this prospectus. As a result, the mix of the type of distribution arrangements that we have with brand companies will directly impact the way that we operate and the results of our operations.

In addition, our profitability is related to the terms of agreements we reach with each of our brand partners including, in particular, the discount rates we obtained when acting as a distributor, the royalty rate when acting as a brand licensee, the amount of any minimum sale target or minimum guaranteed royalty, if any, and the payment terms for our purchases from the brand companies. In addition, the growth of our brand licensee business depends on our ability to renew existing agreements, to identify and develop new brands, and to develop and secure a long term relationship with them.

Staff costs

Staff costs accounted for 25.5%, 28.6%, 29.6% and 27.2% of our total operating expenses for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. Staff costs comprise expenses attributable to employees and include, among other things, wages, salaries, bonuses and various contributions to pensions and retirement plans. In addition, our staff costs include termination payments and early retirement benefits. Staff costs for the staff at our directly operated retail outlets constitute a significant portion of our total staff costs and are largely proportional to the number of retail outlets under our operation. We believe that our staff costs may increase in the future as we attempt to further expand our retail business and due to anticipated competition for experienced personnel.

Rentals

A significant portion of our operating expenses consists of rentals, which include concession fees and rental expenses. Concession fees, which are calculated as a percentage of the monthly revenue of our department store counters subject to a certain minimum guaranteed concession amount, are payable to department stores in exchange for the use of retail and storage space for our department store counters. We also pay rental expenses to the landlords of our street-level stores, shopping-malls shops and corporate offices pursuant to lease agreements we enter into with them. Rental expenses are usually paid monthly and contain a fixed component as well as, in certain cases, a turnover rent component. For details, please refer to the sub-section headed “Our Business — Our Retail Business — Formats of our retail outlets” in this prospectus.

Our operating expenses increased substantially during the Track Record Period and the three months ended December 31, 2007 due to significant increases in concession fees and rental expenses, primarily driven by the growth of our retail network. However, as a percentage of our revenue, our rental expenses decreased during the Track Record Period and the three months ended December 31, 2007. Concession fees and rental expenses for our retail outlets and rental expenses for our corporate offices collectively incurred for the three financial years ended

FINANCIAL INFORMATION

September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007 amounted to 13.3%, 10.7%, 10.4% and 10.7% of our revenue, respectively, and 36.9%, 34.3%, 37.0% and 34.3% of our operating expenses, respectively.

As our retail network expands, we expect that our rentals will increase as concession fees and rental expenses increase. Any significant increase in the concession fees and applicable rental expenses payable in the future will also significantly increase our operating expenses and could reduce our profitability. For details, please refer to the risk factor entitled “We may fail to secure space for our retail outlets on commercially reasonable terms” in the section headed “Risk Factors” in this prospectus.

Performance of our manufacturing business

We operate a manufacturing plant in Taicang, Jiangsu Province primarily for manufacturing smaller batch orders for emerging domestic brand companies in the PRC. We currently manufacture for five brands at this plant, being *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*. For the financial year ended September 30, 2007 and the three months ended December 31, 2007, revenue attributable to our manufacturing business accounted for 12.1% and 11.3% of our combined revenue, respectively. The performance of our manufacturing business is dependent on our manufacturing capability, our capacity utilization rate, orders from OEM/ODM customers and our ability to control production costs. For details, please refer to the sub-section headed “Our Business — Our Manufacturing Business — Production facility” in this prospectus.

The production capacity of our Taicang factory increased from four production lines as at September 30, 2005, to ten as at September 30, 2006, and to 15 as at September 30, 2007 and December 31, 2007. The increase in the production capacity is to meet the increase in purchase orders from key brand customers. During the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, our Taicang factory produced approximately 2.2 million, 3.5 million, 6.0 million and 1.7 million pairs of shoes, respectively. We plan to expand our production capacity to 26 production lines over the next few years.

The main raw materials we use in the production of footwear products are rubber, synthetics and nylon. In recent years, the average price of rubber, synthetics and nylon have been increasing. We have generally been able to pass along increases in raw materials costs directly to our OEM/ODM customers, which has helped us to maintain gross profit margins at a stable level. In addition, wages have also been increasing in the PRC in recent years. As we continue to increase the number of production lines at our Taicang factory, we plan to recruit more workers and anticipate that our labor costs will increase in the future.

Taxation

We are subject to Hong Kong profits tax, PRC income tax and overseas income tax.

Our Hong Kong subsidiaries are subject to Hong Kong profits tax, calculated at 17.5% of the estimated assessable profits during the Track Record Period and the three months ended December 31, 2007.

FINANCIAL INFORMATION

Our PRC subsidiaries are subject to PRC income tax on an individual basis. During the Track Record Period and the three months ended December 31, 2007, the normal statutory PRC enterprise income tax rate and local income tax rate were 30% and 3%, respectively, of the assessable income as determined in accordance with the relevant PRC income tax rules and regulations. However, PRC national and local tax laws provide for various types of preferential tax treatments applicable to different enterprises. According to the PRC Foreign-invested Enterprise and Foreign Enterprise Income Tax Law (《中華人民共和國外商投資企業和外國企業所得稅法》) (“FIE Tax Law”) and its rules, a foreign investment enterprise engaging in manufacturing with an operating term exceeding 10 years is entitled to an enterprise income tax exemption for two years from its first profitable year and a 50% reduction for the following three years, provided approval is obtained from the relevant tax authority.

Some of our subsidiaries enjoy preferential tax treatments. These tax preferences are available to all entities which fulfill the conditions upon application and confirmation by the respective tax authorities in charge as evidenced and supported by the formal confirmation letters issued by such tax authorities. We set out below the types of preferential tax treatments applicable to us and the subsidiaries which have fulfilled all the conditions as required for the entitlement of the following tax preferences. Based on the applicable tax rules and the written confirmations provided, the tax authorities granting these tax preferences are the appropriate tax authorities.

- (i) *2-year tax exemption and 3-year tax reduction by 50% (“2+3 tax holiday”) for production-oriented enterprises*

According to Article 8 of the FIE Tax Law, production-oriented foreign investment enterprises with approved and actual operating period of over ten years can enjoy 2+3 tax holiday, starting from the first profit-making year. We set forth below a summary of the subsidiaries which were or are entitled to 2+3 tax holiday as production-oriented enterprises:

| <u>Name of Group entity</u> | <u>Applicable year</u> |
|--|------------------------|
| Yusheng (Kunshan) Sports Goods Company Limited (裕晟(昆山)體育用品有限公司) | 2002 – 2006 |
| Yusheng (Taicang) Footwear Company Limited (裕盛(太倉)鞋業有限公司) | 2005 – 2009 |
| Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) | 2005 – 2009 |

- (ii) *Reduced state foreign-invested enterprise tax rate at 15% for enterprises located at Western Regions*

According to the Circular Regarding Policy and Measures on Developing Western Regions (《國務院辦公廳轉發國務院西部開發辦關於西部大開發若干政策措施實施意見的通知》) issued by the State Council, and the Circular Regarding Issues on Preferential Tax Policy for Developing Western Regions (《關於西部大開發稅收優惠政策問題的通知》) issued jointly by the Ministry of Finance and the State Administration of Taxation and Customs General, foreign investment enterprises and domestic enterprises located at Western Regions (as defined in the circulars) are entitled to enjoy reduced state foreign-invested enterprise or enterprise income tax (“EIT”) rate at 15% from the calendar years of 2001 to

FINANCIAL INFORMATION

2010 provided that the revenue of the enterprise arising from “encouraged” projects comprises more than 70% of total revenue in a calendar year. For foreign investment enterprises, “encouraged” projects refer to those categorized according to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) and the Catalogue of Preferred Industries for Foreign Investments in the Central and Western Regions (《中西部地區外商投資優勢產業目錄》). According to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》), wholesale and retail business are classified as “encouraged” projects.

Five of our subsidiaries, namely Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司), Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司), Nanning Baoguan Sports Goods Company Limited (南寧寶冠體育用品有限公司) and Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司), enjoy preferential state foreign-invested enterprise tax rate at 15%. The local foreign-invested enterprise tax rate of 3% has also been exempt for Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司), Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) and Nanning Baoguan Sports Goods Company Limited (南寧寶冠體育用品有限公司).

According to the Circular on the Enterprise Income Tax Preferential Policy (《關於企業所得稅若干優惠政策的通知》) promulgated jointly by the Ministry of Finance and the State Administration of Taxation, newly established domestic enterprises engaged in commercial business can enjoy reduction or exemption from EIT for one year starting from the date of commencement of operation upon approval from the tax authority in charge. The following table summarizes the entities in our Group which were entitled to reduction or exemption from EIT for one year upon commencement of operation:

| Name of Group entity | Applicable year |
|---|-----------------------------------|
| Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司) | Exemption from EIT in 2005 |
| Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司) | Exemption from EIT in 2005 |
| Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司) | Exemption from EIT in 2007 |
| Fujian Baomin Sports Goods Company Limited (福建寶閩貿易有限公司) | 50% reduction in EIT rate in 2005 |

Under the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “New EIT Law”) and the Implementation Regulations of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which were promulgated on March 16, 2007 and December 6, 2007, respectively, by the National People’s Congress and the State Council and became effective on January 1, 2008. According to the New EIT Law, the PRC adopts a uniform tax rate of 25.0% for all enterprises (including foreign-invested enterprises) and revokes the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or

FINANCIAL INFORMATION

domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as “new and high technology enterprises strongly supported by the state” will be entitled to a 15.0% EIT rate. According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (《國務院關於實施企業所得稅過渡優惠政策的通知》) issued on December 26, 2007, which became effective on January 1, 2008, enterprises that are subject to an EIT rate lower than 25.0% continue to enjoy the lower rate and gradually transfer to the new tax rate within five years after the effective date of the New EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term continue to enjoy such treatment until the fixed term expires, but the two-year exemption from EIT for foreign-invested enterprises began from January 1, 2008 instead of from when such enterprise first becomes profitable.

Our combined effective tax rate, calculated as our combined income tax expense divided by our profit before income tax, was approximately 27.7%, 25.8%, 24.8% and 19.3% for the three financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, respectively. Fluctuations in the effective tax rates and deviations from the standard rate are primarily due to the combined effect of tax exemptions and tax holidays enjoyed by our subsidiaries as described above, and increases or decreases in assessable profit of each subsidiary. It is difficult to forecast our combined effective tax rate in the future. However, termination or revision of the various preferential tax treatments that our PRC subsidiaries currently enjoy may have a negative impact on our results of operations and financial condition.

Competition

The sportswear industry in the Greater China Region is competitive with no practical barriers to entry. Our major competitors offer a range of products similar or identical to the products that we carry. Some of our competitors may have more financial and human resources, more favorable pricing terms, better access to attractive retail locations, or closer relationships with brand companies. Our financial condition and results of operations will be affected by our ability to remain competitive in this industry, which in turn depends on our ability to increase awareness of the brands we sell and maintain long term relationships with our brand partners. For details, please refer to the sub-section headed “Our Business — Competition” in this prospectus.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are set forth in Note 3 of Section A to our combined financial statements included in the accountants’ report set out in Appendix I to this prospectus. The preparation of our combined financial statements requires our management to make estimates and assumptions that affect the amount reported in our combined financial statements. These estimates and assumptions are periodically re-evaluated by our management and are based on historical experience and other factors, including but not limited to expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations, since the application of these

FINANCIAL INFORMATION

policies involves our management's assumptions and estimates as well as subjective and complex judgments relating to certain accounting items, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Revenue recognition

Revenue is measured at fair value of consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of sales discount and sales related taxes. We recognize income from sale of goods from our retail business, brand licensee business and manufacturing business when the goods are delivered and title has passed. We recognize rental income, including rentals invoiced in advance, from land and buildings under operating lease, on a straight line basis over the period of the respective leases.

Our interest income from financial assets are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Accounting for VIP Points Programme

The VIP customer programme is recognized when the points are used and is accounted for as discount on the goods sold.

Allowances for inventories

The management of the Group reviews the aging of the inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realizable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Accounting treatment of call options

As explained in the sub-section headed "Our Business — Our Investments in Joint Ventures — Call option agreements" in this prospectus, we have entered into call option agreements with the Call Option JVs. As consideration for our Call Option JVs' partners granting us the call options, we have agreed to issue certain number of Shares as call option premium to them upon the Global Offering becoming unconditional although some of the Call Option JVs' partners have agreed that they are to receive cash in lieu of Shares for part, or in some cases all, of the call option premium Shares that we have agreed to issue to each of them.

According to HKAS 39, the call options will be recorded on our balance sheet at fair value. To determine the fair value of the call options, we have engaged Savills Valuation and Professional Services Limited ("Savills Valuation"), an independent valuer, to perform a valuation on the 15 call options granted to us on or before December 31, 2007, namely all the call options regarding the Call Option JVs except the three call options regarding Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司), Qingdao Baoruina

FINANCIAL INFORMATION

Sports Goods Company Limited (青島寶瑞納體育用品有限公司) and Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司), which were granted to us on April 9, 2008.

Savills Valuation adopted the binomial (Cox, Ross, Rubinstein) option pricing model (the “Binomial Model”) to assess the fair value of each of the call options. Under the Binomial Model, the underlying asset can take on only two possible, discrete values in the next time period for each value that it can take on in the preceding time period. The values of the call options are dependent on assumptions and information used in deriving their fair values. Savills Valuation took into account the following factors:

- value of equity interests of the 15 Call Option JVs as at the dates of grant of the call options/valuation date;
- projected price volatility of the 15 Call Option JVs based on the historical price volatility of comparable companies in past years;
- risk free rate, being the yield of Hong Kong exchange fund bills/notes;
- exercise prices of the call options;
- duration of the call options; and
- the expected ordinary dividends of the 15 Call Option JVs.

As the joint ventures are privately-held, certain factors mentioned above are not readily available. Valuations of the 15 Call Option JVs are therefore required. The details of the valuation methodology applied for the valuation of the 15 Call Option JVs are as follows:

Valuation of the 15 Call Option JVs

Savills Valuation has adopted the income approach technique known as discounted cash flow method to assess the fair values of the 15 Call Option JVs. Under this method, Savills Valuation has discounted the projected cash flow of the 15 Call Option JVs to present worth based on the profit forecasts and any other relevant information provided by us.

Valuation of the exercise prices of the call options

The exercise prices of the 15 call options are based on (i) the achieved net profit of each of the 15 Call Option JVs, (ii) the prevailing price earnings multiple of our Shares at the time of exercise of such call options and (iii) an agreed upon discount. In view of changes in exercise prices throughout the duration of the 15 call options, Savills Valuation has adopted the “Monte Carlo” method to simulate the achieved net profit and price earnings multiple of us. A Monte Carlo method is a computational algorithm that relies on repeated random sampling to compute its results. For each call option, Savills Valuation has run the random sampling by 500 times to obtain the average result. In their valuation, Savills Valuation has assumed that earnings is normally distributed and the Share price is

FINANCIAL INFORMATION

log-normally distributed. For the call options of Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司), Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司), Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司), Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司), Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) and Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司), Savills Valuation has also assumed that the price earnings multiple is kept stable throughout the life of the call options.

When the call option agreements are signed, the call options are booked as financial assets on our balance sheet at fair value, whereas the call option premium payable will be credited on the balance sheet as financial liability at fair value. To the extent that the fair value of the call options determined by the valuer (i.e., Savills Valuation) is different from the fair value of the call option premium to be paid (as measured by the expected market value of our Shares being paid to the Call Option JVs' partners), the difference will be recorded in our income statement. The fair value of the call options will be determined at each balance sheet date, with the change in fair value recorded through our income statement. The fair value of the call option premium payable will be determined at each balance sheet date and when the call option premium is paid, with the change in fair value recorded through our income statement. When the call option premium is paid (i.e. when we issued our Shares to the Call Option JVs' partners), the fair values of the payables will be debited while the equity issued will be credited as share capital and share premium accordingly.

Upon the call option becoming exercisable, the existence and effect of potential voting rights that are exercisable by the Group need to be considered when assessing whether an entity has the power to govern the financial and operating policies of another entity, and accordingly, whether the Call Option JV shall be accounted for as a subsidiary of the Group.

Since this price adjustment mechanism may or may not be triggered in the future and was, in any event, not triggered on the date when the relevant joint venture agreements were entered into, such mechanism was not initially treated as our cost of investment in the Price Adjustment JVs. In the event that the mechanism is triggered in the future we are required to make additional capital contribution, our cost of investment in the Price Adjustment JVs will increase, thus creating goodwill on us. The additional consideration to be paid by us or our Price Adjustment JVs' partners (as the case maybe) shall be accounted for as adjustments to the cost of investment in the Price Adjustment JVs.

For details about the accounting treatment of the call options, please refer to Note 24 in the accountants' report set out under Appendix I to this prospectus.

FINANCIAL INFORMATION

SUMMARY RESULTS OF OPERATIONS

The following table sets forth the combined income statement of our Company for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2006 and 2007. We have derived the combined income statement from the accountants' report set out in Appendix I to this prospectus, which has been prepared in accordance with HKFRS.

| | Financial year ended September 30, | | | Three months ended December 31, | |
|--|------------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| | 2005 | 2006 | 2007 | 2006 (unaudited) | 2007 |
| | (US\$ thousands) | | | | |
| Revenue | 207,177 | 372,960 | 555,903 | 101,608 | 185,028 |
| Cost of sales | <u>(128,355)</u> | <u>(233,793)</u> | <u>(354,893)</u> | <u>(63,531)</u> | <u>(116,991)</u> |
| Gross profit | 78,822 | 139,167 | 201,010 | 38,077 | 68,037 |
| Other income and gain | 6,078 | 8,760 | 14,226 | 3,824 | 11,426 |
| Selling and distribution costs | (56,874) | (84,579) | (118,842) | (23,404) | (44,183) |
| Administrative expenses | (17,844) | (31,332) | (37,423) | (8,116) | (13,464) |
| Share of results of associates | — | 58 | 108 | 134 | 1,027 |
| Share of results of jointly controlled entities | — | — | 3,049 | — | 4,964 |
| Interest on bank borrowings wholly repayable within five years | <u>(1,846)</u> | <u>(3,750)</u> | <u>(3,710)</u> | <u>(1,341)</u> | <u>(3,410)</u> |
| Profit before taxation | 8,336 | 28,324 | 58,418 | 9,174 | 24,397 |
| Taxation | <u>(2,311)</u> | <u>(7,312)</u> | <u>(14,484)</u> | <u>(1,730)</u> | <u>(4,719)</u> |
| Profit for the year/period . . | <u><u>6,025</u></u> | <u><u>21,012</u></u> | <u><u>43,934</u></u> | <u><u>7,444</u></u> | <u><u>19,678</u></u> |
| Attributable to: | | | | | |
| Equity holders of the Company | 3,315 | 11,383 | 31,927 | 5,676 | 16,170 |
| Minority interests | <u>2,710</u> | <u>9,629</u> | <u>12,007</u> | <u>1,768</u> | <u>3,508</u> |
| | <u><u>6,025</u></u> | <u><u>21,012</u></u> | <u><u>43,934</u></u> | <u><u>7,444</u></u> | <u><u>19,678</u></u> |
| Earnings per share — basic ⁽¹⁾ | 1.22 | 3.30 | 2.42 | 0.57 | 0.90 |
| | US cents | US cents | US cents | US cents | US cents |

(1) The calculation of basic earnings per Share is based on profit attributable to equity holders of the Company for each of the year of the ended September 30, 2005, 2006 and 2007, the three months ended December 31, 2006 and 2007, and the weighted average number of 271,766,677, 345,302,354, 1,318,337,062, 988,516,464 and 1,801,243,642, respectively ordinary shares were in issue during such periods, respectively.

FINANCIAL INFORMATION

Description of Selected Income Statement Line Items

Revenue

We generate revenue primarily from four business segments:

- retail business — we sell our products to (i) end customers through our retail outlets; and (ii) retail sub-distributors on a wholesale basis, who in turn sell the products through the retail outlets that they operate under our supervision. We generate revenue from the sales proceeds that we receive from end customers and retail sub-distributors;
- brand licensee business — we have brand license agreements with our brand licensors, pursuant to which we have exclusive rights to design, develop, market and distribute the licensed brands. We generate revenue from the sales proceeds that we receive from retail distributors;
- manufacturing business — we manufacture for our OEM/ODM customers and generate revenue by selling finished products to them; and
- property leasing and management business — we acquire or lease large scale retail spaces to develop retail sports complexes, where we sub-divide a block of retail spaces into shopping-mall stores and department store counters for leasing to us, as well as our Regional Joint Ventures or other third party retail distributors. We generate revenue from the concession fees or rentals that we receive from third party retail distributors.

Revenue is presented after value-added taxes, allowances for goods returned and discounts, and after elimination of inter-segment sales. For details about revenue recognition, please refer to the sub-section headed “— Critical Accounting Policies — Revenue recognition” above.

Cost of sales

In respect of our retail and brand licensee businesses, our cost of sales consists of inventories recognized, representing primarily cost of finished products purchased from contract manufacturers or suppliers. In respect of our manufacturing business, cost of sales represents primarily cost of raw materials purchased from our raw materials suppliers, as well as direct labor costs and overhead costs such as utilities, depreciation of plant and machinery, amortization of consumables and other miscellaneous production costs.

Other income and gain

We derive other income and gain primarily from cash discounts which we receive from the brand companies in situations where we pay them on time without using the credit period that is generally extended by the brand companies, and from the sale of store displays and related items to our retail sub-distributors to assist them in conveying a consistent retail outlet experience to customers. We also derive other income from fair value change on call options and derivative

FINANCIAL INFORMATION

related to call option premium, interest earned on bank balances and from loans to related companies primarily for the purpose of funding the set-up of the Regional Joint Ventures, exchange gains and other miscellaneous income.

Selling and distribution costs

Our selling and distribution costs primarily consist of rentals (including concession fees and rental expenses), staff costs, royalty fees, advertising and promotional costs and depreciation charges on retail outlet decorations.

Administrative expenses

Our general and administrative expenses primarily consist of management and administrative personnel salaries, depreciation expenses, rentals for our corporate office and other general expenses.

Finance costs

Finance costs comprise interest charges for bank borrowings. All of our bank borrowings are repayable in full within five years.

Minority Interests

The results of the companies comprising our Group attributable to the Shareholders other than Yue Yuen prior to Reorganization were accounted for as minority interests. The minority interests during the Track Record Period and the three months ended December 31, 2007 included the equity interests in those subsidiaries held by Sports Group, Jollyard and the minority shareholders of Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司). Pursuant to the Reorganization, the entire interests in those subsidiaries held by Sports Group and Jollyard are transferred to our Group. In exchange, Sports Group and Jollyard will become shareholders of our Company. As such, there will be no further minority interest in relation to Sports Group and Jollyard after completion of Reorganization on May 23, 2008.

PERIOD TO PERIOD COMPARISON OF HISTORICAL OPERATING RESULTS

Three months ended December 31, 2007 compared to three months ended December 31, 2006

Revenue. Our revenue was US\$185.0 million for the three months ended December 31, 2007, representing an increase of US\$83.4 million, or 82.1%, from US\$101.6 million for the three months ended December 31, 2006. The increase was primarily due to the reasons set out below.

Retail business. Revenue from our retail business increased by 85.9% to US\$127.0 million for the three months ended December 31, 2007, from US\$68.3 million for the three months ended December 31, 2006. This increase was primarily due to higher sales as a result of the increase in the number of our directly operated retail outlets and smaller discounts given on products due to faster product sell-through. The number of our directly operated retail outlets increased to 1,403 as at December 31, 2007, from 1,199 as at December 31, 2006. In addition, the average retail sales per retail outlet also increased due to the improvement in the performance of our older retail

FINANCIAL INFORMATION

outlets which was partially offset by the lower sales per retail outlet of our newer retail outlets. For example, our average daily sales per retail outlet for our directly operated retail outlets opened prior to September 30, 2004 and were in existence as at the end of the periods indicated below increased by 27.2% to US\$1,673 during the three months ended December 31, 2007, from US\$1,315 during the three months ended December 31, 2006. Our average daily sales per retail outlet for our directly operated retail outlets opened prior to September 30, 2003 and were in existence as at the end of the periods indicated below increased by 31.2% to US\$1,827 during the three months ended December 31, 2007, from US\$1,393 during the three months ended December 31, 2006. For details, please refer to the sub-section headed “— Factors Affecting our Results of Operations and Financial Condition — Expansion of our retail network” above. Revenue generated by sales to retail sub-distributors increased by 49.8% to US\$31.6 million for the three months ended December 31, 2007, from US\$21.1 million for the three months ended December 31, 2006.

Brand licensee business. Revenue from our brand licensee business increased by 76.1% to US\$36.8 million for the three months ended December 31, 2007, from US\$20.9 million for the three months ended December 31, 2006. This increase was primarily due to the increase in the number of retail outlets operated by our retail distributors and their sub-distributors.

Manufacturing business. Revenue from our manufacturing business increased by 68.5% to US\$20.9 million for the three months ended December 31, 2007, from US\$12.4 million for the three months ended December 31, 2006. This increase was primarily due to the increase in the production capacity of our Taicang factory as we increased the number of production lines from ten to 15. The average sales prices for our manufactured products remained relatively stable.

Property leasing and management business. Revenue from our property leasing and management business increased to US\$0.4 million for the three months ended December 31, 2007, from nil for the three months ended December 31, 2006. We started this business in December 2006 to complement the growth of our retail operations.

Cost of sales. Our cost of sales for the three months ended December 31, 2007 was US\$117.0 million, representing an increase of US\$53.5 million, or 84.3%, from US\$63.5 million for the three months ended December 31, 2006. The increase was primarily due to the increase in sales in our retail and brand licensee businesses for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. This increase was also attributable to the increase in the fixed costs (such as cost of raw materials, direct labor and overhead costs) associated with the expansion in the number of production lines for our Taicang factory.

Gross profit and gross profit margin. As a result of the above factors, our gross profit increased by US\$29.9 million, or 78.5%, to US\$68.0 million for the three months ended December 31, 2007, from US\$38.1 million for the three months ended December 31, 2006. Our overall gross profit margin decreased from 37.5% for the three months ended December 31, 2006 to 36.8% for the three months ended December 31, 2007. The decrease in gross profit margin was primarily due to the decrease in the gross profit margin of our brand licensee business driven by a change in pricing strategy and product mix, which was partially offset by the increase in the gross profit margins of our retail business and manufacturing business.

FINANCIAL INFORMATION

Other income and gain. Our other income was US\$11.4 million for the three months ended December 31, 2007, representing an increase of US\$7.6 million, or 200.0%, from US\$3.8 million for the three months ended December 31, 2006. Our other income increased primarily due to an increase of US\$3.1 million in fair value change on call options and derivative related to call option premium as well as an increase of US\$1.7 million increase in the sales of store displays and related items due to increase in the number of retail outlets under our brand licensee business. It is also due to a US\$0.4 million increase in cash discounts due to higher sales as a result of our retail network expansion, and the increase of US\$0.9 million in exchange gain.

Selling and distribution costs. Our selling and distribution costs were US\$44.2 million for the three months ended December 31, 2007, representing an increase of US\$20.8 million, or 88.9%, from US\$23.4 million for the three months ended December 31, 2006. The increase was due to increases in: (i) staff costs, which increased by 83.5% to US\$8.8 million, primarily due to the increased bonus paid to our staff as a result of better profit performance; (ii) rental expenses, which increased by 69.4% to US\$19.3 million, primarily due to the expansion in the number of our retail outlets; (iii) royalty expense, which increased by 71.8% to US\$3.4 million, primarily due to higher sales achieved by our brand licensee business; and (iv) advertising expense, which increased by 168.0% to US\$4.1 million to support the growth of our brand licensee business.

Administrative expenses. Our administrative expenses were US\$13.5 million for the three months ended December 31, 2007, representing an increase of US\$5.4 million, or 66.7%, from US\$8.1 million for the three months ended December 31, 2006. The increase was primarily due to an increase of US\$2.7 million, or 64.1%, in staff costs as a result of the increased bonus paid to our staff as a result of better profit performance, as well as an increase of US\$0.9 million, or 164.6%, in depreciation and amortization expenses as a result of the depreciation of our corporate headquarters in Shanghai.

Share of results of associates. Our share of results of associates was US\$1.0 million for the three months ended December 31, 2007, representing an increase of US\$0.9 million, from US\$0.1 million for the three months ended December 31, 2006. The increase was primarily because of the contribution from two of our associates, namely Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) and Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司), whom we invested in them in 2007.

Share of results of jointly controlled entities. Our share of results of jointly controlled entities increased to US\$5.0 million for the three months ended December 31, 2007, from nil for the three months ended December 31, 2006. The increase was due to our investments in 13 joint controlled entities as at December 31, 2007 as compared to our investments in three jointly controlled entities as at December 31, 2006. Their operating results were therefore accounted for in our combined income statement for the three months ended December 31, 2007, but were not accounted for in our combined income statement for the financial year ended September 30, 2006. For details of our investments in joint ventures, please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus.

FINANCIAL INFORMATION

Interest on bank borrowings wholly repayable within five years. Our finance costs were US\$3.4 million for the three months ended December 31, 2007, representing an increase of US\$2.1 million, or 161.5%, from US\$1.3 million for the three months ended December 31, 2006. This was primarily due to an increase in the amount of the average monthly outstanding borrowings during the three months ended December 31, 2007.

Profit before taxation. As a result of the above factors, our profit before taxation increased by US\$15.2 million, or 165.2%, to US\$24.4 million for the three months ended December 31, 2007, from US\$9.2 million for the three months ended December 31, 2006.

Taxation. Our taxation expense was US\$4.7 million for the three months ended December 31, 2007, representing an increase of US\$3.0 million, or 176.5%, from US\$1.7 million for the three months ended December 31, 2006, primarily due to an increase in profit before taxation. The effective tax rate increased to 19.3% for the three months ended December 31, 2007, from 18.9% for the three months ended December 31, 2006.

Profit for the period. As a result of the above factors, our profit for the three months ended December 31, 2007 was US\$19.7 million, representing an increase of US\$12.3 million, or 166.2%, from US\$7.4 million for the three months ended December 31, 2006. Our net margins were 10.6% and 7.3% for the three months ended December 31, 2007 and 2006, respectively, the increase of which was primarily due to higher contribution from the results of jointly controlled entities and associates.

Minority interests. Minority interests were US\$3.5 million for the three months ended December 31, 2007, representing an increase of US\$1.7 million, or 94.4%, from US\$1.8 million for the three months ended December 31, 2006. The increase was due to an increase in our profit after tax.

Profit attributable to equity holders of our Company. Our profit attributable to equity holders was US\$16.2 million for the three months ended December 31, 2007, representing an increase of US\$10.5 million, or 184.2%, from US\$5.7 million for the three months ended December 31, 2006.

Financial year ended September 30, 2007 compared to financial year ended September 30, 2006

Revenue. Our revenue was US\$555.9 million for the financial year ended September 30, 2007, representing an increase of US\$182.9 million, or 49.0%, from US\$373.0 million for the financial year ended September 30, 2006. The increase was primarily due to the reasons set out below.

Retail business. Revenue from our retail business increased by 52.5% to US\$355.2 million for the financial year ended September 30, 2007, from US\$232.9 million for the financial year ended September 30, 2006. This increase was primarily due to higher sales as a result of the increase in the number of our directly operated retail outlets. The number of our directly operated retail outlets increased to 1,199 as at September 30, 2007, from 669 as at September 30, 2006. In addition, the average retail sales per retail outlet also increased due to improvement in the performance of our older retail outlets which was partially offset by the lower sales per retail

FINANCIAL INFORMATION

outlet of our newer retail outlets. For example, our average daily sales per retail outlet for our directly operated retail outlets opened prior to September 30, 2004 and were in existence as at the end of the periods indicated below increased by 22.6%, to US\$1,503, during the financial year ended September 30, 2007, from US\$1,226 during the financial year ended September 30, 2006. Our average daily sales per retail outlet for our directly operated retail outlets opened prior to September 30, 2003 and were in existence as at the end of the periods indicated below increased by 20.3% to US\$1,609 during the financial year ended September 30, 2007, from US\$1,337 during the financial year ended September 30, 2006. For details, please refer to the sub-section headed “— Factors Affecting our Results of Operations and Financial Condition — Expansion of our retail network” above. Revenue generated by sales to our retail sub-distributors increased by 51.5%, to US\$89.1 million, for the financial year ended September 30, 2007, from US\$58.8 million for the financial year ended September 30, 2006.

Brand licensee business. Revenue from our brand licensee business increased by 40.0% to US\$133.2 million for the financial year ended September 30, 2007, from US\$95.3 million for the financial year ended September 30, 2006. This increase was primarily due to the increase in the number of retail outlets operated by our retail distributors and their sub-distributors.

Manufacturing business. Revenue from our manufacturing business increased by 49.8% to US\$67.1 million for the financial year ended September 30, 2007, from US\$44.8 million for the financial year ended September 30, 2006. This increase was primarily due to the increase in the production capacity of our Taicang factory as we increased the number of production lines from ten to 15. The average sales prices for our manufactured products remained relatively stable.

Property leasing and management business. Revenue from our property leasing and management business increased to US\$0.4 million for the financial year ended September 30, 2007, from nil for the financial year ended September 30, 2006. We started this business in December 2006 to complement the growth of our retail operations.

Cost of sales. Our cost of sales for the financial year ended September 30, 2007 was US\$354.9 million, representing an increase of US\$121.1 million or 51.8%, from US\$233.8 million for the financial year ended September 30, 2006. The increase was primarily due to the increase in sales in our retail and brand licensee businesses for the financial year ended September 30, 2007 as compared to the financial year ended September 30, 2006. This increase was also attributable to the increase in the fixed costs (such as cost of raw materials, direct labor and overhead costs) associated with the expansion in the number of production lines for our Taicang factory.

Gross profit and gross profit margin. As a result of the above factors, our gross profit increased by US\$61.8 million, or 44.4%, to US\$201.0 million for the financial year ended September 30, 2007, from US\$139.2 million for the financial year ended September 30, 2006. However, our overall gross profit margin decreased from 37.3% for the financial year ended September 30, 2006 to 36.2% for the financial year ended September 30, 2007. The decrease in the gross profit margin was primarily due to the decrease in the gross profit margin of our manufacturing business as a result of the increase in the fixed costs associated with the expansion

FINANCIAL INFORMATION

in the number of production lines for our Taicang factory as explained above, as well as a decrease in the gross profit margin of our brand licensee business driven by a change in pricing strategy and product mix.

Other income and gain. Our other income was US\$14.2 million for the financial year ended September 30, 2007, representing an increase of US\$5.4 million, or 61.4%, from US\$8.8 million for the financial year ended September 30, 2006. The increase in our other income was primarily due to a US\$3.8 million increase in cash discounts due to higher sales as a result of our retail network expansion, as well as increase in the sale of store displays and related items due to increase in the number of retail outlets under our brand licensee business.

Selling and distribution costs. Our selling and distribution costs were US\$118.8 million for the financial year ended September 30, 2007, representing an increase of US\$34.2 million, or 40.4%, from US\$84.6 million for the financial year ended September 30, 2006. The increase was due to increases in: (i) staff costs, which increased by 47.0% to US\$23.8 million, primarily as a result of the increased number of staff hired to support the expansion of our retail network; (ii) rental expenses, which increased by 47.0% to US\$55.9 million, due to the expansion in the number of our retail outlets. The rate of increase in rental expenses was lower than the rate of increase in revenue because as we expanded to the emerging cities in the PRC, we were able to negotiate more favorable concession and rental terms for our department store counters, street-level stores or shopping-mall stores; (iii) royalty expense, which increased by 47.3% to US\$13.6 million, primarily due to higher sales achieved by our brand licensee business; and (iv) advertising expense, which increased by 7.6% to US\$11.3 million to support the growth of our brand licensee business.

Administrative expenses. Our administrative expenses were US\$37.4 million for the financial year ended September 30, 2007, representing an increase of US\$6.1 million, or 19.5%, from US\$31.3 million for the financial year ended September 30, 2006. The increase was primarily due to an increase of US\$5.6 million, or 32.9%, in staff costs as a result of the increased number of management and administrative personnels, as well as an increase in depreciation and amortization expenses as a result of the acquisition of our corporate headquarter in Shanghai.

Share of results of associates. Our share of results of associates was US\$0.1 million for the financial year ended September 30, 2007, representing an increase of US\$0.04 million, or 66.7%, from US\$0.06 million for the financial year ended September 30, 2006. The increase was primarily due to the increase in contribution from our associates.

Share of results of jointly controlled entities. Our share of results of jointly controlled entities increased to US\$3.0 million for the financial year ended September 30, 2007, from nil for the financial year ended September 30, 2006. The increase was due to our investments in 13 jointly controlled entities during the financial year ended September 30, 2007. Their operating results were therefore accounted for in our combined income statement for the financial year ended September 30, 2007, but were not accounted for in our combined income statement for the financial year ended September 30, 2006. For details of our investments in joint ventures, please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus.

FINANCIAL INFORMATION

Interest on bank borrowings wholly repayable within five years. Our finance costs were US\$3.7 million for the financial year ended September 30, 2007, representing a decrease of US\$0.1 million, or 2.6%, from US\$3.8 million for the financial year ended September 30, 2006. Although our bank borrowings increased significantly for the purpose of facilitating our expansion and investments in certain joint ventures, finance costs were maintained at a stable level because the bank borrowings were only drawn down towards the end of the financial year ended September 30, 2007 which were primarily used to fulfill the financing needs of the newly established Regional Joint Ventures.

Profit before taxation. As a result of the above factors, our profit before taxation increased by US\$30.1 million, or 106.4%, to US\$58.4 million for the financial year ended September 30, 2007, from US\$28.3 million for the financial year ended September 30, 2006.

Taxation. Our taxation expense was US\$14.5 million for the financial year ended September 30, 2007, representing an increase of US\$7.2 million, or 98.6%, from US\$7.3 million for the financial year ended September 30, 2006, primarily due to an increase in profit before taxation. The effective tax rate decreased slightly to 24.8% for the financial year ended September 30, 2007, from 25.8% for the financial year ended September 30, 2006.

Profit for the year. As a result of the above factors, our profit for the financial year ended September 30, 2007 was US\$43.9 million, representing an increase of US\$22.9 million, or 109.0%, from US\$21.0 million for the financial year ended September 30, 2006. Our net margins were 7.9% and 5.6% for the financial years ended September 30, 2007 and 2006, respectively, the increase of which was primarily due to better operational cost efficiency achieved in advertising and promotional costs and general overhead expenses through economies of scale, and higher contribution from the results of jointly controlled entities, which was partially offset by a lower gross margin.

Minority interests. Minority interests were US\$12.0 million for the financial year ended September 30, 2007, representing an increase of US\$2.4 million, or 25.0%, from US\$9.6 million for the financial year ended September 30, 2006. The increase was due to an increase in our profit after tax.

Profit attributable to equity holders of our Company. Our profit attributable to equity holders was US\$31.9 million for the financial year ended September 30, 2007, representing an increase of US\$20.5 million, or 179.8%, from US\$11.4 million for the financial year ended September 30, 2006.

Financial year ended September 30, 2006 compared to financial year ended September 30, 2005

Revenue. Our revenue was US\$373.0 million for the financial year ended September 30, 2006, representing an increase of US\$165.8 million, or 80.0%, from US\$207.2 million for the financial year ended September 30, 2005. The increase was primarily due to the reasons set out below.

FINANCIAL INFORMATION

Retail Business. Revenue from our retail business increased by 80.5% to US\$232.9 million for the financial year ended September 30, 2006, from US\$129.0 million for the financial year ended September 30, 2005. This increase was primarily due to higher sales as a result of the increases in the number of our directly operated retail outlets. The number of our directly operated retail outlets increased to 669 as at September 30, 2006, from 594 as at September 30, 2005. In addition, the increase was also due to improvement in the performance of our older retail outlets which was offset by the lower sales per retail outlet of our newer retail outlets. For example, our average daily sales per retail outlet for our directly operated retail outlets opened prior to September 30, 2003 and were in existence as at the end of the periods indicated below increased by 18.7% to US\$1,337 during the financial year ended September 30, 2006, from US\$1,126 during the financial year ended September 30, 2005. For details, please refer to the sub-section headed “— Factors Affecting our Results of Operations and Financial Condition — Expansion of our retail network” above. Revenue generated by sales to retail sub-distributors increased by 189.7% to US\$58.8 million for the financial year ended September 30, 2006, from US\$20.3 million for the financial year ended September 30, 2005.

Brand licensee business. Revenue from our brand licensee business increased by 66.0% to US\$95.3 million for the financial year ended September 30, 2006, from US\$57.4 million for the financial year ended September 30, 2005. This increase was primarily due to an increase in the number of retail outlets operated by our retail distributors and their sub-distributors.

Manufacturing business. Revenue from our manufacturing business increased by 115.4% to US\$44.8 million, for the financial year ended September 30, 2006, from US\$20.8 million for the financial year ended September 30, 2005. This increase was primarily due to the increase in the production capacity of our Taicang factory as a result of an increase in the number of production lines from four to ten. The average sales prices for our manufactured products remained relatively stable.

Cost of sales. Our cost of sales was US\$233.8 million for the financial year ended September 30, 2006, representing an increase of US\$105.4 million, or 82.1%, from US\$128.4 million for the financial year ended September 30, 2005. The increase was due to the increase in sales in our retail and brand licensee businesses for the financial year ended September 30, 2006 as compared to the same period in 2005. This increase was also attributable to the increase in the fixed costs (such as cost of raw materials, direct labor and overhead costs) associated with the expansion in the number of production lines for our Taicang factory.

Gross profit and gross profit margin. As a result of the above factors, our gross profit was US\$139.2 million for the financial year ended September 30, 2006, representing an increase of US\$60.4 million, or 76.6%, from US\$78.8 million for the financial year ended September 30, 2005. Our overall gross profit margin decreased slightly from 38.0% for the financial year ended September 30, 2005 to 37.3% for the financial year ended September 30, 2006. The decrease in the gross profit margin was primarily due to a change in business mix and a decrease in the gross profit margin of our retail business as a result of larger discounts given on products due to slower product sell-through.

FINANCIAL INFORMATION

Other income and gain. Our other income was US\$8.8 million for the financial year ended September 30, 2006, representing an increase of US\$2.7 million, or 44.3%, from US\$6.1 million for the financial year ended September 30, 2005. The increase in our other income was primarily due to a US\$1.1 million increase in cash discounts due to higher sales as a result of our retail network expansion, as well as a US\$1.1 million increase in sales of store displays and related items due to increase in the number of retail outlets under our brand licensee business.

Selling and distribution costs. Our selling and distribution costs for the financial year ended September 30, 2006 were US\$84.6 million, representing an increase of US\$27.7 million, or 48.7%, from US\$56.9 million for the financial year ended September 30, 2005. The increase was due to increases in: (i) staff cost, which increased by 45.0% to US\$16.2 million, primarily as a result of the increased number of staff hired to support the expansion of the Company's retail network; (ii) rental expenses, which increased by 44.7% to US\$38.0 million, primarily due to the expansion in the number of our directly operated retail outlets. The rate of increase in rental expenses was lower than the rate of increase in revenue because as we expanded to the emerging cities in the PRC, we were able to negotiate more favorable concession and rental terms for our department store counters, street-level stores or shopping-mall stores; (iii) royalty expenses, which increased by 90.2% to US\$9.2 million, primarily due to higher sales achieved by our brand licensee business; and (iv) advertising expenses, which increased by 42.8% to US\$10.5 million to support the growth of our brand licensee business.

Administrative expenses. Our administrative expenses for the financial year ended September 30, 2006 were US\$31.3 million, representing an increase of US\$13.5 million, or 75.8%, from US\$17.8 million for the financial year ended September 30, 2005. The increase was primarily due to a 114.4% increase in staff costs to US\$16.9 million as a result of the increased number of management and administrative personnels, and a 54.6% increase in general expense to US\$8.9 million.

Interest on bank borrowings wholly repayable within five years. Our finance costs were US\$3.8 million for the financial year ended September 30, 2006, representing an increase of US\$2.0 million, or 111.1%, from US\$1.8 million for the financial year ended September 30, 2005. The increase was primarily due to an increase in the amount of the average monthly outstanding borrowings during the financial year ended September 30, 2006.

Profit before taxation. As a result of the foregoing factors, our profit before taxation increased by US\$20.0 million, or 241.0%, to US\$28.3 million for the financial year ended September 30, 2006, from US\$8.3 million for the financial year ended September 30, 2005.

Taxation. Our taxation expense was US\$7.3 million for the financial year ended September 30, 2006, representing an increase of US\$5.0 million, or 217.4%, from US\$2.3 million for the financial year ended September 30, 2005. The increase was due to an increase in profit before taxation. The effective tax rate decreased to 25.8% for the financial year ended September 30, 2006, from 27.7% for the financial year ended September 30, 2005.

Profit for the year. As a result of the above factors, our profit for the financial year ended September 30, 2006 was US\$21.0 million, representing an increase of US\$15.0 million, or 250.0%, from US\$6.0 million for the financial year ended September 30, 2005. Our net margins were 5.6% and 2.9% for the financial years ended September 30, 2006 and 2005, respectively, the

FINANCIAL INFORMATION

increase of which was primarily due to better operational cost efficiency achieved in rental expenses through the more favorable concession and rental terms that we have negotiated, and advertising and promotional costs through economies of scale, which is partially offset by a lower gross profit margin.

Minority interests. Minority interests were US\$9.6 million for the financial year ended September 30, 2006, representing an increase of US\$6.9 million, or 255.6%, from US\$2.7 million for the financial year ended September 30, 2005. The increase was due to an increase in our profit after tax.

Profit attributable to equity holders of our Company. Our profit attributable to equity holders was US\$11.4 million for the financial year ended September 30, 2006, representing an increase of US\$8.1 million, or 245.5%, from US\$3.3 million for the financial year ended September 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for our purchases from our suppliers and various overhead expenses. However, in 2007, we also relied on external bank financing and capital contribution from shareholders to fund certain investment activities including our investment in joint ventures, the development of our property leasing and management unit and the expansion of our factory in Taicang. To date, we have financed our liquidity requirements primarily through cash flows from our operating activities, and to a lesser extent through bank borrowings. For the foreseeable future, we believe our liquidity requirements will be satisfied using a combination of the proceeds raised from the Global Offering, the cash provided by operating activities and short-term or long-term bank loans.

FINANCIAL INFORMATION

Cash flow of our Company

The following table presents selected cash flow data from our Company's combined cash flow statements for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2006 and 2007, which is derived from the accountants' report set out in Appendix I to this prospectus.

| | <u>Financial year ended September 30,</u> | | | <u>Three months ended December 31,</u> | |
|---|---|----------------------|----------------------|--|-----------------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2006 (unaudited)</u> | <u>2007</u> |
| | (US\$ thousands) | | | | |
| Cash and cash equivalents at beginning of the year/ period. | <u>17,316</u> | <u>23,385</u> | <u>44,297</u> | <u>44,297</u> | <u>85,584</u> |
| Net cash from/(used in) operating activities | (23,022) | 36,461 | 25,624 | (5,020) | (35,759) |
| Net cash used in investing activities | (20,133) | (21,784) | (202,638) | (15,072) | (48,016) |
| Net cash from financing activities | <u>49,224</u> | <u>5,737</u> | <u>217,675</u> | <u>30,400</u> | <u>101,690</u> |
| Net increase in cash and cash equivalents | 6,069 | 20,414 | 40,661 | 10,308 | 17,915 |
| Effect of foreign exchange rate changes | <u>—</u> | <u>498</u> | <u>626</u> | <u>381</u> | <u>(779)</u> |
| Cash and cash equivalents at end of the year/period. . . . | <u><u>23,385</u></u> | <u><u>44,297</u></u> | <u><u>85,584</u></u> | <u><u>54,986</u></u> | <u><u>102,720</u></u> |
| Represented by | | | | | |
| Bank balances and cash . . . | 23,385 | 44,672 | 90,936 | 57,292 | 120,192 |
| Bank overdraft | <u>—</u> | <u>(375)</u> | <u>(5,352)</u> | <u>(2,306)</u> | <u>(17,472)</u> |
| | <u><u>23,385</u></u> | <u><u>44,297</u></u> | <u><u>85,584</u></u> | <u><u>54,986</u></u> | <u><u>102,720</u></u> |

Cash flow from operating activities

We derive our cash inflow from our operating activities principally from the receipt of payments from the sale of sportswear products. Our cash outflow from operating activities is principally for the purchases of products from the brand companies, payment of royalty to brand companies and payment of staff costs, rental expenses and other operating expenses.

Net cash used in our operating activities amounted to US\$23.0 million and US\$35.8 million for the financial year ended September 30, 2005 and the three months ended December 31, 2007, respectively, and net cash generated from our operating activities amounted to US\$36.5 million and US\$25.6 million for the financial years ended September 30, 2006 and 2007, respectively. The net cash outflow for the financial year ended September 30, 2005 was primarily due to the increase in inventories as a result of the establishment of some of our subsidiaries during the financial year ended September 30, 2005, and the increase in trade and other receivables in anticipation for future growth. The net cash outflow for the three months ended December 31,

FINANCIAL INFORMATION

2006 and 2007 was primarily because we had a practice of increasing our inventories during such periods to a level higher than the usual inventory level that we maintained in anticipation of the upcoming peak sales season, which generally fall within the following Chinese lunar new year holiday period in the PRC during the first quarter of each calendar year.

Our net cash generated from operating activities improved for the financial year ended September 30, 2006 as compared to the same period in 2005 principally due to increased revenue we generated from our retail business, as well as the smaller increase in inventory of US\$5.3 million for the financial year ended September 30, 2006 compared to the corresponding increase of US\$37.7 million for the financial year ended September 30, 2005.

Our net cash generated from operating activities decreased from US\$36.5 million for the financial year ended September 30, 2006 to US\$25.6 million for the same period in 2007. This was mainly due to (i) an increase in inventories of US\$42.0 million for the financial year ended September 30, 2007 compared to the corresponding increase of US\$5.3 million for the same period in 2006, primarily from the continued expansion of our retail business; and (ii) an increase in trade and other receivables of US\$37.9 million for the financial year ended September 30, 2007 compared to the corresponding increase of US\$18.5 million for the financial year ended September 30, 2006, mainly as a result of the increased sales generated by our department store counters where we generally receive payments for our products within one month of the invoice date. These factors were partially offset by the substantial improvements in our profit before taxation for the financial year ended September 30, 2007 compared to the same period in 2006 due to increased revenue we generated from our retail business, as well as a larger increase in trade and other payables for the financial year ended September 30, 2007 as compared to the corresponding increase for the same period in 2006, mainly due to the increased utilization of bank acceptance draft, which has longer credit terms, to settle our product purchases.

Our net cash used in operating activities increased from US\$5.0 million for the three months ended December 31, 2006 to US\$35.8 million for the same period in 2007. This was mainly due to (i) an increase in inventories of US\$39.0 million for the three months ended December 31, 2007 compared to the corresponding increase of US\$7.9 million for the same period in 2006, primarily from the continued expansion of our retail business; and (ii) an increase in trade and other receivables of US\$22.8 million for the three months ended December 31, 2007 compared to the corresponding increase of US\$15.3 million for the three months ended December 31, 2006, mainly as a result of increased sales generated by our department store counters where we generally receive payments for our products within one month of the invoice date. These factors were partially offset by the substantial improvements in our profit before taxation for the three months ended December 31, 2007 compared to the same period in 2006 due to increased revenue we generated from our retail business.

Cash flow from investing activities

Our cash used in investing activities for the financial years ended September 30, 2005 and 2006 remained relatively constant at US\$20.1 million and US\$21.8 million, respectively, as the decrease in the purchase of property, plant and equipment for the financial year ended September 30, 2006 was offset by an increase in investments in associates.

FINANCIAL INFORMATION

Our cash used in investing activities increased 829.4% from US\$21.8 million for the financial year ended September 30, 2006 to US\$202.6 million for the financial year ended September 30, 2007, primarily due to new investments and advance to jointly controlled entities of US\$29.7 million and US\$39.9 million, respectively, as a result of our investments in certain Regional Joint Ventures for the financial year ended September 30, 2007, and an increase in amounts due from related parties of US\$19.4 million for the financial year ended September 30, 2007 compared to the corresponding increase of US\$1.1 million for the same period in 2006, as a result of our investments in the Regional Joint Ventures. In addition, as part of our plan to expand our retail network, our purchase of property, plant and equipment increased US\$68.2 million for the financial year ended September 30, 2007, as compared to corresponding increase of US\$11.7 million for the same period in 2006. We experienced a significant increase in rental deposits and prepayments of US\$16.1 million for the financial year ended September 30, 2007, primarily due to the long term operating leases secured as a result of the establishment of our property leasing and management business in 2007, and we also incurred prepaid lease payments of US\$3.0 million for the financial year ended September 30, 2007 as part of our efforts to develop our property leasing and management business to complement our retail business.

Our cash used in investing activities increased 217.9% from US\$15.1 million for the three months ended December 31, 2006 to US\$48.0 million for the three months ended December 31, 2007. This was mainly due to new investments and advance to jointly controlled entities of US\$2.8 million and US\$23.0 million, respectively, as a result of our investments in certain Regional Joint Ventures for the three months ended December 31, 2007, and an increase in amounts due from related parties of US\$15.8 million for the three months ended December 31, 2007 compared to the corresponding increase of US\$0.2 million for the same period in 2006 as a result of our investments in the Regional Joint Ventures. In addition, as part of our plan to expand our retail network, our purchase of property, plant and equipment increased US\$20.0 million for the three months ended December 31, 2007. We also experienced an increase in rental deposits and prepayments of US\$2.7 million for the three months ended December 31, 2007, primarily due to the long term operating leases secured as a result of the establishment of our property leasing and management business in 2007.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from bank borrowings, proceeds from issue of shares and advance from related parties. Our cash outflow from financing activities relates primarily to our repayment of principal on our bank loans.

Our net cash generated from financing activities decreased from a net inflow of US\$49.2 million for the financial year ended September 30, 2005 to a net inflow of US\$5.7 million for the financial year ended September 30, 2006.

Our net cash generated from financing activities increased from a net inflow of US\$5.7 million for the financial year ended September 30, 2006 to a net inflow of US\$217.7 million for the financial year ended September 30, 2007, primarily due to advance from related parties of US\$74.1 million, proceeds from issue of shares and paid up capital of US\$67.2 million and proceeds from capital contribution by minority shareholders of subsidiaries of US\$20.4 million. We also raised net debt of US\$60.2 million for the financial year ended September 30, 2007.

FINANCIAL INFORMATION

Our net cash generated from financing activities increased from a net inflow of US\$30.4 million for the three months ended December 31, 2006 to a net inflow of US\$101.7 million for the three months ended December 31, 2007, primarily due to advance from related parties of US\$1.6 million, proceeds from issue of shares and paid up capital of US\$12.0 million and a net debt of US\$91.5 million raised for the three months ended December 31, 2007.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Borrowings

Our borrowings as at September 30, 2005, 2006 and 2007 and December 31, 2007 are set forth below.

| | As at September 30, | | | As at |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | 2005 | 2006 | 2007 | December 31, |
| | (US\$ thousands) | | | 2007 |
| Non-Current | | | | |
| Bank borrowings | — | — | 25,273 | 25,273 |
| Current | | | | |
| Bank borrowings | 65,090 | 65,465 | 105,327 | 208,978 |
| Borrowings from minority shareholders of subsidiaries | 8,534 | 7,473 | 6,158 | 7,053 |
| Borrowings from subsidiaries of Yue Yuen | <u>22,790</u> | <u>25,130</u> | <u>104,775</u> | <u>106,001</u> |
| Total borrowings | <u>96,414</u> | <u>98,068</u> | <u>241,533</u> | <u>347,305</u> |

Our current bank borrowings were primarily attributable to our use of short-term borrowings to finance our working capital requirements and long-term capital investments such as property investments we made for our property leasing and management business and our investments in the Regional Joint Ventures. The increase in our current bank borrowings from approximately US\$65 million as at both September 30, 2005 and 2006, to US\$105.3 million as at September 30, 2007 and to US\$209.0 million as at December 31, 2007 was primarily for the purpose of making property investments for our newly established property leasing and management business and our investments in the Regional Joint Ventures in 2007. The number of our Regional Joint Ventures increased from one as at September 30, 2006 to 16 as at September 30, 2007 and December 31, 2007. In addition to investing in them, we also provide shareholder's loans to some of our Regional Joint Ventures under an entrusted loan arrangement. For details of the entrusted loan arrangement, please refer to the sub-section headed "Our Business — Our Investments in Joint Ventures — Arrangements with our Joint Ventures — Equity contribution and shareholder's loan in respect of our Regional Joint Ventures" in this prospectus. Additional bank borrowings in the amount of approximately US\$120 million are expected to be raised prior to Listing for repaying the borrowings due to minority shareholders of the subsidiaries of Yue Yuen and the subsidiaries of Yue Yuen themselves. We intend to use net proceeds from the Global Offering to repay the entire balance of the additional borrowings and the bank borrowings that we borrowed for the

FINANCIAL INFORMATION

purposes of providing shareholder's loans to some of our Regional Joint Ventures. Any remaining proceeds allocated to debt repayment will be used to repay part of the existing current bank borrowings of US\$209.0 million as at December 31, 2007. For the rest of the existing current bank borrowings, it will be rolled over and the relevant bank letter will be obtained prior to Listing.

The following table sets out a currency analysis of the carrying amounts of our bank borrowings as at the dates indicated.

| | As at September 30, | | | As at |
|---------------------------------|---------------------|--------|---------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | (US\$ thousands) | | | 2007 |
| US dollars | 6,972 | 50,267 | 7,180 | 23,406 |
| Renminbi | 51,913 | 10,244 | 120,207 | 210,845 |
| Hong Kong dollars | 1,033 | — | — | — |
| New Taiwanese dollars | 5,172 | 4,954 | 3,213 | — |

The following table sets out an effective interest rate analysis of our bank borrowings as at the dates indicated.

| | As at September 30, | | | As at |
|---|---------------------|------|------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | | | | 2007 |
| Weighted average effective interest rates | | | | |
| — bank borrowings | 4.1% | 5.7% | 3.8% | 7.5% |

Weighted average effective rates for our bank borrowings fluctuated during the Track Record Periods and the three months ended December 31, 2007 due to the borrowing and repayment of short term loans within the same financial year.

The following table sets out our bank borrowings repayable within one year and in more than one year but not exceeding two years as at the dates indicated.

| | As at September 30, | | | As at |
|---|---------------------|--------|---------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | (US\$ thousands) | | | 2007 |
| Within one year | 65,090 | 65,465 | 105,327 | 208,978 |
| In more than one year but not exceeding two years | — | — | 25,273 | 25,273 |

FINANCIAL INFORMATION

As at March 31, 2008, being the most recent practicable date for determining our indebtedness, we had bank borrowings in the total amount of US\$330.8 million, of which US\$324.9 million were bank loans and US\$5.9 million were bank overdrafts, and amount due to related companies of US\$159.4 million. At March 31, 2008, we had total unutilized banking facilities of US\$81.1 million.

Except as described above, as at March 31, 2008, being the most recent practicable date for determining our indebtedness and apart from intra-group liabilities, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Commitments and Contingent liabilities

As at March 31, 2007, being the most recent practicable date for determining our contingent liabilities, we had no material contingent liabilities.

CAPITAL EXPENDITURES

For the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, we incurred capital expenditures in the amounts of US\$17.5 million, US\$11.7 million, US\$68.2 million and US\$20.0 million, respectively, comprising primarily expenditures for property, plant and equipment. The increases in capital expenditure from the financial year ended September 30, 2006 to the financial year ended September 30, 2007, and from the three months ended December 31, 2006 to the three months ended December 31, 2007, were primarily due to the establishment of our property leasing and management unit. As at December 31, 2007, we had aggregate capital commitments in the amount of US\$11.4 million.

Our planned capital expenditures for 2008 are approximately US\$251.0 million, which will primarily be used to expand our retail network for our retail and brand licensee businesses, including the opening of new retail outlets and the acquisition of properties complementary to the expansion of our retail market. We plan to finance our capital expenditures with a combination of internally generated cash flow and proceeds from the Global Offering.

PROPERTY, PLANT AND EQUIPMENT ANALYSIS

Our property, plant and equipment as shown in the combined balance sheet increased significantly from US\$40.4 million as at September 30, 2006, to US\$102.1 million as at September 30, 2007, and to US\$119.0 million as at December 31, 2007, primarily due to the new property investments we made as a result of our newly established property leasing and management business in 2007. In addition, the increase was also due to the expansion of our retail business as well as the expansion of production capacity in our Taicang factory. Production lines at our Taicang factory increased from ten as at September 30, 2006 to 15 as at September 30, 2007 and December 31, 2007.

The slight increase in our property, plant and equipment from US\$36.3 million as at September 30, 2005 to US\$40.4 million as at September 30, 2006 was primarily due to the expansion of production capacity in our Taicang factory. Production lines at our Taicang factory increased from four as at September 30, 2005 to ten as at September 30, 2006.

FINANCIAL INFORMATION

INVENTORY ANALYSIS

Inventories are one of the principal components of our current assets. In our retail business, inventories represent products that we have purchased from the brand companies before they are sold to end customers or our retail sub-distributors, which may be stored at our distribution centers, warehouses or at our directly operated retail outlets. In our brand licensee business, inventories represent products that we have purchased from our contract manufacturers and suppliers before being sold to retail distributors, which are primarily stored at our warehouses. In our manufacturing business, inventories represent raw materials, work in progress and finished goods before they are sold to our OEM/ODM customers. The value of our inventories accounted for approximately 48.8%, 37.3%, 34.5% and 32.1% of our total current assets as at September 30, 2005, 2006 and 2007 and December 31, 2007, respectively.

The following table sets forth a summary of our balance of inventories as at the dates indicated:

| | As at September 30, | | | As at |
|----------------------------|---------------------|---------------|----------------|----------------|
| | 2005 | 2006 | 2007 | December 31, |
| | | | | 2007 |
| | (US\$ thousands) | | | |
| Raw materials | 1,400 | 1,561 | 2,292 | 2,834 |
| Work in progress | 1,088 | 2,933 | 4,098 | 6,621 |
| Finished goods | 54,335 | 55,308 | 105,985 | 141,773 |
| Total | <u>56,823</u> | <u>59,802</u> | <u>112,375</u> | <u>151,228</u> |

Our raw materials are generally susceptible to obsolescence by passage of time.

The following table sets out the average inventory turnover days for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007:

| | Financial year ended September 30, | | | Three months |
|--|------------------------------------|------|------|--------------|
| | 2005 | 2006 | 2007 | ended |
| | | | | December 31, |
| | | | | 2007 |
| Average inventory turnover days ⁽¹⁾ . . . | 109.6 | 91.0 | 88.5 | 102.8 |

(1) Average inventory turnover days is calculated as average inventory divided by costs of sales and multiplied by the number of days of the relevant period. Average inventory equals inventory at the beginning of the financial year plus inventory at the end of the financial year and divided by two.

Our inventory balance has generally increased from 2005 to 2007 as a result of the growth of our retail, brand licensee and manufacturing businesses. The average inventory turnover days continuously decreased during the Track Record Period primarily due to faster sell-through of our products, but increased slightly for the three months ended December 31, 2007 in preparation for the Christmas and New Year holiday season.

FINANCIAL INFORMATION

ANALYSIS OF TRADE RECEIVABLES

The following table sets out the aging analysis of our trade receivables for the periods indicated:

| | <u>Financial year ended September 30,</u> | | | <u>Three months ended December 31,</u> |
|------------------------|---|---------------|---------------|--|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2007</u> |
| | (US\$ thousands) | | | |
| 0 – 30 days | 20,305 | 33,166 | 56,974 | 62,618 |
| 31 – 90 days | 5,534 | 4,713 | 9,172 | 8,861 |
| Over 90 days | <u>—</u> | <u>409</u> | <u>1,004</u> | <u>673</u> |
| Total | <u>25,839</u> | <u>38,288</u> | <u>67,150</u> | <u>72,152</u> |

The following table sets out our average trade receivables turnover days for the periods indicated:

| | <u>Financial year ended September 30,</u> | | | <u>Three months ended December 31,</u> |
|---|---|-------------|-------------|--|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2007</u> |
| Average trade receivables turnover days ⁽¹⁾ | 33.9 | 31.4 | 34.6 | 34.3 |

(1) Average trade receivables turnover days is calculated as average trade receivables divided by turnover and multiplied by the number of days of the relevant period. Average trade receivables is equal to trade receivables at the beginning of the financial year plus trade receivables at the end of the financial year and divided by two.

Our trade receivables generally increased from 2005 to 2007 as a result of the growth of our retail, brand licensee and manufacturing businesses. In particular, our trade receivables increased by 75.5% from US\$38.3 million as at September 30, 2006, to US\$67.2 million as at September 30, 2007, and to US\$72.2 million as at December 31, 2007, primarily due to the expansion of our retail business and brand licensee business. The average trade receivables turnover days remained largely stable during the Track Record Period and the three months ended December 31, 2007. Sales proceeds in our retail business for our department store counters are first collected by the department stores. The department stores typically paid the sales proceeds to us within one month of the invoice date after deducting the concession fees payable by us, together with any other relevant fees and expenses, such as marketing expenses and temporary storage fees. In our brand licensee business, we generally grant the retail distributors that purchase from us a credit term of 30 to 45 days from the invoice date.

FINANCIAL INFORMATION

ANALYSIS OF TRADE AND BILL PAYABLES

The following table sets out the aging analysis of our trade and bills payables for the periods indicated:

| | Financial year ended September 30, | | | Three months ended |
|------------------------|------------------------------------|---------------|---------------|--------------------|
| | 2005 | 2006 | 2007 | December 31, 2007 |
| | (US\$ thousands) | | | |
| 0 – 30 days | 19,781 | 24,132 | 55,534 | 63,242 |
| 31 – 90 days | 1,309 | 4,786 | 19,607 | 5,644 |
| Over 90 days | <u>10</u> | <u>1,118</u> | <u>6,170</u> | <u>12,529</u> |
| Total | <u>21,100</u> | <u>30,036</u> | <u>81,311</u> | <u>81,415</u> |

Our trade payables primarily relate to product purchases from brand companies for our retail business which generally grant us credit terms of one month, and products manufactured by contract manufacturers for our brand licensee business and raw materials purchases from suppliers for our manufacturing business. Our bill payables primarily relate to our use of acceptance drafts which has credit terms of up to 180 days. The increase in the use of acceptance draft enables us to extend our trade payables to brand companies for a longer credit term, thus enhancing our financing flexibility.

The following table sets out our average trade and bill payables turnover days for the periods indicated:

| | Financial year ended September 30, | | | Three months ended |
|--|------------------------------------|------|------|--------------------|
| | 2005 | 2006 | 2007 | December 31, 2007 |
| Average trade and bill payables turnover days ⁽¹⁾ | 41.1 | 39.9 | 57.3 | 63.5 |

(1) Average trade and bills payables turnover days is calculated on average trade and bills payables divided by cost of sales and multiplied by the number of days of the relevant period. Average trade and bills payables is equal to the trade and bills payables at the beginning of the financial year plus trade and bills payables at the end of the financial year and divided by two.

Our average trade and bill payables turnover days decreased slightly from 41.1 days for the financial year ended September 30, 2005 to 39.9 days for the financial year ended September 30, 2006. The decrease was primarily due to shorter settlement period with suppliers to enhance our long-term co-operation relationship with them and to maximize the amount of cash discounts received from them associated with the early settlement of brand supplier invoices. Notwithstanding the above, our average trade and bill payables turnover days increased in general during the Track Record Period and the three months ended December 31, 2007. The increase was primarily due to the increase in the use of acceptance drafts to settle our product purchase, which typically have longer credit terms and therefore enhance financing flexibility.

FINANCIAL INFORMATION

NET CURRENT LIABILITIES

As at December 31, 2007, we had net current liabilities of US\$44.5 million. The following table sets forth our current assets and current liabilities as at the balance sheet dates indicated:

| | As at September 30, | | | As at |
|--|---------------------|----------------|-----------------|-----------------|
| | 2005 | 2006 | 2007 | December 31, |
| | (US\$ thousands) | | | 2007 |
| Current assets | | | | |
| Inventories | 56,823 | 59,802 | 112,375 | 151,228 |
| Trade and other receivables | 36,163 | 54,743 | 101,596 | 123,103 |
| Prepaid lease payments | 51 | 51 | 125 | 128 |
| Financial derivative assets | — | — | — | 65,355 |
| Amounts due from related parties | 131 | 1,257 | 20,616 | 4,767 |
| Pledged bank deposits | — | — | — | 6,444 |
| Bank balances and cash | <u>23,385</u> | <u>44,672</u> | <u>90,936</u> | <u>120,192</u> |
| | <u>116,553</u> | <u>160,525</u> | <u>325,648</u> | <u>471,217</u> |
| Current liabilities | | | | |
| Trade and other payables | 33,150 | 55,212 | 114,458 | 122,110 |
| Financial derivative liabilities | — | — | — | 61,391 |
| Amounts due to related parties | 31,324 | 38,243 | 112,382 | 113,951 |
| Tax payable | 958 | 4,079 | 9,101 | 9,257 |
| Unsecured bank borrowings | <u>65,090</u> | <u>65,465</u> | <u>105,327</u> | <u>208,978</u> |
| | <u>130,522</u> | <u>162,999</u> | <u>341,268</u> | <u>515,687</u> |
| Net current liabilities | <u>(13,969)</u> | <u>(2,474)</u> | <u>(15,620)</u> | <u>(44,470)</u> |

We had net current liabilities as at September 30, 2005, 2006 and 2007 and December 31, 2007 primarily due to our use of short-term borrowings to finance our working capital requirements and long-term capital investments, such as the property investments we made for our property leasing and management business and our investments in the Regional Joint Ventures. The short-term borrowings were generally refinanced to new short-term borrowings once matured. As at the Latest Practicable Date, all the short-term borrowings that were due after December 31, 2007 and before the Latest Practicable Date had been refinanced. Our net current liabilities decreased from US\$14.0 million as at September 30, 2005 to US\$2.5 million as at September 30, 2006, and increased to US\$15.6 million as at September 30, 2007 and US\$44.5 million as at December 31, 2007. The increases in net current liabilities were primarily due to increases in short-term borrowings to finance our property investments for our newly established property leasing and management business and our investments in the Regional Joint Ventures in 2007. The number of our Regional Joint Ventures increased from one as at September 30, 2006 to 16 as at September 30, 2007 and December 31, 2007.

FINANCIAL INFORMATION

Our net current liabilities as at December 31, 2007 increased compared to our position at September 30, 2007 primarily due to the significant increase in unsecured borrowings and decrease in amounts due from related parties, which was partially offset by the increase in inventories. Our net current liabilities as at September 30, 2007 increased significantly compared to our position at September 30, 2006 primarily due to the significant increase in trade and other payables, amounts due to related parties and borrowings, which was partially offset by the increase in inventories, trade and other receivables, amounts due from related parties and bank balances and cash. We analyze below the significant changes in some of the balance sheet items which had material impact on our current assets and liabilities position.

Trade and other payables. Our trade and other payables increased from US\$55.2 million as at September 30, 2006, to US\$114.5 million and US\$122.1 million as at September 30, 2007 and December 31, 2007, respectively. Such increases were primarily due to the increase in purchases from brand companies to support the expansion of our retail business, as well as the increased use of acceptance drafts to settle product purchase in order to extend credit terms.

Our average trade and bills payables turnover days increased from 39.9 as at September 30, 2006, to 57.3 as at September 30, 2007, and 63.5 as at December 31, 2007, primarily due to the increased use of acceptance drafts, which typically have longer credit terms. This was partially offset by slight decrease in trade payable days due to shorter settlement period with suppliers to enhance our long-term co-operation relationship with them, and to maximize the amount of cash discounts we received from them associated with the early settlement of brand supplier invoices.

Other payables mainly comprise accruals, which consist mainly of accrued staff costs benefits, advertising expenses and other miscellaneous accrued expenses. Accruals increased by 126.8% from US\$5.6 million as at September 30, 2005 to US\$12.7 million as at September 30, 2006, primarily due to the increase in miscellaneous accrued expenses and, to a lesser degree, the increase in accrued staff costs due to increase in number of employees to facilitate our retail business expansion. Accruals increased by 62.2% from US\$12.7 million as at September 30, 2006 to US\$20.6 million as at September 30, 2007, primarily due to the increase in accrued staff benefit and insurance as a result of introduction of new discretionary bonus determined and accrued based on performance in 2007. Accruals stayed relatively constant at US\$19.8 million as at December 31, 2007.

Amounts due to related parties. Amounts due to related parties increased from US\$38.2 million as at September 30, 2006 to US\$112.4 million as at September 30, 2007, mainly due to a shareholder loan provided by Yue Yuen to us which increased by approximately US\$79.6 million for the purpose of funding the investment cost of approximately US\$40.3 million for our Regional Joint Ventures as at September 30, 2007, as well as for other purposes such as partially funding the purchase of property, plant and equipment, etc. Amounts due to related parties were maintained at a relatively constant level at US\$114.0 million as at December 31, 2007. Please refer to Note 22 of the accountants' report set out in Appendix I to this prospectus for details of amounts due to related parties. The Directors confirmed that, as at the Latest Practicable Date, such amount due to Yue Yuen had been settled in full.

FINANCIAL INFORMATION

Unsecured bank borrowings. Unsecured bank borrowings increased significantly by 98.5% from US\$105.3 million as at September 30, 2007 to US\$209.0 million as at December 31, 2007 in order to fulfil the financing needs associated with our property leasing and management business. Please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus for details about our investments in the Regional Joint Ventures.

Inventories. Inventories increased significantly by 88.0% from US\$59.8 million as at September 30, 2006 to US\$112.4 million as at September 30, 2007, and further increased by 34.5% from US\$112.4 million as at September 30, 2007 to US\$151.2 million as at December 31, 2007. This was primarily due to increased product orders to support larger sales volume in line with the rapid growth and expansion of our retail business. The increase was partially offset by the better inventory turnover days as a result of faster sell-through of our products.

Trade and other receivables. Our trade and other receivables increased significantly by 51.1% from US\$36.2 million as at September 30, 2005 to US\$54.7 million as at September 30, 2006, by 85.7% from US\$54.7 million as at September 30, 2006 to US\$101.6 million as at September 30, 2007, and by 21.2% from US\$101.6 million as at September 30, 2007 to US\$123.1 million as at December 31, 2007, primarily due to the expansion of our retail business and brand licensee business. However, trade receivable days remained largely stable at 30 to 35 days, which are consistent with the credit terms of one month that we granted to our department store counters.

Other receivables mainly comprise of deposits paid to suppliers and prepayments. Deposits paid to suppliers were maintained at a relatively constant level for the financial years ended September 30, 2005 and 2006, and increased significantly from US\$5.3 million as at September 30, 2006 to US\$12.6 million and US\$18.9 million as at September 30, 2007 and December 31, 2007, respectively, mainly due to the expansion of our retail business. Prepayments consist mainly of short-term rental prepayments associated with the long-term lease arrangements entered into by our property leasing and managing business. Prepayments were maintained at a relatively constant level as at September 30, 2005 and 2006. It increased significantly from US\$2.7 million as at September 30, 2006 to US\$15.4 million and US\$22.4 million as at September 30, 2007 and December 31, 2007, respectively, primarily due to the establishment of the property leasing and management business in December 2006. As a result of the entering into of long term lease arrangements in connection with the property leasing and management business, prepaid rental expenses increased significantly in 2007.

Amounts due from related parties. Amounts due from related parties increased from US\$1.3 million as at September 30, 2006 to US\$20.6 million as at September 30, 2007, and decreased to US\$4.8 million as at December 31, 2007. The significant increase in amounts due from related parties from September 30, 2006 to September 30, 2007 was mainly due to temporary fund transferred to our Regional Joint Ventures to fulfill their short term financing needs associated with the initial set-up of the Regional Joint Ventures. Please refer to the sub-section headed “Our Business — Our Investments in Joint Ventures” in this prospectus for details about our investments in the Regional Joint Ventures and Note 19 of the accountants’ report set out in Appendix I to this prospectus for further details of the amounts due from our related parties.

FINANCIAL INFORMATION

While we may continue to have net current liabilities in future, we will manage our working capital and financing in a prudent manner to facilitate the expansion of our business. Please refer to the risk factor entitled “We may continue to incur net current liabilities in the future, which may expose us to certain liquidity risks” in the section headed “Risk Factors” in this prospectus.

WORKING CAPITAL

Taking into account the estimated net proceeds from the Global Offering and our operating cash flow, our Directors have confirmed that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

RELATED PARTIES TRANSACTIONS

With respect to the related parties transactions set out in Note 30 of the accountants’ report in Appendix I to this prospectus, our Directors have confirmed that these transactions were conducted on normal commercial terms and/or that such terms were no less favorable to our Group than terms available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2007, we did not have any off-balance sheet arrangements with uncombined entities.

FINANCIAL INSTRUMENTS

We have not entered into any financial instruments for hedging purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of market risks, including foreign exchange risks, credit risks, changes in interest rate risks and inflation risks in the normal course of business.

Foreign exchange risks

We conduct our business primarily in the PRC with most of our transactions denominated and settled in Renminbi. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the US dollar. Under the current policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the US dollar. The PRC or other governments may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. An appreciation of the Renminbi may affect the value of the proceeds from the Global Offering, which will be denominated in HK dollars. It may also cause an inflation or deflation of the US dollar translation in our financial statements as we use US dollar as our reporting currency. A depreciation, on the other hand, would adversely affect the value of any dividends we pay to offshore investors and would also result in an increase in the price of goods with imported content which we source from our suppliers.

FINANCIAL INFORMATION

Credit risks

Given the diversity of our customers, the appreciation or depreciation of Renminbi, our customers' credit history and the fact that all our retail sales, which consist of a significant portion of all our sales, are on cash basis, we have no significant concentrations of credit risk. The carrying amount of restricted bank balances, cash and cash equivalents, trade receivables and other receivables included in our combined balance sheet represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and we perform periodic credit evaluations of our customers. Our historical experience in the collection of trade and other receivables falls within the recorded allowances and our Directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the financial statements.

Change in interest rate risks

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in Note 20 to the accountants' report set out in Appendix I to this prospectus. Our exposure to changes in interest rates is mainly attributable to our borrowings, details of which have been disclosed in Note 23 to the accountants' report set out in Appendix I to this prospectus. To the extent that we borrow loans at floating rates in the future, those borrowings may expose us to cash flow interest rate risk. To the extent that we borrow loans at fixed rate in the future, those borrowings may expose us to fair value interest rate risk.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, the PRC's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8% in 2007, 1.5% in 2006 and 1.8% in 2005.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We have provided shareholder's loans to ten of our Regional Joint Ventures which are equity accounted for as jointly controlled entities of the Company. As at December 31, 2007, the aggregate outstanding amount of such loans was approximately US\$62.9 million. These loans are secured by the relevant equity interests of relevant Call Option JVs held by the joint venture partners. They are interest bearing at the rate of the People's Bank of China and have no fixed term of repayment. These ten Regional Joint Ventures are Harbin Shenge Sports Chain Company Limited (哈爾濱申格體育連鎖有限公司), Suzhou Xinjun Trading Development Company Limited (蘇州信俊貿易發展有限公司), Hebei Zhanxin Sports Development Company Limited (河北展新體育發展有限公司), Hefei Tengrei Sports Goods Company Limited (合肥騰瑞體育用品有限公司), Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之之行服飾有限公司), Jilin Xinfangwei Sports Goods Company Limited (吉林新方位體育用品有限公司), Jilin Lingpao Sports Goods Company Limited (吉林領跑體育用品有限公司), Shaanxi Jixian Longyue Sports

FINANCIAL INFORMATION

Goods Company Limited (陝西極限龍躍體育用品有限公司), Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) and Zhejiang Yichuan Sports Goods Chain Company Limited (浙江易川體育用品連鎖有限公司).

We have also extended a shareholder's loan to Farsighted International Limited, the holding company of one of our Regional Joint Venture, Dalian Dongzhijie Sports Production Development Limited (大連東之杰運動產業發展有限公司). The outstanding amount of such loan as at December 31, 2007 was approximately US\$2.8 million. The loan is interest bearing at the rate of the People's Bank of China and have no fixed term of repayment.

The aggregate outstanding amount of the above loans was approximately US\$65.7 million as at December 31, 2007. For details about the above loans to the above Regional Joint Ventures, please refer to "Our Business — Our Investments in Joint Ventures — Arrangements with our joint ventures — Equity contribution and shareholder's loan in respect of our Regional Joint Ventures" and Notes 15 and 16 of the accountants' report set out in Appendix I to this prospectus.

As at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19 that are not disclosed in this prospectus.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING SEPTEMBER 30, 2008

Forecast consolidated profit attributable

to the equity holders of the Company

for the financial year ending September 30, 2008⁽¹⁾⁽³⁾ not less than US\$68 million
(approximately HK\$530 million)

Unaudited pro forma forecast earnings per Share⁽²⁾⁽³⁾ US\$0.019
(approximately HK\$0.148)

-
- (1) The profit forecast has been prepared on the bases and assumptions set out in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share is based on (i) the forecast consolidated profit attributable to the equity holders of the Company for the financial year ending September 30, 2008, and (ii) a total of 3,550,000,000 Shares were in issue during the entire year assuming that the Global Offering, the Capitalization Issue and the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner were completed on October 1, 2007. This calculation has not taken into account any Shares which may be issued upon the exercise of the Over-allotment Option or the Shares to be issued to the Call Option JVs' partners upon exercising of the call options. This calculation has also not taken into account the Shares to be issued under the Pre-IPO Share Subscription Plan that will not be vested until one year after the grant date, which is after the end of the financial year ending September 30, 2008.
- (3) The numbers shown in the table above have taken into account the minority interest held by Sports Group and Jollyard in subsidiaries, which amounted to approximately US\$11 million from October 1, 2007 to the completion date of the Reorganization. Pursuant to the Reorganization, the entire interests in those subsidiaries held by Sports Group and Jollyard were transferred to our Group. In exchange, Sports Group and Jollyard will become the Shareholders of our Company. As such, there will be no further minority interest expense in relation to Sports Group and Jollyard after completion of the Reorganization. Assuming the Reorganization was completed on October 1, 2007, the unaudited pro forma forecast earnings per Share would be US\$0.022 (approximately HK\$0.172).

FINANCIAL INFORMATION

DIVIDEND AND DIVIDEND POLICY

No dividends have been paid or declared by our Company since the date of our incorporation. You should note that historical dividend distributions are not indicative of our future dividend policy.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The declaration of, payment of and amount of dividends will be subject to the discretion of our Directors in accordance with our Bye-laws. In addition, any final dividends for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including but not limited to our future operations and earnings, financial condition, capital requirements and surplus, payments by subsidiaries of cash dividends to us, future prospectus and other factors that our Directors may consider relevant.

Subject to the above factors, we currently expect to distribute as dividends approximately 20% to 30% of our net profits available for distribution in each financial year beginning from the financial year ending September 30, 2008. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable. However, there is no guarantee that dividends will be paid in the future.

DISTRIBUTABLE RESERVES

As at December 31, 2007, our Company had no reserves available for distribution to the Shareholders of the Company.

PROPERTY VALUATION

Particulars of the Group's property interests are set out in Appendix IV to this prospectus. Savills Valuation and Professional Services Limited, an independent property valuer, has valued our property interests as at March 31, 2008. The text of its letter, summary of valuation and the valuation certificates are set out in Appendix IV to this prospectus.

FINANCIAL INFORMATION

A reconciliation of the property interests of the Group and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

| | <u>RMB millions</u> |
|--|---------------------|
| Net book value of property interests as at December 31, 2007 | 460.8 |
| Movement for the period from December 31, 2007 to March 31, 2008 | |
| — Additions | — |
| — Disposal | — |
| — Depreciation | 3.0 |
| Net book value as at March 31, 2008 (unaudited) | 457.8 |
| Valuation as at March 31, 2008 | 669.6 |
| Net valuation surplus | 211.8 |

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Group which has been prepared on the basis set out in the notes below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2007.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial positions of the Group had the Global Offering been completed as at December 31, 2007 or at any future dates.

| | Audited consolidated net tangible assets attributable to equity holders of the Company as at December 31, 2007 (US\$ thousands) ⁽¹⁾ | Add: Estimated net proceeds from the Global Offering (US\$ thousands) ⁽²⁾ | Unaudited pro forma adjusted net tangible assets (US\$ thousands) ⁽³⁾ | Unaudited pro forma adjusted net tangible assets per Share (US\$) ⁽⁴⁾ |
|---|--|--|---|--|
| Based on the Offer Price of HK\$2.93 per Share. . . | 165,309 | 287,206 | 450,715 | 0.13 |
| Based on the Offer Price of HK\$3.75 per Share. . . | 165,309 | 371,169 | 534,678 | 0.16 |

(1) The audited consolidated net tangible assets attributable to the equity holders of the Company as at December 31, 2007 has been extracted from the accountants' report of the Group as at December 31, 2007, the text of which is set out in Appendix I to this prospectus, as adjusted for goodwill of US\$5,104,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$2.93 and HK\$3.75 per Share, respectively (after deducting the underwriting fees and other relevant expenses payable by the Company), and takes no account of any Shares which may be issued pursuant to the Over-allotment Option or the Shares to be issued under the Pre-IPO Share Subscription Plan. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of HK dollars into US dollars was made at the rate of US\$0.13 to HK\$1.00.

(3) The Group's properties were valued by Savills Valuation and Professional Services Limited ("Savills") and the valuation in respect of which is set out in Appendix IV to this prospectus. Pursuant to the valuation performed by Savills, the Group's interest in the properties as at March 31, 2008 amounted to approximately RMB669.6 million (equivalent to approximately US\$95.5 million). Comparing the valuation amount as at March 31, 2008 to the

FINANCIAL INFORMATION

unaudited net book value of the Group's land and buildings as at the same date of RMB457.8 million (equivalent to approximately US\$65.3 million) resulted in a difference of approximately RMB211.8 million (equivalent to approximately US\$30.2 million), which will not be included in the Group's combined financial statements for the year ending September 30, 2008. Had the properties been stated at the valuation amount, additional depreciation of approximately RMB4.2 million (equipment to approximately US\$0.6 million) per annum will be charged to the combined financial statements.

- (4) *The unaudited pro forma adjusted net tangible assets per Share is calculated based on the adjustments referred to in the preceding paragraph and on the basis that 3,445,022,000 Shares were in issue assuming that the Global Offering and the Capitalization Issue had been completed on December 31, 2007, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the Shares to be issued under the Pre-IPO Share Subscription Plan or the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner.*

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in our financial or trading position since December 31, 2007.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the sub-section headed “Our Business — Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We estimate that the net proceeds receivable by us from the Global Offering will be approximately HK\$2,568 million, after deducting underwriting commissions and estimated offering expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$3.34 per Offer Share, being the midpoint of the indicative Offer Price range set forth in this prospectus. We intend to use the net proceeds from the Global Offering for the following purposes:

- approximately HK\$819 million, or 32%, will be used to expand our retail network and geographical coverage for our retail and brand licensee businesses, which includes the opening of new retail outlets in prime locations of both major and emerging cities, the establishment of alternative retail formats such as sports complexes and multi-brand stores, the purchase of properties complementary to the expansion of our retail network and the acquisition, investment or entering into partnership with leading regional retailers. No specific properties had been identified as acquisition targets as at the Latest Practicable Date;
- approximately HK\$936 million, or 36%, will be used to repay a portion of our bank borrowings, which include the entire balance of the additional bank borrowings of approximately US\$120 million that are expected to be raised prior to Listing for repaying the borrowings due to the minority shareholders of the subsidiaries of Yue Yuen and the subsidiaries of Yue Yuen;
- approximately HK\$512 million, or 20%, will be used to repay the bank borrowings that we borrowed for the purposes of providing shareholder’s loans to some of our Regional Joint Ventures. Any remaining proceeds allocated to repayment of bank borrowings under this sub-paragraph and the sub-paragraph above will be used to repay part of our existing current bank borrowings of US\$209 million as at December 31, 2007, which as at such date consist of short term bank loans with interest rates ranging from 5.02% to 7.23% per annum and maturity dates ranging from January 7, 2008 to December 11, 2008, and long term bank loans with interest rates ranging from 4.52% to 7.29% per annum and maturity dates ranging from July 10, 2010 to March 31, 2012;
- approximately HK\$148 million, or 6%, will be used to pay the cash portion of the call option premium which we have agreed to provide to some of our Call Option JV’s partners;
- approximately HK\$102 million, or 4%, will be used to expand our manufacturing capacity at the Taicang factory; and

FUTURE PLANS AND USE OF PROCEEDS

- the remaining approximately HK\$51 million, or 2%, will be used to increase our promotional and marketing activities for our brand licensee business, as well as further build our “YY Sports” brand through local and national advertising and promotional campaigns and unified branding that will reinforce the customer recognition of us as a leading sportswear retailer in the PRC.

To the extent that the net proceeds of the Global Offering receivable by us are not immediately applied for the above purposes or if we are unable to effect any part of our future development plans as intended, and to the extent permitted by the relevant laws and regulations, we intend to deposit the proceeds into interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorized financial institutions in Hong Kong so long as it is in our best interests. We will disclose the same in the relevant annual report of our Company.

The net proceeds of the Global Offering, after deducting underwriting commissions and estimated expenses payable by us in the Global Offering and assuming the Over-allotment Option is not exercised, are estimated to be (i) approximately HK\$2,895 million if the Offer Price as finally determined is HK\$3.75, being the highest point of the indicative Offer Price range; (ii) approximately HK\$2,568 million if the Offer Price as finally determined is HK\$3.34, being the midpoint of the indicative Offer Price range; and (iii) approximately HK\$2,240 million if the Offer Price as finally determined is HK\$2.93, being the lowest point of the indicative Offer Price range, respectively. In the event that the Offer Price is set at the lowest point of the indicative Offer Price range, the application of the net proceeds for repayment of bank borrowings as mentioned above will not be subjected to any corresponding reduction, and at least HK\$1,448 million will still be applied to repay our bank borrowings as described above. Under such circumstances, the application of the net proceeds for the other purposes as mentioned above may be reduced accordingly and reallocated to repay the bank borrowings as mentioned above. We do not expect our current business plans will be materially affected if the Offer Price is set at the low end as our current business expansion plan can be adjusted accordingly in light of the immediate funding available in accordance with the use of proceeds as disclosed in this prospectus. If appropriate, we may finance the shortfall by internal cash resources and/or seek other forms of financing which may include additional bank borrowings.

Any additional net proceeds that we would receive from any exercise at any price within the stated Offer Price range, in full or in part, of the Over-allotment Option, may be applied in the manner and proportions stated above. In the event the Over-allotment Option is exercised in full, we estimate that the net proceeds to us, after deducting underwriting commissions and estimated offering expenses payable by us in the Global Offering, will be (i) approximately HK\$3,344 million if the Offer Price as finally determined is HK\$3.75, being the highest point of the indicative Offer Price range; (ii) approximately HK\$2,968 million if the Offer Price as finally determined is HK\$3.34, being the midpoint of the indicative Offer Price range; and (iii) approximately HK\$2,591 million if the Offer Price as finally determined is HK\$2.93, being the lowest point of the indicative Offer Price range, respectively.

RELATIONSHIP WITH YUE YUEN GROUP

Immediately upon completion of the Global Offering, the Capitalization Issue and the issuance of Shares to partners of the Call Option JVs and the Share Swap JV, Yue Yuen Group will continue to be our controlling shareholder, directly owning about 56.0% of our issued share capital (assuming the Over-allotment Option is not exercised) through its wholly owned subsidiary, Major Focus. For details about changes to the share capital of our Group in the two years immediately preceding the date of this prospectus, please refer to Appendix VIII to this prospectus.

We do not consider there exist material issues related to competing business or related transactions with Yue Yuen Group for the following reasons:

- (a) there is potentially little competition between the manufacturing business of Yue Yuen Group and our Company — for further discussion on separation of businesses between our Group and the Yue Yuen Group, please see the sub-section headed “— Separation of Businesses” below;
- (b) the connected transactions between Yue Yuen Group and our Company are and will be carried out on normal commercial terms or on terms no less favorable to us than are available to third parties (for details of the connected transactions between Yue Yuen Group and our Company, please refer to the section headed “Connected Transactions” in this prospectus); and
- (c) we do not rely on Yue Yuen Group to provide any financial assistance to us.

Therefore, we believe the Group is capable of carrying on its business independently of the controlling shareholders and their associates thereof after the Listing. Please see the sub-section headed “— Separation of Businesses” below for further discussion on our independence.

Our spin-off from the Yue Yuen Group will enable a clearer separation of the manufacturing and retail businesses so that resources and capital can be deployed more efficiently. Upon Listing, Yue Yuen Group will be principally focusing on the OEM/ODM manufacturing business and will not be engaging in sportswear retail business in the Greater China Region except through its investment in Symphony through wholly-owned subsidiaries of Yue Yuen and a jointly controlled entity as described in more detail under the sub-section headed “— Yue Yuen Group” below. We will be principally operating the sportswear and footwear retail business in the PRC, Taiwan and Hong Kong with the Taicang manufacturing facilities serving a complementary role to our retail business.

It is not our present intention or the present intention of Yue Yuen to inject the entire PRC manufacturing business of the Yue Yuen Group into our Group. The rationale for the inclusion of the Taicang manufacturing facilities into our Group is explained in more detail below.

Customer focus and management team of the Taicang manufacturing facilities differ from that of the Yue Yuen Group

We established the Taicang manufacturing facilities in 2002. The facilities were set up and operated in ways that were very different to the other factories operated by Yue Yuen Group. Unlike other factories in Yue Yuen Group which serve large and international

sportswear companies, such as *Nike* and *Adidas*, the Taicang manufacturing facilities were set up to manufacture smaller batch orders for emerging domestic brand companies in the PRC, such as *Li Ning* and *ANTA*. The Taicang facilities have been and will continue to be operated by a separate team of management that possesses the relevant culture and expertise supported by proven track records to conduct business with these local PRC brand companies. In order to serve their respective client bases, which have very different needs, most efficiently, the design, cost structure, product focus, human resources and staff hiring requirements (including language requirements), training process and culture of the Taicang manufacturing facilities are also distinct from those of the factories operated by the Yue Yuen Group. The customer focus and management of the Taicang manufacturing facilities are clearly delineated from those of the factories in Yue Yuen Group.

Relationship with domestic brand owners and their distributors is synergistic to growth of retail business

The management and personnel at the Taicang manufacturing facilities have established strong relationships with their customers (which are primarily PRC domestic brands) as well as the brands distributors. We believe these brand companies have historically valued their relationships with the Taicang manufacturing facilities since we believe the Taicang facilities are better equipped than Yue Yuen to fulfill their orders, which are generally of smaller batches as compared to their international competitors. Such brand companies have grown significantly in size in previous years. We consider such relationships with the PRC domestic companies and their distributors as crucial to the continued growth and development of our retail business through the continued expansion and diversification of our retail brand portfolio to include more well-known PRC domestic brands. Inclusion of the Taicang manufacturing facilities and, more importantly, retaining its management and personnel in our Group will help ensure such relationships are properly maintained, which will be highly synergistic to our retail business.

The ability to control the development of the end-to-end supply chain solution is crucial to our future growth

We are in the process of developing and implementing an end-to-end supply chain solution to sportswear brand owners that have products under our distribution, which we believe is an innovative and pioneering business model in the sportswear retail industry in the Greater China Region and, if successful, will distinguish us from other sportswear retailers in the PRC. One of the key benefits of this end-to-end supply chain solution is that it will enable both the brand companies and us to review on a real time basis in-store sales data, product inventory levels and feedback from store managers at the retail outlets operated by us, our associates and others, and therefore dynamically assess consumer demand. As a result, our existing production schedule, logistics arrangement, inventory level and stock ordering frequency are expected to change to become more adaptable to provide quicker responses. We will be able to place orders in smaller batches and replenish inventory from brand companies more quickly, and brand companies will be able to utilize such market feedback and place manufacturing orders in smaller batches more quickly in response to evolving consumer preference. This end-to-end supply chain solution is expected to optimize overall inventory levels and lower capital commitments, minimize discounting

RELATIONSHIP WITH YUE YUEN GROUP

and hence maximize our profitability and the profitability of our brand companies. By offering this value-added service to brand companies, we expect to further enhance our relationships with them. Although the revenue from products of these brand companies do not constitute a substantial portion of our revenue at present, we are of the view that it is in the best interest of our Company to maintain a good relationship with these brand companies with a view to capturing any business opportunities in the future.

The implementation of the end-to-end supply chain solution requires synchronization and connectivity of all parties along the supply chain, including the retailers, the brand companies and the manufacturers. We believe that due to the pioneering nature of this business model, it would be desirable for us to have, at least initially, maximum control over the various key components of the supply chain, including manufacturing, so as to ensure a smooth rollout and implementation process and to deliver the best results to the brand companies. This is an important rationale for the inclusion of the Taicang manufacturing facilities in our Group.

Furthermore, due to the pioneering nature of this end-to-end model, if the Taicang manufacturing facilities were to remain in Yue Yuen Group, potential reliance issues may arise as it would mean that if Yue Yuen (acting through Taicang manufacturing facilities) were to cease production for us, we will need to find another manufacturer to implement this end-to-end model with us, which could potentially be unduly burdensome. Therefore, we believe the inclusion of the Taicang manufacturing facilities in our Group will avoid potential undue reliance of us on Yue Yuen Group.

Our core growth strategy is, and will continue to be, to focus on the expansion of our retail business in the PRC, while our manufacturing operations will only play a complementary role. As illustrated above, we believe that the current separation mechanism is consistent with such principle while at the same time allows us to enhance the efficiency and profitability of our retail operations by developing and implementing this end-to-end supply chain solution while we continue to strive to maintain the existing relationship with our brand customers.

Certain undertakings between Yue Yuen and us

Although our manufacturing businesses do not compete with those of our controlling shareholder, Yue Yuen, in light of our Taicang manufacturing facilities we have put in place certain mechanisms to clearly separate our manufacturing businesses from those of Yue Yuen. Under these separation mechanisms:

- (A) We agreed to undertake to only manufacture for six brands, five of which are currently managed by our Taicang manufacturing facilities which are *Li Ning*, *ANTA*, *Kappa*, *361°* and *Umbro*, as well as one brand which we may produce in the future, namely *XTEP* (together the “Taicang Brands”).
- (B) Yue Yuen agreed to undertake not to solicit or manufacture for the Taicang Brands under any circumstances.

RELATIONSHIP WITH YUE YUEN GROUP

- (C) If any brands other than the Taicang Brands request us to manufacture for them, we must first confirm with Yue Yuen whether Yue Yuen will pursue such business opportunities. If it does, we agreed to use our reasonable efforts to persuade them to give the business to Yue Yuen. If Yue Yuen does not take up the business opportunity, we may then manufacture for such brands.

Under the Business Separation Deed, the above undertakings will survive for a period of five years from Listing and will be automatically renewed every five years unless a majority of our independent non-executive Directors decide at the end of the five year interval that the Business Separation Deed shall not be renewed. The Business Separation Deed will also be terminated on the earlier of the date when Yue Yuen ceases to be a controlling shareholder of our Company or the date when the shareholders of Yue Yuen and the Company who do not have a material interest in the transaction decide by ordinary resolution that the Business Separation Deed shall be terminated.

Notwithstanding the above undertakings, our Company may directly or indirectly engage in sportswear or footwear manufacturing business by holding of not more than 5% of any class of listed securities issued by a company which directly or indirectly engages in the sportswear or footwear manufacturing business.

In light of the above business separation mechanisms, we and Yue Yuen have each agreed to the followings during the term of the above undertakings:

- (1) In respect of scenario (B) set out above:

Yue Yuen will confirm in its future annual reports that Yue Yuen has not, under any circumstances, solicited or manufactured for any of the Taicang Brands.

- (2) In respect of scenario (C) set out above:

We will confirm in our future annual reports compliance with the following:

- (i) if any brands other than the Taicang Brands approach us, and after Yue Yuen has confirmed it wishes to pursue such business opportunities, whether we have used reasonable efforts to convince such brand owners to give the business opportunity to Yue Yuen; and
- (ii) our independent non-executive Directors have reviewed the steps taken to convince such brand owners and are satisfied that reasonable efforts have been made.

We agreed to provide sufficient information to our independent non-executive Directors upon request in order for them to conduct review in (ii) above.

The above undertakings by Yue Yuen have been approved by shareholders of Yue Yuen in a special general meeting at which, among other things, the Listing was approved.

RELATIONSHIP WITH YUE YUEN GROUP

At present, we have no definitive plan to expand our manufacturing business by producing for brands other than the Taicang Brands upon the expiry of the above undertakings. We will re-assess our manufacturing operations by reference to the then circumstances upon the expiry of the above undertakings. Both Yue Yuen and the Group expect that in the absence of unforeseeable material changes in circumstances which would render the current business separation arrangements to be adverse to the interests of the Group and its shareholders, the substance of the business separation arrangements would still be followed.

It is not possible to describe the impact on the Group should any of the Taicang Brands be no longer profitable within and/or after five years, since it will depend on uncertain future events such as the degree to which the relevant brand ceases to be profitable, whether more than one brand ceases to be profitable at or around the same time, for how long it ceases to be profitable (a particular production run may lead to a loss but this may be offset in whole or in part by other production runs of the same model) and other events. Similar to all other businesses, if any of the Group's products or business lines are found to be unprofitable, action will be taken to rectify the situation, which may or may not include ceasing production of such products.

The Group's principal business is and will remain retailing of sportswear and footwear. Even if profits are not derived from the manufacturing arm of the Group, the management will consider ways to compensate such loss of profits which may come from the retail operations of the Group. In any event, manufacturing is expected to be of decreasing importance to the Group's revenues and profits.

The decision whether to manufacture for any brands other than the Taicang Brands will be decided by our management (together with our independent non-executive Directors). Our management are required to observe the undertakings provided under the Business Separation Deed, including to use reasonable efforts to persuade new brand owners (other than the Taicang Brands) to first refer the business opportunity to Yue Yuen after confirming that Yue Yuen will pursue such business opportunities, and also not to solicit any brands other than the Taicang Brands. Our independent non-executive Directors will conduct an annual review of such decisions. After the end of each financial year during the operation of the Business Separation Deed, our management shall provide, upon request, sufficient information to our independent non-executive Directors in order to assist them to review and confirm our compliance with the undertakings. The conclusion of the review will be disclosed in our future annual reports. The decision to enforce the above undertakings will be decided by a majority of our independent non-executive Directors. Upon request, we will provide our independent non-executive Directors with resources to enable them to seek professional advice as to the appropriate action which may be taken in the event of a breach of the undertakings. Yue Yuen will also confirm compliance of the relevant undertakings in its annual report.

Yue Yuen Group is the largest branded athletic and casual footwear manufacturer in the world with production facilities in the PRC, Vietnam and Indonesia. Yue Yuen Group is an OEM/ODM for major international brands such as *Nike*, *Adidas*, *Reebok*, *ASICS*, *New Balance*, *PUMA*, *Timberland* and *Rockport*. Founded in 1988, Yue Yuen Group has been listed on the Stock Exchange since 1992 and is one of the constituent stocks of the Hang Seng Index.

RELATIONSHIP WITH YUE YUEN GROUP

According to the audited consolidated financial statements of the Yue Yuen Group for the year ended September 30, 2007, its total revenue was approximately US\$4,114.1 million for the year ended September 30, 2007 which arose primarily from sales of athletic footwear, athletic style leisure footwear, casual and outdoor footwear manufactured by the Yue Yuen Group. Its net profit before minority interests for the year ended September 30, 2007 were US\$368.9 million.

We, through our wholly owned subsidiary Yusheng (Taicang) Footwear Company Limited (裕盛(太倉)鞋業有限公司), operate a footwear manufacturing business in the PRC manufacturing for five brands, namely *Li Ning*, *Kappa*, *ANTA*, *Umbro* and *361°*. We commenced production for each of the existing Taicang Brands in year 2003, 2005, 2006 and 2007. In the past, as a result of business decisions, we also declined to produce for four brands which approached us. Yue Yuen Group, on the other hand, is predominantly a manufacturer of footwear for other brands (excluding the Taicang Brands) with revenue generated from manufacturing and sale of footwear products in the sum of US\$3,625.2 million which accounted for substantially all of the revenue of Yue Yuen for the financial year ended September 30, 2007. Conversely, revenue generated from our manufacturing business was in the amount of US\$67.1 million and US\$20.9 million, representing only approximately 12.1% and 11.3% of our revenue for the financial year ended September 30, 2007 and for the three months ended December 31, 2007. The remaining 87.9% and 88.7% of our revenue for the periods indicated was derived from the retail business, brand licensee business and property leasing and management business. Our total revenue for the financial year ended September 30, 2007 and for the three months ended December 31, 2007 would therefore amount to approximately US\$488.9 million and US\$164.1 million, respectively, excluding revenue generated from our manufacturing business. Our manufacturing business is therefore of a much smaller scale in terms of contribution to total revenue as well as in terms of actual dollar amount as compared to that of the Yue Yuen Group. Furthermore, there is currently no, and there never has been, a customer common to the manufacturing business of the Group and to the manufacturing business of Yue Yuen Group during the Track Record Period and the three months ended December 31, 2007. For details about our revenue breakdown according to business segments, please refer to the sub-section headed “Financial Information — Factors affecting our Results of Operations and Financial Condition — Business segments” in this prospectus.

The net profit generated from our manufacturing business accounted for approximately 16.5% and 15.7% of the Group’s net profit for the financial year ended September 30, 2007 and for the three months ended December 31, 2007, respectively. If our manufacturing business becomes unprofitable in the future, we will take measures to minimize the negative impact that may arise thereof.

SEPARATION OF BUSINESSES

We believe we are able to operate independently of Yue Yuen as explained in more details below.

Independent management

We have been operating under a separate management team, which has extensive experience in sportswear retailing in the PRC, Taiwan and Hong Kong. Upon listing, although it is expected that we will remain a subsidiary of Yue Yuen, we will be operating under a separate management team. Three of our four executive Directors have been running the day-to-day operations of the

RELATIONSHIP WITH YUE YUEN GROUP

Group during all or some of the Track Record Period and the three months ended December 31, 2007. They will be expected to devote their resources and time in the Group upon listing and will continue to run our day-to-day operations. Our three non-executive Directors who are also directors of Yue Yuen will not have any operation management function in our Group, but as we are a subsidiary of Yue Yuen, it is expected that Yue Yuen will have a board presence at our board level through these three Directors.

Two of our senior management, Mr. LU Ning and Mr. LIN Tien-Te, have been with us during most of the Track Record Period and the three months ended December 31, 2007. Together with our three executive Directors, Mr. Huang, Mr. LEE Chung Wen and Mr. HUANG Chun Hua, they constitute the core management team of our Group responsible for forming our important decisions, such as strategic business development, nation-wide marketing and brand management, during the Track Record Period and the three months ended December 31, 2007. It is expected that after Listing, we will continue to be centrally managed by such core management. We have reporting structures in place to ensure that important decisions are made only with the proper authorities of such core management. For example, setting budgets, expenditures and inventory purchases exceeding certain thresholds, opening of new stores and hiring of senior personnel all require authorization of the senior management. These standard operating procedures involving budgeting, acquisitions, store operations, new store openings and purchase orders are clearly identified. The reporting lines are clearly established by following these standard operating procedures. Our non-executive Directors are not responsible for the day-to-day operations of our Group; they are involved in higher level decision making processes. There is no other senior management member responsible for our Group's day-to-day operations during the Track Record Period and the three months ended December 31, 2007 who has not been appointed as our Director or listed as a senior management of our Group or has left our Group during the Track Record Period and the three months ended December 31, 2007.

Even though our three non-executive Directors are also executive directors of Yue Yuen and therefore may potentially be perceived as having a conflict of interest in certain circumstances involving our Company and Yue Yuen, they are mindful of their fiduciary duties as Directors to act in the best interest of our Company. In cases where there are conflicts of interest, the three non-executive Directors will in accordance with the requirements of the Listing Rules and the Company's bye-laws abstain from voting on the relevant resolutions in board meetings of our Company. The Company's bye-laws do not require any Directors to physically abstain from board meetings where matters involving conflict of interest may be discussed. As such, the non-executive Directors will not necessarily physically abstain from such board meetings. However, if they attend the relevant board meeting, they will observe the requirements under the Listing Rules and the Company's bye-laws to abstain from voting on matters involving conflict of interests.

After Listing, any Directors who have a material interest in a transaction will generally be required under the Listing Rules and the Company's Bye-laws to abstain from voting in board meetings in relation to such transaction. These transactions may include potential connected transactions with the Yue Yuen Group and also potential conflicts of interest with Yue Yuen Group in cases possibly relating to competition. In these cases, the independent non-executive Directors will be asked to advise on the transaction. By having four independent non-executive Directors on the board (with Mr. CHENG Min Fun Paul having relevant industry experience), the Directors believe that they will be able to exercise their function as a board properly.

RELATIONSHIP WITH YUE YUEN GROUP

Our manufacturing arm also has a separate management team which has expertise in the manufacturing of footwear for sale in the PRC. Our factory in Taicang has been operating independently of Yue Yuen since it commenced production in 2003. As stated below, Yue Yuen is not our top five largest supplier of raw materials for our manufacturing business. As such, we believe that with our separate management team, we do not rely on Yue Yuen in respect of our manufacturing business.

Independence of operations and suppliers

In respect of our retail business, our customers are end customers of our products and retail sub-distributors. In respect of our brand licensee business, our customers are our retail distributors. In our manufacturing business, our customers are OEM/ODM customers. Yue Yuen is not our top five customer.

In respect of our retail business, our suppliers are brand companies of whom we are distributors. In respect of our brand licensee business, our suppliers are brand companies of whom we are exclusive brand licensees and the contract manufacturers. In respect of our manufacturing business, our suppliers are suppliers of our raw materials for our footwear production. Yue Yuen is not our top five largest supplier in any of our business. Upon Listing, there are expected to be continuing connected transactions between our Group and the Yue Yuen Group in relation to the Group sourcing from Yue Yuen Group footwear and sportswear products and accessories as certain members of the Yue Yuen Group and their associates are suppliers pre-approved by the brand owners for the purpose of ensuring quality of the footwear and sportswear products and accessories. These transactions will be carried out at market price or on terms no less favourable to our Company than terms available from third parties. In the event that the relevant brand owners disapprove Yue Yuen to be the supplier or if Yue Yuen ceases to manufacture for such brand products, we will have to work with the relevant brand owners in identifying another supplier which we believe we can do so independently of Yue Yuen. During each of the year ended September 30, 2005, 2006 and 2007 and for the three months ended December 31, 2007, the total amount of purchases of sportswear products, property, plant and equipment, and raw materials from the Yue Yuen Group and its associates amounted to US\$330,000, US\$1,786,000, US\$11,380,000 and US\$372,000, respectively representing approximately 0.21%, 0.82%, 3.10% and 0.24% of the Group's total purchases in that corresponding period, respectively. During each of the year ended September 30, 2005, 2006 and 2007 and for the three months ended December 31, 2007, the total amount of sales of moulds and plant and machinery to the Yue Yuen Group and its associates amounted to US\$0, US\$0, US\$126,000 and US\$0, respectively representing approximately 0%, 0%, 0.02% and 0% of the Group's total revenue in that corresponding period, respectively. For more details on such continuing connected transactions, please refer to the sub-section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Master Purchase Agreement" in this prospectus.

Financial independence

Yue Yuen and certain connected persons of our Company have been providing guarantees in respect of certain banking facilities of the Group and also credit provided by brand companies. Upon Listing, such guarantees will be replaced and therefore, there will no longer be financial assistance from Yue Yuen or any connected persons of our Company.

RELATIONSHIP WITH YUE YUEN GROUP

According to the disclosure of interests as at the Latest Practicable Date, Pou Chen Corporation, a company listed on the Taiwan Stock Exchange, was interested in approximately 49.54% of the share capital of Yue Yuen for the purpose of the SFO. According to public available information, the largest shareholder of Pou Chen Corporation was PC Brothers Corporation (巴拿馬商必喜兄弟股份有限公司) as at the Latest Practicable Date. As at the Latest Practicable Date, none of our Directors had interest in shares or share options of Yue Yuen which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

No dividends have been paid or declared by our Company since the date of our incorporation.

YUE YUEN GROUP

Yue Yuen Group has indicated that it intends to hold its interest in our Company as a long term investment. Under the Listing Rules, Yue Yuen Group is not permitted to dispose of its shareholding in our Company for a period of six months from the date on which dealings in the shares of our Company commenced on the Stock Exchange. In addition, during the subsequent six month period, Yue Yuen Group must not dispose of those shares if, immediately following that disposal, Yue Yuen Group will cease to be a controlling shareholder of our Company for the purposes of the Listing Rules. For further details of the lock-up undertakings by Yue Yuen Group, see the sub-sections headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings to the Stock Exchange pursuant to the Listing Rules”.

According to public records available on the website of the Stock Exchange as at the Latest Practicable Date, a number of wholly owned subsidiaries of Yue Yuen were interested in approximately 4.8% of the total issued share capital of Symphony, a company whose ordinary shares are listed on the main board of the Stock Exchange. In addition, Yue Yuen also holds 40% of the total issued share capital of Well Success Investments Limited, a company incorporated in the BVI, which in turn was interested in approximately 48.8% of the total issued share capital of Symphony as at the Latest Practicable Date. Well Success Investments Limited was accounted for as a jointly controlled entity in the financial statements of Yue Yuen for the year ended September 30, 2007.

The Symphony Group is principally engaged in the contract manufacturing and sales of footwear products. To a small extent, the Symphony Group also engages in retail and wholesale business of apparel and footwear for *PONY* and footwear for *Aee* in the PRC. According to Symphony’s results announcement for the year ended December 31, 2007 dated April 8, 2008, less than 10% of the Symphony Group’s turnover and contribution to results are contributed by activities other than the manufacturing and sales of footwear products.

RELATIONSHIP WITH YUE YUEN GROUP

The Symphony Group is a listed group which is under separate management. As at the Latest Practicable Date, the board of directors of Symphony consisted of 11 members. Although three directors of Yue Yuen are on the board of Symphony, two being executive directors (Mr. KU Edward, Yu-Sun and Mr. CHAN Lu Min) and one being a non-executive director (Mr. LI I Nan, Steve), they are board representations as a result of Yue Yuen's investment in Symphony and they cannot and do not exert control over the operations and management of the Symphony Group. Given that (i) Symphony is a separate listed company capable of operating independently; (ii) the principal operations of Symphony is manufacturing, not retail; and (iii) Yue Yuen's interest in Symphony is only by way of equity investment, our Directors consider that there is no direct competition between Yue Yuen and our Group as a result of Yue Yuen's investment in Symphony.

CONNECTED TRANSACTIONS

DETAILS OF CONTINUING CONNECTED TRANSACTIONS

Overview

Following the completion of the Global Offering, we will continue to have certain transactions that continuing constitute connected transactions within the meaning of the Listing Rules. Set out below is a summary of these continuing connected transactions and, where applicable, the waivers from strict compliance with the relevant requirements of the Listing Rules that we have received from the Stock Exchange.

| <u>Item</u> | <u>Nature of Transaction</u> | <u>Applicable Stock Exchange Listing Rule</u> | <u>Waiver Sought</u> |
|---|--|---|--|
| <i>Non-exempt continuing connected transactions</i> | | | |
| (A) | Purchase of footwear, sportswear and accessories by members of the Group from members of the Yue Yuen Group, its jointly controlled entities and/or associates | 14A.35 | Announcement and independent shareholders' approval requirements under Rules 14A.47 and 14A.48 |
| (B) | Provision of financial assistance to connected persons | 14A.35 | Announcement and independent shareholders' approval requirements under Rules 14A.47 and 14A.48 |

Non-exempt Continuing Connected Transactions

Master Purchase Agreement

To ensure the quality of the footwear and sportswear products and accessories, the brand owner of the *Converse* brand typically requires us to source such products from suppliers pre-approved by it. Certain members of the Yue Yuen Group and a company in which Yue Yuen has investments (and which is accounted for as a jointly controlled entity of Yue Yuen) are suppliers pre-approved by *Converse* in respect of footwear products. The subsidiary of a company in which Yue Yuen has less than 50% interest (Eagle Nice (International) Holdings Limited) and which is regarded as an associate of Yue Yuen under the Listing Rules is also a supplier pre-approved by *Converse* in respect of sportswear products and accessories.

CONNECTED TRANSACTIONS

With a view to governing the business relationship between the Group and Yue Yuen and its associates and complying with the requirements of the Listing Rules, our Company has on May 23, 2008 entered into the Master Purchase Agreement with Yue Yuen in relation to the Group sourcing from Yue Yuen Group and its associates footwear and sportswear products and accessories. Under the terms of the Master Purchase Agreement, our Company agreed to purchase through its subsidiaries and Yue Yuen agreed to procure its subsidiaries, jointly controlled entities and its associates to sell to members of the Group footwear and sportswear products and/or accessories on the following terms:

- (A) at market price; or
- (B) on terms no less favorable to our Company than terms available from third parties.

The exact terms of the purchases are to be set out in individual orders. These purchases are (i) between non-PRC members of the Group and the Yue Yuen Group; and (ii) between PRC members of the Group and jointly controlled entities and/or associates of Yue Yuen. The Master Purchase Agreement commences on the Listing Date and will end on September 30, 2010. The annual caps under the Master Purchase Agreement for the three financial years ended September 30, 2010 are as follows:

| | For the financial year ended 30 September, | | |
|------------------------------------|--|------------------|------------------|
| | 2008 | 2009 | 2010 |
| | | (US\$) | |
| Annual transaction value | <u>25,900,000</u> | <u>8,921,000</u> | <u>1,842,000</u> |

The total transaction amount for the financial year ended September 30, 2007 was US\$11,186,000, of which approximately US\$5.2 million occurred during the period from June to September, 2007 because of a new factory established by the jointly controlled entity of Yue Yuen in 2007. On an annual basis, these transactions amount to approximately US\$15.6 million per annum. Combined with the other transaction amounts of approximately US\$6.0 million in the financial year ended September 30, 2007, the aggregate transaction amount for the financial year ended September 30, 2007 would be approximately US\$21.6 million. On this basis and based on an anticipated growth rate of 20% per annum, the estimated annual cap of US\$25.9 million for the financial year ended September 30, 2008 is estimated.

These transactions all involve *Converse* products. The primary reason for the decrease in estimated annual caps for the financial years ended September 30, 2009 and 2010 to US\$8,921,000 and US\$1,842,000, respectively, is that we will cease to be a licensee for *Converse* products in the PRC from January 1, 2009 and therefore a number of transactions with associates of Yue Yuen in relation to sourcing of *Converse* footwear and sportswear products and accessories to be sold in the PRC will discontinue after January 1, 2009. The transactions with members of the Yue Yuen Group involving sourcing of *Converse* products for sale in Hong Kong and Taiwan will continue as we are still expected to be a licensee for *Converse* products in Hong Kong and Taiwan. The transaction amount involving *Converse* products for sale in Hong Kong and Taiwan for the year ended September 30, 2007 was approximately US\$1,066,000. Based on

CONNECTED TRANSACTIONS

an anticipated growth rate of 20% per annum, the estimated transaction amounts in respect of such transactions for the years ended September 30, 2008, 2009 and 2010 are expected to be approximately US\$1,279,000, US\$1,535,000 and US\$1,842,000, respectively.

The annual cap for the financial year ended September 30, 2009 of US\$8,921,000 is arrived at by obtaining the sum of the expected transaction amount involving *Converse* products for sale in the PRC of US\$7,386,000 in that year and the expected transaction amount of *Converse* products for sale in Hong Kong and Taiwan of US\$1,535,000. As there will only be three months (September to December 2008) of transactions in respect of *Converse* products for sale in the PRC, the expected transaction amount involving *Converse* products for sale in the PRC of US\$7,386,000 for the financial year ended September 30, 2009 is arrived at by obtaining a quarter of the expected transaction amount involving *Converse* products for sale in the PRC of US\$24,621,000 for the financial year ended September 30, 2008 which is approximately US\$6,155,000 and based on an anticipated growth rate of 20% per annum. The expected transaction amount involving *Converse* products for sale in the PRC of US\$24,621,000 for the financial year ended September 30, 2008 is arrived at by deducting the expected transaction amount of *Converse* products for sale in Hong Kong and Taiwan of US\$1,279,000 from the 2008 annual cap of US\$25,900,000.

As the transactions with Yue Yuen Group and its jointly controlled entities and associates are to be conducted at market terms or on terms no less favorable to our Company than terms available from third parties, the Directors consider that the terms of the Master Purchase Agreement are fair and reasonable. The Directors also consider that these transactions will be conducted in the ordinary and usual course of business of the Group and are in the interest of our Company and the Shareholders as a whole.

Financial assistance to connected persons

As a joint venture partner in Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) (“Hubei Jiezhixing”), which was established on April 10, 2007 and being one of the Regional Joint Ventures in which our Company holds a 50% equity interest, members of the Group advanced loans (“Joint Venture Loans”) to it as working capital. Hubei Jiezhixing is a connected person of our Company as its other 50% owner is Mr. Qiu Xiaojie (邱小杰) who is a substantial shareholder and a director of a subsidiary of the Group, Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司). Save for the above relationship, Mr. Qiu is an independent third party. Apart from Hubei Jiezhixing, none of the other Regional Joint Ventures is a connected person of our Company for the purpose of Chapter 14A of the Listing Rules.

The Joint Venture Loans are provided under an entrusted loan arrangement whereby the relevant member of the Group deposits a sum of money (“Deposit Sum”) with a commercial bank which will then lend such money to Hubei Jiezhixing. The commercial bank charges a handling fee in respect of the arrangement which is ultimately borne by Hubei Jiezhixing. Interest on the Joint Venture Loans, which cannot exceed or be less than the then highest and lowest rates set by the People’s Bank of China, is borne by Hubei Jiezhixing and paid into the bank account of the relevant lending Group Member. As such, all interests and charges associated with the Joint

CONNECTED TRANSACTIONS

Venture Loans are paid by Hubei Jiezhixing and therefore the effective cost to the lending Group member is zero. The Joint Venture Loans extended to Hubei Jiezhixing during the year ended September 30, 2007 are typically for a term of one year.

Our PRC legal advisors have confirmed that such entrusted loan arrangement does not contravene any applicable laws and regulations of the PRC. As we are not licensed to carry out money lending business in the PRC, we have to make the Joint Venture Loans by way of an entrusted loan arrangement. We believe that such arrangements are not uncommon in the PRC.

On September 6, 2007, we provided Hubei Jiezhixing with the first Joint Venture Loan in the amount of US\$10,658,000. For the year ended September 30, 2007, the maximum amount of the Joint Venture Loans extended to Hubei Jiezhixing at any relevant time was approximately US\$13,323,000 which are due to expire in September 2008. In December 2007, we also extended to Hubei Jiezhixing an additional Joint Venture Loan in the amount of approximately US\$3,871,000 for a term of three months. Based on these two amounts, the estimated annual cap for the financial year ended September 30, 2008 is US\$17,194,000. As a result of commercial negotiation with the joint venture partner, we are required to extend the Joint Venture Loans to Hubei Jiezhixing but Mr. Qiu Xiaojie is not subject to the same obligation. As the Joint Venture Loans were entered into in the ordinary course of business for the purpose of providing working capital to Hubei Jiezhixing and the effective cost to a member of the Group providing the loan is zero, the Directors consider that the terms of the Joint Venture Loans are fair and reasonable and that the provision of the Joint Venture Loans is in the interest of our Company and its Shareholders as a whole. As the Joint Venture Loans are provided solely by our Group Member and not by the other joint venture partner, such financial assistance is not provided in proportion to our equity interest in Hubei Jiezhixing and therefore do not fall under Rule 14A.65 of the Listing Rules. Similar arrangements under which we have extended loans to the other Regional Joint Ventures. The requirements of Chapter 14A of the Listing Rules are not applicable to those loans.

The provision of the Joint Venture Loans constitutes continuing connected transactions of our Company under Chapter 14A of the Listing Rules requiring independent shareholders' approval were our Company listed at the relevant time. We will comply with the applicable requirements of Chapter 14 and/or Chapter 14A of the Listing Rules if any loans will be made to Hubei Jiezhixing other than those disclosed in this prospectus.

Aggregation of Transactions

Pursuant to Rule 14A.25 to Rule 14A.27 of the Listing Rules, all connected transactions between the Group and Yue Yuen Group, its jointly controlled entities and associates have been aggregated and therefore will be subject to annual caps as set out in this section of the prospectus.

CONNECTED TRANSACTIONS

WAIVERS

Continuing connected transactions after the Global Offering

Our Directors (including the independent non-executive Directors) are of the opinion that the transactions described in the sub-section above headed “— Details of Continuing Connected Transactions” have been entered into (i) in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole, and (ii) the annual caps (as stated below) for such transactions are fair and reasonable.

Furthermore, our Directors (including the independent non-executive Directors) are of the opinion that we do not rely on the connected parties for the purchases described in Item (A) in the sub-section above headed “— Details of Continuing Connected Transactions” as those purchases can readily be made with independent third parties (subject to approval by relevant brand owners) at comparable prices and terms. However, our Directors (including the independent non-executive Directors) believe that the purchases from the connected parties allow us to benefit from the economies of scale with the connected parties. The prices and terms in relation to the purchases offered by the connected parties to us are no less favorable than those offered to independent third parties by those connected parties, and are also no less favorable to us than those obtainable by our Group from independent third parties.

Waivers from compliance with announcement and independent shareholders’ approval requirements

Under the Listing Rules, the continuing connected transactions described in items (A) and (B) above (the “Non-exempt continuing connected transactions”) would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders’ approval requirement set out in Rule 14A.48 of the Listing Rules on each occasion on which they arise following the completion of the Global Offering.

Because the Non-exempt continuing connected transactions described in (A) and (B) above are expected to continue on a recurring basis or exist after the Listing of our Shares on the Stock Exchange, and have been entered into prior to the Listing Date and have been fully disclosed in this prospectus and as potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement and/or the independent shareholders’ approval requirements would add unnecessary administrative costs for us. Accordingly, we have requested the Stock Exchange, and the Stock Exchange has granted us a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and/or independent shareholders’ approval requirements as stipulated in Rules 14A.47 and 14A.48 of the Listing Rules in connection with the continuing connected transactions described in (A) and (B) above. In addition, we confirm that we will comply with Rule 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in relation to the continuing connected transactions described in (A) and (B) above.

CONNECTED TRANSACTIONS

The historical transaction amount in respect of item (A) above regarding the purchase of footwear and sportswear products and accessories by members of the Group and members of the Yue Yuen Group, its jointly controlled entities and/or associates; and item (B) above regarding the provision of financial assistance to connected persons, during the three years ended September 30, 2007 and three months ended December 31, 2007 are set out below.

| | | Annual transaction amount | | | For the three months ended December 31, 2007 |
|--------|--|--|-----------|------------|--|
| | | For the financial year ended September 30, | | | |
| Item | Nature of Transaction | 2005 | 2006 | 2007 | |
| (US\$) | | | | | |
| (A) | Purchase of footwear and sportswear products and accessories by members of the Group from members of the Yue Yuen Group, its jointly controlled entities and/or associates | 330,000 | 1,318,000 | 11,186,000 | 372,000 |
| (B) | Provision of financial assistance to connected persons | 0 | 0 | 13,323,000 | 12,030,000 |

In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value, if any, for the non-exempt continuing connected transactions shall not exceed the applicable limit set out below:

| Item | Nature of Transaction | Annual Cap | | |
|------|--|--|-----------|-----------|
| | | For the financial year ended September 30, | | |
| | | 2008 | 2009 | 2010 |
| | | (US\$) | | |
| (A) | Purchase of footwear and sportswear products and accessories by members of the Group from members of the Yue Yuen Group, its jointly controlled entities and/or associates | 25,900,000 | 8,921,000 | 1,842,000 |
| (B) | Provision of financial assistance to connected persons | 17,194,000 | N/A | N/A |

CONNECTED TRANSACTIONS

Confirmation from the Joint Sponsors

The Joint Sponsors have reviewed the relevant information and historical figures provided by us relating to the continuing connected transactions described above and have also conducted due diligence by discussing with us and our advisers, and have obtained the necessary representations and confirmations from us and our Directors, to satisfy itself of the accuracy of the information provided. Based on their due diligence, the Joint Sponsors are of the view that such transactions and their respective annual caps are fair and reasonable, and that such transactions have been entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole. In addition, the Joint Sponsors have considered the corporate governance measures established by our Company, and the functions and terms of reference of our audit committee, as well as the qualifications and experience of the members sitting on such committee, and they are of the view that there are relevant procedures in place to require transactions with our associates to be closely scrutinized by our independent non-executive Directors, and each of the independent non-executive Directors have the relevant experience to consider whether such transactions are on normal and commercial terms and in the interests of our Shareholders as a whole.

Certain Connected Transactions which have been or will be discontinued upon or shortly before Listing

Transactions between members of the Group and Yue Yuen Group and its associates

During the Track Record Period and the three months ended December 31, 2007, certain transactions took place between our Company and the Yue Yuen Group and their associates which had our Company been listed at the relevant times, would have constituted connected transactions subject to reporting, announcement and independent shareholders' approval requirements. These transactions are mainly in relation to:

- (A) Purchase of machineries by the Group from the Yue Yuen Group;
- (B) Purchase of natural leather raw material by the Group from the Yue Yuen Group;
- (C) Sale of shoe moulds by the Group from the Yue Yuen Group; and
- (D) Sale of fixed assets by the Group from the Yue Yuen Group.

These transactions, which were conducted on normal commercial terms, have been discontinued since January 1, 2008 mainly because of change in business needs.

Financial assistance by Yue Yuen and connected persons of our Company

During the Track Record Period and the three months ended December 31, 2007, there were banking facilities of the Group and credit provided by brand companies in respect of which guarantees were given by Yue Yuen and other connected persons of our Company which, had our Company been listed at the relevant time, would constitute connected transactions. The total net outstanding amount of such banking facilities and credit was approximately US\$103.9 million and

CONNECTED TRANSACTIONS

US\$192.8 million as at September 30, 2007 and December 31, 2007, respectively. Such guarantees have been replaced or will be replaced shortly before Listing so that there will no longer be financial assistance from any connected persons of our Company.

Potential Future Connected Transactions

Call Options

In relation to some of our Call Option JVs (including Hubei Jiezhixing), the exercise after Listing of the call options against the relevant Call Option JV's partner would constitute a connected transaction of our Company by virtue of the relevant joint venture partner being a substantial shareholder of our subsidiaries. In such circumstances, we will comply with the applicable requirements under Chapter 14A of the Listing Rules at the time of exercise of the call option including complying with any announcement, reporting and independent shareholders' approval requirements (as the case may be). Further details of the Call Option arrangements are set out in the sub-section headed "Our Business — Our Investments in Joint Ventures — Call option agreements" of this prospectus.

Subscription of Shares by connected persons

As at the Latest Practicable Date, invitations under the Pre-IPO Share Subscription Plan involving a total of 124,252,000 Shares have been made to Directors, who are connected persons of our Company. The subscription of Shares by the Directors after the vesting conditions are fulfilled will constitute connected transactions of our Company requiring announcement, reporting and independent shareholders' approval as our Company will be listed at the relevant time. Given that such invitations have been approved by the shareholders of our controlling shareholder, Yue Yuen, in a special general meeting in which, amongst other matters, the Spin-off was approved, there will not be re-compliance with the announcement, reporting and independent shareholders requirements. For a principal summary of the terms of the Pre-IPO Share Subscription Plan, please refer to Appendix VIII to this prospectus.

WAIVER AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong including that normally at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since our principal business operation and our production facilities are primarily located in the PRC, our Company does not and, for the foreseeable future, will not have a management presence in Hong Kong.

Accordingly, we applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under Rule 8.12 of the Listing Rules. Our Company has made arrangements to maintain effective communication with the Stock Exchange. Ms. CHANG Karen Yi-Fen and Ms. TSAI Pei Chun, both of whom are ordinarily resident in Hong Kong, have been appointed as the authorized representatives of our Company in compliance with Rule 3.05 of the Listing Rules, and will act at all times as our Company's principal channel of communications with the Stock Exchange and each of whom will be readily contactable by telephone, facsimile, and/or email, and able to meet the Stock Exchange on short notice whenever necessary to deal promptly with enquiries which may be raised by the Stock Exchange. Each of the authorized representatives will have necessary means to contact all members of the Board (including the INEDs) promptly at all times as and when the Stock Exchange wishes to contact them for any matters. All the Directors have confirmed that they possess valid travel documents to travel to Hong Kong and will be able to meet with the Stock Exchange on short notice. We have implemented a policy whereby (i) each Director will provide his/her mobile phone numbers, office phone numbers and email address to the authorized representatives; and (ii) each Director will provide valid phone numbers or other communication means to the authorized representatives when he/she travels.

Our Company has appointed Taifook Capital Limited as our compliance advisor in compliance with Rule 3A.19 of the Listing Rules. It will act as the alternative channel of communication with the Stock Exchange. These arrangements are intended to ensure that all members of the Board can be promptly informed of any matters and can maintain effective communications with the Stock Exchange.

CHAPTER 14A OF THE LISTING RULES

We have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions under Chapter 14A of the Listing Rules. For further details you should refer to the section headed "Connected Transactions" in this prospectus.

PROPERTY INTERESTS OF THE GROUP IN THE PRC, TAIWAN AND HONG KONG

As at March 31, 2008, we owned two parcels of land in the PRC, with an aggregate area of approximately 273,360 square meters. We owned 42 buildings or units in the PRC, with an aggregate floor area of approximately 191,802 square meters. We leased 230 buildings or units in the PRC, with an aggregate floor area of approximately 193,247 square meters, and 22 buildings or units in Hong Kong and Taiwan, with an aggregate floor area of approximately 5,958 square meters.

WAIVER AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES ORDINANCE

The above leased properties of the Group have been determined by Savills Valuation and Professional Services Limited as having no commercial values due to prohibition of assignment or sub-letting or lack of substantial profit rents.

In respect of the leased properties of the Group as mentioned above, our Company is exempted from strict compliance with (i) section 342(1)(b) and paragraph 34(2) of the Third Schedule to the Companies Ordinance in reliance of the exemption under section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice and (ii) Rules 5.01 and 5.06 of the Listing Rules on the grounds that:

- (1) the conditions set out in paragraph 3(b) of Practice Note 16 of the Listing Rules have been satisfied;
- (2) the values of such leased properties of the Group have been determined by Savills Valuation and Professional Services Limited, an independent qualified valuer, and the value of the Group's leased properties so determined is zero;
- (3) a report of Savills Valuation and Professional Services Limited setting out the particulars required by paragraph 34(2) of the Third Schedule to the Companies Ordinance has been made available to the Stock Exchange before this prospectus is issued and is referred to in this prospectus and is made available to the public for inspection as mentioned in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix IX to this prospectus; and
- (4) a summary of all interests in relation to such leased properties of the Group is included in the property valuation report set out in Appendix IV to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth certain information in respect of the members of our Board:

| Name | Age | Position |
|------------------------------|-----|--|
| TSAI David, Nai Fung | 57 | Chairman and non-executive Director |
| KU Edward, Yu-Sun | 66 | Vice-chairman, non-executive Director and chairman of the remuneration committee |
| HUANG Tsung Jen | 56 | Executive Director and chief executive officer |
| LEE Chung Wen | 55 | Executive Director and chief strategic officer |
| HUANG Chun Hua | 43 | Executive Director |
| CHANG Karen Yi-Fen | 44 | Executive Director and chief financial officer |
| TSAI Pei Chun | 28 | Non-executive Director |
| CHEN Huan-Chung | 52 | Independent non-executive Director |
| HU Sheng-Yih | 65 | Independent non-executive Director |
| MAK Kin Kwong | 46 | Independent non-executive Director and chairman of the audit committee |
| CHENG Min Fun Paul | 71 | Independent non-executive Director |

Chairman and non-executive Director

TSAI David, Nai Fung (蔡乃峰) is our chairman and one of our non-executive Directors. Mr. Tsai is a cousin of Ms. TSAI Pei Chun. Prior to joining Yue Yuen Group in February 1997, he was the chairman of Pou Yuen Industrial Holdings Limited. Mr. Tsai did not and will not participate in the day-to-day operations of the Group. He has been working in the footwear sector since June 1968 and is well known in the industry. Through his time in Pou Yuen Industrial Holdings Limited and Yue Yuen, he has worked regularly with leading global athletic and casual footwear brands. Mr. Tsai is and will continue to be the managing director of Yue Yuen Group. He is responsible for its overall management and strategic planning, including sales and marketing activities. Mr. Tsai also serves as a board director of Pou Chen and was previously a board director of Elitegroup Computer Systems Co., Ltd. (a company listed on the Taiwan Stock Exchange).

Vice-chairman and non-executive Director

KU Edward, Yu-Sun (顧渝生) is our vice-chairman and one of our non-executive Directors. He joined Yue Yuen Group in February 1997 and is and will continue to be its general counsel, responsible for legal, organizational matters, mergers and acquisitions, corporate social responsibility and certain special projects. He did not and will not participate in the day-to-day operations of the Group. Mr. Ku was previously the senior partner in the law firm, Ku & Fong, in Los Angeles, and is licensed to practice law in California U.S.A. and Taiwan. He received a Bachelor-in-law degree from the National Taiwan University in 1965 and a J. D. degree in 1970 from Washington University in St Louis, in the United States. At present, Mr. Ku is an executive

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

director of Yue Yuen. He also serves as a director of Eagle Nice (International) Holdings Limited (a company listed on the Stock Exchange) and Symphony Holdings Limited (a company listed on the Stock Exchange).

Executive Directors

HUANG Tsung Jen (黃宗仁) has been and is our chief executive officer, president and executive Director. Mr. Huang joined the Group in June 1998 and is and will continue to be primarily responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group. Mr. Huang is and will continue to be chairman of various subsidiaries of the Group. He has over 30 years of experience in sportswear manufacturing, sales and marketing industry. Mr. Huang completed the Engineer-manager Program provided by National Taiwan University in 1982.

LEE Chung Wen (李宗文) is an executive director and our chief strategic officer. Prior to joining the Group in January 2002, Mr. Lee joined Yue Yuen Group in August 1988 and was its executive vice president, responsible for the manufacturing operations of certain major brands in the PRC, Vietnam and Indonesia. Mr. Lee is and will continue to be responsible for the implementation of the overall strategy of the Group. He is and will continue to be chairman of various retail operating companies in which the Group has investments. He graduated from National Taiwan University with a Bachelor of Science in Engineering degree in 1975 and has more than 25 years' experience as a chemical engineer.

HUANG Chun Hua (黃春華) joined the Group in January 2002 and is an executive Director. Mr. Huang joined Yue Yuen Group in 1989. He has been the general manager of certain retail companies in which the Group made investments during the Track Record Period and is and will continue to be responsible for overseeing the operations of such retail companies. He has also been overseeing the daily operations of our manufacturing facilities at Taicang and is and will continue to be responsible for the strategic development of our manufacturing business. Mr. Huang has more than 18 years of experience in management and is familiar with the sportswear business in the PRC. He graduated from Zhongnan University of Economics and Law with a Bachelor of Science in Economics degree in 1987.

CHANG Karen Yi-Fen (張挹芬) is an executive Director and has been serving as our chief financial officer since she joined us in October 2007. Ms. Chang is primarily responsible for the finance related matters of the Group, including financial management and reporting, capital planning and allocation, investor relationships and internal controls of the Group. She has many years of financial management and investment banking experiences gained from working with KPMG in Washington DC and Los Angeles in the U.S., Jardine Fleming, Merrill Lynch and Credit Suisse in Shanghai and Hong Kong. She also worked for Semiconductor Manufacturer International Corporation from 2003 to 2004 as Assistant Vice President of Finance. Ms. Chang received a Bachelor degree in Arts in English Literature from Fu-Jen Catholic University in Taiwan in 1986 and a Master of Business Administration degree from the George Washington University in Washington D.C. in the United States in 1988.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Non-executive Director

TSAI Pei Chun (蔡佩君) is a non-executive Director. Ms. Tsai is a cousin of Mr. TSAI David, Nai Fung. She joined Yue Yuen Group in December 2003 as a special assistant to the chairman of Pou Chen Corporation and is and will continue to be responsible for the financial planning and investments of Yue Yuen Group. She did not and will not participate in the day-to-day operations of the Group. Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science in Economics degree with a concentration in Finance and a College Minor in Psychology. She serves as a board director of Mega Financial Holding Company Limited (a company listed on the Taiwan Stock Exchange) and Yue Yuen.

Independent Non-executive Directors

CHEN Huan-Chung (陳煥鐘) was appointed as our independent non-executive Director in April 2008. Mr. Chen is an accountant of Wan Tung United Accounting Firm (萬通聯合會計師事務所), a certified public accountant of Taiwan and a certified securities investment analyst of Taiwan. Mr. Chen worked as a deputy manager in E.Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司副總經理). He became a certified public accountant of Taiwan in 1992 and a certified securities investment analyst of Taiwan in February 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in June 1983. Mr. Chen also serves as a board director of Global Brands Manufacture Ltd. (精成科技股份有限公司) (a company listed on the Taiwan Stock Exchange).

HU Sheng-Yih (胡勝益) was appointed as our independent non-executive Director in April 2008. Mr. Hu is an associate part-time professor at the College of Management, Shih Chien University, and an advisor of the Asia Pacific Telecom Group. He worked as the first deputy general manager of Mega International Commercial Bank, and an officer-in-charge of The International Commercial Bank of China (New York Branch) (中國國際商業銀行紐約分行). He received a Master degree in Economics from the Yale University in 1981, a Master and Doctoral degree in Laws from the Chinese Culture University in 1971 and 1977, respectively, and a Bachelor degree in Economics from the National Taiwan University in 1967. Mr. Hu also serves as a board director of Global Brands Manufacture Ltd. (精成科技股份有限公司) (a company listed on the Taiwan Stock Exchange).

MAK Kin Kwong (麥建光) was appointed as our independent non-executive Director in April 2008. Mr. Mak is the managing director of Venfund Investment, a boutique investment bank, which he co-founded in late 2001. Prior to 2001, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China. Mr. Mak serves as an independent non-executive director and the audit committee chairman of Trina Solar Limited (天合光能有限公司) (a company listed in the United States), China GrenTech Corp. Ltd. (國人通信股份有限公司) (a company listed in the United States), Dragon Pharmaceutical Inc. (凱龍藥業股份有限公司) (a company listed in the United States), China Security and Surveillance Technology, Inc. (a company listed in the United States), Gemdale Industries Ltd (金地集團股份有限公司) (a company listed on the Shenzhen Stock Exchange), Huabao International Holdings Ltd (華寶國際控股有限公司) (a company listed on the Stock Exchange) and China Dongxiang (Group) Co., Ltd. (中國動向集團有限公司) (a company listed on the Stock Exchange). Mr. Mak

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

is also a non-executive director of Bright World Precision Machinery Ltd. (沃得精機股份有限公司) (a company listed in the Republic of Singapore) and Vinda International Holdings Limited (維達國際控股有限公司) (a company listed on the Stock Exchange). He was previously an independent non-executive director of Shenzhen Victor Onward Textile Industrial Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Mak graduated from the Hong Kong Polytechnic University in 1985 and was admitted as a fellow member of the Association of Chartered Certified Accountants, United Kingdom and the Hong Kong Institute of Certified Public Accountants.

CHENG Ming Fun Paul (鄭明訓) was appointed as our independent non-executive director in April 2008. Mr. Cheng obtained a Bachelor of Arts degree from Lake Forest College (Illinois, United States) in 1958 and a Master's degree in Business Administration from the Wharton Graduate School of Business at the University of Pennsylvania U.S.A. in 1961. He has been an active corporate leader in Hong Kong and was formerly chairman of Inchcape Pacific Limited, N.M. Rothschild & Sons (Hong Kong) Limited, the American Chamber of Commerce in Hong Kong and the Hong Kong General Chamber of Commerce. Mr. Cheng is also a former chairman of The Link Management Limited, a listed company on the Stock Exchange which manages a portfolio of previously government-owned retail and car parking assets valued at over HK\$30 billion from 2005 to 2007. In politics, he was a member of the Hong Kong Legislative Council prior to 1998 and was a member of the preparatory committee appointed by the PRC government to prepare for the reunification of the sovereignty of Hong Kong with the PRC during 1994 to 1998. Mr. Cheng is a Justice of Peace and was decorated "Chevalier de l'ordre de la Couronne" by the King of Belgium in 1991. He was made an honorary citizen of Nanjing city in the PRC in September 1994 and was appointed an economic adviser to Nanjing. In 2001, he was inducted into the Beta Gamma Sigma chapter of the Hong Kong University of Science and Technology in recognition of his community service and, more recently, he was made an honorary fellow of both the Hong Kong University of Science and Technology and the Chinese University of Hong Kong for his contribution towards education and community service. At present, Mr. Cheng is an honorary steward of the Hong Kong Jockey Club. He serves as an independent non-executive director on the boards of Esprit Holdings Limited (a company listed on the Stock Exchange and engaged in the retail and wholesale distribution business of quality lifestyle products), Kingboard Chemical Holdings (a company listed on the Stock Exchange), Vietnam Infrastructure Limited (a company listed on the AIM of the London Stock Exchange) and Pacific Alliance China Land Limited (a company listed on the AIM of the London Stock Exchange).

SENIOR MANAGEMENT

The senior management members of our Company consist of LU Ning, KU Wen Hao, LEUNG Wing Chong, LIN Tien-Te and CHONG Yim Kuen. The following table sets forth certain information in respect of our senior management members:

| Name | Age | Position |
|----------------------------|-----|----------------------|
| LU Ning | 40 | General manager |
| KU Wen Hao | 40 | General manager |
| LEUNG Wing Chong | 36 | Financial controller |
| LIN Tien-Te | 50 | General Manager |
| CHONG Yim Kuen | 43 | Qualified accountant |

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

LU Ning (盧寧) is the general manager overseeing the retail operation of certain subsidiaries of the Group. Mr. Lu joined the Group in July 1997 as the national sale director of *Converse* brand in the PRC. In 2002, he acted as vice general manager of Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司), responsible for the development of retail business in northern China. Mr. Lu is and will continue to be responsible for the development and operation of the Group's retail business in the entire PRC. Mr. Lu has over ten years of experience in the retail and wholesale industry in the PRC. Before joining the Group, he worked for *Adidas* Asia Pacific Guangzhou office as an assistant production manager from 1992 to 1997. Mr. Lu graduated from Beijing Institute Of Clothing Technology (北京服裝學院) in 1989 with a Bachelor degree in Engineering and University of Nanjing in 1996 with a Bachelor degree in Economics.

KU Wen Hao (古文豪) is the general manager of Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司上海分公司). Mr. Ku is and will continue to be responsible for overseeing the Group's property leasing and management operations. Before joining us in December 2006, he worked as a senior officer in Taiwan Pou Chen Group (台灣寶成集團) and he also used to be the manager of Taiwan Times Lee Securities' Investment Banking Department (台灣倍利證券投資銀行部) and deputy manager of the Underwriting Department of Taiwan TIS Securities Ltd (台灣金鼎綜合證券投資銀行部). Mr. Ku received a Bachelor degree in Business from Chung Yuan Christian University in 1990.

LEUNG Wing Chong (梁穎莊) is our Group's financial controller. She has over ten years of accounting, auditing, retail and wholesale experience in the Greater China Region. Before joining us in April 2007, she worked for Baleno Group and an international CPA firm between 1994 to 2005. Ms. Leung obtained her Bachelor degree in Business Administration from the University of Hong Kong in 1995. She became a certified public accountant in Hong Kong in 1998 and a fellow member of the Association of Chartered Certified Accountants in United Kingdom in 2003.

LIN Tien-Te (林天德) is the general manager of Pau Yuen Trading Corporation (寶原興業股份有限公司) and Pau Zhi Trading Corporation (寶智企業股份有限公司). Mr. Lin is and will continue to be responsible for our brand licensee business. He joined the Group in 2000 as the vice general manager of Guangzhou Baoyuen Industrial & Trading Company Limited (廣州寶元工貿有限公司). He resigned in 2003 and rejoined us in June 2005. Before joining the Group, Mr. Lin gained extensive experience in product development and business operation of sportswear in Taiwan and the PRC. He obtained a Master degree in Business Administration from Yuan Ze University in 2000.

QUALIFIED ACCOUNTANT

Our qualified accountant for the purposes of Rule 3.24 of the Listing Rules is *Ms. CHONG Yim Kuen* (莊艷娟), FCCA, CPA, who is employed by our Group on a full-time basis. She joined Yue Yuen Group as an assistant accounting manager in March 1993 and joined the Group in March 2008. Ms. Chong obtained the Higher Certificate of Accountancy from the School of Accounting of The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) in 1994 before she completed and obtained her Master degree in Administration

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

(Accounting) from Jinan University the PRC in 2003. She became a certified public accountant in Hong Kong and a fellow member of The Chartered Association of Certified Accountants in the United Kingdom in 1995.

COMPANY SECRETARY

Our company secretary is *Mr. Ng Lok Ming, William* (吳樂茗), who is primarily responsible for the company secretarial matters and legal affairs of the Group. Before he joined the legal department of Yue Yuen Group in August 2007, Mr. Ng worked as a director of a computer company and the legal counsel of Hanison Construction Holdings Limited. He was appointed the company secretary and head of legal department of Yue Yuen in January 2008 and the company secretary of our Company in May 2008. Mr. Ng graduated from the University of Hong Kong with a Bachelor of Laws degree and a Postgraduate Certificate in Laws in 1995 and 1996, respectively. He later obtained a Master of Laws degree in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001.

AUDIT COMMITTEE

We have established an audit committee pursuant to a resolution of our Directors passed on May 14, 2008 in compliance with the Code of Corporate Governance Practice in Appendix 14 to the Listing Rules. The primary duty of the audit committee is to review the financial reporting process and internal control procedures of our Group. The audit committee consists of three Directors in total, including two INEDs, namely, MAK Kin Kwong, CHENG Ming Fun Paul and a non-executive Director, TSAI Pei Chun. MAK Kin Kwong is the chairman of the audit committee.

REMUNERATION COMMITTEE

We have established a remuneration committee pursuant to a resolution of our Directors passed on May 14, 2008 in compliance with the Code of Corporate Governance Practice in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee consists of three Directors in total, including one non-executive director and two INEDs, namely, KU Edward, Yu-Sun, CHEN Huan-Chung and HU Sheng-Yih. KU Edward, Yu-Sun is the chairman of the remuneration committee.

COMPLIANCE ADVISOR

We have appointed Taifook Capital Limited as our compliance advisor in compliance with Rule 3A.19 of the Listing Rules to provide advisory services to our Company pursuant to the requirements thereunder. Taifook Capital Limited has agreed, amongst other things, to provide advice to our Company with due care and skill on a timely basis when consulted by our Company in the following circumstances:

- before the publication by our Company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- where a transaction, which may be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

In addition, our compliance advisor will also provide, among others, the following services to our Company:

- if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in paragraphs (i) to (iv) above;
- in relation to an application by our Company for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise our Company on its obligations and in particular the requirement to appoint an independent financial advisor; and
- assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer and, to the extent the compliance advisor forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as training.

The term of the appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SAFETY CONTROL

In order to ensure that we provide our employees with a safe working environment, we have adopted certain management rules on production safety based on the safety laws and regulations of the PRC. It is mandatory for all of our employees to abide by these safety rules.

We provide safety education to our employees and have established safety standards in connection with matters such as purchasing, installing and operating new equipment, as well as for each stage of the manufacturing process. In addition, the production facilities in Taicang have established specific committees responsible for supervising the labor, hygiene and safety conditions in our production process, and monitoring compliance with statutory regulations and our established standards relating to production safety.

We believe our safety control measures are adequate and in compliance with applicable current local and national PRC regulations. As at the Latest Practicable Date, no administrative sanctions, penalties or punishments had been imposed upon us for the violation of any safety laws or regulations.

EMPLOYEES

As at December 31, 2007, we had approximately 20,000 employees. The following table sets forth the number of our employees by division:

| | |
|-----------------------------|----------------------|
| Sales associates | 9,102 |
| Factory workers | 7,422 |
| Back office staff | <u>3,563</u> |
| Total | <u>20,087</u> |

Welfare contributions

We confirm that we comply in all material respects with all statutory social insurance and housing accumulation fund obligations applicable to us under PRC laws. In accordance with applicable PRC laws and regulations on social insurance, we contribute to various social insurance plans such as pension contribution plans, medical insurance plans, work-related injury insurance plans and unemployment insurance plans for our employees in the PRC. With respect to our non-PRC employees, we also comply with all statutory insurance obligations applicable to us under the laws of the respective jurisdictions.

The amount of retirement benefit contributions we made for the financial years ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007 amounted to approximately US\$608,000, US\$651,000, US\$1,008,000 and US\$399,000, respectively. Such amounts are relatively small when compared to our total staff cost due to the following reasons:

- our staff cost includes employee wages, social insurance, housing fund, allowance, bonus and other benefit expenditure for staff, and the retirement benefit contribution payable by us is calculated merely based on employee wages;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- it is generally regulated that the retirement benefit contribution payable by a PRC enterprise should be around 20% of the average wages of all the urban employees of such enterprise. However, retirement benefit contribution should not be paid beyond a certain upper limit. For instance, in Beijing, the upper limit is three times the average monthly wages for all the urban employees in the previous year. As such, the retirement benefit contribution of an enterprise may be less than 20% of the wages of all of its employees; and
- some of our employees are non-Chinese residents and are therefore not subject to the retirement benefit plan.

Details of the retirement benefit plan are set out in Note 29 in the accountants' report set out in Appendix I to this prospectus.

Remuneration

We review the performance of our employees annually, the results of which are used in annual salary reviews and promotion appraisals. In order to remain competitive in the labor market, we also conduct research on the remuneration packages that are offered by other companies in the same industry.

As an additional incentive, we set sales targets for all of our self-managed retail outlets in each sales region. At the end of each month, retail outlets which attain or exceed the sales target level will be given a certain percentage of the total sales amount as commission. This commission is then divided amongst the store personnel in the respective retail outlets in accordance with the number of footwear or sportswear products that they individually sold, taking into consideration the unit selling prices of goods sold. We believe that rewarding our store personnel directly for their efforts serves as an incentive for them to improve their performance, thereby increasing our level of sales.

We reward our senior management with annual bonuses based on various performance criteria. As part of our remuneration policies for our senior management, we have in place two share-based remuneration schemes — the Share Option Scheme and the Pre-IPO Share Subscription Plan. These schemes are designed to provide incentives and rewards to our employees. Under the Share Option Scheme, eligible persons may be granted with options, the exercise of which will entitle the holder thereof to subscribe for our Shares at a price fixed on the date of grant. Under the Pre-IPO Share Subscription Plan, invitations are made to eligible persons inviting them to subscribe for our Shares at a price which represents a price which is at a discount of 30% to the final offer price of our Shares at Listing, subject to the fulfilment of certain vesting conditions. For further details on the principal terms of the Share Option Scheme and the Pre-IPO Share Subscription Plan, please refer to Appendix VIII to this prospectus. We believe that by offering our key employees a shareholding stake in our Company, we are aligning their interests with that of our Group's, thereby providing our key employees with additional incentives to improve the performance of our Group.

During each of the financial year ended September 30, 2005, 2006 and 2007 and the three months ended December 31, 2007, the total amount of emoluments (including salaries and other allowances, bonuses and contribution to retirement benefit scheme) paid to Directors were

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

approximately US\$340,000, US\$409,000, US\$600,000 and US\$134,000, respectively. Under our arrangement currently in force, the aggregate remuneration of our Directors for the financial year ending September 30, 2008 is estimated to be no more than US\$2.5 million.

The total amount of emoluments of Mr. LEE Chung Wen for the year ending September 30, 2008 is expected to be approximately US\$353,000 which does not represent a substantial increase in his total emoluments for the year ended September 30, 2007.

We consider our relationship with our employees to be good. We have not experienced any strikes, work stoppages or significant labor disputes in the past and have not experienced any significant difficulties in recruiting or retaining qualified staff.

COMPETING INTERESTS

Set out below are interests of our Directors in a business which may compete with our business for the purpose of Rule 8.10(2) of the Listing Rules as at the Latest Practicable Date.

| <u>Name of Director</u> | <u>Name of company</u> | <u>Nature of business</u> | <u>Nature of interest</u> |
|-------------------------|---------------------------|---|---------------------------|
| Mr. KU Edward, Yu-Sun | Symphony Holdings Limited | Manufacturing and sales of footwear products To a small extent, retail and wholesale business of apparel and footwear in the PRC | Directorship |

Symphony Holdings Limited is a company whose ordinary shares are listed on the main board of the Stock Exchange. According to public records available on the website of the Stock Exchange, Yue Yuen was interested in approximately 4.8% of the total issued share capital of Symphony. In addition, as at the Latest Practicable Date, Yue Yuen was also deemed to be interested in approximately 48.8% of the total issued share capital of Symphony through a jointly controlled entity in which Yue Yuen has 40% interest.

Whilst for the purpose of Rule 8.10(2) of the Listing Rules, Mr. KU Edward, Yu-Sun is regarded as having an interest in a potential competing business, the Symphony Group has been operating under separate and independent management. The directorship of Mr. KU Edward, Yu-Sun in Symphony is for the purpose of representing Yue Yuen's interest on the board level of Symphony.

At the Latest Practicable Date, our Directors did not have any interests in any business, which competes or may compete, directly or indirectly with the Group's business pursuant to Rule 8.10(2) of the Listing Rules save as described in this prospectus.

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

As far as the Directors are aware, immediately following completion of the Global Offering, the issuance of Shares to our Call Option JV's Partners and the Share Swap JV's partner and the Capitalization Issue, without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be taken by any person under the Global Offering and which would affect disclosure in this section, the following person (not being a Director or chief executive of the Company), will have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(a) *Interest in the Shares and underlying Shares*

| <u>Name of Shareholder</u> | <u>Nature of Interest</u> | <u>Number and class of securities⁽¹⁾</u> | <u>Approximate percentage of interest in our Company immediately after the Global Offering⁽²⁾</u> |
|---|---|---|--|
| Yue Yuen. | Interest of a controlled corporation ⁽³⁾ | 1,986,723,000 Shares (L) | 56.0% |
| | | 123,506,000 Shares (S) ⁽⁴⁾ | 3.5% |
| Pou Chen Corporation . . | Interest of a controlled corporation ⁽⁵⁾ | 1,986,723,000 Shares (L) | 56.0% |
| | | 123,506,000 Shares (S) ⁽⁴⁾ | 3.5% |
| Sitori Trading Limited . . | Interest of a controlled corporation | 366,945,000 Shares (L) ⁽⁶⁾ | 10.3% |
| Ms. Shih Ching I. | Interest of a controlled corporation | 366,945,000 Shares (L) ⁽⁶⁾ | 10.3% |
| Chiang Lin-Lin ⁽⁷⁾ | Spousal Interest | 277,976,000 Shares (L) | 7.8% |
| Sports Group ⁽⁸⁾ | Beneficial Interest | 277,976,000 Shares (L) | 7.8% |

(1) The letters "L" and "S" denote the person's long position and short position in such Shares, respectively.

(2) Assuming the over-allotment option is not exercised.

(3) These Shares are held by Major Focus. Major Focus is a wholly owned subsidiary of Yue Yuen.

(4) These Shares will be the subject of the stock borrowing agreement as explained in the section headed "Structure of the Global Offering — Stock Borrowing Arrangement" in this prospectus.

(5) Pou Chen Corporation is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus Holdings Limited, which in turn is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus Holdings Limited is wholly owned by Pou Chen Corporation and is interested in 46.15% of the issued share capital of Yue Yuen.

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

- (6) *These shares are held by Jollyard. Jollyard is wholly owned by Sitori Trading Limited, which is in turn wholly-owned by Ms. Shih Ching I.*
- (7) *These 277,976,000 Shares are held by Sports Group which is wholly-owned by Mr. Huang, our executive Director. Ms. Chiang Lin-Lin is a spouse of Mr. Huang and is therefore deemed to be interested in these Shares as Mr. Huang is also deemed to be interested in more than 5% of the issued share capital of the Company through Sports Group.*
- (8) *Sports Group is wholly-owned by Mr. Huang, our executive Director. Mr. Huang is therefore deemed to be interested in these 277,976,000 Shares.*

(b) *Substantial Shareholders of other members of the Group*

| <u>Name of entities or person holding 10% or more interest in a member of the Group</u> | <u>Nature of interest</u> | <u>Interest in relevant company</u> | <u>Name of the subsidiary</u> |
|---|---------------------------|-------------------------------------|--|
| Weifang Liwei Economic and Trading Company Limited (濰坊力威經貿有限公司) | Beneficial | 28% | Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) |
| Glorious Win Developments Limited | Beneficial | 10% | Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) |
| Qiu Xiao Jie (邱小杰) | Beneficial | 20% | Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) |
| Xu Feng (徐風) | Beneficial | 20% | Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) |
| Lu Shan (盧山) | Beneficial | 16% | Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) |
| Lu Li (盧力) | Beneficial | 16% | Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) |
| Parfeuri Investments Limited | Beneficial | 49% | Profit Concept Group Limited |

Save as disclosed herein, the Directors are not aware of any person who immediately following the Global Offering, the issuance of Shares to our Call Option JVs' partners and Share Swap JV's partner and the Capitalization Issue, will have an interest or a short position in the Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group and are therefore regarded as our substantial Shareholder under the Listing Rules.

SHARE CAPITAL

Immediately following completion of the Global Offering, the issuance of Shares to our Call Option JVs' partners and the Share Swap JV's partner and the Capitalization Issue, without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Subscription Plan, the Share Option Scheme or our exercise of call options to acquire further equity interests in the Call Option JVs, which may or may not happen in the future, the share capital of our Company would be as follows:

| | <u>Number of Shares</u> | <u>Value</u> (HK\$) |
|---|-------------------------|------------------------|
| Our authorized share capital | 30,000,000,000 | 300,000,000 |
| Shares in issue at the date of this prospectus | 100,000 | 1,000 |
| Shares to be issued pursuant to the Capitalization Issue | 2,631,544,000 | 26,315,440 |
| Shares to be issued pursuant to the Global Offering . . . | 823,378,000 | 8,233,780 |
| Shares to be issued to our Call Option JVs' partners and Share Swap JV's partner | <u>94,978,000</u> | <u>949,780</u> |
| Total | <u>3,550,000,000</u> | <u>35,500,000</u> |

RANKING

The Offer Shares will rank equally in all respects with all Shares in issue or to be issued as set forth in the above table, and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus except for the entitlement under the Capitalization Issue.

PRE-IPO SHARE SUBSCRIPTION PLAN

We have adopted the Pre-IPO Share Subscription Plan, whereby our employees and directors are invited to subscribe for new Shares in our Company at a subscription price which is at a discount of 30% to the final Offer Price to be determined on the Price Determination Date. The relevant subscription may be made after the end of the vesting period as specified in the relevant invitation letter. The maximum number of new Shares to be issued under the Pre-IPO Share Subscription Plan are 124,252,000 Shares, representing approximately 3.5% of the total issued share capital of our Company immediately after the Global Offering, the Capitalization Issue and issue of Shares to the Call Option JVs' partners and Share Swap JV's partner (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option). The Pre-IPO Share Subscription Plan will be terminated at the time of Listing.

A summary of the principal terms of the Pre-IPO Share Subscription Plan is summarized in Appendix VIII to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, whereby our employees and directors, among others, may be granted share options, being options to subscribe for Shares, restricted share options and/or restricted share units. Upon Listing, the total number of Shares available for issue or transfer in satisfaction of all share options which may be granted under the

SHARE CAPITAL

Share Option Scheme and any other schemes of our Company must not, in aggregate, exceed 355,000,000 Shares, representing 10% of the Shares in issue on the Listing Date (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option).

The principal terms of the Share Option Scheme are summarized in the sub-section headed “Statutory And General Information — E. Share-Based Remuneration Scheme” in Appendix VIII to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, the Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the share capital of our Company in issue following completion of the Global Offering, the issuance of Shares to the Call Option JVs’ partners and the Share Swap JV’s partner and the Capitalization Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option); and
- the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

The Directors may, in addition to Shares that are authorized to be issued under the mandate, allot, issue or deal in Shares under a rights issue, scrip dividend scheme or similar arrangement.

This mandate will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held; or
- the passing of an ordinary resolution by the Shareholders in a general meeting revoking or varying the authority given to the Directors.

For further details of this general mandate, please refer to the sub-section headed “Statutory and General Information — E. Share-Based Remuneration Scheme” in Appendix VIII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering, the issuance of Shares to our Call Option JVs’ partners and Share Swap JV’s partner and the Capitalization Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option).

SHARE CAPITAL

This mandate relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the subsection headed “Statutory And General Information — A. Further Information About Our Company — 6. Repurchase of the Company’s Own Securities” in Appendix VIII to this prospectus.

This mandate will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held; or
- the revocation or variation of this mandate by an ordinary resolution of the Shareholders in a general meeting.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

Merrill Lynch Far East Limited
Morgan Stanley Asia Limited

Co-Lead Manager

KGI Capital Asia Limited

Co-Managers

BNP Paribas Capital (Asia Pacific) Limited
Chinatrust Asia Limited
DBS Asia Capital Limited

INTERNATIONAL UNDERWRITERS

Merrill Lynch International
Morgan Stanley & Co. International plc

Co-Lead Managers

BNP Paribas Capital (Asia Pacific) Limited
Mega Capital (Asia) Company Limited

Co-Manager

DBS Asia Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on May 23, 2008. Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Offering Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for Termination

The obligation of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement is subject to termination by notice in writing from the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters) to our Company if any of the following events occurs prior to 8:00 a.m. on the Listing Date:

- (A) there has come to the notice of the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters) after the date of the Hong Kong Underwriting Agreement:
 - (1) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements, circular, offer awareness materials and summary disclosure materials in the agreed form issued by us and/or Yue Yuen in connection with the Hong Kong Public Offering or the Preferential Offering (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respects; or
 - (2) that any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (3) any breach on the part of the Company, Yue Yuen, Major Focus, Jollyard, Mr. Huang and Sports Group of any of the provisions under the Hong Kong Underwriting Agreement or the International Offering Agreement; or
 - (4) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Group pursuant to the indemnities given by the Company, Yue Yuen, Major Focus, Jollyard, Mr. Huang and Sports Group under the Hong Kong Underwriting Agreement; or
 - (5) any material adverse change or prospective material adverse change in the business, results of operations, in the financial or trading position or prospects of the Group as a whole; or
 - (6) any matter or event showing any of the warranties given by the Company, Yue Yuen, Major Focus, Jollyard, Mr. Huang and Sports Group under the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or likely to be, in the sole opinion of the Joint Sponsors, material in the context of the Global Offering when given or repeated; or
 - (7) that a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable prior to its stated maturity, which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or
 - (8) that a petition is presented for the winding-up or liquidation of the Company or any of the subsidiaries or the Company or any of our subsidiaries makes any composition or arrangement with its creditors or enters into a scheme of

UNDERWRITING

arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries, which in the sole opinion of the Joint Sponsors, may or is likely to be material in the context of the Global Offering provided that the Joint Sponsors shall, to the extent practicable, seek to consult with our Company on the effect of any such development; or

(B) there shall develop, occur, exist or come into force:

- (1) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing any change or development involving a prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction; or
- (2) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction; or
- (3) any event or series of events in the nature of *force majeure* (including, without limitation, any act of God, riot, public disorder, civil commotion, economic sanctions, government, fire, explosion, flood, war, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out) in or affecting Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction; or
- (4) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or wide-spread epidemic or political or social crisis in or affecting Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction; or
- (5) (A) any suspension or limitation or trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange or the Tokyo Stock Exchange, or a disruption has occurred in securities settlement or clearance services or procedures in Bermuda, Hong Kong, the United States, the PRC, any

UNDERWRITING

members of the European Union, Japan or any other relevant jurisdiction; or (B) any general moratorium on commercial banking activities in New York, London, Hong Kong, Japan or the PRC declared by the relevant authorities, or material disruption in commercial banking activities or affecting Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction; or

- (6) any change or prospective change in the condition (financial or otherwise), or in the earnings, business affairs, business prospects or trading position of our Company or any of our subsidiaries, including any litigation or claim of any third party being threatened or instigated against our Company or any of our subsidiaries; or
- (7) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (8) any change or development involving a prospective change in taxation, exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in Bermuda, Hong Kong, the PRC, the United States, any members of the European Union, Japan or any other relevant jurisdiction adversely affecting an investment in the Shares;

and which, in any such case and in the sole opinion of the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or may be or is likely to be materially adverse to the business, financial or trading position or other condition or prospectus of our Company or the Group as a whole; or
- (B) has or may have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering, the Preferential Offering or the Global Offering to be performed or implemented as envisaged; or
- (C) makes or may make or is likely to make it inadvisable, inexpedient or impracticable to proceed with the Hong Kong Public Offering and/or, the Preferential Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus,

then the Joint Sponsors may, in their sole and absolute discretion and upon giving written notice to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

UNDERWRITING

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the date on which our securities first commence dealing on the Stock Exchange (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Capitalization Issue and the arrangements with our Call Option JVs' partners and Share Swap JV's partner as disclosed in this prospectus, the Global Offering (including the exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme and Shares to be issued under the Pre-IPO Share Subscription Plan) or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

(B) Undertakings by the controlling shareholder

Pursuant to Rule 10.07 of the Listing Rules, each of Yue Yuen and Major Focus, our controlling shareholder, has undertaken to the Stock Exchange that save as disclosed in this prospectus and except pursuant to the Global Offering (including the Over-allotment Option), it will not and shall procure that the relevant registered holder(s) will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (1) in the period commencing on the date by reference to which disclosure of its shareholding is made in the prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which it is shown by this prospectus to be the beneficial owner; and
- (2) in the period of six months commencing on the date on which the period referred to in paragraph (1) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (1) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be the Company's controlling shareholder for the purposes of the Listing Rules.

UNDERWRITING

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of Yue Yuen and Major Focus has further undertaken to us and the Stock Exchange that within the period commencing on the date by reference to which disclosure of its shareholding is made in the prospectus to be issued by our Company and ending on the date which is 12 months from the date on which dealings in the securities of our Company commence on the Stock Exchange, it shall:

- (1) when it pledges or charges any securities of our Company beneficially owned by it in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when it receives indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our controlling shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of our controlling shareholders.

Undertakings pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

Our Company has undertaken to the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement that at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “First Six-month Period”), our Company will not without the prior written consent of the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (1) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of our share capital or other securities of our Company or any interest therein (including, but not limited to, any securities convertible into, exercisable or exchangeable for, or that represent the right to receive any such share capital or securities or any interest therein), or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Capitalization Issue, the Global Offering (including pursuant to exercise of the Over-Allotment Option), the agreements with our Call

UNDERWRITING

Option JVs' partners and Share Swap JV's partner as disclosed in this prospectus, and the Shares to be granted under the Pre-IPO Share Subscription Plan and the options to be granted under the Share Option Scheme, and our Company further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the First Six-month Period, our Company will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for our Shares.

(B) Undertakings by the controlling shareholder

Pursuant to the Hong Kong Underwriting Agreement, each of Yue Yuen and Major Focus, our controlling shareholders (as defined in the Listing Rules), undertakes to each of our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that save as disclosed in this prospectus and except pursuant to the stock borrowing agreement, it will not without the prior written consent of the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (1) at any time during the First Six-month Period, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so;
- (2) at any time during the period of six months commencing on the date on which the First Six-month Period expires (the "Second Six-month Period"), offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to, any securities that are convertible into, exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as at the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or

UNDERWRITING

announce any intention to do so if, immediately following such transaction, it would cease to be the controlling shareholder (as defined in the Listing Rules) of our Company; and

- (3) in the event of a disposal by it of any share capital or any interest therein during the Second Six-month Period, it will take all reasonable steps to ensure ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company.

(C) Undertaking by Mr. Huang, Sports Group and Jollyard

Pursuant to the Hong Kong Underwriting Agreement, each of Mr. Huang, Sports Group and Jollyard undertakes to each of our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that save as disclosed in this prospectus, it will not without the prior written consent of the Joint Sponsors (for themselves and on behalf of the Hong Kong Underwriters) at any time during the First Six-month Period, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

Indemnity

Our Company, Yue Yuen, Major Focus, Mr. Huang, Jollyard and Sports Group have agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in our Company

Save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

International Offering

International Offering Agreement

In connection with the International Offering, our Company expects to enter into the International Offering Agreement with, among others, the International Underwriters and the Joint Bookrunners. Under the International Offering Agreement, the International Underwriters would, subject to certain conditions set out therein, agree severally to purchase the International Offer Shares or procure purchases for the International Offer Shares being offered pursuant to the International Offering.

The International Offering Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Offering Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Offering Agreement, our Company will give undertakings similar to those being given pursuant to the Hong Kong Underwriting Agreement as described in the sub-section headed “— Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” above.

Under the International Offering Agreement, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Bookrunners on behalf of the International Underwriters at any time from the date of the International Offering Agreement until 30 days from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 123,506,000 additional Shares, representing in aggregate not more than 15% of the number of Offer Shares initially available under the Global Offering. These additional Shares will be issued at the Offer Price and used to cover over-allocation, if any, in the International Offering.

It is expected that our controlling shareholder, Yue Yuen, will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement, which is described in the sub-section headed “— Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings” above.

We and Yue Yuen will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the US Securities Act.

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive an aggregate underwriting and selling commission of 2.5% on the aggregate Offer Price payable for the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commissions. The International Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the International Offer Shares (including any Shares to be issued or sold pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commission. In addition, pursuant to the Hong Kong Underwriting Agreement, we may, in our sole discretion, pay to the Joint Sponsors (for their respective accounts only) an additional incentive fee of up to 0.5% of the Offer Price multiplied

UNDERWRITING

by the total number of Offer Shares and shall inform the Joint Sponsors in writing prior to or at the pricing of the Offer Shares whether we intend to do so. The commission payable to the Underwriters, the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering are currently estimated to be about HK\$182.4 million in aggregate (based on an Offer Price of HK\$3.34 per Share, being the midpoint of the stated range of the Offer Price between HK\$2.93 and HK\$3.75 per Share, and on the assumption that the Over-allotment Option is not exercised) and are to be borne by our Company.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Bookrunners and the relevant International Underwriters (but not the Hong Kong Underwriters).

Joint Sponsors' independence

The listing of our Shares on the Main Board is sponsored by Merrill Lynch Far East Limited and Morgan Stanley Asia Limited.

Morgan Stanley Asia Limited has declared its independence from us pursuant to Rule 3A.08 of the Listing Rules that they are independent pursuant to Rule 3A.07 of the Listing Rules.

Merrill Lynch Far East Limited has been the financial advisor of Yue Yuen in relation to its proposed spin-off and separate Listing of our Company on the Main Board. Accordingly, Merrill Lynch Far East Limited is not considered independent pursuant to Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the Hong Kong Public Offering and the International Offering (which includes the Preferential Offering). We will initially make available 823,378,000 Offer Shares under the Global Offering. Of the Offer Shares made available by us under the Global Offering, 741,040,000 Shares will initially be conditionally placed pursuant to the International Offering (and of which up to 41,591,000 Shares will be offered to Qualifying Yue Yuen Shareholders under the Preferential Offering) and the remaining 82,338,000 Shares will initially be offered to the public in Hong Kong under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below), respectively. The Shares included in the International Offering will be conditionally placed pursuant to the International Offering with professional, institutional, corporate and other investors whom we anticipate to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S, and in the United States with Qualified Institutional Buyers in reliance on Rule 144A.

The Hong Kong Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters in each case on a several basis, each being subject to the conditions set out in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus. The Hong Kong Underwriting Agreement was entered into on Friday, May 23, 2008, and, subject to an agreement on the Offer Price between us and the Joint Bookrunners (on behalf of the Underwriters), the International Offering Agreement is expected to be entered into on or about the Price Determination Date. The Hong Kong Underwriting Agreement and the International Offering Agreement are expected to be inter-conditional upon each other.

Investors may apply for the Shares under the Hong Kong Public Offering or indicate an interest for the Shares under the International Offering, but may not do both (except those eligible to apply for the Reserved Shares in the Preferential Offering may also apply for the Hong Kong Offer Shares under the Hong Kong Public Offering, if eligible). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve selective marketing of the Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, but to cease on or before, Friday, May 30, 2008. The Preferential Offering is open only to Qualifying Yue Yuen Shareholders.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Offer Price Range

The Offer Price will not be more than HK\$3.75 per Offer Share and is expected to be not less than HK\$2.93 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price Payable on Application

Applicants for the Hong Kong Offer Shares under the Hong Kong Public Offering and the Reserved Shares under the Preferential Offering are required to pay, on application, the maximum Offer Price of HK\$3.75 for each Offer Share plus 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fees amounting to a total of HK\$3,787.84 per board lot of 1,000 Shares.

If the Offer Price, as finally determined in the manner described below, is less than HK\$3.75 per Share, being the maximum Offer Price, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fees attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus.

Determining the Offer Price

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares has been determined. The Price Determination Date is expected to be on or before Friday, May 30, 2008 and, in any event, no later than Wednesday, June 4, 2008.

The Offer Price will be not more than HK\$3.75 and is currently expected to be not less than HK\$2.93. The Offer Price is expected to fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering. The Joint Bookrunners (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, corporate and other investors during the book-building process, and with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering.

In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering, cause

STRUCTURE OF THE GLOBAL OFFERING

there to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners with us, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction.

If applications for Hong Kong Offer Shares and the Reserved Shares have been submitted prior to the day which is the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering, then even if the number of Offer Shares and/or the Offer Price range is so reduced, such applications cannot subsequently be withdrawn.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering, the number of Hong Kong Offer Shares and Preferential Shares and/or the Offer Price, if agreed upon by the Joint Bookrunners with us, will under no circumstances be fewer than the number of Offer Shares or be set outside the Offer Price range as stated in this prospectus.

If the Joint Bookrunners (on behalf of the Underwriters) and us are unable to reach agreement on the Offer Price, the Global Offering will not become unconditional and will lapse.

An announcement of the Offer Price and the results of application and basis of allotment of the Hong Kong Offer Shares and the Preferential Shares are expected to be published on or before Thursday, June 5, 2008.

Before submitting applications for Hong Kong Offer Shares and the Reserved Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering. Applicants under the Hong Kong Public Offering and the Preferential Offering should note that in no circumstances can applications be withdrawn once submitted, even if the indicative Offer Price range and/or number of Offer Shares is so reduced.

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Allocation of the Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors, including but not limited to, the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in

STRUCTURE OF THE GLOBAL OFFERING

the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Offer Price and Basis of Allocations

The Offer Price, the level of indications of interest in the International Offering, the results of applications under the Hong Kong Public Offering and the Preferential Offering and the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares are expected to be announced on or before Thursday, June 5, 2008 in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), on our website (www.pousheng.com) (in English and Chinese) and on the Stock Exchange's website (www.hkex.com.hk). You should note that our website, and all information contained in our website, does not form part of this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING AND THE PREFERENTIAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering and the Preferential Offering will be conditional on:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Shares in issue, the Shares to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued to our Call Option JVs' partners and Share Swap JV's partner, the Shares to be issued pursuant to the Capitalization Issue, the Shares which may fall to be issued on the exercise of the options which may be granted under the Share Option Scheme and Shares to be issued under the Pre-IPO Share Subscription Plan, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- the Offer Price having been duly agreed upon between the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and us and the delivery of the price determination agreement on or around the Price Determination Date;
- the execution and delivery of the International Offering Agreement on or around the Price Determination Date; and

STRUCTURE OF THE GLOBAL OFFERING

- the obligations of the Underwriters under both the Hong Kong Underwriting Agreement and the International Offering Agreement having become and remained unconditional and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the respective agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering (including the Preferential Offering) is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. An announcement of the lapse of the Hong Kong Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance.

Share certificates for the Offer Shares are expected to be issued on Thursday, June 5, 2008, but will only become valid certificates of title at 8:00 a.m. on Friday, June 6, 2008, provided that (i) the Global Offering have become unconditional in all respects and (ii) the right of termination as described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

We are initially offering 82,338,000 Offer Shares at the Offer Price, representing approximately 10% of the 823,378,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of HK\$5 million or less; and

STRUCTURE OF THE GLOBAL OFFERING

- Pool B: The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of more than HK\$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares may be transferred to the other pool to satisfy demand in the other pool and be allocated accordingly.

Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 41,169,000 Hong Kong Offer Shares, being 50% of the initial number of Hong Kong Offer Shares being made available for public subscription, will be rejected.

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels have been reached. In the event of over-applications, a clawback mechanism following the closing of the application lists shall be applied and the allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering shall be subject to adjustment on the following basis:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 247,014,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 329,352,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 411,690,000 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

In each such case, the additional Offer Shares allocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be reduced correspondingly.

If the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners shall have the discretion (but not be under any obligation) to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Bookrunners deem appropriate.

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

Our Company, the Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE PREFERENTIAL OFFERING

In order to enable shareholders of Yue Yuen to participate in the Global Offering on a preferential basis as to allocation only, Qualifying Yue Yuen Shareholders are being invited to apply for an aggregate of up to 41,591,000 Reserved Shares (representing approximately 5.1% of the Offer Shares initially available under the Global Offering and approximately 1.2% of the enlarged issued share capital of our Company upon completion of the Global Offering and assuming the Over-allotment Option is not exercised) in the Preferential Offering on the basis of an Assured Entitlement of one Reserved Share for every whole multiple of 40 Yue Yuen Shares held by them as at 5:00 p.m. on the Record Date. Fractional Shareholders will not be entitled to apply for any Reserved Share. The Reserved Shares are being offered out of the Offer Shares being offered under the International Offering and are not subject to the clawback mechanism as described in the sub-section headed “— The Hong Kong Public Offering” above.

The Assured Entitlements may represent Shares which are not in a multiple of a full board lot of 1,000 Shares. Dealings in odd lots of Shares may be at or below their prevailing market price.

STRUCTURE OF THE GLOBAL OFFERING

A **BLUE** Application Form is being dispatched to each Qualifying Yue Yuen Shareholder together with an electronic copy of this prospectus on CD-ROM. Qualifying Yue Yuen Shareholders are permitted to apply for a number of Reserved Shares which is equal to or less than their Assured Entitlements under the Preferential Offering. A valid application in respect of a number of Reserved Shares equal to or less than a Qualifying Yue Yuen Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions set forth in the **BLUE** Application Forms. If an application is made for a number of Reserved Shares greater than the Assured Entitlement of a Qualifying Yue Yuen Shareholder, the Assured Entitlement will be satisfied in full but the excess proportion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Shares less than the Assured Entitlement of a Qualifying Yue Yuen Shareholder, the applicant is **recommended** to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Shares; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant. The Joint Bookrunners, on behalf of the Underwriters, will allocate any Assured Entitlements not taken up by Qualifying Yue Yuen Shareholders to the International Offering.

In addition to any application for the Reserved Shares on a **BLUE** Application Form, Qualifying Yue Yuen Shareholders will be entitled to make one application for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider via the **White Form eIPO** service. Qualifying Yue Yuen Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** Service Provider under the Hong Kong Public Offering.

Assured Entitlements of Qualifying Yue Yuen Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. The Joint Bookrunners have the authority to reallocate all or any of the Reserved Shares not taken up by the Qualifying Yue Yuen Shareholders to the International Offering.

The procedures for application under, and the terms and conditions of, the Preferential Offering are set forth in the sections headed "How to Apply for Hong Kong Offer Shares and Reserved Shares" and "Further Terms and Conditions of Hong Kong Public Offering and Preferential Offering" in this prospectus and on the **BLUE** Application Form.

The documents to be issued in connection with the Hong Kong Public Offering and the Preferential Offering (comprising this prospectus and the Application Forms) will not be registered under any applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no Reserved Share is being offered to Overseas Yue Yuen Shareholders

STRUCTURE OF THE GLOBAL OFFERING

under the Preferential Offering and no BLUE Application Form will be sent to such persons. Applications on BLUE Application Forms will not be accepted from Overseas Yue Yuen Shareholders or persons who are acting for the benefit of Overseas Yue Yuen Shareholders.

THE INTERNATIONAL OFFERING

Our Company is initially offering 741,040,000 Offer Shares pursuant to the International Offering, representing approximately 90% of the Offer Shares under the Global Offering and approximately 20.9% of our enlarged issued share capital immediately after completion of the Global Offering, the issuance of Shares to our Call Option JVs' partners and Share Swap JV's partner and the Capitalization Issue assuming the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed by the International Underwriters or through selling agents appointed by them. Shares will be placed with certain professional, institutional, corporate and other investors anticipated to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S, and in the United States with Qualified Institutional Buyers in reliance on Rule 144A. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

The Reserved Shares being offered pursuant to the Preferential Offering are being offered out of the International Offer Shares (see the sub-section headed “— The Preferential Offering” above).

OVER-ALLOTMENT OPTION AND STABILIZATION

Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Bookrunners on behalf of the International Underwriters from the Listing Date until 30 days after the date of closing of the application lists for the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 123,506,000 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, a press announcement will be made.

The 823,378,000 Shares initially being offered in the Global Offering will represent approximately 23.2% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the number of Shares being offered in the Global Offering will increase to 946,884,000 Shares, representing approximately 25.8% of our enlarged share capital immediately after the completion of the Global Offering and the exercise of the Over-allotment Option.

STRUCTURE OF THE GLOBAL OFFERING

Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the public offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the International Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which may otherwise prevail for a limited period after the commencement of trading in the Shares on the Stock Exchange. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-Allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on June 28, 2008, being the 30th day after the date of closing of the application lists

STRUCTURE OF THE GLOBAL OFFERING

under the Hong Kong Public Offering and the Preferential Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Joint Bookrunners, each of their affiliates or any person acting for them may cover such over-allocation by, among other methods, exercising the Over-Allotment Option in full or in part, or through the stock borrowing arrangements (the details of which are explained in the sub-section headed “—Stock Borrowing Arrangement” below) or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold upon exercise of the Over-Allotment Option, being 123,506,000 Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allotments in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 123,506,000 Shares from Major Focus pursuant to a stock borrowing agreement which may be entered into on or about the Price Determination Date between the Stabilizing Manager or any of its affiliates with Major Focus, or acquire Shares from other sources, including exercising the Over-Allotment Option. All stock borrowing arrangements will comply with the requirements set out in Rule 10.07(3) of the Listing Rules.

THE SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

STRUCTURE OF THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering and the Preferential Offering become unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 6, 2008, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, June 6, 2008. The Shares will be traded in board lots of 1,000 Shares each.

I. HOW TO APPLY FOR HONG KONG OFFER SHARES

1. Who can apply for the Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you, or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not inside the United States (as defined in Regulation S under the US Securities Act of 1933, as amended) when completing and submitting the Application Form and are not either (a) a person described in paragraph (h)(3) of Rule 902 of Regulation S under the US Securities Act 1933, as amended or (b) a QIB; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO** service.

If the applicant is a firm, the application must be in the names of the individual members, not in the name of the firm. If the applicant is a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Company, the Joint Sponsors, the Hong Kong Underwriters (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Sponsors or the **White Form eIPO** Service Provider (where applicable) in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering).

2. Methods of applying for the Hong Kong Offer Shares

There are four ways to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the Shares issued in your own name;
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk if you want the Shares issued in your own name;
- You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

3. Where to collect the prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus from:

Any of the following addresses of the Hong Kong Underwriters:

MERRILL LYNCH FAR EAST LIMITED

15th Floor, Citibank Tower
3 Garden Road
Central
Hong Kong

MORGAN STANLEY ASIA LIMITED

30th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

or any of the following branches of The Hongkong and Shanghai Banking Corporation Limited:

| District | Branch Name | Branch Address |
|------------------|-----------------------------------|--|
| Hong Kong Island | Hong Kong Office Cityplaza Branch | 1 Queen's Road Central, Hong Kong Unit 065, Cityplaza I, Taikoo Shing, Hong Kong |
| | North Point Branch | G/F, Winner House, 306-316 King's Road, North Point, Hong Kong |
| | Des Voeux Road Central Branch | China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong |
| | Hopewell Centre Branch | Shop No. 1-2, G/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong |
| Kowloon | Telford Gardens Branch | Shop Unit P16, Block G, Telford Plaza I, Kowloon Bay, Kowloon |
| | Kowloon City Branch | 1/F, 18 Fuk Lo Tsun Road, Kowloon City, Kowloon |
| | Pioneer Centre Branch | Shop 115, 1/F, Pioneer Centre, 750 Nathan Road, Kowloon |
| | Tsim Sha Tsui Branch | 82-84 Nathan Road, Tsim Sha Tsui, Kowloon |
| | Whampoa Garden Branch | Shop No. G6 & 6A, G/F, Site 4, Whampoa Garden, Kowloon |

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

| District | Branch Name | Branch Address |
|------------------|-----------------------------------|---|
| Hong Kong Island | Queen's Road Central Branch | 122-126 Queen's Road Central, Central, Hong Kong |
| | Hennessy Road Branch | Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay, Hong Kong |
| | Sheung Wan Branch | Shop F, G/F., Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan, Hong Kong |
| Kowloon | Kwun Tong Branch | G/F., Lemmi Centre, 50 Hoi Yuen Road, Kwun Tong, Kowloon |
| | Mei Foo Branch | Shop N95A, 1/F., Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon |
| | Tsimshatsui East Branch | Shop B, G/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon |
| New Territories | Tseung Kwan O Branch | Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O, New Territories |
| | Tsuen Wan Castle Peak Road Branch | G/F., 423-427 Castle Peak Road, Tsuen Wan, New Territories |

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

| District | Branch Name | Branch Address |
|------------------|-----------------------|---|
| Hong Kong Island | Central Branch | Shop No. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central, Hong Kong |
| | Hennessy Road Branch | 399 Hennessy Road, Wanchai, Hong Kong |
| Kowloon | Kwun Tong Branch | 1A Yue Man Square, Kwun Tong, Kowloon |
| | Mongkok Branch | Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok, Kowloon |
| | Cheung Sha Wan Branch | 828 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon |
| New Territories | Shatin Centre Branch | Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin, New Territories |
| | Metroplaza Branch | Shop No. 186-188, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories |
| | Yuen Long Branch | 140, Yuen Long Main Road, Yuen Long, New Territories |

Prospectuses and Application Forms will be available for collection at the above places during the following times:

| | | |
|--------------------------------|----------|---------------------------------|
| Monday, May 26, 2008 | — | 9:00 a.m. to 4:30 p.m. |
| Tuesday, May 27, 2008 | — | 9:00 a.m. to 4:30 p.m. |
| Wednesday, May 28, 2008 | — | 9:00 a.m. to 4:30 p.m. |
| Thursday, May 29, 2008 | — | 9:00 a.m. to 12:00 noon. |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, May 26, 2008 until 12:00 noon on Thursday, May 29, 2008, from the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have Application Forms and this prospectus available.

4. How to apply by using a WHITE or YELLOW Application Form

- (a) Obtain an Application Form as described in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above.
- (b) Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the collection boxes by the time and at one of the locations as described in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (a) Applications on **WHITE** or **YELLOW** Application Forms” below.

In order for an application made on a **YELLOW** Application Form to be valid:

- (i) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (ii) If you are applying as an individual CCASS Investor Participant:
 - the Application Form must contain your name and Hong Kong identity card number; and
 - your participant I.D. must be inserted in the appropriate box in the Application Form.
- (iii) If you are applying as a joint individual CCASS Investor Participant:
 - the Application Form must contain names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - your participant I.D. must be inserted in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

(iv) If you are applying as a corporate CCASS Investor Participant:

- the Application Form must contain the company's name and its Hong Kong business registration number; and
- your participant I.D. and your company chop (bearing your company's name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

5. How to apply through the White Form eIPO service

- (a) If you are an individual and meet the criteria set out in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 1. Who can apply for the Hong Kong Offer Shares” above, you may apply through the **White Form eIPO** service by submitting an **electronic application instruction** through the designated website at www.eipo.com.hk. If you apply through the **White Form eIPO** service, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the **White Form eIPO** Service Provider and may not be submitted to our company.
- (c) In addition to the terms and conditions set out in this prospectus, the **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the **White Form eIPO** Service Provider to transfer the details of your application to our Company and its branch share registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

- (f) You should give **electronic application instructions** through the **White Form eIPO** service at the times set out in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (b) **White Form eIPO**” below.
- (g) You should make payment for your application made by the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, May 29, 2008, or such later time as described under the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**
- (h) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. **Our Company, the Directors, the Joint Sponsors and the Underwriters take no responsibility for any such applications and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last minute for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 8. How many applications may be made” below.

6. How to apply by giving electronic application instructions to HKSCC

(a) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS phone system by calling 2979 7888 or through the CCASS internet system (ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

2/F Vicwood Plaza
199 Des Voeux Road
Central
Hong Kong

and complete an input request form.

Prospectuses will be available for collection at the above address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Joint Sponsors and our registrars.

(b) Minimum Subscription Amount and Permitted Multiples

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

(c) Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Sponsors and the Underwriters take no responsibility for any such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS phone system or the CCASS internet system, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS phone system or the CCASS internet system to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, May 29, 2008, or such later time as described under the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

7. When may applications be made

(a) Applications on WHITE or YELLOW Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above at the following times:

| | |
|--------------------------------|---------------------------------|
| Monday, May 26, 2008 | — 9:00 a.m. — 4:30 p.m. |
| Tuesday, May 27, 2008 | — 9:00 a.m. — 4:30 p.m. |
| Wednesday, May 28, 2008 | — 9:00 a.m. — 4:30 p.m. |
| Thursday, May 29, 2008 | — 9:00 a.m. — 12:00 noon |

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Thursday, May 29, 2008, or, if the application lists are not open on that day, then by the time and date stated in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

(b) White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Monday, May 26, 2008, until 11:30 a.m. on Thursday, May 29, 2008, or such later time as described under the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, May 29, 2008, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) *Electronic Application Instructions to HKSCC via CCASS*

CCASS Clearing or Custodian Participants should input **electronic application instructions** at the following times on the following dates:

| | | |
|--------------------------------|----------|---|
| Monday, May 26, 2008 | — | 9:00 a.m. — 8:30 p.m.⁽¹⁾ |
| Tuesday, May 27, 2008 | — | 8:00 a.m. — 8:30 p.m.⁽¹⁾ |
| Wednesday, May 28, 2008 | — | 8:00 a.m. — 8:30 p.m.⁽¹⁾ |
| Thursday, May 29, 2008 | — | 8:00 a.m.⁽¹⁾ — 12:00 noon |

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, May 26, 2008, until 12:00 noon on Thursday, May 29, 2008 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on Thursday, May 29, 2008, the last application day, or if the application lists are not open on that day, by the time and date stated in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

(d) *Application Lists*

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, May 29, 2008, except as provided in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 7. When may applications be made — (e) Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(e) *Effect of Bad Weather Conditions on the Opening of the application lists*

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing or Custodian Participants.

- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, May 29, 2008. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those signals in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. For this purpose, “business day” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

8. How many applications may be made

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

If you are a Qualifying Yue Yuen Shareholder applying for Reserved Shares under the Preferential Offering on a **BLUE** Application Form, as beneficial owner, you may also make one application for Hong Kong Offer Shares either on a **WHITE** or **YELLOW** Application Form or electronically through CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or submit an application through the **White Form eIPO** Service Provider www.eipo.com.hk. However, in respect of any application for Hong Kong Offer Shares using the above-mentioned methods, you will not enjoy any preferential treatment accorded to you under the Preferential Offering as described in the sub-section headed “Structure of the Global Offering — The Preferential Offering” in this prospectus.

Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **White Form eIPO** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** through the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving more than one **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means (other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Yue Yuen Shareholder), all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit (other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Yue Yuen Shareholder), the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

For further information, you should read the sub-section headed “Further Terms and Conditions of Hong Kong Public Offering and the Preferential Offering — 5. Multiple Applications” in this prospectus.

II. HOW TO APPLY FOR RESERVED SHARES

1. Who can apply for the Reserved Shares

Qualifying Yue Yuen Shareholders are entitled to apply on the basis of an Assured Entitlement of one Reserved Share for every integral multiple of 40 Yue Yuen Shares held by them as at 5:00 p.m. on the Record Date.

You may apply for the Reserved Shares if you, or any person(s) for whose benefit you are applying, are a Qualifying Yue Yuen Shareholder, are an individual and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not inside the United States (as defined in Regulation S under the US Securities Act of 1933, as amended when completing and submitting the Application Form and are not either (a) a person described in paragraph (h)(3) of Rule 902 of Regulation S under the US Securities Act 1933, as amended or (b) a QIB); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

If the applicant is a firm, the application must be in the names of the individual members, not in the name of the firm. If the applicant is a body corporate, the application must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Sponsors (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

The Reserved Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

2. Method of applying for the Reserved Shares

An application for Reserved Shares under the Preferential Offering may only be made by Qualifying Yue Yuen Shareholders using a **BLUE** Application Form which is being dispatched to Qualifying Yue Yuen Shareholders by our Company. Using the **BLUE** Application Form, Qualifying Yue Yuen Shareholders may apply on an assured basis for a number of Reserved Shares less than or equal to their Assured Entitlement, which will be specified on their individual **BLUE** Application Form.

A valid application for a number of Reserved Shares equal to or less than a Qualifying Yue Yuen Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions set forth on the **BLUE** Application Form assuming that the conditions of the Preferential Offering are satisfied. If an application is made for a number of Reserved Shares greater than the Assured Entitlement of a Qualifying Yue Yuen Shareholder, the Assured Entitlement will be satisfied in full but the excess proportion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Shares less than the Assured Entitlement of a Qualifying Yue Yuen Shareholder, the applicant is **recommended** to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Shares; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant. The Joint Bookrunners, on behalf of the Underwriters, will allocate any Assured Entitlements not taken up by Qualifying Yue Yuen Shareholders to the International Offering.

Qualifying Yue Yuen Shareholders who have applied for Reserved Shares under the Preferential Offering on a **BLUE** Application Form, as beneficial owner, may also make one application either on a **WHITE** or **YELLOW** Application Form, or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or through the **White Form eIPO** service for the Hong Kong Offer Shares in the Hong Kong Public Offering. However, Qualifying Yue Yuen Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** Service Provider under the Hong Kong Public Offering.

3. Dispatch of the prospectus and BLUE Application Forms

A **BLUE** Application Form, together with an electronic copy of this prospectus on CD-ROM, are being dispatched to you by our Company if you are a Qualifying Yue Yuen Shareholder with an Assured Entitlement to your address recorded on Yue Yuen's register of members as at 5:00 p.m. on the Record Date. Persons who held their Yue Yuen Shares as at 5:00 p.m. on the Record Date in CCASS indirectly through a broker or custodian, and wish to participate in the Preferential Offering, should instruct the broker or custodian to apply for the Reserved Shares on their behalf no later than the deadline set by HKSCC or HKSCC Nominees. In order to meet the deadline set by HKSCC, such persons should check with their broker/custodian for the timing on the processing of their instructions, and submit their instructions to their broker/custodian as required by them. Persons who held their Yue Yuen Shares as at 5:00 p.m. on the Record Date in CCASS directly as a CCASS Investor Participant, and wish to participate in the Preferential Offering, should give their instruction to HKSCC via the CCASS Phone System or CCASS Internet System no later than the deadline set by HKSCC or HKSCC Nominees. Qualifying Yue Yuen Shareholders who require a replacement **BLUE** Application Form should contact Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or at its hotline 2862 8555.

4. How to apply by using a BLUE Application Form

- (a) Complete the **BLUE** Application Form in English in ink, and sign it. There are detailed instructions on each **BLUE** Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the **BLUE** Application Form.
- (b) Each **BLUE** Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.

- (c) Lodge the **BLUE** Application Form in one of the collection boxes by the time and at one of the locations as described in the sub-section headed “— II. How to Apply for Reserved Shares — 5. When may applications be made” below.

5. When may applications be made

(a) *Applications on BLUE Application Forms*

Your completed **BLUE** Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above or at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong at the following times:

| | | |
|--------------------------------|----------|-------------------------------|
| Monday, May 26, 2008 | — | 9:00 a.m. — 4:30 p.m. |
| Tuesday, May 27, 2008 | — | 9:00 a.m. — 4:30 p.m. |
| Wednesday, May 28, 2008 | — | 9:00 a.m. — 4:30 p.m. |
| Thursday, May 29, 2008 | — | 9:00 a.m. — 12:00 noon |

Completed **BLUE** Application Forms, together with payment attached, must be lodged by 12:00 noon on Thursday, May 29, 2008, or, if the application lists are not open on that day, then by the time and date stated in the sub-section headed “— II. How to Apply for Reserved Shares — 5. When may applications be made — (c) Effect of bad weather conditions on the opening of the application lists” below.

(b) *Application lists*

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, May 29, 2008, except as provided in the sub-section headed “— II. How to Apply for Reserved Shares — 5. When may applications be made — (c) Effect of bad weather conditions on the opening of the application lists” below.

Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(c) *Effect of bad weather conditions on the opening of the application lists*

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal,

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, May 29, 2008. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those signals in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. For this purpose, “business day” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

6. How many applications may be made

You should see the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 8. How many applications may be made” above for the situations where you may make more than one application for Hong Kong Offer Shares.

III. HOW MUCH ARE THE HONG KONG OFFER SHARES AND RESERVED SHARES

The maximum Offer Price is HK\$3.75 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Shares you will pay HK\$3,787.84. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of Shares applied for up to 41,169,000 Shares. The **BLUE** Application Form has a table showing the exact amount payable for multiples of Shares applied for up to 41,591,000 Shares.

If the Offer Price as finally determined is less than HK\$3.75 per Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the sub-section headed “— Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies”.

You must pay the maximum Offer Price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares and the Reserved Shares. You must pay the amount payable upon application for the Hong Kong Offer Shares and the Reserved Shares by a cheque or a banker’s cashier order in accordance with the terms set out in the Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Hong Kong Offer Shares and/or Reserved Shares will be allotted to such applicant.

If your application is successful, brokerage is paid to participants of the Stock Exchange (or the Stock Exchange, as the case may be), the Stock Exchange trading fee is paid to the Stock Exchange, and the SFC transaction levy is paid to the SFC.

IV. PUBLICATION OF RESULTS, DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

It is expected that the final Offer Price, the level of indications of interest in the International Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares and the Reserved Shares will be published on Thursday, June 5, 2008 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Preferential Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering and the Preferential Offering can be found in our Announcement to be posted on the Company's website at www.pousheng.com and on the website of the Stock Exchange at www.hkex.com.hk on Thursday, June 5, 2008;
- Results of allocations for the Hong Kong Public Offering and the Preferential Offering will be available from our designated results of allocations website at www.iporesults.com.hk (a hyperlink to which can also be found on the Company's website at www.pousheng.com) on a 24-hour basis from 8:00 a.m. on Thursday, June 5, 2008 to 12:00 midnight on Wednesday, June 11, 2008. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, June 5, 2008 to Sunday, June 8, 2008;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, June 5, 2008 to Saturday, June 7, 2008 at all the receiving bank branches and sub-branches at the addresses set out in the sub-section headed “— I. How to Apply for Hong Kong Offer Shares — 3. Where to collect the prospectus and Application Forms” above.

You should note that our website, and all information contained on our website, does not form part of this prospectus.

Refund cheques for surplus application monies (if any) under **WHITE** or **YELLOW** or **BLUE** Application Forms and Share certificates for successful applicants under **WHITE** or **BLUE** Application Forms are expected to be posted and/or available for collection (as the case may be) on or around Thursday, June 5, 2008.

Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, June 6, 2008, provided that the Hong Kong Public Offering and the Preferential Offering have become unconditional in all respects and the right of termination under the Underwriting Agreements as described in the sub-section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

For further information on arrangements for the dispatch/collection of Share certificates and refunds of application monies, you should refer to the sub-sections headed “Further Terms and Conditions of Hong Kong Public Offering and the Preferential Offering — 7. If Your Application for Hong Kong Offer Shares and/or Reserved Shares is Successful (in Whole or in Part)” and “Further Terms and Conditions of Hong Kong Public Offering and the Preferential Offering — 8. Refund of Application Monies” in this prospectus.

V. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, June 6, 2008. The Shares will be traded in board lots of 1,000 Shares.

Shares will be eligible for CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

1. GENERAL

- (a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering and/or the Reserved Shares in the Preferential Offering, you will be agreeing with our Company and the Joint Sponsors (for themselves and on behalf of the Underwriters) as set out below.
- (b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the **White Form eIPO** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (d) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to making applications electronically by submitting an application to the **White Form eIPO** Service Provider through the designated website for the **White Form eIPO** service and both nominees and principals on whose behalf HKSCC Nominees is applying for the Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (e) Applicants should read this prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC prior to making any application for the Hong Kong Offer Shares and/or the Reserved Shares.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES AND RESERVED SHARES

- (a) You offer to purchase from our Company at the Offer Price the number of the Hong Kong Offer Shares and/or the Reserved Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares and/or the Reserved Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable thereto), is expected to be sent to you by ordinary post at your own risk to the address stated on your Application Form on or before Thursday, June 5, 2008. Details of the procedure for refunds relating to each of the Hong Kong Public Offering and the Preferential

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Offering methods are contained below in the sub-sections headed “— 7. If Your Application for Hong Kong Offer Shares and/or Reserved Shares is Successful (in Whole or in Part)”, “— 8. Refund of Application Monies” and “— 9. Additional Information for Applicants Applying by Giving Electronic Application Instructions to HKSCC” in this section.

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Hong Kong Public Offering and the Preferential Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance)) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares and the Reserved Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares and the Reserved Shares, the level of applications under the Hong Kong Public Offering and the Preferential Offering and the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares on Thursday, June 5, 2008. Please see the sub-section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus for details.
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering and the Reserved Shares under the Preferential Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of the Hong Kong Offer Shares and the Reserved Shares successfully applied for, will be made available on Thursday, June 5, 2008, in the manner described in the sub-section headed “How to Apply for Hong Kong Offer Shares and the Reserved Shares — IV. Publication of Results, Dispatch/Collection of Share Certificates and Refunds of Application Monies” in this prospectus.
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares and/or the Reserved Shares in respect of which your offer has been accepted if the

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

- (a) By completing and submitting any Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorize** our Company and/or the Joint Sponsors (or their respective agents or nominees), each acting as an agent of our Company, to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Offer Shares allocated to you in your name(s) or the name of HKSCC Nominees, as the case may be, as required by the Bye-laws and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Offer Shares allocated to you, and as required by the Bye-laws;
 - **represent, warrant** and **undertake** that (a) you are not, and none of the other person(s) for whose benefit you are applying is, within the United States (as defined in Regulation S under the US Securities Act of 1933, as amended) and will acquire the Hong Kong Offer Shares and/or the Reserved Shares in an offshore transaction (within the meaning of Regulation S under the US Securities Act of 1933, as amended) or (b) you are, or the person for whose account for whose benefit you are applying is, a qualified institutional buyer within the meaning of Rule 144A under the US Securities Act of 1933, as amended;
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning our Company save as set out in any supplement to this prospectus and you agree that neither our Company, the Joint Sponsors and the Hong Kong Underwriters nor any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it due to an innocent misrepresentation;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;
- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) **warrant** that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering and the Preferential Offering made available by our Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up or indicated an interest in, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering);
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to our Company, the Joint Sponsors and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on the Company's branch register of members as the holder(s) in Hong Kong of any Offer Shares allocated to you, and our Company and/or the Company's agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

named applicant in the Application Form by ordinary post to the address stated on your Application Form at your own risk (except if you have applied for 1,000,000 Hong Kong Offer Shares or more or 1,000,000 Reserved Shares or more, as the case may be, and have indicated in your Application Form that you wish to collect your refund cheque and/or Share certificates (where applicable) in person);

- **agree** that the processing of your application, including the dispatch of refund cheque(s) (if any), may be done by any of our Company's receiving bankers and is not restricted to the bank at which your Application Form is lodged;
- **confirm** that you are aware of the restrictions on the Global Offering of the Offer Shares described in this prospectus;
- **understand** that these declarations and representations will be relied upon by our Company and the Joint Sponsors in deciding whether or not to allocate any Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Sponsors and the Hong Kong Underwriters, nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with our Company, for itself and for the benefit of each shareholder of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of our Company) (and if applicable, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Act, the Memorandum and the Bye-laws;
- **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our Company's shareholders, to observe and comply with the Companies Act, the Memorandum and the Bye-laws;
- **agree** with the Company and each shareholder of our Company that the Shares in our Company are freely transferable by the holder thereof;
- **agree** that our Company, the Joint Sponsors, the Hong Kong Underwriters and any of their respective directors, officers, employees, partners, agents or advisors, and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement to this prospectus (and only then to the extent such liability is held to exist by a court with competent jurisdiction); and

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- **agree** to disclose to our Company, the Company's registrar, the receiving bankers, the Joint Sponsors and their respective advisors and agents any personal data and any other information which they require about you or the person(s) for whose benefit you have made the application.
- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee **agree** that:
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the first-named applicant) at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) If you apply for the Reserved Shares using a **BLUE** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee;
- **warrant** that, in making an application, you or any person(s) on whose behalf you may be acting is/are Qualifying Yue Yuen Shareholder(s); and

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- **represent, warrant and undertake** that in making this application, you and/or any person(s) for whose behalf you may be acting are not connected person(s) or person(s) who will become connected person(s) of our Company immediately upon completion of the Global Offering, the subscription for Reserved Shares by you and/or any person(s) on whose behalf you may be acting is not financed directly or indirectly by a connected person of our Company, and you and/or any person(s) on whose behalf you may be acting is not taking instructions from a connected person of our Company in making this subscription for Reserved Shares.
- (d) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - **instructed** and **authorized** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the Offer Price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
 - (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) HKSCC Nominees is only acting as nominee for the applicants and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus. In addition to the confirmations and agreements set out in paragraph (a) above, **instructed** and **authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - **agree** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on your behalf or for your CCASS Investor Participant stock account;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
- (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;
- **understand** that the above declaration will be relied upon by our Company, the Directors and the Joint Sponsors in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
- **authorize** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of your **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them; and are aware of the restrictions on the Hong Kong Public Offering described in this prospectus;
- **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;
- **agree** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable before Thursday, June 26, 2008, such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before Thursday, June 26, 2008, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
 - **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and
 - **agree** with our Company, for itself and for the benefit of each of the shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our shareholders of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and our Bye-laws
- (e) Our Company, the Joint Sponsors, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (f) In the event of this application being made by joint application, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally. You may be prosecuted if you make a false declaration.

5. MULTIPLE APPLICATIONS

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form, you:
- (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application; and
 - (if you are an agent for another person) warrant that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent.
- (b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** and/or **YELLOW** Application Form and/or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;
 - apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider via the **White Form eIPO** service;
 - apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service for more than 41,169,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially made available for public subscription under the Hong Kong Public Offering as more particularly described in the sub-section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus; or
 - have applied for or taken up, or indicated an interest for, or have been or will be allocated or placed (including conditionally and/or provisionally) International Offer Shares under the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering).
- (c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions** but other than an application (if any) made on a **BLUE** Application Form in the capacity as a Qualifying Yue Yuen Shareholder). If an application is made by an unlisted company and

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” in relation to a company means you:

- *control the composition of the board of directors of that company; or*
- *control more than half of the voting power of that company; or*
- *hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES OR RESERVED SHARES

You should note the following situations in which the Hong Kong Offer Shares and the Reserved Shares will not be allotted to you or your application is liable to be rejected:

(a) If your application is revoked

By completing and submitting an Application Form or **electronic application instruction** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before Thursday, June 26, 2008. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the **White Form eIPO** Service Provider via the **White Form eIPO** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Thursday, June 26, 2008, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) has/have not been so notified, or if applicant(s) has/have been notified but has/have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) If our Company, the Joint Sponsors or their respective agents exercise their discretion to reject your application

Our Company, the Joint Sponsors (as agents of our Company) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application without having to give any reasons for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares and/or the Reserved Shares is void

The allotment of Hong Kong Offer Shares and/or the Reserved Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) In the following circumstances

- your application is a multiple or a suspected multiple application;
- the Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allotted (including conditionally and/or provisionally) International Offer Shares in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering). By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or the **White Form eIPO** Service Provider, you agree not to apply for the International Offer Shares in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering). Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering), and to identify and reject indications of interest in the International Offering (except in respect of the Reserved Shares applied for pursuant to the Preferential Offering) from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- our Company and the Joint Sponsors (on behalf of our Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in this Application Form is located;
- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the public for subscription; or
- any of the Hong Kong Underwriting Agreement and/or the International Offering Agreement does not become unconditional or is terminated in accordance with the terms thereof.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES AND/OR RESERVED SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

No temporary document of title will be issued in respect of the Shares.

No receipt will be issued for sums paid on application.

You will receive one share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS, in which case share certificates will be deposited directly into CCASS) and one share certificate for all of the Reserved Shares issued to you under the Preferential Offering.

Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, June 6, 2008, provided that the Hong Kong Public Offering and the Preferential Offering have become unconditional in all respects and the right of termination under the Underwriting Agreements and described in the sub-section of this prospectus headed “Underwriting — Underwriting

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

(a) If you apply using a WHITE or BLUE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form or 1,000,000 Reserved Shares or more on a **BLUE** Application Form and have indicated your intention in your Application Form to collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect it/them in person from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 5, 2008 or such other dates as notified by our Company in the newspapers as the date of dispatch/collection of Share certificate(s)/refund cheque(s).

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, your authorized representative must attend bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person within the time specified for collection, it/they will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or 1,000,000 Reserved Shares or if you apply for 1,000,000 Hong Kong Offer Shares or 1,000,000 Reserved Shares or more but have not indicated on your Application Form that you will collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person, your Share certificate(s) and/or refund cheque(s) (where relevant) will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in the Application Form at the close of business on Thursday, June 5, 2008, or under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form, for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants applications, in the manner described in the sub-section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — IV. Publication of results, dispatch/collection of share certificates and refunds of application monies” in this prospectus on Thursday, June 5, 2008. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 5, 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately following the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (if any) in person, you should follow the same procedure as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on the Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be dispatched promptly to you by ordinary post to the address as specified in the Application Form at your own risk.

(C) If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an **White Form eIPO** instruction to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where relevant) in person from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 5, 2008, or such other dates as notified by our Company in the newspapers as the date of dispatch/collection of Share certificate(s)/refund cheque(s).

If you do not collect your Share certificate(s) and/or refund cheque(s) in person within the time specified for collection, it/they will be dispatched promptly to you by ordinary post to the address as specified in the application instructions to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk at your own risk.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) and/or refund cheque(s) (where relevant) will be dispatched promptly to you by ordinary post to the address as specified in the application instructions to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the **White Form eIPO** Service Provider set out below in the sub-section headed “— 8. Refund of Application Monies.”

8. REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be refunded if:

- your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares and/or Reserved Shares for any of the reasons set out above in the sub-section headed “— 6. Circumstances in which You will not be Allotted Hong Kong Offer Shares or Reserved Shares”;
- the Offer Price as finally determined is less than the Offer Price of HK\$3.75 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application;
- the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the sub-section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering” in this prospectus; or
- any application is revoked or any allotment pursuant thereto has become void.

No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Sponsors, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful and reserved applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, June 5, 2008 in accordance with the various arrangements as described above. All refunds will be made by a cheque crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant on the Application Form. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

number or passport number may lead to delay in encashment of or may invalidate your refund cheque. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for paid sums on application.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, June 5, 2008, or, on such other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Thursday, June 5, 2008. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 5, 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS internet system (under the procedures contained in HKSCC's "An Operating

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Guide for Investor Participants” in effect from time to time) on Thursday, June 5, 2008. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or a difference between the Offer Price and the Offer Price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 5, 2008. No interest will be paid thereon.

(c) Additional information for applicants applying through White Form eIPO

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated eIPO Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in the sub-section headed “— 8. Refund of Application Monies” shall be made pursuant to the arrangements described above in the sub-section headed “— 7. If your application for Hong Kong Offer Shares is successful (in whole or in part) — (c) If you apply through **White Form eIPO**.”

10. PERSONAL DATA

This Personal Information Collection Statement informs applicants for and holders of Shares of the policies and practices of our Company and the Company’s share registrar in relation to personal data and the Personal Data (Privacy) Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the registrars.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the Share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of the Share certificate(s), and/or the dispatch or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform us and the Company's Share registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations (whether statutory or otherwise);
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/ or to enable our Company and our Share registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

FURTHER TERMS AND CONDITIONS OF HONG KONG PUBLIC OFFERING AND PREFERENTIAL OFFERING

(c) Transfer of personal data

Personal data held by our Company and the Share registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Company's Share registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our respective appointed agents such as financial advisors and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the Share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

(d) Access to and correction of personal data

The Personal Data (Privacy) Ordinance provides the applicants and the holders of securities with rights to ascertain whether our Company or the Share registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Personal Data (Privacy) Ordinance, our Company and the Share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the "Corporate Information" section in this prospectus or as notified from time to time in accordance with applicable law, for the attention of the company secretary, or the Company's Share registrar for the attention of the privacy compliance officer.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you **agree** to all of the above.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

May 26, 2008

The Directors
Pou Sheng International (Holdings) Limited
Merrill Lynch Far East Limited
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Pou Sheng International (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended September 30, 2007 and three months ended December 31, 2007 (the “Track Record Period”) for inclusion in the prospectus of the Company dated May 26, 2008 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda under the Bermuda Companies Act on November 14, 2007 as a wholly owned subsidiary of Yue Yuen Industrial (Holding) Limited (“Yue Yuen”). Pursuant to a group reorganization, as more fully explained in Appendix VIII to the Prospectus, (i) Yue Yuen transferred its entire interest in entities that are engaged primarily in the retail and distribution businesses in the People’s Republic of China (the “PRC”) to a wholly owned subsidiary, YY Sports Holding Limited (“YY Sports”); and (ii) upon its incorporation, the Company also became a holding company of YY Sports on May 23, 2008 (the “Reorganization”).

Yue Yuen and its subsidiaries, other than the Group, are hereinafter referred to as the “Yue Yuen Group”.

All companies now comprising the Group have adopted September 30 as their financial year end. However, as a statutory requirement, those subsidiaries established in the PRC or Taiwan also prepare their statutory accounts on a calendar year basis. Details of the Company’s subsidiaries as at the date of this report and their respective statutory auditors, if any, are set out in note 32 to the Financial Information.

No audited financial statements have been prepared for the Company and YY Sports since their respective dates of incorporation as they are newly incorporated and have not carried on any business, other than those transactions relating to the Reorganization. We have, however, reviewed all relevant transactions of these companies for the Track Record Period since their dates of incorporation.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of YY Sports for the Track Record Period in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public

Accountants (the “HKICPA”) (the “HKFRS Financial Statements”). We have undertaken an independent audit of the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the HKFRS Financial Statements or, where appropriate, management accounts of the companies comprising the Group (“Underlying Financial Statements”) for each of the Track Record Period in this respect or since the respective date of incorporation and establishment to December 31, 2007, where this is a shorter period in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period sets out in this report has been prepared from the Underlying Financial Statements and is presented on the basis set out in note 1 to the Financial Information for the purpose of preparing our report for inclusion in the Prospectus. No adjustment is considered necessary to adjust the Underlying Financial Statements for the Track Record Period for the preparation of the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of the respective companies who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group at September 30, 2005, 2006 and 2007 and December 31, 2007 and the state of affairs of the Company at December 31, 2007 and of the combined results and combined cash flows of the Group for each of the years ended September 30, 2005, 2006, 2007 and three months ended December 31, 2007.

The comparative combined income statement, combined cash flow statement and combined statement of changes in equity of the Group for the three months ended December 31, 2006 together with the notes thereon (the “December 2006 Financial Information”) have been extracted from the Group’s unaudited financial information for the same period which were prepared by the directors of the Company solely for the purpose of this report. We have reviewed the December 2006 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consisted principally of making enquires of group management and applying analytical procedures to the December 2006 Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on December 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the December 2006 Financial Information.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

| | Notes | Year ended September 30, | | | Three months ended December 31, | |
|--|-------|--------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|
| | | 2005 | 2006 | 2007 | 2006 | 2007 |
| | | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Revenue. | 5 | 207,177 | 372,960 | 555,903 | 101,608 | 185,028 |
| Cost of sales. | | <u>(128,355)</u> | <u>(233,793)</u> | <u>(354,893)</u> | <u>(63,531)</u> | <u>(116,991)</u> |
| Gross profit | | 78,822 | 139,167 | 201,010 | 38,077 | 68,037 |
| Other income and gain. . . . | 6 | 6,078 | 8,760 | 14,226 | 3,824 | 11,426 |
| Selling and distribution costs | | (56,874) | (84,579) | (118,842) | (23,404) | (44,183) |
| Administrative expenses. . . | | (17,844) | (31,332) | (37,423) | (8,116) | (13,464) |
| Share of results of associates | 15 | — | 58 | 108 | 134 | 1,027 |
| Share of results of jointly controlled entities. | 16 | — | — | 3,049 | — | 4,964 |
| Interest on bank borrowings wholly repayable within five years | | <u>(1,846)</u> | <u>(3,750)</u> | <u>(3,710)</u> | <u>(1,341)</u> | <u>(3,410)</u> |
| Profit before taxation. | | 8,336 | 28,324 | 58,418 | 9,174 | 24,397 |
| Taxation. | 7 | <u>(2,311)</u> | <u>(7,312)</u> | <u>(14,484)</u> | <u>(1,730)</u> | <u>(4,719)</u> |
| Profit for the year/period . . | 8 | <u>6,025</u> | <u>21,012</u> | <u>43,934</u> | <u>7,444</u> | <u>19,678</u> |
| Attributable to: | | | | | | |
| Equity holders of the Company | | 3,315 | 11,383 | 31,927 | 5,676 | 16,170 |
| Minority interests | | <u>2,710</u> | <u>9,629</u> | <u>12,007</u> | <u>1,768</u> | <u>3,508</u> |
| | | <u>6,025</u> | <u>21,012</u> | <u>43,934</u> | <u>7,444</u> | <u>19,678</u> |
| Earnings per share — basic. | 11 | 1.22 <u>US cents</u> | 3.30 <u>US cents</u> | 2.42 <u>US cents</u> | 0.57 <u>US cents</u> | 0.90 <u>US cents</u> |

COMBINED BALANCE SHEETS

| | | The Group | | | | The Company |
|--|-------|---------------------|----------------|-----------------|--------------------|--------------------|
| | | | | | As at December 31, | As at December 31, |
| | Notes | As at September 30, | | | 2007 | 2007 |
| | | 2005 | 2006 | 2007 | 2007 | 2007 |
| | | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| NON-CURRENT ASSETS | | | | | | |
| Property, plant and equipment | 12(a) | 36,285 | 40,376 | 102,056 | 119,039 | — |
| Deposits for acquisition of property, plant and equipment. | 12(b) | — | — | 13,286 | 19,357 | — |
| Prepaid lease payments. | 13 | 2,387 | 2,336 | 5,169 | 5,153 | — |
| Goodwill | 14 | — | — | 2,101 | 2,101 | — |
| Interests in associates. | 15 | — | 5,698 | 10,922 | 12,711 | — |
| Loan to an associate | 15 | — | — | — | 2,738 | — |
| Interests in jointly controlled entities. | 16 | — | — | 33,036 | 42,257 | — |
| Loans to jointly controlled entities. . | 16 | — | — | 39,915 | 62,922 | — |
| Rental deposits and prepayments . . | | 4,320 | 5,726 | 21,797 | 24,482 | — |
| | | <u>42,992</u> | <u>54,136</u> | <u>228,282</u> | <u>290,760</u> | <u>—</u> |
| CURRENT ASSETS | | | | | | |
| Inventories | 17 | 56,823 | 59,802 | 112,375 | 151,228 | — |
| Trade and other receivables. | 18 | 36,163 | 54,743 | 101,596 | 123,103 | — |
| Prepaid lease payments. | 13 | 51 | 51 | 125 | 128 | — |
| Financial derivative assets | 24 | — | — | — | 65,355 | — |
| Amounts due from related parties . . | 19 | 131 | 1,257 | 20,616 | 4,767 | — |
| Pledged bank deposits | 20 | — | — | — | 6,444 | — |
| Bank balances and cash | 20 | 23,385 | 44,672 | 90,936 | 120,192 | — |
| | | <u>116,553</u> | <u>160,525</u> | <u>325,648</u> | <u>471,217</u> | <u>—</u> |
| CURRENT LIABILITIES | | | | | | |
| Trade and other payables | 21 | 33,150 | 55,212 | 114,458 | 122,110 | — |
| Financial derivative liabilities | 24 | — | — | — | 61,391 | — |
| Amounts due to related parties . . . | 22 | 31,324 | 38,243 | 112,382 | 113,951 | — |
| Tax payable | | 958 | 4,079 | 9,101 | 9,257 | — |
| Unsecured bank borrowings | 23 | 65,090 | 65,465 | 105,327 | 208,978 | — |
| | | <u>130,522</u> | <u>162,999</u> | <u>341,268</u> | <u>515,687</u> | <u>—</u> |
| NET CURRENT LIABILITIES . . . | | <u>(13,969)</u> | <u>(2,474)</u> | <u>(15,620)</u> | <u>(44,470)</u> | <u>—</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | | | |
| | | <u>29,023</u> | <u>51,662</u> | <u>212,662</u> | <u>246,290</u> | <u>—</u> |
| NON CURRENT LIABILITIES | | | | | | |
| Unsecured bank borrowings | 23 | — | — | 25,273 | 25,273 | — |
| | | <u>29,023</u> | <u>51,662</u> | <u>187,389</u> | <u>221,017</u> | <u>—</u> |
| CAPITAL AND RESERVES | | | | | | |
| Share capital and paid up capital . . | 25 | 16,051 | 17,101 | 53,488 | 65,488 | — |
| Reserves | | 6,524 | 19,267 | 84,929 | 103,125 | — |
| Equity attributable to equity holders of the Company | | 22,575 | 36,368 | 138,417 | 168,613 | — |
| Minority interests | | 6,448 | 15,294 | 48,972 | 52,404 | — |
| | | <u>29,023</u> | <u>51,662</u> | <u>187,389</u> | <u>221,017</u> | <u>—</u> |

The balance sheets as at September 30, 2005, 2006 and 2007 of the Company are not presented as the Company was incorporated on November 14, 2007. As at December 31, 2007 the Company had one issued ordinary share of HK\$0.01 outstanding and minimal asset on the balance sheet.

COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Equity attributable to equity holders of the Company | | | | | | | |
|--|--|---------------|---------------------------|---------------------|---------------------|----------|--------------------|----------|
| | Share capital and paid up capital | Share premium | Non-distributable reserve | Translation reserve | Accumulated profits | Total | Minority interests | Total |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| | (note 25(a)) | (note 25(b)) | (note) | | | | | |
| At October 1, 2004 | 10,000 | — | 250 | 37 | 2,374 | 12,661 | 3,852 | 16,513 |
| Exchange difference arising on the translation of financial statements recognized directly in equity | — | — | — | 548 | — | 548 | — | 548 |
| Profit for the year | — | — | — | — | 3,315 | 3,315 | 2,710 | 6,025 |
| Total recognized income and expenses for the year | — | — | — | 548 | 3,315 | 3,863 | 2,710 | 6,573 |
| Acquisition of additional interest in subsidiaries | — | — | — | — | — | — | (85) | (85) |
| Dividend paid to minority shareholders of subsidiaries | — | — | — | — | — | — | (29) | (29) |
| Incorporation/establishment of subsidiaries | 6,051 | — | — | — | — | 6,051 | — | 6,051 |
| Transfer | — | — | 621 | — | (621) | — | — | — |
| At September 30, 2005. | 16,051 | — | 871 | 585 | 5,068 | 22,575 | 6,448 | 29,023 |
| Exchange difference arising on the translation of financial statements recognized directly in equity | — | — | — | 1,360 | — | 1,360 | — | 1,360 |
| Profit for the year | — | — | — | — | 11,383 | 11,383 | 9,629 | 21,012 |
| Total recognized income and expenses for the year | — | — | — | 1,360 | 11,383 | 12,743 | 9,629 | 22,372 |
| Acquisition of additional interest in subsidiaries | — | — | — | — | — | — | (2,301) | (2,301) |
| Capital contributed by minority shareholders of subsidiaries | — | — | — | — | — | — | 1,883 | 1,883 |
| Dividend paid to minority shareholders of subsidiaries | — | — | — | — | — | — | (365) | (365) |
| Incorporation/establishment of subsidiaries | 1,050 | — | — | — | — | 1,050 | — | 1,050 |
| Transfer | — | — | 1,454 | — | (1,454) | — | — | — |
| At September 30, 2006. | 17,101 | — | 2,325 | 1,945 | 14,997 | 36,368 | 15,294 | 51,662 |
| Exchange difference arising on the translation of financial statements recognized directly in equity | — | — | — | 2,484 | — | 2,484 | 1,545 | 4,029 |
| Share of translation reserve of associates | — | — | — | 200 | — | 200 | — | 200 |
| Share of translation reserve of jointly controlled entities | — | — | — | 270 | — | 270 | — | 270 |
| Profit for the year | — | — | — | — | 31,927 | 31,927 | 12,007 | 43,934 |
| Total recognized income and expense for the year | — | — | — | 2,954 | 31,927 | 34,881 | 13,552 | 48,433 |
| Incorporation/establishment of subsidiaries | 36,387 | 30,781 | — | — | — | 67,168 | 20,445 | 87,613 |
| Acquisition of business | — | — | — | — | — | — | 4,883 | 4,883 |
| Acquisition of additional interests in subsidiaries | — | — | — | — | — | — | (4,677) | (4,677) |
| Repatriation of capital | — | — | — | — | — | — | (160) | (160) |
| Dividend paid to a minority shareholder of a subsidiary | — | — | — | — | — | — | (365) | (365) |
| Transfer | — | — | 4,130 | — | (4,130) | — | — | — |

| Equity attributable to equity holders of the Company | | | | | | | | |
|--|--|--------------------------|----------------------------------|------------------------|------------------------|----------------|-----------------------|----------------|
| | Share capital and paid up capital | Share premium | Non- distributable reserve | Translation reserve | Accumulated profits | Total | Minority interests | Total |
| | US\$'000 (note 25(a)) | US\$'000 (note 25(b)) | US\$'000 (note) | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| At September 30, 2007. | 53,488 | 30,781 | 6,455 | 4,899 | 42,794 | 138,417 | 48,972 | 187,389 |
| Exchange difference arising on the translation of financial statements recognized directly in equity | — | — | — | 189 | — | 189 | (76) | 113 |
| Share of translation reserve of associates . . . | — | — | — | 420 | — | 420 | — | 420 |
| Share of translation reserve of jointly controlled entities | — | — | — | 1,417 | — | 1,417 | — | 1,417 |
| Profit for the period | — | — | — | — | 16,170 | 16,170 | 3,508 | 19,678 |
| Total recognized income and expense for the period | — | — | — | 2,026 | 16,170 | 18,196 | 3,432 | 21,628 |
| Incorporation/establishment of subsidiaries . . | 12,000 | — | — | — | — | 12,000 | — | 12,000 |
| Transfer | — | — | 1,434 | — | (1,434) | — | — | — |
| At December 31, 2007. | <u>65,488</u> | <u>30,781</u> | <u>7,889</u> | <u>6,925</u> | <u>57,530</u> | <u>168,613</u> | <u>52,404</u> | <u>221,017</u> |
| UNAUDITED | | | | | | | | |
| At October 1, 2006 | 17,101 | — | 2,325 | 1,945 | 14,997 | 36,368 | 15,294 | 51,662 |
| Exchange difference arising on the translation of financial statements recognized directly in equity | — | — | — | 1,095 | — | 1,095 | 530 | 1,625 |
| Share of translation reserve of associates . . . | — | — | — | 33 | — | 33 | — | 33 |
| Profit for the period | — | — | — | — | 5,676 | 5,676 | 1,768 | 7,444 |
| Total recognized income and expense for the period | — | — | — | 1,128 | 5,676 | 6,804 | 2,298 | 9,102 |
| Incorporation/establishment of subsidiaries . . | 19 | 30,781 | — | — | — | 30,800 | 13,200 | 44,000 |
| Acquisition of additional interests in subsidiaries | — | — | — | — | — | — | (4,677) | (4,677) |
| Transfer | — | — | 131 | — | (131) | — | — | — |
| At December 31, 2006 | <u>17,120</u> | <u>30,781</u> | <u>2,456</u> | <u>3,073</u> | <u>20,542</u> | <u>73,972</u> | <u>26,115</u> | <u>100,087</u> |

Note: According to the relevant laws in the PRC, wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.

COMBINED CASH FLOW STATEMENTS

| | Year ended September 30, | | | Three months ended December 31, | |
|--|--------------------------|----------|----------|------------------------------------|----------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| OPERATING ACTIVITIES | | | | | |
| Profit before taxation | 8,336 | 28,324 | 58,418 | 9,174 | 24,397 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 5,673 | 8,005 | 11,701 | 1,912 | 3,631 |
| Impairment loss (reversal of) recognized on trade receivables . | 805 | (79) | (335) | 214 | 1,291 |
| Interest expense | 1,846 | 3,750 | 3,710 | 1,341 | 3,410 |
| Interest income | (174) | (369) | (1,067) | (243) | (865) |
| Loss on disposal of property, plant and equipment | — | 77 | 25 | 3 | 16 |
| Release of prepaid lease payments . | 51 | 51 | 51 | 12 | 13 |
| Allowance (reversal of) for inventories | 1,065 | 2,300 | (2,829) | (399) | 149 |
| Share of results of associates | — | (58) | (108) | (134) | (1,027) |
| Share of results of jointly controlled entities | — | — | (3,049) | — | (4,964) |
| Fair value change on derivative financial instruments | — | — | — | — | (3,964) |
| Operating cash flows before movements in working capital . . . | 17,602 | 42,001 | 66,517 | 11,880 | 22,087 |
| Increase in inventories | (37,662) | (5,279) | (42,021) | (7,937) | (39,002) |
| Increase in trade and other receivables | (21,219) | (18,501) | (37,862) | (15,279) | (22,798) |
| Increase in trade and other payables . | 19,543 | 22,062 | 47,385 | 7,700 | 7,652 |
| Cash (used in) generated from operations | (21,736) | 40,283 | 34,019 | (3,636) | (32,061) |
| Taxation paid | (1,460) | (4,191) | (9,462) | (1,627) | (4,563) |
| Interest income | 174 | 369 | 1,067 | 243 | 865 |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (23,022) | 36,461 | 25,624 | (5,020) | (35,759) |

APPENDIX I

ACCOUNTANTS' REPORT

| | Year ended September 30, | | | Three months ended December 31, | |
|--|--------------------------|-----------------|------------------|------------------------------------|-----------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| INVESTING ACTIVITIES | | | | | |
| Acquisition of business (net of cash and cash equivalents acquired). . . . | — | — | (4,082) | — | — |
| Advance to an associate | — | — | — | — | (2,738) |
| Advance to jointly controlled entities . | — | — | (39,915) | — | (23,007) |
| Purchase of property, plant and equipment. | (17,480) | (11,706) | (68,195) | (11,770) | (20,021) |
| Additions of prepaid lease payments . | — | — | (2,958) | — | — |
| (Increase) decrease in rental deposits and prepayments | (2,683) | (2,176) | (16,071) | 767 | (2,685) |
| (Advance to) repayment from related parties | (3) | (1,126) | (19,359) | 181 | 15,849 |
| Acquisition of additional interest in subsidiaries. | (85) | (1,531) | (4,677) | (4,677) | — |
| Investments in associates | — | (5,640) | (4,916) | — | (342) |
| Investments in jointly controlled entities | — | — | (29,717) | — | (2,840) |
| Increase in pledged bank deposit . . . | — | — | — | — | (6,444) |
| Increase in deposit paid for acquisition of property, plant and equipment. | — | — | (13,286) | — | (6,071) |
| Proceeds from disposal of property, plant and equipment. | 118 | 395 | 538 | 427 | 283 |
| NET CASH USED IN INVESTING ACTIVITIES. | (20,133) | (21,784) | (202,638) | (15,072) | (48,016) |
| FINANCING ACTIVITIES | | | | | |
| New bank loans raised | 68,337 | 376,529 | 245,216 | 19,255 | 136,332 |
| Proceeds from issue of shares and paid up capital. | 6,051 | 1,050 | 67,168 | 30,800 | 12,000 |
| Advance from related parties. | 6,027 | 6,919 | 74,139 | 21,603 | 1,569 |
| Capital contributed by minority shareholders of subsidiaries. | — | 1,883 | 20,445 | 13,200 | — |
| Repayment of borrowings. | (29,316) | (376,529) | (185,058) | (53,117) | (44,801) |
| Interest paid | (1,846) | (3,750) | (3,710) | (1,341) | (3,410) |
| Dividend paid to minority shareholders | (29) | (365) | (365) | — | — |
| Repatriation of capital by minority shareholders of subsidiaries. | — | — | (160) | — | — |

APPENDIX I**ACCOUNTANTS' REPORT**

| | Year ended September 30, | | | Three months ended December 31, | |
|---|--------------------------|----------------------|----------------------|------------------------------------|-----------------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| NET CASH FROM FINANCING ACTIVITIES | <u>49,224</u> | <u>5,737</u> | <u>217,675</u> | <u>30,400</u> | <u>101,690</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,069 | 20,414 | 40,661 | 10,308 | 17,915 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | — | 498 | 626 | 381 | (779) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD | <u>17,316</u> | <u>23,385</u> | <u>44,297</u> | <u>44,297</u> | <u>85,584</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by Bank balances and cash | <u><u>23,385</u></u> | <u><u>44,297</u></u> | <u><u>85,584</u></u> | <u><u>54,986</u></u> | <u><u>102,720</u></u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | | | |
| Bank balances and cash | 23,385 | 44,672 | 90,936 | 57,292 | 120,192 |
| Bank overdraft | <u>—</u> | <u>(375)</u> | <u>(5,352)</u> | <u>(2,306)</u> | <u>(17,472)</u> |
| | <u><u>23,385</u></u> | <u><u>44,297</u></u> | <u><u>85,584</u></u> | <u><u>54,986</u></u> | <u><u>102,720</u></u> |

NOTES TO THE FINANCIAL INFORMATION**1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

In preparation for the listing of the Company's Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

- (i) Yue Yuen transferred its interests in the subsidiaries comprising the Group to YY Sports and/or subsidiaries of YY Sports in exchange for shares in the Company;
- (ii) Certain minority interests in subsidiaries were acquired by YY Sports and/or subsidiaries of YY Sports from the respective minority shareholders in exchange for shares in the Company; and
- (iii) The entire equity interests in YY Sports were transferred to the Company by means of an exchange of shares.

The Company's interests in the subsidiaries comprising the Group during the Track Record Period and upon the completion of (i) to (iii) above are set out in note 32.

The Group resulting from the Reorganization continues to be controlled by Yue Yuen and therefore is regarded as a continuing entity. Accordingly, the Financial Information has been prepared as if the Company had always been the holding company of the Group.

The combined income statements, combined cash flow statements and combined statements of changes in equity for the Track Record Period include the results, changes in equity and cash flows of the companies comprising the Group and have been prepared as if the Company had always been the holding company of the Group and in accordance with the respective equity interests in the individual companies attributable to Yue Yuen throughout the Track Record Period, while the results of the companies comprising the Group attributable to the shareholders, other than Yue Yuen were accounted for as minority interests.

The combined balance sheets as at the respective balance sheet dates have been prepared to present the assets and liabilities of the companies comprising the Group as if the group structure had been in existence at those dates and in accordance with the respective equity interests in the individual companies attributable to Yue Yuen as at those dates.

All intra-group transactions, balances, income and expenses are eliminated on combination.

The Group's principal operations are conducted in the PRC. The Financial Information is presented in United States Dollar ("USD"), which is different from the functional currency of the Company which is Renminbi. The directors consider that presenting financial information in USD is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to Yue Yuen whose functional currency is also USD.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

The Group has adopted all of the new and revised standards and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the Group’s financial period beginning on October 1, 2007 in the preparation of its Financial Information throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following standards, amendment and interpretations that are not yet effective. The Group has considered the following standards, amendment and interpretations but does not expect they will have a material effect on the results and the financial position of the Group.

| | |
|---------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ² |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations ¹ |
| HKFRS 3 (Revised) | Business Combinations ² |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC)-INT 12 | Service Concession Arrangements ³ |
| HK(IFRIC)-INT 13 | Customer Loyalty Programmes ⁴ |
| HK(IFRIC)-INT 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³ |

¹ Effective for annual periods beginning on or after January 1, 2009.

² Effective for annual periods beginning on or after July 1, 2009.

³ Effective for annual periods beginning on or after January 1, 2008.

⁴ Effective for annual periods beginning on or after July 1, 2008.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company are not yet in a position to determine whether the application of the other new or revised standards and interpretations will have any material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below. The Financial Information has been prepared in accordance with the following accounting policy which conforms with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and under Hong Kong Companies Ordinance.

Basis of Combination**(a) General**

The combined financial statements incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Minority interests in the net assets of subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Business combinations

The acquisition of subsidiaries not involving entities under common control is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Changes in equity interest in a subsidiary

The Group applies a policy of acquiring/disposal of partial equity interest of a subsidiary from minority shareholders without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying value of the subsidiary's net assets acquired is recorded in equity. When partial equity interest in a subsidiary is disposed to minority interest, any difference between the proceeds received and the relevant share of minority interest is also recorded in equity.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a subsidiary entity is presented separately in the combined balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the combined income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at fair value of consideration received or receivable and represents amount receivable for goods sold and services provided in the normal course of business, net of discount and sales related taxes.

Sale of goods is recognized when the goods are delivered and title has passed.

Service income is recognized when services are provided.

Rental income, including rentals invoiced in advance, from land and buildings under operating lease is recognized on a straight line basis over the period of the respective leases.

Interest income from financial assets are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entities.

The results and assets and liabilities of associates are incorporated in the combined financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the combined financial statements using the equity method of accounting. Under the equity method, interests in jointly controlled entities are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of

further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using either the straight-line method or reducing balance method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statement in the period in which the item is derecognized.

Prepaid lease payments

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight-line basis.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial information of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the financial information, the assets and liabilities of the Group's entities are translated from their functional currencies into the presentation currency of the Group (i.e. United States dollar) at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the exchange reserve). Such exchange differences are recognized in profit or loss in the period in which the relevant operation is disposed of.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortization and any accumulated impairment losses.

Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Borrowing costs

All borrowing costs are recognized as and included in finance costs in the combined income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Track Record Period. Taxable profit differs from profit as reported in the combined income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the respective balance sheet dates.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the combined financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets is realized. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognized in the combined income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

Financial instruments

Financial assets and financial liabilities are recognized on the combined balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group include a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, loans to an associate and jointly controlled entities and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL of the Group includes a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

The Group's other financial liabilities including trade and other payables, amounts due to related parties and unsecured bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, canceled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Retirement Benefit Scheme

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION**Key sources of Estimation Uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews the aging of the inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realizable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Fair value of derivatives and other financial instruments

As described in note 24, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of derivative includes some assumptions not supported by observable market prices or rates. Changes in these assumptions and estimates could have a material effect on the determination of the fair value of the derivatives. The carrying amount of the derivative financial assets and derivative financial liabilities at December 31, 2007 are US\$65,355,000 and US\$61,391,000, respectively. There were no other derivative financial assets or derivative financial liabilities at the other relevant balance sheet dates. Details of the assumptions used are disclosed in note 24.

5. REVENUE AND SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organized into several operating divisions: (i) manufacturing and sales of OEM footwear (“Manufacturing Business”); (ii) retailing of sportswear (“Retail Business”), (iii) distribution of licensed products (“Brand Licensee Business”) and (iv) operation and management of sportswear malls (“Property Leasing and Management”).

These divisions are the basis on which the Group reports its primary segment information.

Income Statement

For the year ended September 30, 2005

| | Manufacturing Business | Retail Business | Brand Licensee Business | Eliminations | Combined |
|---|-----------------------------------|----------------------------|--|---------------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| REVENUE | | | | | |
| External sales | 20,809 | 128,973 | 57,395 | — | 207,177 |
| Inter-segment sales | <u>812</u> | <u>—</u> | <u>1,396</u> | <u>(2,208)</u> | <u>—</u> |
| Total | <u>21,621</u> | <u>128,973</u> | <u>58,791</u> | <u>(2,208)</u> | <u>207,177</u> |
| RESULTS | | | | | |
| Segment results | <u>1,958</u> | <u>3,324</u> | <u>6,373</u> | <u>—</u> | 11,655 |
| Unallocated corporate income | | | | | 174 |
| Unallocated corporate expenses | | | | | (1,647) |
| Finance costs | | | | | <u>(1,846)</u> |
| Profit before taxation | | | | | 8,336 |
| Taxation | | | | | <u>(2,311)</u> |
| Profit for the year | | | | | <u>6,025</u> |

For the year ended September 30, 2006

| | Manufacturing Business | Retail Business | Brand Licensee Business | Eliminations | Combined |
|---|-----------------------------------|----------------------------|--|---------------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| REVENUE | | | | | |
| External sales | 44,793 | 232,866 | 95,301 | — | 372,960 |
| Inter-segment sales | <u>823</u> | <u>—</u> | <u>8,061</u> | <u>(8,884)</u> | <u>—</u> |
| Total | <u>45,616</u> | <u>232,866</u> | <u>103,362</u> | <u>(8,884)</u> | <u>372,960</u> |
| RESULTS | | | | | |
| Segment results | <u>4,256</u> | <u>12,535</u> | <u>17,201</u> | <u>—</u> | <u>33,992</u> |
| Unallocated corporate income | | | | | 369 |
| Unallocated corporate expenses | | | | | (2,345) |
| Share of results of associates | | | | | 58 |
| Finance costs | | | | | <u>(3,750)</u> |
| Profit before taxation | | | | | 28,324 |
| Taxation | | | | | <u>(7,312)</u> |
| Profit for the year | | | | | <u>21,012</u> |

For the year ended September 30, 2007

| | Manufacturing Business | Retail Business | Brand Licensee Business | Property Leasing and Management | Eliminations | Combined |
|---|-----------------------------------|----------------------------|--|--|---------------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| REVENUE | | | | | | |
| External sales | 67,053 | 355,244 | 133,187 | 419 | — | 555,903 |
| Inter-segment sales | <u>—</u> | <u>—</u> | <u>13,603</u> | <u>—</u> | <u>(13,603)</u> | <u>—</u> |
| Total | <u>67,053</u> | <u>355,244</u> | <u>146,790</u> | <u>419</u> | <u>(13,603)</u> | <u>555,903</u> |
| RESULTS | | | | | | |
| Segment results | <u>8,220</u> | <u>26,926</u> | <u>28,283</u> | <u>(990)</u> | <u>—</u> | <u>62,439</u> |
| Unallocated corporate income | | | | | | 970 |
| Unallocated corporate expenses | | | | | | (4,438) |
| Share of results of associates | | | | | | 108 |
| Share of results of jointly controlled entities | | | | | | 3,049 |
| Finance costs | | | | | | <u>(3,710)</u> |
| Profit before taxation | | | | | | 58,418 |
| Taxation | | | | | | <u>(14,484)</u> |
| Profit for the year | | | | | | <u>43,934</u> |

For the three months ended December 31, 2007

| | Manufacturing Business | Retail Business | Brand Licensee Business | Property Leasing and Management | Eliminations | Combined |
|---|-----------------------------------|----------------------------|--|--|---------------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| REVENUE | | | | | | |
| External sales | 20,897 | 126,971 | 36,758 | 402 | — | 185,028 |
| Inter-segment sales | — | — | 7,124 | — | (7,124) | — |
| Total | <u>20,897</u> | <u>126,971</u> | <u>43,882</u> | <u>402</u> | <u>(7,124)</u> | <u>185,028</u> |
| RESULTS | | | | | | |
| Segment results . . . | <u>3,229</u> | <u>8,185</u> | <u>8,492</u> | <u>(552)</u> | <u>—</u> | 19,354 |
| Unallocated corporate income | | | | | | 4,290 |
| Unallocated corporate expenses | | | | | | (1,828) |
| Share of results of associates | | | | | | 1,027 |
| Share of results of jointly controlled entities | | | | | | 4,964 |
| Finance costs | | | | | | <u>(3,410)</u> |
| Profit before taxation | | | | | | 24,397 |
| Taxation | | | | | | <u>(4,719)</u> |
| Profit for the period | | | | | | <u>19,678</u> |

For the three months ended December 31, 2006 (unaudited)

| | Manufacturing Business | Retail Business | Brand Licensee Business | Property Leasing and Management | Eliminations | Combined |
|--|-----------------------------------|----------------------------|--|--|---------------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| REVENUE | | | | | | |
| External sales | 12,408 | 68,259 | 20,941 | — | — | 101,608 |
| Inter-segment sales | — | — | 1,268 | — | (1,268) | — |
| Total | <u>12,408</u> | <u>68,259</u> | <u>22,209</u> | <u>—</u> | <u>(1,268)</u> | <u>101,608</u> |
| RESULTS | | | | | | |
| Segment results . . . | <u>1,592</u> | <u>4,569</u> | <u>4,194</u> | <u>—</u> | <u>—</u> | 10,355 |
| Unallocated corporate income | | | | | | 243 |
| Unallocated corporate expenses | | | | | | (217) |
| Share of results of associates | | | | | | 134 |
| Finance costs | | | | | | <u>(1,341)</u> |
| Profit before taxation | | | | | | 9,174 |
| Taxation | | | | | | <u>(1,730)</u> |
| Profit for the period | | | | | | <u>7,444</u> |

Balance Sheets

| | As at September 30, | | | As at |
|---|---------------------|----------|----------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Segment assets | | | | |
| Manufacturing Business | 32,256 | 40,949 | 61,569 | 71,870 |
| Retail Business | 74,892 | 84,148 | 182,896 | 233,134 |
| Brand Licensee Business . . . | 18,480 | 15,430 | 22,822 | 24,415 |
| Property Leasing and Management | — | — | 54,673 | 64,970 |
| | 125,628 | 140,527 | 321,960 | 394,389 |
| Interests in associates | | | | |
| — Retail Business | — | 5,698 | 10,922 | 12,711 |
| Interests in jointly controlled entities | | | | |
| — Retail Business | — | — | 33,036 | 42,257 |
| Loan to an associate | — | — | — | 2,738 |
| Loans to jointly controlled entities | — | — | 39,915 | 62,922 |
| Unallocated | 33,917 | 68,436 | 148,097 | 246,960 |
| | 159,545 | 214,661 | 553,930 | 761,977 |
| Segment liabilities | | | | |
| Manufacturing Business | 3,132 | 3,745 | 6,239 | 7,568 |
| Retail Business | 15,112 | 21,155 | 64,076 | 65,275 |
| Brand Licensee Business . . . | 3,313 | 5,136 | 10,929 | 9,924 |
| Property Leasing and Management | — | — | 67 | 236 |
| | 21,557 | 30,036 | 81,311 | 83,003 |
| Unallocated | 108,965 | 132,963 | 285,230 | 457,957 |
| | 130,522 | 162,999 | 366,541 | 540,960 |

Other Information

| | Year ended September 30, | | | Three months ended December 31, | |
|---|--------------------------|---------------|---------------|------------------------------------|---------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Capital additions: | | | | | |
| Manufacturing Business . . | 6,103 | 7,005 | 15,901 | 4,325 | 10,632 |
| Retail Business | 5,234 | 4,005 | 28,106 | 5,512 | 8,400 |
| Brand Licensee Business . | 6,143 | 696 | 3,066 | 1,933 | 357 |
| Property Leasing and Management | — | — | 39,712 | — | 6,703 |
| | <u>17,480</u> | <u>11,706</u> | <u>86,785</u> | <u>11,770</u> | <u>26,092</u> |
| Depreciation of property, plant and equipment: | | | | | |
| Manufacturing Business . . | 1,325 | 2,014 | 2,754 | 126 | 912 |
| Retail Business | 2,173 | 3,734 | 7,567 | 1,596 | 2,262 |
| Brand Licensee Business . | 2,175 | 2,257 | 1,323 | 190 | 423 |
| Property Leasing and Management | — | — | 57 | — | 34 |
| | <u>5,673</u> | <u>8,005</u> | <u>11,701</u> | <u>1,912</u> | <u>3,631</u> |
| Release of prepaid lease payments: | | | | | |
| Manufacturing Business . . | 25 | 25 | 25 | 6 | 6 |
| Retail Business | — | — | — | — | — |
| Brand Licensee Business . | 26 | 26 | 26 | 6 | 7 |
| Property Leasing and Management | — | — | — | — | — |
| | <u>51</u> | <u>51</u> | <u>51</u> | <u>12</u> | <u>13</u> |
| Loss (gain) on disposal of property, plant and equipment: | | | | | |
| Manufacturing Business . . | — | 47 | 28 | — | — |
| Retail Business | — | — | (3) | 3 | 16 |
| Brand Licensee Business . | — | 30 | — | — | — |
| Property Leasing and Management | — | — | — | — | — |
| | <u>—</u> | <u>77</u> | <u>25</u> | <u>3</u> | <u>16</u> |

| | Year ended September 30, | | | Three months ended December 31, | |
|--|--------------------------|--------------|----------------|------------------------------------|--------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Impairment loss (reversal of) recognized on trade receivables: | | | | | |
| Manufacturing Business . . | 4 | (134) | (24) | 274 | — |
| Retail Business | 333 | 498 | (135) | (60) | 697 |
| Brand Licensee Business . | 468 | (443) | (176) | — | 594 |
| Property Leasing and Management | — | — | — | — | — |
| | <u>805</u> | <u>(79)</u> | <u>(335)</u> | <u>214</u> | <u>1,291</u> |
| Allowance for (reversal of) inventories: | | | | | |
| Manufacturing Business . . | — | — | — | — | — |
| Retail Business | 626 | 3,832 | (1,957) | (347) | 104 |
| Brand Licensee Business . | 439 | (1,532) | (872) | (52) | 45 |
| Property Leasing and Management | — | — | — | — | — |
| | <u>1,065</u> | <u>2,300</u> | <u>(2,829)</u> | <u>(399)</u> | <u>149</u> |

Geographical segments

Over 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented for the Track Record Period.

As at the respective balance sheet dates, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no analysis of the carrying amount of segment assets or additions to property, plant and equipment is presented.

6. OTHER INCOME AND GAIN

| | Year ended September 30, | | | Three months ended December 31 | |
|--|--------------------------|--------------|---------------|-----------------------------------|---------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Cash discounts | 2,845 | 3,907 | 7,723 | 2,429 | 2,811 |
| Interest income on bank balances. | 174 | 369 | 970 | 243 | 526 |
| Interest income from related companies | — | — | 97 | — | 339 |
| Sales of store displays and related items | 1,585 | 2,677 | 3,928 | 877 | 2,545 |
| Fair value change on call options (Note 24) | — | — | — | — | 1,573 |
| Fair value change on derivative related to call option premium (Note 24) | — | — | — | — | 2,391 |
| Exchange gain | 583 | 747 | 1,236 | 149 | 1,082 |
| Others | 891 | 1,060 | 272 | 126 | 159 |
| | <u>6,078</u> | <u>8,760</u> | <u>14,226</u> | <u>3,824</u> | <u>11,426</u> |

7. TAXATION

| | Year ended September 30, | | | Three months ended December 31, | |
|---------------------------------|--------------------------|--------------|---------------|------------------------------------|--------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Tax charge represents: | | | | | |
| Hong Kong Profits Tax | 69 | 537 | 617 | 40 | 221 |
| PRC Income Tax | 1,906 | 4,812 | 12,683 | 182 | 4,125 |
| Overseas income tax | 336 | 1,963 | 1,184 | 1,508 | 373 |
| | <u>2,311</u> | <u>7,312</u> | <u>14,484</u> | <u>1,730</u> | <u>4,719</u> |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for each of the years/periods in the Track Record Period.

PRC Enterprise Income Tax is calculated based on the statutory rate of 33% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except the following:

- (i) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. The tax holidays and concessions will expire between 2008 and 2010.
- (ii) Pursuant to 《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》 and the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific encouraged industry are subject to a preferential tax rate of 15% during the period from 2001 to 2010.
- (iii) Pursuant to Income Tax Law of the PRC, Yusheng (Kunshan) Sports Goods Company Limited ("Yusheng (Kunshan)"), a principal subsidiary of the Company operating in an approved economic and technology development zone of the PRC, is entitled to a preferential income tax rate of 15% and is exempted from 3% local income tax, when the annual revenue from manufacturing business amounted to over 50% of its total revenue in respective fiscal years. The preferential rate is subjected to further annual confirmation to be obtained from the local tax bureau.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC, On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation regulations would impose a single income tax rate of 25% for all the enterprises from January 1, 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises income Tax (Guofa [2007] No. 39), those entities that previously enjoyed the tax preferential treatment as (iii) above would be granted a five year transitional period with a progressive tax rate. The tax exemption and deduction from FEIT entitled as (i) above is still applicable until the end of the five year transitional period under the New Law. The preferential treatment (ii) above will continue on the implementation of the New Law.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the Track Record Period can be reconciled to the profit before taxation as follows:

| | Year ended September 30, | | | Three months ended December 31, | |
|---|--------------------------|---------------|---------------|---------------------------------|---------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| | | | | (unaudited) | |
| Profit before taxation | <u>8,336</u> | <u>28,324</u> | <u>58,418</u> | <u>9,174</u> | <u>24,397</u> |
| Tax at domestic tax rates applicable to profits of taxable entities in the countries concerned (Note a) | 2,442 | 7,609 | 15,434 | 1,907 | 6,996 |
| Tax effect of share of results of associates and jointly controlled entities | — | — | (1,006) | (44) | (1,958) |
| Tax effect of expenses not deductible for tax purposes (Note b) | 1,634 | 3,205 | 2,520 | 399 | 522 |
| Tax effect of income not taxable for tax purposes | (571) | (444) | (555) | (45) | (812) |
| Effect of tax holidays granted to PRC subsidiaries | (1,420) | (3,664) | (2,740) | (652) | (422) |
| Effect of tax loss not recognized (Note c) | 332 | 606 | 831 | 165 | 393 |
| Utilization of tax loss previously not recognized | <u>(106)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Tax charge for the year/period. . . | <u>2,311</u> | <u>7,312</u> | <u>14,484</u> | <u>1,730</u> | <u>4,719</u> |

(a) As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

(b) Expenses not deductible for tax purpose mainly included expenses exceeded the maximum allowable amount for the PRC taxation purposes.

(c) Tax losses not recognized will expire in:

| | As at September 30, | | | As at |
|----------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| 2009 | 1 | 1 | 1 | 1 |
| 2010 | 584 | 584 | 584 | 584 |
| 2011 | — | 1,335 | 1,333 | 1,333 |
| 2012 | — | — | 794 | 1,188 |
| | <u>585</u> | <u>1,920</u> | <u>2,712</u> | <u>3,106</u> |

No deferred tax asset has been recognised in respect of the above tax losses due to the unpredictability of future profit streams.

There was no significant unprovided deferred taxation for the Track Record Period or at the respective balance sheet date.

8. PROFIT FOR THE YEAR/PERIOD

| | Year ended September 30, | | | Three months ended | |
|--|--------------------------|---------------|---------------|--------------------|---------------|
| | 2005 | 2006 | 2007 | December 31, | |
| | US\$'000 | US\$'000 | US\$'000 | 2006 | 2007 |
| | | | | US\$'000 | US\$'000 |
| | | | | (unaudited) | |
| Profit for the year/period has been arrived at after charging (crediting): | | | | | |
| Directors' emoluments (<i>note 9</i>) | 340 | 409 | 600 | 89 | 134 |
| Other staff costs | 23,601 | 38,078 | 64,496 | 12,199 | 20,522 |
| Retirement benefit scheme contributions, excluding directors | <u>607</u> | <u>650</u> | <u>1,007</u> | <u>127</u> | <u>398</u> |
| Total staff costs | <u>24,548</u> | <u>39,137</u> | <u>66,103</u> | <u>12,415</u> | <u>21,054</u> |
| Auditors' remuneration. | — | 200 | 250 | 63 | 63 |
| Depreciation of property, plant and equipment | 5,673 | 8,005 | 11,701 | 1,912 | 3,631 |
| Release of prepaid lease payment | 51 | 51 | 51 | 12 | 13 |
| Loss on disposal of property, plant and equipment | — | 77 | 25 | 3 | 16 |
| Research and development expenditure | 709 | 1,223 | 1,675 | 371 | 381 |

| | Year ended September 30, | | | Three months ended December 31, | |
|----------------------------------|--------------------------|----------|------------|------------------------------------|------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Impairment loss (reversal of) | | | | | |
| recognized on trade receivables | 805 | (79) | (335) | 214 | 1,291 |
| Allowance for (reversal of) | | | | | |
| inventories | 1,065 | 2,300 | (2,829) | (399) | 149 |
| Royalty fees | 4,846 | 9,216 | 13,578 | 1,975 | 3,394 |
| Concession expenses | 19,122 | 28,614 | 41,964 | 9,181 | 14,226 |
| Cost of inventories | 128,355 | 233,793 | 354,893 | 63,531 | 116,991 |
| Sub-contracting fee | — | 279 | 135 | 37 | 66 |
| Share of taxation of associates | | | | | |
| (included in share of results of | | | | | |
| associates). | — | 29 | 119 | 66 | 299 |
| Share of taxation of jointly | | | | | |
| controlled entities (included in | | | | | |
| share of results of jointly | | | | | |
| controlled entities) | <u>—</u> | <u>—</u> | <u>878</u> | <u>—</u> | <u>220</u> |

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors for the Track Record Period are as follows:

For the year ended September 30, 2005

| | <u>Fees</u> | <u>Salaries and other allowances</u> | <u>Bonus</u> | <u>Retirement benefit scheme contribution</u> | <u>Total</u> |
|--|-------------|--|--------------|---|--------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Executive directors: | | | | | |
| Huang Tsung Jen | — | 264 | 47 | — | 311 |
| Lee Chung Wen | — | — | — | — | — |
| Huang Chun Hua. | — | 26 | 2 | 1 | 29 |
| Chang Karen, Yi-Fen . . . | — | — | — | — | — |
| Non-executive directors: | | | | | |
| Ku Edward, Yu San. . . . | — | — | — | — | — |
| Tsai David, Nai Fung. . . | — | — | — | — | — |
| Tsai Pei Chun | — | — | — | — | — |
| Independent non- executive directors: | | | | | |
| Chen Huan-Chung | — | — | — | — | — |
| Hu Sheng-Yih | — | — | — | — | — |
| Mak Kin Kwong | — | — | — | — | — |
| Cheng Min Fun Paul . . . | — | — | — | — | — |
| | <u>—</u> | <u>290</u> | <u>49</u> | <u>1</u> | <u>340</u> |

For the year ended September 30, 2006

| | <u>Fees</u> | <u>Salaries and other allowances</u> | <u>Bonus</u> | <u>Retirement benefit scheme contribution</u> | <u>Total</u> |
|--|-------------|--|--------------|---|--------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Executive directors: | | | | | |
| Huang Tsung Jen | — | 289 | 66 | — | 355 |
| Lee Chung Wen | — | — | — | — | — |
| Huang Chun Hua. | — | 33 | 20 | 1 | 54 |
| Chang Karen, Yi-Fen . . . | — | — | — | — | — |
| Non-executive directors: | | | | | |
| Ku Edward, Yu San. . . . | — | — | — | — | — |
| Tsai David, Nai Fung. . . | — | — | — | — | — |
| Tsai Pei Chun. | — | — | — | — | — |
| Independent non- executive directors: | | | | | |
| Chen Huan Chung. | — | — | — | — | — |
| Hu Sheng Yih. | — | — | — | — | — |
| Mak Kin Kwong. | — | — | — | — | — |
| | <u>—</u> | <u>322</u> | <u>86</u> | <u>1</u> | <u>409</u> |

For the year ended September 30, 2007

| | <u>Fees</u> | <u>Salaries and other allowances</u> | <u>Bonus</u> | <u>Retirement benefit scheme contribution</u> | <u>Total</u> |
|--|-------------|--|--------------|---|--------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Executive directors: | | | | | |
| Huang Tsung Jen | — | 303 | 232 | — | 535 |
| Lee Chung Wen | — | — | — | — | — |
| Huang Chun Hua. | — | 59 | 5 | 1 | 65 |
| Chang Karen, Yi-Fen . . . | — | — | — | — | — |
| Non-executive directors: | | | | | |
| Ku Edward, Yu San. . . . | — | — | — | — | — |
| Tsai David, Nai Fung. . . | — | — | — | — | — |
| Tsai Pei Chun. | — | — | — | — | — |
| Independent non- executive directors: | | | | | |
| Chen Huan Chung. | — | — | — | — | — |
| Hu Sheng Yih. | — | — | — | — | — |
| Mak Kin Kwong. | — | — | — | — | — |
| | <u>—</u> | <u>362</u> | <u>237</u> | <u>1</u> | <u>600</u> |

For three months ended December 31, 2007

| | <u>Fees</u> | <u>Salaries and other allowances</u> | <u>Bonus</u> | <u>Retirement benefit scheme contribution</u> | <u>Total</u> |
|--|-------------|--|--------------|---|--------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Executive directors: | | | | | |
| Huang Tsung Jen | — | 81 | — | — | 81 |
| Lee Chung Wen | — | — | — | — | — |
| Huang Chun Hua. | — | 24 | — | 1 | 25 |
| Chang Karen, Yi-Fen . . . | — | 28 | — | — | 28 |
| Non-executive directors: | | | | | |
| Ku Edward, Yu San. . . . | — | — | — | — | — |
| Tsai David, Nai Fung. . . | — | — | — | — | — |
| Tsai Pei Chun. | — | — | — | — | — |
| Independent non- executive directors: | | | | | |
| Chen Huan Chung | — | — | — | — | — |
| Hu Sheng Yih. | — | — | — | — | — |
| Mak Kin Kwong | — | — | — | — | — |
| | <u>—</u> | <u>133</u> | <u>—</u> | <u>1</u> | <u>134</u> |

For the three months ended December 31, 2006 (unaudited)

| | <u>Fees</u> | <u>Salaries and other allowances</u> | <u>Bonus</u> | <u>Retirement benefit scheme contribution</u> | <u>Total</u> |
|--|-------------|--|--------------|---|--------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Executive directors: | | | | | |
| Huang Tsung Jen | — | 73 | — | — | 73 |
| Lee Chung Wen | — | — | — | — | — |
| Huang Chun Hua. | — | 15 | — | 1 | 16 |
| Chang Karen, Yi-Fen . . . | — | — | — | — | — |
| Non-executive directors: | | | | | |
| Ku Edward, Yu San. . . . | — | — | — | — | — |
| Tsai David, Nai Fung. . . | — | — | — | — | — |
| Tsai Pei Chun. | — | — | — | — | — |
| Independent non- executive directors: | | | | | |
| Chen Huan Chung | — | — | — | — | — |
| Hu Sheng Yih. | — | — | — | — | — |
| Mak Kin Kwong | — | — | — | — | — |
| | <u>—</u> | <u>88</u> | <u>—</u> | <u>1</u> | <u>89</u> |

Employees

The five highest paid individuals of the Group for each of the three financial years ended September 30, 2007 and the three months ended December 31, 2006 and 2007 included two, one, one, one and one, directors, respectively, details of which are set out above. The remunerations of the remaining individuals for the Track Record Period are as follows:

| | Year ended September 30, | | | Three months ended December 31, | |
|------------------------|--------------------------|------------|--------------|---------------------------------|------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| | | | | (unaudited) | |
| Employee | | | | | |
| — salaries and other | | | | | |
| allowances | 287 | 379 | 460 | 116 | 151 |
| — bonus | 160 | 406 | 728 | — | — |
| — retirement benefit | | | | | |
| scheme contributions . | — | — | — | — | — |
| | <u>447</u> | <u>785</u> | <u>1,188</u> | <u>116</u> | <u>151</u> |

The emoluments of each of the five highest paid individuals in the Group, except the directors as set out above, during the Track Record Period were below HK\$1,000,000 each year/period.

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employee) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

10. DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for each of the years/period in the Track Record Period and the weighted average number of 271,766,677, 345,302,354 and 1,318,337,062 ordinary shares in issue for the three years ended September 30, 2007 and 988,516,464 and 1,801,243,642 ordinary shares in issue for the three months ended December 31, 2006 and 2007, respectively.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been retrospectively adjusted for the capitalization issue as described more fully in the paragraph headed “Resolutions of the Company’s sole Shareholder passed on May 14, 2008” in Appendix VIII to the Prospectus.

No diluted earnings per share are presented for the Track Record Period as there were no potential dilutive ordinary shares in issue.

12(a). PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Buildings | Plant and machinery | Leasehold improvements | Furniture, fixture and equipment | Motor vehicles | Construction in progress | Total |
|----------------------------|-----------------------|---------------|------------------------|---------------------------|--|-------------------|-----------------------------|----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| COST | | | | | | | | |
| At October 1, 2004 | — | 10,268 | 3,581 | 4,475 | 2,820 | 448 | 6,607 | 28,199 |
| Exchange realignment . . | — | 234 | 82 | 102 | 64 | 10 | 151 | 643 |
| Additions | — | 2,388 | 2,761 | 7,926 | 3,133 | 267 | 1,005 | 17,480 |
| Transfer | — | 7,668 | — | — | — | — | (7,668) | — |
| Disposals | — | — | — | (242) | (242) | — | — | (484) |
| At September 30, 2005 . . | — | 20,558 | 6,424 | 12,261 | 5,775 | 725 | 95 | 45,838 |
| Exchange realignment . . | — | 489 | 153 | 292 | 137 | 17 | 2 | 1,090 |
| Additions | — | 338 | 4,058 | 4,117 | 2,283 | 370 | 540 | 11,706 |
| Transfer | — | — | 95 | — | — | — | (95) | — |
| Disposals | — | — | (196) | (422) | (267) | (137) | — | (1,022) |
| At September 30, 2006 . . | — | 21,385 | 10,534 | 16,248 | 7,928 | 975 | 542 | 57,612 |
| Exchange realignment . . | 253 | 1,280 | 576 | 785 | 516 | 66 | 654 | 4,130 |
| Additions | 7,767 | 19,611 | 2,922 | 9,980 | 7,960 | 728 | 19,227 | 68,195 |
| Acquisition of business . | — | — | — | 2,346 | — | — | — | 2,346 |
| Transfer | — | 11,382 | — | — | — | — | (11,382) | — |
| Disposals | — | — | (17) | (2,204) | (148) | (67) | — | (2,436) |
| At September 30, 2007 . . | 8,020 | 53,658 | 14,015 | 27,155 | 16,256 | 1,702 | 9,041 | 129,847 |
| Exchange realignment . . | 134 | 531 | 171 | 398 | 141 | 49 | 2 | 1,426 |
| Additions | — | — | 981 | 6,242 | 3,122 | 160 | 9,516 | 20,021 |
| Disposals | — | — | (404) | (1,072) | (1,078) | (115) | — | (2,669) |
| At December 31, 2007 . . | <u>8,154</u> | <u>54,189</u> | <u>14,763</u> | <u>32,723</u> | <u>18,441</u> | <u>1,796</u> | <u>18,559</u> | <u>148,625</u> |
| DEPRECIATION | | | | | | | | |
| At October 1, 2004 | — | 468 | 278 | 2,406 | 860 | 139 | — | 4,151 |
| Exchange realignment . . | — | 11 | 6 | 55 | 20 | 3 | — | 95 |
| Provided for the year . . | — | 671 | 432 | 3,638 | 829 | 103 | — | 5,673 |
| Eliminated on disposals . | — | — | — | (227) | (139) | — | — | (366) |
| At September 30, 2005 . . | — | 1,150 | 716 | 5,872 | 1,570 | 245 | — | 9,553 |
| Exchange realignment . . | — | 28 | 17 | 140 | 37 | 6 | — | 228 |
| Provided for the year . . | — | 1,359 | 708 | 4,376 | 1,331 | 231 | — | 8,005 |
| Eliminated on disposals . | — | — | (15) | (245) | (197) | (93) | — | (550) |
| At September 30, 2006 . . | — | 2,537 | 1,426 | 10,143 | 2,741 | 389 | — | 17,236 |
| Exchange realignment . . | 4 | 64 | 87 | 481 | 69 | 22 | — | 727 |
| Provided for the year . . | 110 | 1,317 | 1,081 | 7,136 | 1,841 | 216 | — | 11,701 |
| Eliminated on disposals . | — | — | (3) | (1,738) | (81) | (51) | — | (1,873) |
| At September 30, 2007 . . | 114 | 3,918 | 2,591 | 16,022 | 4,570 | 576 | — | 27,791 |
| Exchange realignment . . | 20 | 75 | 146 | 237 | 42 | 14 | — | 534 |
| Provided for the period . | 44 | 369 | 322 | 1,743 | 1,076 | 77 | — | 3,631 |
| Eliminated on disposals . | — | — | (376) | (879) | (1,002) | (113) | — | (2,370) |
| At December 31, 2007 . . | <u>178</u> | <u>4,362</u> | <u>2,683</u> | <u>17,123</u> | <u>4,686</u> | <u>554</u> | <u>—</u> | <u>29,586</u> |
| CARRYING VALUE | | | | | | | | |
| At September 30, 2005 . . | <u>—</u> | <u>19,408</u> | <u>5,708</u> | <u>6,389</u> | <u>4,205</u> | <u>480</u> | <u>95</u> | <u>36,285</u> |
| At September 30, 2006 . . | <u>—</u> | <u>18,848</u> | <u>9,108</u> | <u>6,105</u> | <u>5,187</u> | <u>586</u> | <u>542</u> | <u>40,376</u> |
| At September 30, 2007 . . | <u>7,906</u> | <u>49,740</u> | <u>11,424</u> | <u>11,133</u> | <u>11,686</u> | <u>1,126</u> | <u>9,041</u> | <u>102,056</u> |
| At December 31, 2007 . . | <u>7,976</u> | <u>49,827</u> | <u>12,080</u> | <u>15,600</u> | <u>13,755</u> | <u>1,242</u> | <u>18,559</u> | <u>119,039</u> |

At the respective balance sheet dates, the land and buildings included an amount of nil, nil, US\$7,906,000 and US\$7,976,000 which represented an office premise situated in Shanghai, PRC held under medium-term land use right. In the opinion of the Directors, allocation between the land and building elements of that office premise could not be made reliably.

All buildings are situated on land with medium-term land use rights in the PRC.

The above items of property, plant and equipment are depreciated at the following rates per annum:

| | |
|----------------------------------|---|
| Leasehold land and buildings | Over 20 years to 50 years, or shorter of the lease terms of the relevant land, where appropriate (straight line method) |
| Plant and machinery | 5% – 15% (straight line method) |
| Leasehold improvements | 10% – 50% (reducing balance method, or shorter of the lease term) |
| Furniture, fixture and equipment | 20% – 30% (reducing balance method) |
| Motor vehicles | 20% – 30% (reducing balance method) |

12(b). DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At the balance sheet date, the amounts represented deposits paid for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 28.

13. PREPAID LEASE PAYMENTS

| | As at September 30, | | | As at December 31, |
|--|---------------------|--------------|--------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| The carrying amount of the Group's prepaid lease payments are analyzed as follows: | | | | |
| Current assets | 51 | 51 | 125 | 128 |
| Non-current assets | <u>2,387</u> | <u>2,336</u> | <u>5,169</u> | <u>5,153</u> |
| | <u>2,438</u> | <u>2,387</u> | <u>5,294</u> | <u>5,281</u> |

The carrying amount represents prepaid lease payments for medium-term land use rights in the PRC.

The Group had paid the full consideration for its land use rights in the PRC. However, the Group had not yet obtained the title of the land use rights with an aggregate carrying amount of nil, nil, US\$2,923,000 and US\$2,915,000 at September 30, 2005, 2006, 2007 and December 31, 2007, respectively. However, the directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land rights does not impair the value of the relevant properties to the Group.

14. GOODWILL

US\$'000

COST

Arising on acquisition of business and balance at September 30, 2007

and December 31, 2007 2,101

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit, being a subsidiary of the Group engaged in retailing of sportswear in Yunnan, PRC (the "CGU").

During the year ended September 30, 2007 and the three months ended December 31, 2007, management of the Group determined that the CGU containing goodwill had not suffered any impairment. The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarized below:

The recoverable amount of the CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period and discount rate of 9%. The cash flows beyond the five year period are extrapolated using a steady growth rate of 4%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed the corresponding recoverable amount.

15. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE

| | As at September 30, | | | As at |
|--|---------------------|--------------|---------------|---------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Cost of unlisted investments in | | | | |
| associates | — | 5,640 | 10,556 | 10,898 |
| Share of post-acquisition profits, net | | | | |
| of dividends received | — | 58 | 166 | 1,193 |
| Share of post-acquisition reserves . . | — | — | 200 | 620 |
| | <u>—</u> | <u>5,698</u> | <u>10,922</u> | <u>12,711</u> |
| Loan to an associate: | | | | |
| Farsighted Limited. | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,738</u> |

The loan to an associate is interest bearing at the rate of People's Bank of China and have no fixed terms of repayments. The loan transaction is expected to continue after the listing of the Company's Shares on the Stock Exchange.

As at the respective balance sheet dates, the Group had interests in the following associates:

| Name of entity | Place and date of incorporation/ establishment | Proportion of issued and fully paid up capital indirectly held by the Company | | | | Principal activities |
|--|---|---|------|------|--------------------|-------------------------|
| | | As at September 30, | | | As at December 31, | |
| | | 2005 | 2006 | 2007 | 2007 | |
| Farsighted Limited (<i>note</i>) . . | BVI May 23, 2006 | — | 30% | 30% | 30% | Investment holding |
| Dalian Dongzhijie Sports Production Development Company Limited 大連東之杰運動產業開發有限公司 | PRC August 13, 1998 | — | 30% | 30% | 30% | Retailing of sportswear |
| Zhejiang Baohong Sports Goods Company Limited 浙江寶宏體育用品有限公司 | PRC June 5, 2007 | — | — | 49% | 49% | Retailing of sportswear |
| Shaanxi Wuhuan Shengdao Sports Production Development Company Limited 陝西五環勝道運動產業開發有限公司 (“Shaanxi Wuhuan”) (<i>note</i>) | PRC September 7, 2007 | — | — | 40% | 40% | Retailing of sportswear |

Note: During the Track Record Period, the Group established these associates together with the partner of these associates by injection of cash in proportion to their equity interest. Pursuant to the joint venture agreements, the initial investment made by the Group for these associates are subject to a price adjustment mechanism which is determined by the financial performance achieved by the associate during a specified profit evaluation period. If the financial performance of the associate during a specified profit evaluation period does not meet certain benchmarks, the partner of that associate will have to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such associate to the Group. If the financial performance of the associates during such profit evaluation period exceeds certain benchmarks, then the Group is required to make additional contribution to the associate. Further details of these price adjustments are set out in the Business Section headed “Our Business — Our Investments in Joint Ventures — Arrangements with our Joint Ventures” in the Prospectus.

Included in the cost of investments in associates is goodwill of approximately US\$3,003,000, arising on establishment of an associate during the Track Record Period and the movements are as follows:

| | <u>US\$'000</u> |
|---|---------------------|
| COST | |
| Arising on establishment of an associate and balance | |
| at September 30, 2006, 2007 and December 31, 2007 | <u><u>3,003</u></u> |

Summarized financial information in respect of the Group's associates are set out below:

| | <u>As at September 30,</u> | | | <u>As at</u> |
|--------------------------------|----------------------------|-----------------|-----------------|---------------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>December 31,</u> |
| | <u>US\$'000</u> | <u>US\$'000</u> | <u>US\$'000</u> | <u>2007</u> |
| | | | | <u>US\$'000</u> |
| Total assets | — | 29,921 | 47,924 | 72,234 |
| Total liabilities | — | (22,204) | (27,414) | (46,367) |
| Net assets. | <u>—</u> | <u>7,717</u> | <u>20,510</u> | <u>25,867</u> |
| Group's share of net assets of | | | | |
| associates | <u>—</u> | <u>2,695</u> | <u>7,919</u> | <u>9,708</u> |

| | <u>Year ended September 30,</u> | | | <u>Three months ended</u> | |
|--------------------------------------|---------------------------------|-----------------|-----------------|---------------------------|-----------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>December 31,</u> | |
| | <u>US\$'000</u> | <u>US\$'000</u> | <u>US\$'000</u> | <u>2006</u> | <u>2007</u> |
| | | | | <u>US\$'000</u> | <u>US\$'000</u> |
| | | | | (unaudited) | |
| Revenue. | <u>—</u> | <u>10,657</u> | <u>97,934</u> | <u>16,846</u> | <u>48,764</u> |
| Group's share of revenue of | | | | | |
| associates for the year/period . | <u>—</u> | <u>3,197</u> | <u>29,437</u> | <u>5,054</u> | <u>15,633</u> |
| Profit for the year/period | <u>—</u> | <u>179</u> | <u>364</u> | <u>447</u> | <u>3,277</u> |
| Group's share of results of | | | | | |
| associates for the year/period . | <u>—</u> | <u>58</u> | <u>108</u> | <u>134</u> | <u>1,027</u> |

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES

| | As at September 30, | | | As at |
|--|---------------------|----------|---------------|---------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| Cost of unlisted investments in jointly controlled entities | — | — | 29,717 | 32,557 |
| Share of post-acquisition profits, net of dividends received | — | — | 3,049 | 8,013 |
| Share of post-acquisition reserves | — | — | 270 | 1,687 |
| | <u>—</u> | <u>—</u> | <u>33,036</u> | <u>42,257</u> |
| Loans to jointly controlled entities | <u>—</u> | <u>—</u> | <u>39,915</u> | <u>62,922</u> |

As at the respective balance sheet dates, the Group had interest in the following jointly controlled entities:

| Name of entity | Place and date of incorporation/ establishment | Proportion of issued and fully paid up capital indirectly held by the Company | | | | Principal activities |
|--|---|---|---------------|---------------|--------------|-------------------------|
| | | As at | | | As at | |
| | | September 30, | September 30, | September 30, | December 31, | |
| | | 2005 | 2006 | 2007 | 2007 | |
| Harbin Shenge Sports Chain Company Limited 哈爾濱申格體育連鎖有限公司 (“Harbin Shenge”) (note) | PRC March 28, 2007 | — | — | 45% | 45% | Retailing of sportswear |
| Suzhou Xinjun Trading Development Company Limited 蘇州信俊貿易發展有限公司 (“Suzhou Xinjun”) (note) | PRC September 12, 2007 | — | — | 49% | 49% | Retailing of sportswear |

| Name of entity | Place and date of incorporation/ establishment | Proportion of issued and fully paid up capital indirectly held by the Company | | | | Principal activities |
|--|---|---|------|------|-----------------------|-------------------------|
| | | As at September 30, | | | As at December 31, | |
| | | 2005 | 2006 | 2007 | 2007 | |
| Hebei Zhanxin Sports Development Company Limited 河北展新體育發展有限公司 (“Hebei Zhanxin”) (note) | PRC July 4, 2007 | — | — | 45% | 45% | Retailing of sportswear |
| Hefei Tengrei Sports Goods Company Limited 合肥騰瑞體育用品有限公司 (“Hefei Tengrei”) (note). . . . | PRC August 3, 2007 | — | — | 50% | 50% | Retailing of sportswear |
| Hubei Jiezhixing Clothing and Accessories Company Limited 湖北杰之行服飾有限公司 (“Hubei Jiezhixing”) (note) . . . | PRC April 10, 2007 | — | — | 50% | 50% | Retailing of sportswear |
| Jilin Xinfangwei Sports Goods Company Limited 吉林新方位體育用品有限公司 (“Jilin Xinfangwei”) (note) . . | PRC October 13, 2006 | — | — | 50% | 50% | Retailing of sportswear |
| Jilin Lingpao Sports Goods Company Limited 吉林領跑體育用品有限公司 (“Jilin Lingpao”) (note) | PRC September 12, 2006 | — | — | 50% | 50% | Retailing of sportswear |

| Name of entity | Place and date of incorporation/ establishment | Proportion of issued and fully paid up capital indirectly held by the Company | | | | Principal activities |
|--|---|---|------|------|-----------------------|-------------------------|
| | | As at September 30, | | | As at December 31, | |
| | | 2005 | 2006 | 2007 | 2007 | |
| Shaanxi Jixian Longyue Sports Goods Company Limited 陝西極限龍躍體育用品有限公司 (“Shaanxi Jixian Longyue”) (note) | PRC July 20, 2007 | — | — | 50% | 50% | Retailing of sportswear |
| Zhejiang Jinguan Enterprise Development Company Limited 浙江金冠實業發展有限公司 (“Zhejiang Jinguan”) (note). | PRC September 7, 2007 | — | — | 50% | 50% | Retailing of sportswear |
| Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司 (“Zhejiang Yichuan”) (note) | PRC November 28, 2006 | — | — | 50% | 50% | Retailing of sportswear |
| Hangzhou Baohong Sports Goods Company Limited 杭州寶宏體育用品有限公司 (“Hangzhou Baohong”) | PRC August 20, 2007 | — | — | 50% | 50% | Retailing of sportswear |
| Guiyang Baoshang Sports Goods Company Limited 貴陽寶尚體育用品有限公司 | PRC August 30, 2007 | — | — | 50% | 50% | Retailing of sportswear |

| Name of entity | Place and date of incorporation/ establishment | Proportion of issued and fully paid up capital indirectly held by the Company | | | | Principal activities |
|--|---|---|------|------|-----------------------|-------------------------|
| | | As at September 30, | | | As at December 31, | |
| | | 2005 | 2006 | 2007 | 2007 | |
| Wenzhou Baofeng Trading Company Limited 溫州寶豐商貿有限公司 (“Wenzhou Baofeng”) (note) | PRC September 27, 2007 | — | — | 50% | 50% | Retailing of sportswear |

Note: During the Track Record Period, the Group established these jointly controlled entities together with the partner of these jointly controlled entities, by injection of cash in proportion to their equity interest. Pursuant to the joint venture agreement, the initial investment made by the Group for these jointly controlled entities are subject to a price adjustment mechanism which is determined by the financial performance achieved by the jointly controlled entities during a specified profit evaluation period. If the financial performance of jointly controlled entities during a specified profit evaluation period does not meet certain benchmarks, the partner of that jointly controlled entity will have to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such jointly controlled entity to the Group. If the financial performance of the jointly controlled entity during such profit evaluation period exceeds certain benchmarks, then the Group is required to make additional contribution to those jointly controlled entities. Further details of these price adjustment arrangement are set out in the Business section headed “Our Business — Our Investments in Joint Ventures — Arrangements with our Joint Ventures” in the Prospectus.

The loans to jointly controlled entities are secured by the equity interests of the relevant jointly controlled entities held by the venture partners other than the Group, interest bearing at the rate of People's Bank of China and have no fixed terms of repayments. The loan transactions are expected to continue after the listing of the Company's shares on the Stock Exchange.

Loans to jointly controlled entities:

| | As at September 30, | | | As at |
|----------------------------------|---------------------|----------|----------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Harbin Shenge | — | — | 3,997 | 9,062 |
| Hebei Zhanxin | — | — | 2,664 | 6,161 |
| Hefei Tengrei | — | — | — | 3,970 |
| Hubei Jiezhixing | — | — | 13,323 | 12,030 |
| Jilin Xinfangwei | — | — | 7,327 | 7,530 |
| Jilin Lingpao | — | — | 3,997 | 4,107 |
| Shaanxi Jixian Longyue | — | — | — | 2,641 |
| Suzhou Xinjun | — | — | — | 2,060 |
| Zhejiang Jinguan | — | — | 613 | 3,861 |
| Zhejiang Yichuan | — | — | 7,994 | 11,500 |
| | — | — | 39,915 | 62,922 |

Summarised financial information in respect of the Group's jointly controlled entities are set out below:

| | As at September 30, | | | As at |
|-------------------------------|---------------------|----------|-----------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Non current assets | — | — | 13,700 | 17,097 |
| Current assets | — | — | 197,464 | 251,831 |
| Current liabilities | — | — | (143,649) | (182,738) |

| | Year ended December 31, | | | Three months ended | |
|--------------------|-------------------------|----------|----------|--------------------|-----------|
| | 2005 | 2006 | 2007 | December 31, | |
| | US\$'000 | US\$'000 | US\$'000 | 2006 | 2007 |
| | | | | US\$'000 | US\$'000 |
| Revenue | — | — | 98,156 | — | 120,136 |
| Expenses | — | — | (91,982) | — | (110,062) |

The summarized financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the equity method is set out below:

| | As at September 30, | | | As at |
|---|---------------------|----------|----------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| Non current assets | — | — | 6,706 | 8,650 |
| Current assets | — | — | 96,665 | 122,821 |
| Current liabilities | — | — | (70,335) | (89,214) |
| Group's share of net assets of jointly controlled entities. | — | — | 33,036 | 42,257 |

| | Year ended September 30, | | | Three months ended | |
|---|--------------------------|----------|----------|-------------------------|----------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Revenue | — | — | 48,322 | — | 58,571 |
| Expense | — | — | (45,273) | — | (53,607) |
| Group's share of results of jointly controlled entities for the year/period | — | — | 3,049 | — | 4,964 |

In addition, during the year ended September 30, 2007, the Group's jointly controlled entities acquired various assets including, property, plant and equipment, inventories and accounts receivables of approximately US\$12,740,000 from their shareholders, other than the Group.

17. INVENTORIES

| | As at September 30, | | | As at |
|----------------------------|---------------------|----------|----------|--------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| Raw materials | 1,400 | 1,561 | 2,292 | 2,834 |
| Work in progress | 1,088 | 2,933 | 4,098 | 6,621 |
| Finished goods | 54,335 | 55,308 | 105,985 | 141,773 |
| | 56,823 | 59,802 | 112,375 | 151,228 |

18. TRADE AND OTHER RECEIVABLES

| | As at September 30, | | | As at December 31, |
|-----------------------------|---------------------|---------------|----------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Trade receivables | 25,839 | 38,288 | 67,150 | 72,152 |
| Other receivables. | 10,324 | 16,455 | 34,446 | 50,951 |
| | <u>36,163</u> | <u>54,743</u> | <u>101,596</u> | <u>123,103</u> |

The Group generally allows an average credit period of 30 days to 90 days to its trade customers. The aged analysis of the Group's trade receivables is as follows:

| | As at September 30, | | | As at December 31, |
|------------------------|---------------------|---------------|---------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Trade receivables: | | | | |
| 0–30 days | 20,305 | 33,166 | 56,974 | 62,618 |
| 31–90 days. | 5,534 | 4,713 | 9,172 | 8,861 |
| Over 90 days | — | 409 | 1,004 | 673 |
| | <u>25,839</u> | <u>38,288</u> | <u>67,150</u> | <u>72,152</u> |

According to the Group's practice, trade receivables that were over 90 days are considered past due. However, the directors have considered these accounts in the context of the credit quality of the relevant customers and concluded that the Group's allowance for trade receivable of approximately US\$643,000, US\$564,000, US\$229,000 and US\$1,520,000 at the respective balance sheet dates are adequate but not excessive.

Movement in the allowance for doubtful debts

| | Year ended September 30, | | | Three months ended December 31, |
|---------------------------------------|--------------------------|------------|------------|--|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| At beginning of the year/period . . . | 313 | 643 | 564 | 229 |
| Impairment loss recognized. | 805 | — | — | 1,291 |
| Written off | (475) | — | — | — |
| Reversal during the year/period . . . | — | (79) | (335) | — |
| At end of the year/period | <u>643</u> | <u>564</u> | <u>229</u> | <u>1,520</u> |

| | As at September 30, | | | As at December 31, |
|---------------------------------------|---------------------|---------------|---------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Other receivables: | | | | |
| Value added tax ("VAT") | | | | |
| recoverable | — | 6,562 | 2,878 | 5,731 |
| Deposits paid to suppliers | 6,604 | 5,262 | 12,623 | 18,928 |
| Prepayments (<i>note</i>) | 1,816 | 2,712 | 15,427 | 22,410 |
| Others | 1,904 | 1,919 | 3,518 | 3,882 |
| | <u>10,324</u> | <u>16,455</u> | <u>34,446</u> | <u>50,951</u> |

note: Prepayments represent prepayments of repair and maintenance fee and current portion of the prepaid rentals.

19. AMOUNTS DUE FROM RELATED PARTIES

Particulars of the amounts due from related parties are as follows:

| | As at September 30, | | | As at December 31, | Maximum amount outstanding Year ended September 30, | | | Three months ended December 31, |
|--|---------------------|--------------|---------------|-----------------------|---|----------|----------|---------------------------------------|
| | 2005 | 2006 | 2007 | 2007 | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Rest Assured Group Limited | | | | | | | | |
| ("Rest Assured") (<i>note</i>) | 131 | 40 | — | — | 131 | 131 | — | — |
| Minority shareholders of | | | | | | | | |
| subsidiaries | — | 1,217 | 2,966 | 10 | — | 1,217 | 2,966 | 2,966 |
| Jointly controlled entities | — | — | 4,775 | 4,232 | — | — | 4,775 | 4,775 |
| Shareholders of associates | — | — | 3,379 | 525 | — | — | 3,379 | 3,379 |
| Shareholders of jointly controlled | | | | | | | | |
| entities | — | — | 9,496 | — | — | — | 9,496 | 9,496 |
| | <u>131</u> | <u>1,257</u> | <u>20,616</u> | <u>4,767</u> | | | | |

note: Being a company controlled by a substantial shareholder of Yue Yuen.

The above amounts arose from temporary fund transfers which were non-trade in nature. They were unsecured, interest free and expected to be repaid before Listing of the Company's shares on the Stock Exchange.

20. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS**Pledged bank deposits**

Pledged bank deposits carry prevailing bank interest rates ranging from 3.60% to 3.87% per annum for the three months ended December 31, 2007 for certain short term bank loans. The pledge will be released upon the settlement of the relevant loans.

Bank balances and cash

Bank balances and cash comprise bank balances and short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates. All deposits are with maturity of three months or less.

The bank deposits carry fixed interest rates ranging from 0.01% to 1.62%, 0.72% to 3.75%, 0.72% to 3.87% and 0.72% to 3.87% per annum, for the year ended September 30, 2005, 2006 and 2007 and three months ended December 31, 2007, respectively.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | As at September 30, | | | As at December 31, |
|---------------------------------|---------------------|--------------|---------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| United States dollars | 294 | 2,459 | 14,555 | 17,397 |
| Hong Kong dollars | 28 | 1,650 | 182 | 89 |
| | <u>322</u> | <u>4,109</u> | <u>14,737</u> | <u>17,486</u> |

21. TRADE AND OTHER PAYABLES

| | As at September 30, | | | As at December 31, |
|--------------------------|---------------------|---------------|----------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Trade payables | 21,100 | 21,236 | 39,526 | 58,645 |
| Bills payables | — | 8,800 | 41,785 | 22,770 |
| Other payables | <u>12,050</u> | <u>25,176</u> | <u>33,147</u> | <u>40,695</u> |
| | <u>33,150</u> | <u>55,212</u> | <u>114,458</u> | <u>122,110</u> |

| | As at September 30, | | | As at |
|--|---------------------|---------------|---------------|---------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| The aged analysis of the Group's trade and bills payables is as follows: | | | | |
| 0–30 days | 19,781 | 24,132 | 55,534 | 63,242 |
| 31–90 days | 1,309 | 4,786 | 19,607 | 5,644 |
| Over 90 days | 10 | 1,118 | 6,170 | 12,529 |
| | <u>21,100</u> | <u>30,036</u> | <u>81,311</u> | <u>81,415</u> |

Other payables:

| | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|
| Accruals (<i>note</i>) | 5,607 | 12,734 | 20,571 | 19,827 |
| Interest payable | 502 | 210 | 433 | 926 |
| Receipts in advance | 2,699 | 3,490 | 5,515 | 8,246 |
| Royalty payable | 2,134 | 2,785 | 4,297 | 1,130 |
| VAT payable | 192 | 4,118 | 884 | 5,294 |
| Others | 916 | 1,839 | 1,447 | 5,272 |
| | <u>12,050</u> | <u>25,176</u> | <u>33,147</u> | <u>40,695</u> |

note: Accruals mainly comprise accrued staff costs and benefits and advertising expenses.

22. AMOUNTS DUE TO RELATED PARTIES

Particulars of the amounts due to related parties:

| | As at September 30, | | | As at |
|---|---------------------|---------------|----------------|----------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Minority shareholders of subsidiaries | | | | |
| (<i>note i</i>) | 8,534 | 7,473 | 6,158 | 7,053 |
| Yue Yuen Group (<i>note i</i>) | 22,790 | 25,130 | 104,775 | 106,001 |
| Associates of Yue Yuen (<i>note ii</i>) | — | — | 1,449 | 897 |
| Associates (<i>note ii</i>) | — | 5,640 | — | — |
| | <u>31,324</u> | <u>38,243</u> | <u>112,382</u> | <u>113,951</u> |

(i) *These represent fund transfers. They were unsecured, interest-free and the directors are of the opinion that the amounts will be settled before the Listing of the Company's Shares on the Stock Exchange.*

(ii) *These represent trading balances and will be settled according to the Group's normal commercial terms.*

23. UNSECURED BANK BORROWINGS

| | As at September 30, | | | As at December 31, |
|---|---------------------|-----------------|------------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Bank loans | 64,318 | 59,460 | 123,109 | 216,204 |
| Trust receipt loans | 772 | 5,630 | 2,139 | 575 |
| Bank overdraft | — | 375 | 5,352 | 17,472 |
| | <u>65,090</u> | <u>65,465</u> | <u>130,600</u> | <u>234,251</u> |
| | | | | |
| | As at September 30, | | | As at December 31, |
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| The unsecured bank borrowings are repayable: | | | | |
| Within one year | 65,090 | 65,465 | 105,327 | 208,978 |
| In more than one year, but not exceeding two years . . | <u>—</u> | <u>—</u> | <u>25,273</u> | <u>25,273</u> |
| | 65,090 | 65,465 | 130,600 | 234,251 |
| Less: amount included in current liabilities | <u>(65,090)</u> | <u>(65,465)</u> | <u>(105,327)</u> | <u>(208,978)</u> |
| Amount due after one year | <u>—</u> | <u>—</u> | <u>25,273</u> | <u>25,273</u> |

The Group's borrowings are interest-bearing as follow:

| | As at September 30, | | | As at |
|---|---------------------|---------------|----------------|----------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Fixed-rate borrowings | 31,866 | 12,245 | 67,042 | 107,362 |
| Variable-rate borrowings (note) | 33,224 | 53,220 | 63,558 | 126,889 |
| | <u>65,090</u> | <u>65,465</u> | <u>130,600</u> | <u>234,251</u> |

note: The Group's variable rate borrowings carry interest at a margin over HIBOR, LIBOR or prevailing rate for People's Bank of China. Interest is repriced every six to twelve months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | Year ended September 30, | | | Three months ended | |
|------------------------------------|--------------------------|----------------|----------------|--------------------|----------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | | | | (unaudited) | |
| Effective interest rate: | | | | | |
| Fixed-rate borrowings | 4.54% to 4.78% | 4.70% to 5.58% | 5.58% to 7.65% | 4.70% to 5.98% | 5.25% to 6.57% |
| Variable-rate borrowings | 5.05% to 5.94% | 4.70% to 8.30% | 5.58% to 7.87% | 4.70% to 8.08% | 4.52% to 7.29% |

The Group's bank borrowings are secured by guarantees given by:

| | As at September 30, | | | As at |
|---|---------------------|---------------|----------------|----------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Yue Yuen and minority shareholders of subsidiaries on a joint and several basis | 62,090 | 65,465 | 79,308 | 159,895 |
| Yue Yuen. | <u>3,000</u> | <u>—</u> | <u>51,292</u> | <u>74,356</u> |
| | <u>65,090</u> | <u>65,465</u> | <u>130,600</u> | <u>234,251</u> |

The guarantees is expected to be released upon the listing of the Company's shares on the Stock Exchange.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | As at September 30, | | | As at December 31, |
|---------------------------------|---------------------|---------------|--------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| United States dollars | <u>6,972</u> | <u>50,267</u> | <u>7,180</u> | <u>23,406</u> |

24. FINANCIAL DERIVATIVE INSTRUMENTS

| | ASSETS | | | |
|--|---------------------|----------|----------|-----------------------|
| | As at September 30, | | | As at December 31, |
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Call options for acquisition of additional interests in associates and jointly controlled entities. | <u>—</u> | <u>—</u> | <u>—</u> | <u>65,355</u> |

| | LIABILITIES | | | |
|---|---------------------|----------|----------|-----------------------|
| | As at September 30, | | | As at December 31, |
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Financial liabilities related to the call option premium . . . | <u>—</u> | <u>—</u> | <u>—</u> | <u>61,391</u> |

During the three months ended December 31, 2007, the Group entered into call option agreements with the partners of certain associates, jointly controlled entities and minority shareholders (the "Relevant Partners"), pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Call Option Premium"), has the right (but not the obligation) exercisable solely at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the relevant associates, jointly controlled entities and subsidiaries not held by the Group (the "Relevant Companies") (the "Call Options").

The Call Options are exercisable after the end of each profit evaluation period within five years commencing from the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commences. Each of the Relevant Partners has agreed not to transfer or dispose of its equity interest in the Relevant Companies during the Call Options exercisable period without the Group's prior written consent.

Pursuant to the Call Options agreements, the consideration for acquiring the Relevant Equity Interest is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation period and the prevailing price earnings ratio of the Company at the time the Call Options are exercised and after certain discount agreed between the Company and the Relevant Partners. The consideration is to be settled by the issue of shares in the Company at market price on the date the Call Options are exercised and after deducting the Call Options Premium paid.

The Call Option Premium is to be determined with reference to 15% of the agreed estimated consideration for the acquisition of the Relevant Equity Interests at the date of the Call Options agreement. The Call Option Premium is to be settled by the issue of the shares in the Company and the numbers of the shares to be issued is to be determined with reference to the offering price upon the global offering of the Company's shares on the Stock Exchange. Pursuant to the supplemental agreements entered into by certain of the Relevant Partners subsequent to December 31, 2007, some of these partners have agreed to accept cash in lieu of the shares for part or in some cases, all of the Call Options Premium that the Company agreed with each of them. The Call Option Premium paid will not be refundable if the Group does not exercise the Call Options before expiry of the exercisable period.

The value of each of the Call Options and the Call Option Premium were valued by Savills Valuation and Professional Services Limited, an independent valuer, at the issue date and at December 31, 2007 using the (i) the Binomial Model and (ii) estimated earnings of the Relevant Companies and price earning ratio of the Company, respectively. The inputs into the model were as follows:

| | <u>At date of issue</u> | <u>At December 31, 2007</u> |
|--|-------------------------|---------------------------------|
| Derivative assets — Call Options: | | |
| Expected price earning ratio | 30 | 30 |
| Expected volatility — Company | 44% | 44% |
| Expected volatility — Profit of the Relevant Companies | 28% | 28% |
| Risk free rate | 4.13% | 4.34% |
| Expected exercise period | 5 years | 5 years |
| Expected dividend yield | Nil | Nil |
| Derivative liabilities — Call Option Premium: | | |
| Expected price earning ratio | 30 | 30 |
| Risk free rate | 4.13% | 4.34% |
| Expected IPO date | 31/3/08 | 31/3/08 |

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of daily share average prices of comparable companies with similar business over the past years immediately preceding the grant dates. The expected life of the Call Options used in the model represents management's best estimate, taking into account of non transferability, exercise restrictions and behavioral consideration.

The changes in fair value of the Call Options and Call Option Premium during the three months ended December 31, 2007 are as follows:

| | <u>Subsidiaries</u> | <u>Associates</u> | <u>Jointly controlled entities</u> | <u>Total</u> |
|---|---------------------|----------------------|--|----------------------|
| | <u>US\$'000</u> | <u>US\$'000</u> | <u>US\$'000</u> | <u>US\$'000</u> |
| Derivative assets — | | | | |
| Call Options: | | | | |
| At initial recognition . . . | 540 | 13,053 | 50,189 | 63,782 |
| Fair value increase. . . . | <u>19</u> | <u>389</u> | <u>1,165</u> | <u>1,573</u> |
| At December 31, 2007 . . | <u><u>559</u></u> | <u><u>13,442</u></u> | <u><u>51,354</u></u> | <u><u>65,355</u></u> |
| Derivative liabilities — | | | | |
| Call Option Premium: | | | | |
| At initial recognition . . . | 540 | 13,093 | 50,189 | 63,782 |
| Fair value increase (decrease) | <u>2</u> | <u>(457)</u> | <u>(1,975)</u> | <u>(2,391)</u> |
| At December 31, 2007 . . | <u><u>542</u></u> | <u><u>12,636</u></u> | <u><u>48,214</u></u> | <u><u>61,391</u></u> |

Further details of the arrangement are disclosed in the Business Section headed “Our Business — Our investment in Regional Joint Venture — call option agreements” of the Prospectus.

25. SHARE CAPITAL AND PAID UP CAPITAL

(a) Share Capital and Paid up Capital

| <u>The Company</u> | <u>Number of shares</u> | <u>Amounts</u> |
|---|-------------------------|-----------------|
| | | <u>HK\$'000</u> |
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| On incorporation and at December 31, 2007 | <u>10,000,000</u> | <u>100</u> |
| Issued and fully paid: | | |
| Allotted and issue at nil paid on the date of incorporation and at December 31, 2007 | <u>1</u> | <u>—</u> |

The Company was incorporated with an authorised share capital of HK\$100,000, divided into 10,000,000 ordinary shares of HK\$0.01 each. At the date of incorporation, 1 ordinary share of HK\$0.01 was issued at nil consideration to Yue Yuen.

The balance of share capital at September 30, 2005, 2006, 2007 and December 31, 2007 represents the aggregate of the share capital and paid up capital of the subsidiaries comprising the Group held directly by Yue Yuen prior to the Reorganization.

(b) Share Premium

Share premium represents the amount of capital injection that exceeded the par values of the respective share capital of subsidiaries Selangor Gold Limited, A-Grade Holdings Limited and Wellmax Business Group Limited of US\$1,043,000, US\$15,044,000 and US\$14,697,000, respectively, by Yue Yuen during the year ended September 30, 2007 and at September 30, 2007 and December 31, 2007.

26. ACQUISITION OF BUSINESS

On January 1, 2007, the Group acquired the business and the relevant assets and liabilities of a retailing business in Yunnan, PRC, for a consideration of RMB56,100,000 (equivalent to approximately US\$7,184,000) from a company controlled by the minority shareholder of a subsidiary, Profit Concept Group Limited ("Profit Concept"), a 51% owned subsidiary which holds 100% equity interest in Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) ("Yunnan Orientalsport"). In the opinion of the Directors, the minority shareholder of Profit Concept is an independent third party of the Group. This acquisition has been accounted for using the purchase method. The consideration was determined at a mutually agreed price between the buyer and the seller with reference to the fair value of the net assets.

The carrying amounts and fair value of the net assets acquired in the transaction and the goodwill arising therefrom are as follows:

| | US\$'000 (note) |
|---|---------------------|
| Net assets acquired: | |
| Property, plant and equipment | 2,346 |
| Inventories | 7,723 |
| Trade and other receivables | 8,656 |
| Bank balances and cash | 3,102 |
| Trade and others payables | (11,861) |
| Minority interests | <u>(4,883)</u> |
| | 5,083 |
| Goodwill | <u>2,101</u> |
| Total consideration | <u><u>7,184</u></u> |
| Satisfied by: | |
| Cash | <u><u>7,184</u></u> |

| | US\$'000 (note) |
|---|--------------------|
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (7,184) |
| Bank balances and cash acquired | <u>3,102</u> |
| | <u>(4,082)</u> |

Note: The fair values of the net assets acquired approximate to their carrying amounts.

The acquired business contributed US\$1.9 million to the Group's profit for the period between the date of acquisition and September 30, 2007.

If the acquisition had been completed on October 1, 2006, total revenue and profit after taxation of the Group for the year ended September 30, 2007 would have been US\$562 million and US\$45 million, respectively. This pro forma information is for illustration purposes only and is not necessarily an indication of the Group's revenue and results of operations that would actually have been achieved had the acquisition been completed on October 1, 2006, nor is it intended to be a projection of future results.

27. OPERATING LEASE

The Group as lessee

The Group had made the following lease payments during the Track Record Period as follow:

| | Year ended September 30, | | | Three months ended December 31, | |
|--|--------------------------|---------------|---------------|------------------------------------|---------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| | (unaudited) | | | | |
| Operating lease rentals in respect of: | | | | | |
| Minimum lease payments: | | | | | |
| — Street level stores | 6,707 | 8,401 | 12,333 | 2,185 | 4,371 |
| — Shopping mall stores | 418 | 972 | 1,553 | 253 | 662 |
| — Other properties | <u>1,300</u> | <u>1,798</u> | <u>1,944</u> | <u>467</u> | <u>498</u> |
| | 8,425 | 11,171 | 15,830 | 2,905 | 5,531 |
| Contingent rentals | <u>19,122</u> | <u>28,614</u> | <u>41,964</u> | <u>9,181</u> | <u>14,226</u> |
| | <u>27,547</u> | <u>39,785</u> | <u>57,794</u> | <u>12,086</u> | <u>19,757</u> |

At the respective balance sheet dates, the Group had commitments for future minimum lease payments for retail shops and other properties under non-cancelable operating leases which fall due as follows:

| | As at September 30, | | | As at December 31, |
|--|---------------------|---------------|---------------|-----------------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Within one year | 8,067 | 8,509 | 15,073 | 15,262 |
| In the second to fifth year inclusive | 13,052 | 13,088 | 36,793 | 39,932 |
| Over five years | <u>210</u> | <u>375</u> | <u>9,294</u> | <u>9,486</u> |
| | <u>21,329</u> | <u>21,972</u> | <u>61,160</u> | <u>64,680</u> |

Operating lease payments represent rentals payable by the Group for certain of its factories and retail shops. Leases are negotiated for an average term of 2 years.

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable.

The Group as lessor

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease receipts in respect of properties rented out:

| | Year ended September 30, | | | Three months ended December 31, | |
|-----------------------|--------------------------|----------|------------|------------------------------------|------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Within one year . . . | <u>—</u> | <u>—</u> | <u>691</u> | <u>—</u> | <u>558</u> |

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rent to the Group. In general, these contingent rents are calculated with reference to the turnover generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable. Rental income received from these contingent lease contracts during the three years ended September 30, 2007 and three months ended December 31, 2007 were nil, nil, US\$419,000 and US\$133,000, respectively, (October 1, 2006 to December 31, 2006: Nil).

28. CAPITAL COMMITMENTS

| | As at September 30, | | | As at |
|---|---------------------|--------------|---------------|---------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | US\$'000 |
| Capital expenditure contracted for but not provided in the Financial Information in respect of: | | | | |
| — acquisition of property, plant and equipment | 52 | 6,580 | 8,206 | 3,946 |
| — capital investment in associates (note 1) | — | — | 5,414 | 5,222 |
| — capital investment in jointly controlled entities (note 2) | — | — | 6,874 | 2,245 |
| | <u>52</u> | <u>6,580</u> | <u>20,494</u> | <u>11,413</u> |

1. Other than the price adjustment as disclosed in note 15, amount represents unpaid investment costs in Dalian Dongzhijie Sports Production Development Company Limited and Shaanxi Wuhuan. In the opinion of the Directors, the payments for unpaid capital investment in the associates will be made according to the payment schedule.
2. Other than the price adjustment as disclosed in note 16, amount represents unpaid investment costs in Suzhou Xinjun, Shaanxi Jixian Longyue, Zhejiang Jinguan, Hangzhou Baohong and Wenzhou Baofeng. In the opinion of the Directors, the payments for unpaid capital investment in the jointly controlled entities will be made according to the payment schedule.

29. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

As at September 30, 2005, 2006, 2007, and December 31, 2007 the Group had no significant obligation apart from the contribution as stated above.

30. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Track Record Period, the Group had the following related party transactions:

| Name of related parties | Nature of transaction | Year ended September 30, | | | Three months ended December 31, | |
|---|--|--------------------------|----------|----------|---------------------------------|----------|
| | | 2005 | 2006 | 2007 | 2006 | 2007 |
| | | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| A company beneficially owned by the directors of the Company and controlled by a minority shareholder of subsidiaries | | | | | | |
| Rest Assured | Acquisition of additional interest in subsidiaries | 85 | 1,531 | — | — | — |
| | Purchase of sportswear products | 703 | 2,146 | — | — | — |
| | Service fees paid | 1,014 | 1,109 | — | — | — |
| A substantial shareholder of the Company | | | | | | |
| Yue Yuen Group | Purchase of sportswear products | — | — | 7,889 | 93 | 266 |
| | Purchase of property, plant and equipment | — | 466 | 179 | — | — |
| | Purchase of raw materials | — | 2 | 15 | — | — |
| | Sales of moulds | — | — | 123 | — | — |
| | Sales of plant and machinery | — | — | 3 | — | — |
| Company controlled by the minority shareholder | | | | | | |
| Yunnan Orientalsport . . . | Acquisition of a retail business | — | — | 7,184 | — | — |
| Minority shareholders of subsidiaries | | | | | | |
| Huang Tsung Jen | Consultancy fee paid (note a) | 481 | 1,041 | 1,007 | 252 | — |
| | Acquisition of additional interest in subsidiaries | — | — | 65 | 65 | — |
| Jollyard Investment Limited | Acquisition of additional interest in a subsidiary | — | — | 4,612 | 4,612 | — |
| | An associate of Yue Yuen | | | | | |
| Eagle Nice (International) Holdings Limited and its subsidiaries | Purchase of sportswear products | 330 | 1,318 | 3,297 | 225 | 106 |
| Jointly controlled entities | | | | | | |
| Zhejiang Yichuan | Interest income (note b) | — | — | 90 | — | 339 |
| | Purchase of shoes | — | — | 147 | — | — |
| Hubei Jiezhixing | Interest income (note b) | — | — | 7 | — | — |

(a) Amount represents consulting and advisory services provided by Mr. Huang Tsuen Jen to the Group during the Track Record Period.

(b) Amount represents interest income received from the loan advanced as detailed in note 16.

In the opinion of the Directors, the transactions related to sales and purchases were carried out on normal commercial terms and in the Group's ordinary and usual course of business.

The directors represented that, other than the purchases of sportswear products from an associate and subsidiaries of Yue Yuen Group, all of the above transactions will not continue after the listing of the Company's shares on the Stock Exchange.

(II) Related party balances

Details of the Group's outstanding balances with related parties are set out on the combined balance sheets and in notes 19 and 22.

(III) Credit facilities

The Group's bank borrowing facilities are secured by guarantees given by related parties as set out in note 23.

The guarantees is expected to be released upon the listing of the Company's shares on the Stock Exchange.

(IV) Compensation of key management personnel

| | Year ended September 30, | | | Three months ended December 31, | |
|--------------------------------------|--------------------------|--------------|--------------|------------------------------------|------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 (unaudited) | US\$'000 |
| Short term benefits . | 746 | 1,194 | 1,931 | 134 | 199 |
| Post employment benefits. | — | — | 2 | — | 1 |
| | <u>746</u> | <u>1,194</u> | <u>1,933</u> | <u>134</u> | <u>200</u> |

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

31. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which included the borrowings disclosed in note 23, and equity attributable to equity holders as disclosed in the combined statements of changes in equity.

The management of the Group reviews the capital structure regularly. As part of this review, the directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. The Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt or the redemption of the existing debt.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurements and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in note 3.

(c) Categories of financial instruments

| | As September 30, | | | At December 31, |
|-------------------------------------|------------------|----------|----------|-----------------|
| | 2005 | 2006 | 2007 | 2007 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Financial assets | | | | |
| Financial assets at fair value | | | | |
| through profit a loss | — | — | — | 65,355 |
| Loans and receivables (including | | | | |
| cash and cash equivalents). . . | 51,259 | 86,136 | 222,135 | 309,759 |
| Financial liabilities | | | | |
| Amortized cost | 121,066 | 138,578 | 330,470 | 435,651 |
| Financial liabilities at fair value | | | | |
| through profit a loss | — | — | — | 61,391 |

(d) Financial risk management objectives

The management of the Group monitors and manages the financial risks relating to the operations of the Group having regard of the magnitude of risks involved. These risks include market risk (including interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk, as further discussed below.

(i) Interest rate risk

The Group's income and operating cash flows are currently substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except bank balances and cash, details of which are disclosed in note 20. The exposure to changes in interest rates is mainly attributable to the borrowings, details of which are disclosed in note 23. To the extent that the Group borrows at floating rates in the future, those borrowings may expose the Group to cash flow interest rate risk. To the extent that the Group borrows at fixed rate, those borrowings may expose the Group to fair value interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR and prevailing rate of People's Bank of China arising from the Group's variable rate borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year/period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the respective years, if interests rates increased/decreased by 100 basis points and all other variables were held constant, the Group's profit would have decreased/increased by approximately US\$332,000, US\$532,000, US\$636,000 and US\$317,000 for the three financial years ended September 30, 2005, 2006, 2007 and three months ended December 31, 2007 respectively.

(ii) *Foreign exchange risk*

The Group has external bank borrowings and bank balances denominated in foreign currency which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The following monetary assets and liabilities (which are primarily bank balances and bank borrowings) held by the Group are denominated in currencies other than Renminbi, at the respective balance sheet dates are as follows:

| | As at September 30, | | | As at |
|-------------------------------|---------------------|---------------|---------------|---------------|
| | 2005 | 2006 | 2007 | December 31, |
| | US\$'000 | US\$'000 | US\$'000 | 2007 |
| | | | | |
| Assets | | | | |
| United States Dollars | 294 | 2,459 | 14,555 | 17,397 |
| Hong Kong Dollars | 28 | 1,650 | 182 | 89 |
| | <u>322</u> | <u>4,109</u> | <u>14,737</u> | <u>17,486</u> |
| Liabilities | | | | |
| United States Dollars | <u>13,290</u> | <u>50,267</u> | <u>7,180</u> | <u>3,476</u> |

Foreign currency sensitivity

The Group is mainly exposed to the currency of USD.

The following table details the Group's sensitivity to a 5% increase and decrease in the currency of Renminbi against USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 5% change in foreign currency rates. The sensitivity analysis includes bank borrowings as well as bank balances. A positive number indicates an increase in profit for the year/period where the RMB strengthens against the USD. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | Year ended September 30, | | | Three months |
|-----------------------|--------------------------|--------------|--------------|--------------|
| | 2005 | 2006 | 2007 | ended |
| | US\$'000 | US\$'000 | US\$'000 | December 31, |
| | | | | |
| Profit (loss) for the | | | | 2007 |
| year/period | <u>648</u> | <u>2,307</u> | <u>(377)</u> | <u>(700)</u> |

(iii) Other price risk

The Group is exposed to price risk through its financial assets and financial liabilities at fair value through profit or loss. The fair value of the Call Options and Call Option Premiums were calculated using (i) the Binomial Model, (ii) estimated of earnings of the Relevant Companies and the price earning ratio of the Company, respectively. Details of which are set out in note 24.

Sensitivity analysis

If the inputs to the valuation model had been 10% higher/lower while all others variables were held constant, the profit for the three months ended December 31, 2007 would have increased (decreased) as follows:

| | <u>Higher by 10%</u> | <u>Lower by 10%</u> |
|------------------------------------|----------------------|---------------------|
| | US\$'000 | US\$'000 |
| Derivative financial assets — | | |
| Call Options: | | |
| Volatility | 11,032 | (12,112) |
| Price earning ratio | (6,701) | 5,741 |
| Derivative financial liabilities — | | |
| Call Option Premiums: | | |
| Price earnings ratio | <u>(6,139)</u> | <u>6,139</u> |

In management's opinion, the sensitivity analyses are not necessarily representative of the inherent market risk as the pricing model used in the fair value valuation of the derivatives are interdependent.

(iv) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The carrying amount of bank balances and cash, trade and other receivables and loans to jointly controlled entities included in the combined balance sheets represent the maximum exposure to credit risk in relation to the financial assets.

The Group is mainly exposed to the credit risk of trade receivables in relation to the Group's licensing and manufacturing business as the sales of the Group in retailing business are settled in cash. The Group has policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and performs periodic credit evaluations of the Group's customers. The directors made allowances on uncollectible trade receivables based on the historical experience of the Group in the collection of trade receivables. The Directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the financial statements.

Given the nature of the Group's licensing and manufacturing business, the Group's customers base is diverse and the trade receivables consist of a large number of customers. Therefore, the Group does not have any significant concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(v) *Liquidity risk*

In the management of its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. At September 30, 2005, 2006, 2007 and December 31, 2007, the Group had available banking facilities of approximately US\$89.3 million, US\$141.3 million, US\$330.5 million and US\$363.1 million respectively, of which approximately US\$65.1 million, US\$65.5 million, US\$130.6 million and US\$234.2 million respectively, was utilized.

The Group has net current liabilities of approximately US\$44,470,000 as at December 31, 2007. The Financial Information has been prepared on a going concern basis because the directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities with reference to the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average interest rate | Principal and interest | | | | Interest adjustments | Carrying amount total |
|---|---|------------------------|---------------|---------------|----------|-------------------------|-----------------------------|
| | | 0 to 30 | 31 to 90 | 91 to | Over 1 | | |
| | | days | days | 365 days | year | | |
| | % | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| As at September 30, 2005 | | | | | | | |
| Non-interest bearing. | — | 41,909 | 13,276 | 791 | — | — | 55,976 |
| Fixed interest rate instruments | 4.67 | 2,741 | 5,392 | 25,221 | — | (1,488) | 31,866 |
| Variable interest rate instruments | 5.37 | 2,881 | 5,761 | 26,409 | — | (1,827) | 33,224 |
| | | <u>47,531</u> | <u>24,429</u> | <u>52,421</u> | <u>—</u> | <u>(3,315)</u> | <u>121,066</u> |
| As at September 30, 2006 | | | | | | | |
| Non-interest bearing. | — | 53,089 | 19,059 | 965 | — | — | 73,113 |
| Fixed interest rate instruments | 5.14 | 1,058 | 2,081 | 9,736 | — | (630) | 12,245 |
| Variable interest rate instruments | 6.50 | 4,658 | 9,162 | 42,859 | — | (3,459) | 53,220 |
| | | <u>58,805</u> | <u>30,302</u> | <u>53,560</u> | <u>—</u> | <u>(4,089)</u> | <u>138,578</u> |

| | Weighted average interest rate | Principal and interest | | | | Interest adjustments | Carrying amount total |
|---|---|------------------------|---------------|----------------|---------------|-------------------------|-----------------------------|
| | | 0 to 30 | 31 to 90 | 91 to 365 | Over 1 | | |
| | | days | days | days | year | | |
| | % | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| As at September 30, 2007 | | | | | | | |
| Non-interest bearing. | — | 145,663 | 51,986 | 2,221 | — | — | 199,870 |
| Fixed interest rate instruments | 6.62 | 5,875 | 11,554 | 54,051 | — | (4,438) | 67,042 |
| Variable interest rate instruments | 6.71 | <u>3,358</u> | <u>6,715</u> | <u>30,780</u> | <u>26,969</u> | <u>(4,264)</u> | <u>63,558</u> |
| | | <u>154,896</u> | <u>70,255</u> | <u>87,052</u> | <u>26,969</u> | <u>(8,702)</u> | <u>330,470</u> |
| As at December 31, 2007 | | | | | | | |
| Non-interest bearing. | — | 183,227 | 5,644 | 12,529 | — | — | 201,400 |
| Fixed interest rate instruments | 6.57 | 5,524 | 11,819 | 92,697 | — | (2,678) | 107,362 |
| Variable interest rate instruments | 7.29 | <u>1,904</u> | <u>10,283</u> | <u>101,244</u> | <u>27,114</u> | <u>(13,656)</u> | <u>126,889</u> |
| | | <u>190,655</u> | <u>27,746</u> | <u>206,470</u> | <u>27,114</u> | <u>(16,334)</u> | <u>435,651</u> |

(e) Fair value of financial instruments

The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Binomial Model).

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial information approximate their fair values.

32. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company has the following subsidiaries and their particulars are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|---|--|---|---|------|-----------------|------|-------------------|----------------------------|---------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| YY Sports | British Virgin Islands ("BVI") October 31, 2006 | US\$1 | N/A | N/A | 100% | 100% | 100% | note (g) | Investment holding |
| A-Grade Holdings Limited | BVI October 10, 2003 | US\$9,000 | 70% | 70% | 70% | 70% | 100% | note (g) | Investment holding |
| Baosheng Daoji (Beijing) Trading Company Limited 寶盛道吉(北京)貿易有限公司 (note d) | PRC January 5, 2006 | US\$8,880,000 | N/A | 70% | 70% | 70% | 100% | notes (h) & (i) | Retailing of sportswear |
| Baoxin (Chengdu) Trading Company Limited 寶信(成都)商貿有限公司 (note d) | PRC September 6, 2006 | US\$5,000,000 | N/A | 70% | 70% | 70% | 100% | notes (h) & (ab) | Retailing of sportswear |
| Baoyu (Chengdu) Trading Company Limited 寶渝(成都)商貿有限公司 (note d) | PRC March 27, 2006 | US\$7,400,000 | N/A | 63% | 63% | 63% | 90% | notes (h) & (t) | Retailing of footwear |
| Beijing Baosheng Daoji Sports Goods Company Limited 北京寶盛道吉體育用品有限公司 (note e) | PRC April 29, 2001 | RMB5,000,000 | 70% | 70% | 70% | 70% | 100% | note (j) | In process of liquidation |
| Beijing Baozhe Sports Company Limited 北京寶哲體育用品有限公司 | PRC July 19, 2007 | RMB20,000,000 | N/A | N/A | 70% | 70% | 100% | note (l) | Retailing of sportswear |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|--|--|---|---|-------|-----------------|------|-------------------|----------------------------|-------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Brightup Group Limited 澤宏集團有限公司 | HK September 12, 2007 | HK\$1 | N/A | N/A | 100% | 100% | 100% | note (l) | Investment holding |
| Business Network Holdings Limited | BVI October 8, 2003 | US\$1,000 | 70% | 70% | 70% | — | — | note (g) | Disposed of |
| Charming Technology Limited | BVI January 2, 2004 | US\$200 | 51% | 51% | 70% | 70% | 100% | note (g) | Investment holding |
| Chongqing Baoyu Industrial & Trading Company Limited 重慶寶渝工業貿易有限公司 (notes e & ac) | PRC February 12, 2004 | RMB1,000,000 | 45.9% | 45.9% | 63% | N/A | N/A | notes (h) & (k) | Liquidated |
| Dalian Baoshun Sports Goods Company Limited 大連寶順體育用品有限公司 (note d) | PRC July 6, 2007 | RMB2,000,000 | N/A | N/A | 70% | 70% | 100% | note (l) | Retailing of sportswear |
| Dedicated Group Limited | BVI November 28, 2001 | US\$1,000 | 70% | 70% | 70% | 70% | 100% | note (g) | Investment holding |
| Diodite Limited | BVI April 28, 2005 | US\$1 | N/A | 100% | 100% | 100% | 100% | note (g) | Investment holding |
| Diodite (China) Sports Goods Company Limited 揚州笛亞泰(中國)體育用品有限公司 (note d) | PRC May 25, 2006 | USD12,000,000 | N/A | N/A | 100% | 100% | 100% | note (l) | Retailing of sportswear |
| Dragonlight Group Limited | BVI March 22, 2006 | US\$1 | N/A | 100% | 100% | 100% | 100% | note (g) | Investment holding |
| Dragonlight (China) Sports Goods Company Limited 龍光(中國)體育用品有限公司 (note d) | PRC November 15, 2006 | US\$36,000,000 | N/A | N/A | 100% | 100% | 100% | note (l) | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|---|--|---|---|-------|-----------------|------|-------------------|----------------------------|-----------------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Favour Mark Holdings Limited . . . | HK August 17, 2007 | HK\$200 | N/A | N/A | 100% | 100% | 100% | note (g) | Investment holding |
| Fujian Baomin Sports Goods Company Limited (“Fujian Baomin”) 福建寶岡體育用品有限公司 (note d) | PRC May 23, 2006 | US\$5,000,000 | N/A | 63% | 63% | 63% | 90% | notes (h) & (m) | Retailing of sportswear |
| Fuzhou Baomin Trading Company Limited (“Fuzhou Baomin”) 福州寶岡貿易有限公司 (notes e & ad) | PRC August 25, 2004 | RMB5,000,000 | 35.7% | 35.7% | 49% | 49% | N/A | notes (h) & (m) | Liquidated |
| Great Sea Holdings Limited 人海集團有限公司 | HK August 7, 2002 | HK\$100 | 56% | 70% | 70% | 70% | 100% | note (n) | Distribution of sportswear |
| Guangzhou Baojin Sports Goods Company Limited 廣州寶音體育用品有限公司 (note e) | PRC May 29, 2002 | RMB500,000 | 70% | 70% | 70% | 70% | N/A | note (j) | Liquidated |
| Guangzhou Baoyuen Industrial & Trading Company Limited 廣州寶元工業貿易有限公司 (note e) | PRC June 16, 1998 | RMB6,000,000 | 51% | 51% | 70% | 70% | 100% | notes (h) & (z) | Distribution of licensed products |
| Guangzhou Baoyuen Trading Company Limited 廣州寶元貿易有限公司 (note d) | PRC December 23, 2005 | US\$2,470,000 | N/A | 70% | 70% | 70% | 100% | notes (h) & (o) | Retailing of sportswear |
| Guangzhou Pou Xue Trading Company Limited 廣州寶旭貿易有限公司 (note e) | PRC April 13, 2000 | RMB1,000,000 | 56% | 70% | 70% | 70% | 100% | notes (h) & (aa) | Distribution of licensed products |
| Guangzhou Yangji Information Technology Company Limited 廣州市揚基信息科技有限公司 (note d) | PRC September 7, 2004 | HK\$3,000,000 | 51% | 51% | 70% | 70% | 100% | notes (h) & (p) | Retailing of sportswear |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|---|--|---|---|------|-----------------|-------|-------------------|----------------------------|-------------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Guangzhou Shengdao Sports Goods Company Limited 廣州勝道體育用品有限公司 . . . | PRC February 4, 2008 | RMB20,000,000 | N/A | N/A | N/A | N/A | 100% | note (ah) | Retailing of sportswear |
| Guiyang Baoxin Sports Goods Company Limited 貴陽寶新體育用品有限公司 (note d) | PRC September 28, 2005 | US\$2,100,000 | 70% | 70% | 70% | 70% | 100% | notes (h) & (q) | Retailing of sportswear |
| Guizhou Shengdao Sports Goods Development Company Limited 貴州勝道體育用品開發有限公司 | PRC June 20, 2007 | RMB17,500,000 | N/A | N/A | 88% | 88% | 100% | note (l) | Retailing of sportswear |
| Harbin Baojun Trading Company Limited 哈爾濱寶駿貿易有限公司 (note e) | PRC December 23, 2004 | RMB5,000,000 | 70% | 70% | 70% | 70% | 100% | note (j) | In the process of liquidation |
| Harbin Baosheng Sports Goods Company Limited 哈爾濱寶勝體育用品有限公司 (note d) | PRC March 20, 2007 | RMB5,000,000 | N/A | N/A | 70% | 70% | 100% | note (l) | Retailing of sportswear |
| Hefei Baoxun Sports Goods Company Trading Limited 合肥寶勳體育用品商貿有限公司 (note d) | PRC September 18, 2007 | RMB1,000,000 | N/A | N/A | 70% | 70% | 100% | note (l) | Retailing of sportswear |
| Jinan Baoyue Sports Goods Company Limited 濟南寶嶽體育用品有限公司 (note f) | PRC June 7, 2007 | RMB2,000,000 | N/A | N/A | 50.4% | 50.4% | 72% | note (l) | Retailing of sportswear |
| Nanning Pou Guan Sports Goods Company Limited 南寧寶冠體育用品有限公司 (note d) | PRC October 27, 2005 | US\$1,300,000 | 70% | 70% | 70% | 70% | 100% | notes (h) & (r) | Retailing of sportswear |
| Nice Palace Investments Limited . . | HK July 5, 2007 | HK\$200 | N/A | N/A | 70% | 70% | 100% | note (l) | Investment holding |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|--|--|---|---|-------|-----------------|-------|-------------------|----------------------------|-----------------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Pau Yuen Trading Corporation ("Pau Yuen") 寶原興業股份有限公司 (note ae) | Taiwan May 23, 2000 | NTD28,000,000 | 30.6% | 45.9% | 63% | 63% | 90% | note (s) | Distribution of licensed products |
| Pau Zhi Trading Corporation ("Pau Zhi") 寶智企業股份有限公司 | Taiwan June 17, 2005 | NTD5,000,000 | 51% | 51% | 90% | 90% | 90% | note (s) | Retailing of sportswear |
| Profit Concept Group Limited ("Profit Concept") | BVI August 10, 2006 | US\$1 | N/A | 51% | 51% | 51% | 51% | note (g) | Investment holding |
| Qingdao Baoruina Sports Goods Company Limited ("Qingdao Baoruina") 青島寶瑞納體育用品有限公司 (note f) | PRC September 14, 2005 | RMB20,000,000 | 50.4% | 50.4% | 50.4% | 50.4% | 72% | notes (h) & (v) | Retailing of sportswear |
| Rainbow Faith Investments Limited | HK August 21, 2007 | HK\$200 | N/A | N/A | 100% | 100% | 100% | note (l) | Investment holding |
| Richwin Management Limited 裕勝管理有限公司 | BVI July 12, 2007 | US\$1 | N/A | N/A | N/A | 100% | 100% | note (g) | Investment holding |
| Shanghai Baoyuen Sports Goods Company Limited 上海寶原體育用品商貿有限公司 (note d) | PRC January 20, 2006 | US\$10,000,000 | N/A | 70% | 70% | 70% | 100% | notes (h) & (v) | Retailing of sportswear |
| Shanghai Shengdao Sports Goods Company Limited 上海勝道體育用品有限公司 | PRC May 25, 2007 | RMB100,000 | N/A | N/A | 100% | 100% | 100% | note (l) | Retailing of sportswear |
| Shengdao (Yangzhou) Sports Goods Development Company Limited 勝道(揚州)體育用品開發有限公司 | PRC December 22, 2006 | US\$36,000,000 | N/A | N/A | 100% | 100% | 100% | note (l) | Property leasing and management |
| Shaanxi Baoqin Sports Goods Company Limited 陝西寶秦體育用品有限公司 (notes e & af) | PRC September 28, 2004 | RMB2,000,000 | 49% | 70% | 70% | 70% | 100% | note (j) | In the process of liquidation |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|---|--|---|---|--------|-----------------|-------|----------------------|----------------------------|-------------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Shaanxi Baoxiang Sports Goods Company Limited 陝西寶祥體育用品有限公司 (note d) | PRC April 11, 2007 | RMB2,000,000 | N/A | N/A | 70% | 70% | 100% note (l) | | Retailing of sportswear |
| Selangor Gold Limited (“Selangor Gold”) | BVI June 12, 1998 | US\$1,000 | 51% | 51% | 70% | 70% | 100% note (g) | | Investment holding |
| Taichang Yusheng Moulding Company Limited 太倉裕盛模具有限公司 (note d) | PRC November 5 2004 | US\$2,100,000 | 100% | 100% | 100% | 100% | 100% notes (h) & (w) | | Manufacturing of shoe moulds |
| Technico Business Group Limited | BVI January 2, 2001 | US\$100 | 70% | 70% | 70% | 70% | 100% note (g) | | Inactive |
| Tianjin Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司 (note d) | PRC December 7, 2007 | RMB1,000,000 | N/A | N/A | 70% | 70% | 100% note (l) | | Retailing of sportswear |
| Treasure Chain International Limited | BVI October 2, 2007 | US\$1 | N/A | N/A | N/A | 100% | 100% note (g) | | Investment holding |
| Wellmax Business Group Limited | BVI October 20, 2000 | US\$9,000 | 70% | 70% | 70% | 70% | 100% note (g) | | Investment holding |
| Wuxi Baoyuen Sports Goods Trading Company Limited 無錫寶原體育用品商貿有限公司 (note d) | PRC September 17, 2007 | RMB1,000,000 | N/A | N/A | 70% | 70% | 100% note (l) | | Retailing of sportswear |
| Hubei Shengdao Sports Goods Company Limited 湖北勝道體育用品有限公司 | PRC July 2, 2007 | RMB50,000,000 | N/A | N/A | 60% | 60% | 60% note (l) | | Retailing of sportswear |
| Xiamen Pou Hui Industrial & Trading Company Limited 廈門寶暉工業有限公司 (notes e & ag) | PRC September 16, 2004 | RMB5,000,000 | 43.35% | 43.35% | 59.5% | 59.5% | 85% note (j) | | In the process of liquidation |

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital (note b) | Attributable equity interests held (note a) | | | | At date of report | Name of statutory auditors | Principal activities |
|--|--|---|---|------|-----------------|------|----------------------|----------------------------|-----------------------------------|
| | | | At September 30, | | At December 31, | | | | |
| | | | 2005 | 2006 | 2007 | 2007 | | | |
| Xian Baoqin Trading Company Limited("Xian Baoqin ") 西安寶秦貿易有限公司 (note d) | PRC March 10, 2007 | US\$10,000,000 | N/A | N/A | 70% | 70% | 100% notes (h) & (x) | | Retailing of sportswear |
| Yusheng (Kunshan) Sports Goods Company Limited 裕晟(昆山)體育用品有限公司 (note d) | PRC December 29, 2001 | USD2,000,000 | 51% | 51% | 70% | 70% | 100% notes (h) & (y) | | Distribution of licensed products |
| Yucheng (Kunshan) Sports Goods Company Limited 裕程(昆山)體育用品有限公司 (note d) | PRC July 20, 2007 | USD10,000,000 | N/A | N/A | 70% | 70% | 100% note (l) | | Distribution of licensed products |
| Yue Ming International Limited ("Yue Ming") 裕銘國際有限公司 | HK October 8, 2004 | HK\$1 | 51% | 51% | 70% | 70% | 100% note (n) | | Distribution of licensed products |
| Yusheng (Taicang) Footwear Company Limited 裕盛(太倉)鞋業有限公司 (note d) | PRC January 31, 2002 | US\$15,000,000 | 100% | 100% | 100% | 100% | 100% notes (h) & (w) | | Manufacturing of sportswear |
| Yunnan Oriental Sport Economy Trade Company Limited 雲南奧龍世博經貿有限公司 (note d) | PRC December 5, 2006 | RMB56,000,000 | N/A | N/A | 51% | 51% | 51% note (l) | | Retailing of sportswear |
| Yunnan Shengdao Sports Goods Company Limited 雲南勝道體育用品有限公司 | PRC July 25, 2007 | RMB87,500,000 | N/A | N/A | 60% | 60% | 60% note (l) | | Retailing of sportswear |

-
- a. *The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.*
 - b. *The issued and fully paid share capital/registered capital shown is as at the date of this report.*
 - c. *All subsidiaries are incorporated/established as limited liability companies.*
 - d. *These companies established in the PRC are wholly-foreign owned enterprises.*
 - e. *These companies established in the PRC are the subsidiaries of Guangzhou Baoyuan Industrial & Trading Company Limited ("Guangzhou Baoyuan"). The Group has 51%, 51% and 70% effective equity interest and 100%, 100% and 100% effective voting interest in Guangzhou Baoyuan at the respective balance sheet date pursuant to the trust arrangement entered into between Selangor Gold and the holding company of Guangzhou Baoyuan ("Trust Arrangement").*

Pursuant to the Trust Arrangement, the Group has the right to appoint the sole director of the Guangzhou Baoyuan and the Group effectively has control over the financial and operating activities and therefore the financial statements of the Guangzhou Baoyuan and its subsidiaries are consolidated during the Track Record Period. Details of the arrangements are set out in the section of "History and Corporate Structure" of the Prospectus.

- f. *These companies established in the PRC are sino-foreign owned enterprises.*
- g. *The companies incorporated in the BVI do not prepare any audited financial statements, as there are no statutory requirements in the BVI to do so.*
- h. *The statutory financial statements of the subsidiaries established in the PRC were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises established in the PRC.*
- i. *The statutory financial statements for the period from January 5, 2006 to December 31, 2006 were audited by Beijing Zongian Huayi Certified Public Accountants Limited (北京中大華義會計師事務所有限公司), certified public accountants registered in the PRC.*
- j. *No audited financial statements for the years ended December 31, 2004, 2005 and 2006, or since their respective dates of establishment, where this is a shorter period, were issued as these companies have begun liquidation since 2006.*
- k. *The statutory financial statements for each of the two years ended December 31, 2005 were audited by Chongqing Yuji Certified Public Accountants Company Limited (重慶渝諮會計師事務所有限責任公司), certified public accountants registered in the PRC.*
- l. *No audited financial statements have been prepared as these companies are newly incorporated and their first financial year end date will be December 31, 2007.*
- m. *The statutory financial statements of Fujian Baomin for the period from May 23, 2006 (date of establishment) to December 31, 2006 and Fuzhou Baomin for the period from August 25, 2004 (date of establishment) to December 31, 2004 and two years ended December 31, 2006 were audited by Fujian Guolong Certified Public Accountants Limited (福建國龍有限責任會計事務所), certified public accountants registered in the PRC.*
- n. *The statutory financial statements for each of the three years ended September 30, 2007 were prepared in accordance with HKFRS and were audited by Deloitte Touche Tohmatsu, Certified Public Accountants registered in Hong Kong.*

- o. No audited financial statements for the period from December 23, 2005 (date of establishment) to December 31, 2005 were issued as there were no requirements, statutory, or otherwise, to issue audited financial statements when it was inactive. The statutory financial statements for the year ended December 31, 2006 were audited by Guangzhou Better Certified Public Accountants Company Limited (廣東佰德會計事務所), certified public accountants registered in the PRC.*
- p. The statutory financial statements for the period from September 7, 2004 (date of establishment) to December 31, 2004 and each of the two years ended December 31, 2006 were audited by Guangzhou Feng Heng Certified Public Accountants Company Limited (廣東豐衡會計師事務所有限公司), certified public accountants registered in the PRC.*
- q. The statutory financial statements for the period from September 28, 2005 (date of establishment) to December 31, 2005 and the year ended December 31, 2006 were audited by Guizhou Hengshunde Certified Public Accountants Company Limited (貴州恒正信德會計師事務所有限公司), certified public accountants registered in the PRC.*
- r. The statutory financial statements for the period from October 27, 2005 (date of establishment) to December 31, 2005 and the year ended December 31, 2006 were audited by Xianghao Certified Public Accountants Company Limited (祥浩信德會計師事務所有限責任公司) and Zhongtianyin Certified Public Accountants (中天會計師事務所), certified public accountants registered in the PRC.*
- s. The statutory financial statements for Pau Yuen for each of the three years ended September 30, 2007 and Pau Zhi for the period from June 17, 2005 (date of incorporation) to December 31, 2005 and the year ended December 31, 2006 were prepared in accordance with the relevant accounting rules and financial regulations in Taiwan and were audited by Deloitte & Touche, Certified Public Accountants registered in Taiwan.*
- t. The statutory financial statements for the period from March 27, 2006 (date of establishment) to December 31, 2006 were audited by Sichuan Heng De Certified Public Accountants (四川恒德會計師事務所), certified public accountants registered in the PRC.*
- u. The statutory financial statements for the period from September 14, 2005 (date of establishment) to December 31, 2005 and for the year ended December 31, 2006 were audited by Honesty CPA (德永達會計事務所) and Qingdao Xinyongda Certified Public Accountants (青島振興會計師事務所), certified public accountants registered in the PRC.*
- v. The statutory financial statements for the period from January 20, 2006 (date of establishment) to December 31, 2006 were audited by Shanghai Hongda Xingyu Certified Public Accountants Company Limited (上海宏大信宇會計事務所有限公司), certified public accountants registered in the PRC.*
- w. The statutory financial statements of Taicang Yusheng and Yusheng (Taicang) for each of the two years ended December 31, 2006 were audited by Kunshan Gongxin Certified Public Accountants Company Limited (昆山公信會計事務所有限公司), certified public accountants registered in the PRC.*
- x. The statutory financial statements for the period from March 10, 2006 (date of establishment) to December 31, 2006 were audited by Shaanxi Grand CPA Company Limited (陝西光大會計師事務所有限公司), certified public accountants registered in the PRC.*
- y. The statutory financial statements for the each of the two years ended December 31, 2005 and the year ended December 31, 2006 were audited by Kunshan Gongxin Certified Public Accountants Company Limited (昆山公信會計事務所有限公司) and Kunshan Fung Shui Land Certified Public Accountants Company Limited (昆山豐瑞聯合會計事務所), respectively, both of whom are certified public accountants registered in the PRC.*
- z. The statutory financial statements of Guangzhou Baoyuen Industrial & Trading Company Limited for each of the three years ended December 31, 2006 were audited by Guangdong Better Certified Public Accountants Company Limited (廣東佰德會計事務所), certified public accountants registered in the PRC.*

- aa. The statutory financial statements of Guangzhou Pou Xue Trading Company Limited for each of the three years ended December 31, 2006 were audited by Guangzhou An Li Xin Certified Public Accountants Ltd. (廣州安立信會計師事務所有限公司), certified public accountants registered in the PRC.*
- ab. The statutory financial statements for the period from September 6, 2006 (date of establishment) to December 31, 2006 were audited by Sichuan Jun He Certified Public Accountants Company Limited (四川君和會計師事務所), certified public accountants registered in the PRC.*
- ac. The Group has 45.9%, 45.9% and 63% effective equity interest through Guangzhou Baoyuen and 90%, 90% and 90% direct effective voting interest in Chongqing Baoyu Industrial & Trading Company Limited at the respective balance sheet date. Accordingly, the results of Chongqing Baoyu Industrial & Trading Company Limited is consolidated.*
- ad. The Group has 35.7%, 35.7% and 49% effective equity interest through Guangzhou Baoyuen and 70%, 70% and 70% direct effective voting interest in Fuzhou Baomin at the respective balance sheet date. Accordingly, the result of Fuzhou Baomin is consolidated.*
- ae. The Group has 30.6%, 45.9% and 63% effective equity interest through Selanger Gold Limited and 60%, 90% and 90% direct effective voting interest in Pau Yuen at the respective balance sheet date. Accordingly, the results of Pau Yuen is consolidated.*
- af. The Group has 49%, 70% and 70% effective equity interest through Dedicated Group Limited and 70%, 100% and 100% direct effective voting interest in Shaanxi Baoqin Sports Goods Company Limited at the respective balance sheet date. Accordingly, the results of Shaanxi Baoqin Sports Good Company Limited is consolidated.*
- ag. The Group has 43.4%, 43.4% and 59.5% effective equity interest through Guangzhou Baoyuen and 85%, 85% and 85% direct effective voting interest in Xiamen Pou Hui Industrial & Trading Company Limited at the respective balance sheet date. Accordingly, the results of Xiamen Pou Hui Industrial & Trading Company Limited is consolidated.*
- ah. No audited financial statements have been prepared as this company is newly incorporated subsequent to December 31, 2007.*

B. SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the following significant events took place:

- (a) In preparing for the listing of the Company's shares on the Hong Kong Stock Exchange, the companies now comprising the Group underwent the Reorganization to rationalize the group structure. As a result of the Reorganization, the Company became the holding company of the Group on May 23, 2008. Details of the Reorganization and other changes are set out in Appendix VII to this Prospectus.
- (b) On May 14, 2008, shareholder's resolutions were passed to approve the matters set out in the paragraph headed "Resolutions of the Company's sole Shareholder passed on May 14, 2008" in Appendix VIII to the Prospectus.
- (c) On January 8, 2008, the Group entered into a share swap arrangement with the joint venture partner of a subsidiary in which the Group has 90% equity interest. Pursuant to this arrangement, the Group has the right to acquire the remaining 10% equity interest in the subsidiary, by issuing Shares in the Company as consideration.

- (d) The Group entered into three additional call option agreements with the joint venture partners in the Group's associates and subsidiaries. Details of these agreements are similar to those set out in note 24 to the combined financial information.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies comprising the Group in respect of any period subsequent to December 31, 2007.

D. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The Company's ultimate holding company and immediate holding company are Pou Chen Corporation and Yue Yuen, respectively.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

For illustrative purpose, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules, is set out here to provide the prospective investors with further information about how the proposed listing might have affected the financial position of the Group after completion of the Global Offering. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the financial position of the Group following the Global Offering or at any future dates or the earnings per Share of the Group for the year ending September 30, 2008 or at any future periods.

A. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following statement of unaudited pro forma net tangible assets attributable to equity holders of the Company as at December 31, 2007 is based on the audited combined net tangible assets attributable to equity holders of the Company as at December 31, 2007, included in Appendix I to this prospectus and adjusted as follow:

| | Audited consolidated net tangible assets attributable to equity holders of the Company as at December 31, 2007 (US\$ thousands) ⁽¹⁾ | Add: Estimated net proceeds from the Global Offering (US\$ thousands) ⁽²⁾ | Unaudited pro forma adjusted net tangible assets (US\$ thousands) ⁽³⁾ | Unaudited pro forma adjusted net tangible assets per Share (US\$) ⁽⁴⁾ |
|---|---|---|---|---|
| Based on the Offer Price of HK\$2.93 per Share. . . . | <u>163,509</u> | <u>287,206</u> | <u>450,715</u> | <u>0.13</u> |
| Based on the Offer Price of HK\$3.75 per Share. . . . | <u>163,509</u> | <u>371,169</u> | <u>534,678</u> | <u>0.16</u> |

(1) The audited consolidated net tangible assets attributable to the equity holders of the Company as at December 31, 2007 has been extracted from the accountants' report of the Group as at December 31, 2007, the text of which is set out in Appendix I to this prospectus, as adjusted for goodwill of US\$5,104,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$2.93 and HK\$3.75 per Share, respectively (after deducting the underwriting fees and other relevant expenses payable by the Company), and takes no account of any Shares which may be issued pursuant to the Over-allotment Option or the Shares to be issued under the Pre-IPO Share Subscription Plan. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of HK dollars into US dollars was made at the rate of US\$0.13 to HK\$1.00.

(3) The Group's properties were valued by Savills Valuation and Professional Services Limited ("Savills") and the valuation in respect of which is set out in Appendix IV to this prospectus. Pursuant to the valuation performed by Savills, the Group's interest in the properties as at March 31, 2008 amounted to approximately RMB669.6 million (equivalent to approximately US\$95.5 million). Comparing the valuation amount as at March 31, 2008 to the unaudited net book value of the Group's land and buildings as at the same date of RMB457.8 million (equivalent to approximately US\$65.3 million) resulted in a difference of approximately RMB211.8 million (equivalent to approximately US\$30.2 million), which will not be included in the Group's combined financial statements for the year ending September 30, 2008. Had the properties been stated at the valuation amount, additional depreciation of approximately RMB4.2 million (equivalent to approximately US\$0.6 million) per annum will be charged to the combined financial statements.

- (4) *The unaudited pro forma adjusted net tangible assets per Share is calculated based on the adjustments referred to in the preceding paragraphs and on the basis that 3,445,022,000 Shares were in issue assuming that the Global Offering and the Capitalization Issue had been completed on December 31, 2007, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the Shares to be issued under the Pre-IPO Share Subscription Plan or the issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner.*

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

For the financial year ending September 30, 2008:

| | |
|---|---|
| Forecast consolidated profit attributable to the equity holders of the Company for the financial year ending September 30, 2008 ⁽¹⁾⁽³⁾ | not less than US\$68 million (approximately HK\$530 million) |
| Unaudited pro forma forecast earnings per Share ⁽²⁾⁽³⁾ | US\$0.019 (approximately HK\$0.148) |

- (1) *The profit forecast has been prepared on the bases and assumptions set out in Appendix III to this prospectus.*

- (2) *The calculation of the unaudited pro forma forecast earnings per Share is based on (i) the forecast consolidated profit attributable to the equity holders of the Company for the financial year ending September 30, 2008, and (ii) a total of 3,550,000,000 Shares were in issue during the entire year assuming that the Global Offering, the Capitalization Issue and issuance of Shares to the Call Option JVs' partners and the Share Swap JV's partner were completed on October 1, 2007. This calculation has not taken into account any Shares which may be issued upon the exercise of the Over-allotment Option or the Shares to be issued to the Call Option JVs' partners upon exercising of the call options. This calculation has also not taken into account the Shares to be issued under the Pre-IPO Share Subscription Plan that will not be vested until one year after the grant date, which is after the end of the financial year ending September 30, 2008.*

- (3) *The numbers shown in the table above have taken into account the minority interests held by Sports Group and Jollyard in the subsidiaries of the Group, which amounted to approximately US\$11 million from October 1, 2007 to the completion date of the Reorganization. Pursuant to the Reorganization, the entire interests in those subsidiaries held by Sports Group and Jollyard were transferred to our Group. In exchange, Sports Group and Jollyard will become the Shareholders of our Company. As such, there will be no further minority interest expense in relation to Sports Group and Jollyard after completion of the Reorganization. Assuming the Reorganization was completed on October 1, 2007, the unaudited pro forma forecast earnings per Share would be US\$0.022 (approximately HK\$0.172).*

C. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

May 26, 2008

TO THE DIRECTORS OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

We report on the unaudited pro forma financial information of Pou Sheng International (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the global offering of 823,378,000 shares of HK\$0.01 each in the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated May 26, 2008 (the “Prospectus”). The basis of preparation of the unaudited pro forma financial information is set out on pages II-1 and II-2 to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of

the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at December 31, 2007 or any future dates nor the earnings per share of the Group for the financial year ending September 30, 2008 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Our forecasted combined profit attributable to equity holders of our Company for the financial year ending September 30, 2008 is set out in the sub-section headed “Financial Information — Profit Forecast for the Financial Year ending September 30, 2008” in this prospectus.

A. BASES AND ASSUMPTIONS

Our directors have prepared the forecast of the combined profit attributable to our equity holders for the financial year ending September 30, 2008 based on the audited combined results of our Group for the three months ended December 31, 2007, the unaudited combined results based on management accounts of the Group for the two months ended February 29, 2008 and a forecast of the combined results of the Group for the seven months ending September 30, 2008. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by us as summarized in Appendix I to this prospectus. The profit forecast has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in the PRC, Hong Kong or any other countries or territories in which we currently operate or which are otherwise material to our business;
- there will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing in the context of our operations;
- there will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the countries or territories in which we operate, except as otherwise disclosed in this Prospectus;
- our operations and business will not be severely interrupted by any force majeure events or unforeseeable factors that are beyond the control of our Directors, including but not limited to the occurrence of wars, serious incidents, pandemic diseases or natural disasters; and
- a credit of approximately US\$3.9 million will be credited to our combined income statement for the year ending September 30, 2008 as a result of the expected net change in fair value of the call options premium and the shares issuable with respect to the call options and call option premium (collectively referred as “Financial Derivatives”) as at September 30, 2008 based on a project valuation. The basis of the project valuation, which is insofar as practicable in the opinion of the Directors, is consistent with the valuation basis adopted by the independent valuer in valuing the Financial Derivatives for the purpose of our audited combined financial information for the three months ended December 31, 2007. While the Directors believe that the projected valuation is the best estimate of the fair value of the Financial Derivatives as at September 30, 2008, and the independent valuer is of the view that the assumptions upon which the projected valuation is based are reasonable, the fair value of the Financial Derivatives as at September 30, 2008 may eventually differ materially from their estimates. If the actual change in fair value of the Financial Derivatives differs from the amount estimated by the Directors, such difference will have a corresponding impact on the profit of the Group for the year ending September 30, 2008.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON THE PROFIT FORECAST

The following is the text of a letter, prepared for inclusion in this prospectus, that we have received from the reporting accountants, Deloitte Touche Tohmatsu, certified public accountants, in connection with the forecast of our profits attributable to equity holders of our Company for the year ending September 30, 2008.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

The Directors
Pou Sheng International (Holdings) Limited
Merrill Lynch Far East Limited
Morgan Stanley Asia Limited

May 26, 2008

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit of Pou Sheng International (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending September 30, 2008 (the “Profit Forecast”) as set out in the section headed “Financial Information — Profit Forecast” of the prospectus dated May 26, 2008 issued by the Company (the “Prospectus”).

We conducted our work in accordance with the Auditing Guideline 3.341 on “Accountants’ report on profit forecast” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, have been prepared based on the audited results of the Group for the three months ended December 31, 2007 as shown in Appendix I to the Prospectus, the unaudited results as shown in the management accounts of the Group for the two months ended February 29, 2008, and a forecast of the results for the remaining seven months of the financial year ending September 30, 2008.

In our opinion the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part A of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report in Appendix I to the Prospectus.

Without qualifying our opinion above, we draw to your attention that in preparing the Profit Forecast, the directors have forecasted that there will be a credit of approximately US\$3.9 million to the combined income statement as a result of the expected net change in fair value of the call options premium and the shares issuable with respect to the call options (collectively referred to as the “Financial Derivatives”). This credit is based on a projected valuation of the Financial Derivatives at September 30, 2008 in accordance with the basis of valuation which is consistent with that adopted by their independent valuer in valuing the Financial Derivatives for the purpose of the audited combined financial information of the Group for the three months ended December 31, 2007. Should the actual change in fair value of the Financial Derivatives differ from the amount estimated by the directors, such difference would have a corresponding impact on the profit of the Group for the year ending September 30, 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

C. LETTER FROM THE JOINT SPONSORS ON THE PROFIT FORECAST

The following is the text of a letter, prepared for inclusion in this prospectus, that we have received from the Joint Sponsors in connection with the forecast of our profits attributable to equity holders of our Company for the year ending September 30, 2008.

**Morgan Stanley**

The Directors
Pou Sheng International (Holdings) Limited
Suites 3108–11, 31st Floor
Tower 6, The Gateway
9 Canton Road
Tsimshatsui
Kowloon
Hong Kong

May 26, 2008

Dear Sirs,

We refer to the forecast of the consolidated net profit attributable to equity holders of Pou Sheng International (Holdings) Limited (the “Company”) for the financial year ending September 30, 2008 (the “Profit Forecast”) as set out in the prospectus issued by the Company dated May 26, 2008 (the “Prospectus”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the three months ended December 31, 2007, the unaudited combined results based on management accounts for the two months ended February 29, 2008 and a forecast of the consolidated results of the Group for the remaining seven months ending September 30, 2008.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated May 26, 2008 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies, calculations and assumptions upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Merrill Lynch Far East Limited
John C. Lee
Managing Director

For and on behalf of
Morgan Stanley Asia Limited
Crawford Jamieson
Managing Director

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations as at March 31, 2008 of the property interests of the Group.



Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

The Directors
Pou Sheng International (Holdings) Limited
Suites 3108–11, 31st Floor
Tower 6, The Gateway
9 Canton Road
Tsimshatsui
Kowloon
Hong Kong

May 26, 2008

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the "PRC"), Hong Kong and Taiwan in which Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at March 31, 2008 for the purpose of incorporation in an Initial Public Offer Document.

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation of the properties in the PRC, unless otherwise stated, we have assumed that transferable land use rights of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information regarding the title to each of the properties. In valuing the properties, unless otherwise stated, we have assumed that the Group have enforceable titles to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In valuing Property Nos. 1 to 4 in Group I and Nos. 7 and 8 in Group II, we have adopted the “Direct Comparison Approach” by making reference to the comparable market transactions assuming sale with the benefit of vacant possession. For the Property Nos. 5 and 6 in Group I, due to the specific purposes for which the buildings and structures of the property were constructed, there are no readily identifiable market comparables. Thus the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define “depreciated replacement cost” for this purpose to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, physical and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuing the properties in Groups III, IV and V, which are rented by the Group in the PRC, Hong Kong and Taiwan respectively, we have assigned no commercial values to these properties due to the short term nature of the leases, prohibition against assignment or sub-letting or otherwise due to the lack of profit rent.

We have been provided with copies of extract of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser, Commerce & Finance Law Offices, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposals, estimated completion dates, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any properties or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Notes 12 and 16 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited except for those in respect of Rules 5.01 and 5.06 and paragraph 3(a) of Practice Note 16 and Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Managing Director

Note: Charles C K Chan, MSc, FRICS, FHKIS, MCI Arb, RPS (GP), has been a qualified valuer and has about 23 years' experience in the valuation of properties in Hong Kong and has about 18 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

| No. | Property | Capital value in existing state as at March 31, 2008 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at March 31, 2008 |
|---|--|--|--|--|
| Group I — Property interests held by the Group for owner occupation in the PRC | | | | |
| 1. | Units 1401, 1403, 1501, 1502, 1503, 1505, 1506, 1507 and 1508, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | RMB48,800,000 | 100% | RMB48,800,000 |
| 2. | Units 1405 and 1407, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | RMB9,000,000 | 100% | RMB9,000,000 |
| 3. | Units 1402, 1406 and 1408, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | RMB16,500,000 | 100% | RMB16,500,000 |
| 4. | Levels 1 to 5, Wu Hua Building, 19 Dong Feng Xi Road, Wu Hua District, Kunming, Yunnan Province, PRC | RMB327,000,000 | 60% | RMB196,200,000 |
| 5. | An industrial complex located at 8 Bing Xi Qiang Hang Road, Kun Shan Development Zone, Kunshan, Jiangsu Province, PRC | RMB60,300,000 | 100% | RMB60,300,000 |

APPENDIX IV**PROPERTY VALUATION**

| No. | Property | Capital value in existing state as at March 31, 2008 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at March 31, 2008 |
|------------|--|---|---|---|
| 6. | An industrial complex located at 33 Chang Sheng Bei Road, Cheng Xiang Town, Taicang, Jiangsu Province, PRC | RMB208,000,000 | 100% | RMB208,000,000 |
| | Sub-total | <u>RMB669,600,000</u> | | <u>RMB538,800,000</u> |

Group II — Property interests to be acquired by the Group in the PRC

| | | | |
|----|--|--|----------------------------------|
| 7. | A commercial unit of a building located at Luo Yu Road, Dong Hu Development District, Wuhan, Hubei Province, PRC | | No Commercial Value (Note i) |
| 8. | A commercial building located at 340 Jie Fang Road, Wu Chang District, Wuhan, Hubei Province, PRC | | No Commercial Value (Note ii) |
| | Sub-total | | <u>Nil</u> |

Group III — Property interests rented by the Group in the PRC

| | | | |
|----|---|--|---------------------|
| 9. | 230 properties rented by the Group in the PRC | | No Commercial Value |
| | Sub-total | | <u>Nil</u> |

| No. | Property | Capital value in existing state as at March 31, 2008 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at March 31, 2008 |
|---|--|--|--|--|
| Group IV — Property interests rented by the Group in Hong Kong | | | | |
| 10. | 4 properties rented by the Group in Hong Kong | | | No Commercial Value |
| | | | Sub-total | Nil |
| Group V — Property interests rented by the Group in Taiwan | | | | |
| 11. | 18 properties rented by the Group in Taiwan | | | No Commercial Value |
| | | | Sub-total | Nil |
| | GRAND TOTAL | RMB669,600,000 | | RMB538,800,000 |

Notes:

- i. Has a valid Building Ownership Certificate been obtained, the market value of the property as at March 31, 2008 assuming that all consideration has been fully paid would be RMB63,000,000 (60% interest attributable to the Group: RMB37,800,000).
- ii. Has a valid Building Ownership Certificate been obtained, the market value of the property as at March 31, 2008 assuming that all consideration has been fully paid would be RMB27,500,000 (60% interest attributable to the Group: RMB16,500,000).

Group I — Property interests held by the Group for owner occupation in the PRC

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|--|---|---|
| 1. | Units 1401, 1403, 1501, 1502, 1503, 1505, 1506, 1507 and 1508, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | <p>The property comprises 9 office units on Levels 14 and 15 of a 23-storey commercial building completed in 2004.</p> <p>The total gross floor area of the property is approximately 1,807.12 sq.m. (19,452 sq.ft.).</p> <p>The land use rights of the property have been granted for a term expiring on October 3, 2051 for composite use.</p> | The property is occupied by the Group for office purpose. | <p>RMB48,800,000 (100% interest attributable to the Group: RMB48,800,000)</p> |

- (1) Pursuant to 9 Real Estate Transaction Contracts entered into between Shanghai Senling Real Estate Development Company Limited and Shanghai Baoyuan Sports Goods Trading Company Limited ("Shanghai Baoyuan"), which is a wholly-owned subsidiary of the Company, dated November 17, 2006, the property with a total gross floor area of approximately 1,807.12 sq.m. and its respective land use rights were transferred to Shanghai Baoyuan at a total consideration of RMB37,949,520. Details of acquisition of the property are listed as follows:

| Unit No. | Date of Acquisition | Consideration |
|------------|---------------------|---------------|
| 1401 | November 17, 2006 | RMB5,820,570 |
| 1403 | November 17, 2006 | RMB3,224,340 |
| 1501 | November 17, 2006 | RMB5,820,570 |
| 1502 | November 17, 2006 | RMB4,411,890 |
| 1503 | November 17, 2006 | RMB3,224,340 |
| 1505 | November 17, 2006 | RMB3,152,310 |
| 1506 | November 17, 2006 | RMB3,924,900 |
| 1507 | November 17, 2006 | RMB3,873,240 |
| 1508 | November 17, 2006 | RMB4,497,360 |

- (2) Pursuant to 9 Certificates of Real Estate Ownership Hu Fang Di Hong Zi (2007) Di Nos. 003119, 003111, 003109, 003113, 003114, 003115, 003110, 003116 and 003118 issued by Shanghai Municipal Housing, Land and Resource Administration Bureau dated February 7, 2007, the building ownership of the property with a total gross floor area of approximately 1,807.12 sq.m. is vested in Shanghai Baoyuan for a term expiring on October 3, 2051 for composite use.
- (3) We have been provided with a legal opinion on the title of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:
- Shanghai Baoyuan is the legal owner of the property;
 - Shanghai Baoyuan is entitled to occupy, use, transfer, lease, mortgage or deal with the property by other means within its residual term of land use rights without additional payment of any land premium or other substantial fee; and
 - The property is not subject to any mortgage and other material encumbrances.

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|---|---|---|
| 2. | Units 1405 and 1407, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | <p>The property comprises 2 office units on Level 14 of a 23-storey commercial building completed in 2004.</p> <p>The total gross floor area of the property is approximately 334.55 sq.m. (3,601 sq.ft.).</p> <p>The land use rights of the property have been granted for a term expiring on October 3, 2051 for composite use.</p> | The property is occupied by the Group for office purpose. | <p>RMB9,000,000 (100% interest attributable to the Group: RMB9,000,000)</p> |

- (1) Pursuant to 2 Real Estate Transaction Contracts entered into between Shanghai Senling Real Estate Development Company Limited and Baoxin (Chengdu) Trading Company Limited Shanghai Branch ("Baoxin Chengdu Shanghai Branch"), which is a wholly-owned subsidiary of the Company, dated November 17, 2006, the property with a total gross floor area of approximately 334.55 sq.m. and its respective land use rights were transferred to Baoxin Chengdu Shanghai Branch at a total consideration of RMB7,025,550. Details of acquisition of the property are listed as follows:

| Unit No. | Date of Acquisition | Consideration |
|----------------|---------------------|---------------|
| 1405 | November 17, 2006 | RMB3,152,310 |
| 1407 | November 17, 2006 | RMB3,873,240 |

- (2) Pursuant to 2 Certificates of Real Estate Ownership Hu Fang Di Hong Zi (2007) Di Nos. 011870 and 011871 issued by Shanghai Municipal Housing, Land and Resource Administration Bureau dated July 25, 2007, the building ownership of the property with a total gross floor area of approximately 334.55 sq.m. is vested in Baoxin Chengdu Shanghai Branch for a term expiring on October 3, 2051 for composite use.
- (3) We have been provided with a legal opinion on the title of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:
- i. Baoxin Chengdu Shanghai Branch is the legal owner of the property;
 - ii. Baoxin Chengdu Shanghai Branch is entitled to occupy, use, transfer, lease, mortgage or deal with the property by other means within its residual term of its land use rights without additional payment of any land premium or other substantial fee; and
 - iii. The property is not subject to any mortgage and other material encumbrances.

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|---|---|---|
| 3. | Units 1402, 1406 and 1408, The Silva Bay Tower, 469 Wu Song Road, Hong Kou District, Shanghai, PRC | <p>The property comprises 3 office units on Level 14 of a 23-storey commercial building completed in 2004.</p> <p>The total gross floor area of the property is approximately 611.15 sq.m. (6,578 sq.ft.).</p> <p>The land use rights of the property have been granted for a term expiring on October 3, 2051 for composite use.</p> | The property is occupied by the Group for office purpose. | <p>RMB16,500,000 (100% interest attributable to the Group: RMB16,500,000)</p> |

- (1) Pursuant to 3 Real Estate Transaction Contracts entered into between Shanghai Senling Real Estate Development Company Limited and Yusheng (Kunshan) Sports Goods Company Limited (“Yusheng Kunshan”), which is a wholly-owned subsidiary of the Company, dated November 17, 2006, the property with a total gross floor area of approximately 611.15 sq.m. and its respective land use rights were transferred to Yusheng Kunshan at a total consideration of RMB12,834,150. Details of acquisition of the property are listed as follows:

| Unit No. | Date of Acquisition | Consideration |
|----------------|---------------------|---------------|
| 1402 | November 17, 2006 | RMB4,411,890 |
| 1406 | November 17, 2006 | RMB3,924,900 |
| 1408 | November 17, 2006 | RMB4,497,360 |

- (2) Pursuant to 3 Certificates of Real Estate Ownership Hu Fang Di Hong Zi (2007) Di Nos. 003122, 003124 and 003125 issued by Shanghai Municipal Housing, Land and Resource Administration Bureau dated February 7, 2007, the building ownership of the property with a total gross floor area of approximately 611.15 sq.m. is vested in Yusheng Kunshan for a term expiring on October 3, 2051 for composite use.
- (3) We have been provided with a legal opinion on the title of the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- i. Yusheng Kunshan is the legal owner of the property;
 - ii. Yusheng Kunshan is entitled to occupy, use, transfer, lease, mortgage or deal with the property by other means within its residual term of its land use rights without additional payment of any land premium or other substantial fee; and
 - iii. The property is not subject to any mortgage and other material encumbrances.

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|---|---|---|
| 4. | Levels 1 to 5, Wu Hua Building, 19 Dong Feng Xi Road, Wu Hua District, Kunming, Yunnan Province, PRC | The property comprises the retail spaces on Levels 1 to 5 of a 7-storey commercial building completed in 2000. The total gross floor area of the property is approximately 14,876.64 sq.m. (160,132 sq.ft.). | The property is occupied by the Group for retail purpose. | RMB327,000,000 (60% interest attributable to the Group: RMB196,200,000) |

(1) Pursuant to 5 Certificates of Building Ownership Kun Ming Shi Fang Quan Zheng Zi Di Nos. 200738430, 200738227, 200738431, 200738229 and 200738228, the building ownership of the property with a total gross floor area of approximately 14,876.64 sq.m. is vested in Yunnan Shengdao Sports Goods Company Limited ("Yunnan Shengdao"), which is a 60% owned subsidiary of the Company.

(2) We have been provided with a legal opinion on the title of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

- i. Yunnan Shengdao is the legal owner of the property;
- ii. Apart from a portion of the property with a site area of approximately 50 sq.m. which has title dispute, there will not be any substantial legal impediment for Yunnan Shengdao to obtain the land use rights certificates for the property;
- iii. Yunnan Shengdao is entitled to occupy, use, transfer, lease, mortgage or deal with the property by other means within its residual term of land use rights without additional payment of any land premium or other substantial fee; and
- iv. The property is not subject to any mortgage.

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|---|--|--|--|
| 5. | An industrial complex located at 8 Bing Xi Qiang Hang Road, Kun Shan Development Zone, Kunshan, Jiangsu Province, PRC | <p>The property comprises an industrial complex erected on a parcel of land with a site area of approximately 96,009.00 sq.m. (1,033,441 sq.ft.).</p> <p>The industrial complex comprises 4 workshops and ancillary buildings with a total gross floor area of approximately 21,319.05 sq.m. (229,478 sq.ft.) and various structures completed in 2005.</p> <p>The land use rights of the property have been granted for a term expiring on January 29, 2053 for industrial use.</p> | The property is occupied by the Group for production and ancillary purposes. | RMB60,300,000 (100% interest attributable to the Group: RMB60,300,000) |

- (1) Pursuant to a State-owned Land Use Rights Certificate Kun Guo Yong (2004) Zi Di No. 120041002252 issued by Kunshan Land Resource Bureau dated January 7, 2004, the land use rights of a parcel of land with a site area of approximately 96,009.00 sq.m. have been granted to Yusheng (Kunshan) Sports Company Limited ("Yusheng Kunshan"), which is a wholly-owned subsidiary of the Company, for a term expiring on January 29, 2053 for industrial use.
- (2) Pursuant to a Certificate of Building Ownership Kun Fang Quan Zheng Bing Xi Zi Di No. 141001480, the building ownership of the property with a total gross floor area of approximately 21,319.05 sq.m. is vested in Yusheng Kunshan.
- (3) We have been provided with a legal opinion on the title of the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:
- i. Yusheng Kunshan is the legal owner of the property;
 - ii. The land premium of RMB15,361,440 has been settled in full and Yusheng Kunshan is entitled to transfer, lease, mortgage the land use rights of the property or use the land use rights for construction of workshops without additional payment of any land premium or other substantial fee;
 - iii. Yusheng Kunshan cannot sell the buildings, but it is entitled to occupy, use, lease, mortgage or deal with the buildings by other means without additional payment of any land premium or other substantial fee within its residual term of the land use rights; and
 - iv. The property is not subject to any mortgage and other material encumbrances.

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|--|--|--|
| 6. | An industrial complex located at 33 Chang Sheng Bei Road, Cheng Xiang Town, Taicang, Jiangsu Province, PRC | <p>The property comprises an industrial complex erected on a parcel of land with a site area of approximately 177,351.10 sq.m (1,909,007 sq.ft.).</p> <p>The industrial complex comprises 19 workshops and ancillary buildings with a total gross floor area of approximately 152,853.04 sq.m. (1,645,310 sq.ft.) and various structures completed between 2003 and 2005.</p> <p>Various blocks of production plants and dormitory with a total gross floor area of approximately 50,127.30 sq.m. (539,570 sq.ft.) are under construction. They are scheduled to be completed in early 2008.</p> <p>The land use rights of the property have been granted for a term expiring on September 5, 2052 for industrial use.</p> | The property is occupied by the Group for production and ancillary purposes. | RMB208,000,000 (100% interest attributable to the Group: RMB208,000,000) |

- (1) Pursuant to a State-owned Land Use Rights Certificate Tai Guo Yong (2003) Zi Di No. 02041024 issued by Taicang People's Government dated March 10, 2003, the land use rights of a parcel of land with a site area of approximately 177,351.1 sq.m. have been granted to Yusheng (Taicang) Footwear Company Limited ("Yusheng Taicang Footwear"), a wholly-owned subsidiary of the Company, for a term expiring on September 5, 2052 for industrial use.
- (2) Pursuant to a Certificate of Building Ownership Tai Fang Quan Zheng Cheng Xiang Zi Di No. 00068476, the building ownership of a portion of the property with a total gross floor area of approximately 152,853.04 sq.m. is vested in Yusheng Taicang Footwear.
- (3) Another portion of the property with a total gross floor area of approximately 50,127.30 sq.m. is under construction and has not obtained a building ownership certificate.
- (4) Pursuant to 2 Taicang Construction Works Planning Permits Nos. 202 and 1077212 issued by Taicang Construction Committee dated between September 6, 2007 and September 21, 2007, the construction of 2 buildings with a total planned gross floor area of approximately 50,127.30 sq.m. have been approved for constructions on the land of the property.
- (5) Pursuant to 2 Taicang Construction Works Commencement Permits Nos. 320585200709240101 and 320585200709280501 issued by Taicang Planning and Construction Bureau dated between September 24, 2007 and September 28, 2007, the 2 buildings mentioned in Note (4) above with a total planned gross floor area of approximately 50,127.30 sq.m. have been approved for commencement of constructions.

- (6) *We have been provided with a legal opinion on the title of the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:*
- i. *Yusheng Taicang Footwear is the legal owner of the property as mentioned in Notes (1) and (2);*
 - ii. *Yusheng Taicang Footwear is entitled to transfer, lease, mortgage or use the land use rights for construction of workshops without additional payment of any land premium or other substantial fee;*
 - iii. *Yusheng Taicang Footwear is entitled to occupy, use, transfer, lease, mortgage or deal with the buildings as mentioned in Note (2) by other means within its residual term of the land use rights without additional payment of any land premium or other substantial fee;*
 - iv. *Yusheng Taicang Footwear has already obtained the requisite permits and approvals which are legal and effective required for the construction of the buildings mentioned in Note (3). There are no legal impediments for Yusheng Taicang Footwear to obtain the relevant Certificates of Building Ownership after the constructions of such buildings have been completed and Yusheng Taicang Footwear will be entitled to occupy, use, transfer, lease, mortgage or deal with these buildings by other means without additional payment of any land premium or other substantial fee; and*
 - v. *The property is not subject to any mortgage and other material encumbrances.*

Group II — Property interest to be acquired by the Group in the PRC

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|--|---|--|
| 7. | A commercial unit of a building located at Luo Yu Road, Dong Hu Development District, Wuhan, Hubei Province, PRC | The property comprises a commercial unit on Level 1 of a 5-storey commercial building completed in 2007. The gross floor area of the property is approximately 1,968.22 sq.m. (21,186 sq.ft). | The property is to be acquired by the Group for retail purpose. | No Commercial Value (Note 4) |

- (1) Pursuant to a Contract for Sale and Purchase of Commercial Commodity Property entered into between Wuhan Lijia Property Company Limited and Hubei Shengdao Sports Goods Company Limited ("Hubei Shengdao"), which is a 60% owned subsidiary of the Company, a commercial unit with a gross floor area of approximately 1,968.22 sq.m. has been transferred to Hubei Shengdao for commercial use at a consideration of RMB62,983,040.
- (2) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:
- i. the said contract is valid, legal and enforceable under the PRC laws; and
 - ii. Hubei Shengdao has no legal impediment to obtain the Certificate of Building Ownership.
- (3) We have ascribed no commercial value to the property as the Certificate of Building Ownership has not been obtained.
- (4) Has a valid Building Ownership Certificate been obtained, the market value of the property as at March 31, 2008 assuming that all consideration has been fully paid would be RMB63,000,000 (60% interest attributable to the Group: RMB37,800,000).

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at March 31, 2008 |
|-----|--|---|---|--|
| 8. | A building located at 340 Jie Fang Road, Wu Chang District, Wuhan, Hubei Province, PRC | <p>The property comprises a 3-storey commercial building completed in 1960s.</p> <p>The total gross floor area of the property is approximately 1,126.65 sq.m. (12,127 sq.ft.).</p> | The property is to be acquired by the Group for retail purpose. | No Commercial Value (Note 4) |

- (1) Pursuant to a Contract for Sale and Purchase of Property entered into between Wuhan Dianshi Property Investment Management Company Limited and Hubei Shengdao Sports Goods Company Limited ("Hubei Shengdao"), which is a 60% owned subsidiary of the Company, the property with a gross floor area of approximately 1,126.65 sq.m. has been transferred to Hubei Shengdao for commercial use at a consideration of RMB27,500,000.
- (2) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:
- i. the said contract is valid, legal and enforceable under the PRC laws; and
 - ii. Hubei Shengdao has no legal impediment to obtain the Certificate of Building Ownership.
- (3) We have ascribed no commercial value to the property as the Certificate of Building Ownership has not been obtained.
- (4) Has a valid Building Ownership Certificate been obtained, the market value of the property as at March 31, 2008 assuming that all consideration has been fully paid would be RMB27,500,000 (60% interest attributable to the Group: RMB16,500,000).

Group III — Property interests rented by the Group in the PRC

| No. | Property | Description and tenancy particulars | Particulars of occupancy | Capital value in existing state as at March 31, 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------------|---|--|--------------------------|--|--|-------------------|--|---------|----------|--|------------------------|--------|-------|---|------------------|-----------|---------|----|------------------|-----------|---------|-----|---------------------|-----------|---------|----|-----------------------|----------|--------|----|--------------------|-----------|---------|---|-----------------|------------|-----------|-----|---|---------------------|
| 9. | 230 properties rented by the Group in the PRC | <p>The properties comprises a total of 230 leased properties completed between 1960 and 2007.</p> <p>Details of the uses and floor areas of the properties are listed below:</p> <table><tr><th>Use</th><th colspan="2">Approximate Floor Area</th><th>No. of Properties</th></tr><tr><td></td><th>(sq.m.)</th><th>(sq.ft.)</th><td></td></tr><tr><td>Training room.</td><td>268.72</td><td>2,893</td><td>4</td></tr><tr><td>Office</td><td>22,656.07</td><td>243,870</td><td>61</td></tr><tr><td>Retail</td><td>63,564.08</td><td>684,203</td><td>109</td></tr><tr><td>Warehouse</td><td>46,264.74</td><td>497,993</td><td>39</td></tr><tr><td>Residential</td><td>1,924.69</td><td>20,718</td><td>15</td></tr><tr><td>Workshop</td><td>58,568.74</td><td>630,434</td><td>2</td></tr><tr><td>Total</td><td>193,247.04</td><td>2,080,111</td><td>230</td></tr></table> | Use | Approximate Floor Area | | No. of Properties | | (sq.m.) | (sq.ft.) | | Training room. | 268.72 | 2,893 | 4 | Office | 22,656.07 | 243,870 | 61 | Retail | 63,564.08 | 684,203 | 109 | Warehouse | 46,264.74 | 497,993 | 39 | Residential | 1,924.69 | 20,718 | 15 | Workshop | 58,568.74 | 630,434 | 2 | Total | 193,247.04 | 2,080,111 | 230 | The properties are occupied by the Group for training, office, retail, godown, residential and workshop purposes. | No Commercial Value |
| Use | Approximate Floor Area | | No. of Properties | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | (sq.m.) | (sq.ft.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Training room. | 268.72 | 2,893 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Office | 22,656.07 | 243,870 | 61 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retail | 63,564.08 | 684,203 | 109 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Warehouse | 46,264.74 | 497,993 | 39 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Residential | 1,924.69 | 20,718 | 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Workshop | 58,568.74 | 630,434 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 193,247.04 | 2,080,111 | 230 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

The properties are leased to the Group under various tenancies with the latest due to expire in December 2022 at a total monthly rental of approximately RMB13,608,057.

(1) The lessees of the properties are subsidiaries of the Company.

(2) We have been provided with a legal opinion on the properties issued by the Group's PRC legal advisers, which contains, inter alia, the following information:

- i. 185 out of the above 230 tenancy agreements are legal and valid and there are no legal impediments to use the properties as the Group has obtained the relevant real estate title certificates from the lessors and/or the consent documents from the owners for allowing the lessors to lease the properties;
- ii. Unless the owners lease the properties to other third parties and have registered the relevant tenancy agreements with the third parties, 143 out of the above 185 tenancy agreements as stipulated in Note i are still legally binding though they have not been registered;

- iii. *45 out of the above 230 tenancy agreements are subject to a risk of being declared invalid by the relevant authority as the Group has not obtained the relevant real estate title certificates from the lessors and/or the consent documents from the owners for allowing the lessors to lease the properties; and*
- iv. *6 out of the above 230 tenancy agreements are subject to a risk of being terminated by the lessors and the Group is at the risk of paying compensation and damage to the lessors of the properties as the actual users of these properties are not the Group and the relevant tenancy agreements have provided that the Group is not allowed to sub-let or under-let the properties to other parties without the lessors consent.*

Group IV — Property interests rented by the Group in Hong Kong

| No. | Property | Description and tenancy particulars | Particulars of occupancy | Capital value in existing state as at March 31, 2008 | | | | | | | | | | | | | | | | | | | | |
|---------------|---|---|--------------------------|--|--|-------------------|--|---------|----------|--|--------------|--------|-------|---|--------------|---------------|--------------|----------|---------------|---------------|--------------|----------|--|---------------------|
| 10. | 4 properties rented by the Group in Hong Kong | <p>The properties comprises a total of 4 leased properties completed in between 1981 and 1994.</p> <p>Details of both usages and floor areas of the properties are listed below:</p> <table> <tr> <th>Use</th> <th colspan="2">Approximate Floor Area</th> <th>No. of Properties</th> </tr> <tr> <td></td> <th>(sq.m.)</th> <th>(sq.ft.)</th> <td></td> </tr> <tr> <td>Office . . .</td> <td>415.00</td> <td>4,467</td> <td>1</td> </tr> <tr> <td>Retail . . .</td> <td><u>210.01</u></td> <td><u>2,261</u></td> <td><u>3</u></td> </tr> <tr> <td>Total</td> <td><u>625.01</u></td> <td><u>6,728</u></td> <td><u>4</u></td> </tr> </table> <p>The properties are leased to Yue Ming International Limited under various tenancies with the latest one due to expire in October 2010 at a total monthly basic rental of HK\$535,768.</p> | Use | Approximate Floor Area | | No. of Properties | | (sq.m.) | (sq.ft.) | | Office . . . | 415.00 | 4,467 | 1 | Retail . . . | <u>210.01</u> | <u>2,261</u> | <u>3</u> | Total | <u>625.01</u> | <u>6,728</u> | <u>4</u> | The properties are occupied by the Group for office and retail purposes. | No Commercial Value |
| Use | Approximate Floor Area | | No. of Properties | | | | | | | | | | | | | | | | | | | | | |
| | (sq.m.) | (sq.ft.) | | | | | | | | | | | | | | | | | | | | | | |
| Office . . . | 415.00 | 4,467 | 1 | | | | | | | | | | | | | | | | | | | | | |
| Retail . . . | <u>210.01</u> | <u>2,261</u> | <u>3</u> | | | | | | | | | | | | | | | | | | | | | |
| Total | <u>625.01</u> | <u>6,728</u> | <u>4</u> | | | | | | | | | | | | | | | | | | | | | |

(1) Yue Ming International Limited is a wholly-owned subsidiary of the Company.

Group V — Property interests leased by the Group in Taiwan

| No. | Property | Description and tenancy particulars | Particulars of occupancy | Capital value in existing state as at March 31, 2008 | | | | | | | | | | | | | | | | | | | | |
|---------------|---|--|--------------------------|--|--|-------------------|--|---------|----------|--|--------------|----------|--------|---|--------------|-----------------|---------------|-----------|---------------|-----------------|---------------|-----------|--|---------------------|
| 11. | 18 properties rented by the Group in Taiwan | <p>The properties comprises a total of 18 leased properties completed in between 1964 and 2000.</p> <p>Details of both usages and floor areas of the properties are listed below:</p> <table><tr><th>Use</th><th colspan="2">Approximate Floor Area</th><th>No. of Properties</th></tr><tr><td></td><th>(sq.m.)</th><th>(sq.ft.)</th><td></td></tr><tr><td>Office . . .</td><td>1,469.72</td><td>15,820</td><td>4</td></tr><tr><td>Retail . . .</td><td><u>3,863.58</u></td><td><u>41,588</u></td><td><u>14</u></td></tr><tr><td>Total</td><td><u>5,333.30</u></td><td><u>57,408</u></td><td><u>18</u></td></tr></table> <p>The properties are leased to Pau Yuen Trading Corporation and Pau Zhi Trading Corporation under various tenancies with the latest one due to expire in June 2011 at a total monthly rental of NT\$2,474,100.</p> | Use | Approximate Floor Area | | No. of Properties | | (sq.m.) | (sq.ft.) | | Office . . . | 1,469.72 | 15,820 | 4 | Retail . . . | <u>3,863.58</u> | <u>41,588</u> | <u>14</u> | Total | <u>5,333.30</u> | <u>57,408</u> | <u>18</u> | The properties are occupied by the Group for office and retail purposes. | No Commercial Value |
| Use | Approximate Floor Area | | No. of Properties | | | | | | | | | | | | | | | | | | | | | |
| | (sq.m.) | (sq.ft.) | | | | | | | | | | | | | | | | | | | | | | |
| Office . . . | 1,469.72 | 15,820 | 4 | | | | | | | | | | | | | | | | | | | | | |
| Retail . . . | <u>3,863.58</u> | <u>41,588</u> | <u>14</u> | | | | | | | | | | | | | | | | | | | | | |
| Total | <u>5,333.30</u> | <u>57,408</u> | <u>18</u> | | | | | | | | | | | | | | | | | | | | | |

(1) Pau Yuen Trading Corporation and Pau Zhi Trading Corporation are 90% owned subsidiaries of the Company.

The principal PRC laws and regulations governing foreign investment in retail enterprises are the Administrative Measures on Foreign Investments in Commercial Sectors (《外商投資商業領域管理辦法》) (“Administrative Measures”), Circular of the Ministry of Commerce on Relevant Issues concerning the Expansion of the Business Scope for Foreign-invested Non-commercial Enterprises to include Distribution (《商務部關於外商投資非商業企業增加分銷經營範圍有關問題的通知》) (“Distribution Circular”), PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》) (“Competition Law”), PRC Law on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (“Consumer Protection Law”) and PRC Product Quality Law (《中華人民共和國產品質量法》) (“Product Quality Law”). These laws and regulations, together with the environmental law and safety law applicable to our business operations, are briefly summarized in this section.

Administrative Measures and Distribution Circular

The principal PRC legal provisions governing foreign investment in retail enterprises are the Administrative Measures which were promulgated by the Ministry of Commerce on April 16, 2004 and implemented with effect from June 1, 2004.

The PRC began to open the retail sector to foreign investment in the early 1990s. In 1992, the State Council introduced qualifications and conditions for foreign investment in commercial retail enterprises with the promulgation of the “Approval and Reply Concerning the Use of Foreign Investment in the Commercial Retail Sector” (《關於商業零售領域利用外資問題的批覆》). In 1999, the former PRC State Economic and Trade Commission and the former PRC Ministry of Foreign Trade and Economic Cooperation jointly promulgated the “Interim Measures on Foreign Investment in Commercial Enterprises (《外商投資商業企業試點辦法》), relating to joint venture partners and geographic restrictions for foreign investment in the commercial sector.

Following the PRC’s accession to the WTO and in fulfillment of its WTO commitments, the PRC government promulgated the Administrative Measures which removed the conditions for joint venture partners and geographic restrictions provided in previous regulations. The revised “Catalogue for the Guidance of Foreign Investment Industries” (《外商投資產業指導目錄》) was implemented with effect from April 1, 2002 and stipulates that foreign majority ownership would be permitted by no later than December 11, 2003. Under the Administrative Measures, foreign investors are permitted to engage in the operation of distribution services on a wholly owned basis from December 11, 2004 onwards. A foreign-invested commercial enterprise must fulfill the following requirements:

- have a minimum registered capital in compliance with relevant provisions of the PRC Company Law and comply with relevant provisions on the registered capital and total investment of foreign-invested enterprise; and
- for a foreign-invested commercial enterprise have a term not exceeding thirty years in general for a foreign-invested commercial enterprise established in central and western China for a term not exceeding forty years in general.

In addition, foreign investors may apply to set up both commercial enterprises and stores at the same time. A foreign-invested commercial enterprise intending to open stores must fulfill the following requirements:

- where an application is made for the establishment of a store at the same time as the application for the establishment of a commercial enterprise, the enterprise must comply with relevant provisions on city development and urban commercial development; and
- where the application for the establishment of a store is made by a foreign-invested commercial enterprise whose establishment has been approved, in addition the enterprise must have completed the joint annual examination on foreign invested enterprises and its registered capital must be fully paid-up.

On April 2, 2005, the Ministry of Commerce promulgated the Distribution Circular which came into effect on the same date. The Distribution Circular further stipulates that a non-commercial foreign-invested enterprise is allowed to expand its business scope to include distribution activities, subject to relevant procedures, examinations and approvals as set out in the Distribution Circular.

To further simplify the approval procedures for foreign investment in commercial sectors, 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》) (the “Notice”) on December 9, 2005 which entrusts the administrative departments of commerce at the provincial level to examine and approve the foreign invested commercial enterprises. The Notice took effect from March 1, 2006.

In accordance with the Notice, the provincial commercial department is entitled to examine and approve an application by a foreign-invested retail enterprise to open stores within its provincial administrative region or national economic and development zone if any one of the following conditions is satisfied: (a) the area of a single store to be opened does not exceed 5,000 square meters and the total number of stores does not exceed three within that region or national economic and development zone and the total number of the same type of stores to be opened throughout the PRC by the applicant does not exceed thirty; or (b) the area of a single store does not exceed 3,000 square meters and the total number of stores does not exceed five within that region or national economic and development zone; and the total number of the same type of stores to be opened throughout the PRC does not exceed fifty; or (c) the area of each single store does not exceed 300 square meters. Approvals from the Ministry of Commerce of the PRC should be obtained if the size and the number of stores to be opened by a foreign investor exceed the afore-mentioned threshold.

Competition Law

The principal legal provisions governing market competition are set out in the Competition Law and the recently enacted Antimonopoly Law.

The Competition Law was promulgated on September 2, 1993 and implemented with effect from December 1, 1993.

The Competition Law provides that business operators shall not undermine their competitors by engaging in improper market activities such as:

- infringement of trademark rights or confidential business information;
- false publicity through advertising or other means, or forgery and dissemination of false information that compromises the goodwill of competitors or the reputation of their products; and
- other improper practices, including bribery, cartels, “dumping” sales (sales at below-cost prices,) and illegally offering “prizes” as sales rebates.

Violations of the Competition Law may result in the imposition of fines and, in serious cases, revocation of its business license as well as incurrance of criminal liability.

Moreover, the PRC has recently promulgated the Antimonopoly Law on August 30, 2007 and it will take effect from August 1, 2008.

The Antimonopoly Law provides that business operators shall not eliminate or restrict competition by engaging in activities such as:

- entering into horizontal agreements with competitors to collectively fix prices or divide markets;
- entering into vertical agreements to fix the price for resale to a third party or to restrict the minimum price for resale to a third party;
- abusing the dominant market position;
- conducting concentrations (as defined under the Antimonopoly Law) without first obtaining approvals from relevant authorities; and
- abusing intellectual property rights.

Consumer Protection Law

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law, which was promulgated on October 31, 1993 and implemented with effect from January 1, 1994. The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- consumer goods and services must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by it;

- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices or upon the request by a consumer;
- ensuring the quality, functionality, applications and duration of use of the goods or services under normal use and ensuring that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities for guaranteed repair, replacement and return or other liability in accordance with national regulations or any agreement with the consumer; and
- not setting unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices, etc.

Violations of the Consumer Protection Law may result in fines and other criminal liability. In addition, the business operator will be ordered to suspend operations and its business license can be revoked.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

Product Quality Law

The principal legal provisions governing product liability are set out in the Product Quality Law, which was promulgated on February 22, 1993 and implemented with effect from September 1, 1993. The Product Quality Law provides imposes following obligations on business operators:

- they must adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- they must adopt measures to keep products for sale in good quality;
- they must not sell invalid or deteriorated products;
- they must comply with product-labeling provisions;
- they must not mislead customers about the origin of a product, or falsely use the name and address of another producer;

- not forge or falsely use another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and
- not mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard products as meeting standards.

Violations of the Product Quality Law may result in the imposition of fines or other criminal liability. In addition, the business operator can be ordered to suspend its operations and its business license can be revoked.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller may have the right to recover from the manufacturer, any compensation it has paid and vice versa.

Environmental Law

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

According to the Environmental Laws, all business operations that may cause environmental pollution and other public 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 and solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

Labor and Safety Law

We are subject to various labor and safety laws and regulations in the PRC including the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the Regulation of Insurance for Work-related Injury (《工傷保險條例》), the Unemployment Insurance Law (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Provisions on Registration

of Social Insurance (《社會保險登記管理暫行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in the PRC.

According to the PRC Labor Law (《中華人民共和國勞動法》) and the PRC Labor Contract Law (《中華人民共和國勞動合同法》), labor contracts in written form shall be executed to establish labor relationships between our employees and us. We must provide wages which are no lower than local minimum wage standards to the employees from time to time. We are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide relevant education to our employees. We are also required to provide our employees with labor safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations.

As required under the Regulation of Insurance for Work-related Injury (《工傷保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), we are obliged to provide our employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

We are subject to the PRC Production Safety Law (《中華人民共和國安全生產法》) (the “Production Safety Law”), which requires that we maintain safe production conditions as required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards in respect of our manufacturing business. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform with applicable national or industrial standards. In addition, it is required that labor protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

BERMUDA TAX

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until March 28, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

PRC TAX**Income Tax**

During the Track Record Period and by the end of 2007, income tax payable by foreign-invested enterprises established in China is governed by the “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” and its rules, which took effect as from July 1, 1991 and provides for a national income tax rate of 30% (plus a 3% local tax) unless a lower rate is provided by law or administrative regulations. However, manufacturing enterprises with foreign investment which are incorporated in the Economic and Technological Development Zone are subject to enterprise income tax at a preferential rate of 15% and manufacturing enterprises with foreign investment which are incorporated in Coastal Economic Open Zones or Economic & Technology Development Zones are subject to enterprise income tax at a preferential rate of 24%. Manufacturing enterprises with foreign investment scheduled to operate for a period for a period of no less than 10 years shall, from the year beginning to make profit, be exempted from income tax in the first two years and to 50% reduction in the third to fifth years.

Additionally, according to the “Circular regarding Preferential Taxation on the Grand Development of Western China” promulgated by the Ministry of Finance, State Administration of Taxation and General Administration of Custom, which took effect as of January 1, 2001, enterprises incorporated in western China which engages in encouraged industries may, during 2001 to 2010 be subject to an income tax rate at a preferential rate of 15%.

Furthermore, according to the “Circular regarding Taxation Policies for Encouraging the Development of Software Industry and Integrated Circuit Industry” promulgated by the Ministry of Finance, State Administration of Taxation and General Administration of Custom, which took effect on July 1, 2000, a newly established software manufacturing enterprise shall, after being qualified, from the year beginning to make profit, be exempted from income tax in the first two years and to 50% reduction in the third to fifth years.

Five of our subsidiaries, as enterprises incorporated in western China which engages in encouraged industries, are subject to enterprise income tax at a preferential rate of 15% to 18% with the approval of local competent tax authorities, and Taicang factory and Taicang Mould, as manufacturing enterprises established in Taicang Economic & Technology Development Zones,

are subject to enterprises income tax at a preferential rate of 24% with the approval of local competent tax authorities. In addition, as approved by the local authorities of the State Taxation Administration, both Taicang factory and Taicang Mould were entitled to an exemption from the income tax from 2005 to 2006 and to 50% reduction in 2007. The net cash generated from the operating activities of Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司), a new and high technology enterprise engaged in computer software development, for 2007 is subject to an income tax rate of 15%.

Our PRC legal advisors confirm that the above-mentioned preferential tax treatments are approved and recognized by the relevant authorities.

On March 16, 2007 and December 6, 2007, the new PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “New EIT Law”) and the Implementation Regulations of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) were promulgated, respectively, by the National People’s Congress and the State Council and became effective on January 1, 2008. Under the New EIT Law, the PRC adopts a uniform tax rate of 25.0% for all enterprises (including foreign-invested enterprises) and revokes the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments granted by relevant tax authorities. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as “new and high technology enterprises strongly supported by the state” will be entitled to a 15.0% enterprise income tax rate. According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (《國務院關於實施企業所得稅過渡優惠政策的通知》) issued on December 26, 2007, which became effective on January 1, 2008, enterprises that are subject to an enterprise income tax rate lower than 25.0% continue to enjoy the lower rate and gradually transition to the new tax within five years after the effective date of the New EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term continue to enjoy such treatment until the fixed term expires, but the two-year exemption from enterprise income tax for foreign-invested enterprise began from January 1, 2008 instead of from when such enterprise first becomes profitable.

Under current PRC tax laws, regulations and rulings, a tax payer is classified as either a resident enterprise or non-resident enterprise. A resident enterprise refers to an enterprise that is established under the PRC law, or is established under foreign laws but has its de facto management body located in the PRC. “De facto management body” is defined as an organization that exercises substantial control over the enterprise’s business operation, staff, finance and property. Non-resident enterprise refers to an enterprise established under the laws of a foreign jurisdiction which does not have its de facto management body located in the PRC, but which either sets up organization or office within the PRC, or, without such setup within the PRC, generates revenue within the PRC. Resident enterprise is subject to the standard 25% enterprise income tax rate leveraged on its global income. Non-resident enterprise that has not set up any organization or office in the PRC is subject to a reduced 10% enterprise income tax rate leveraged on its income generated within the PRC.

Our Company was incorporated under Bermuda laws and is a holding company together with its subsidiaries. Under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion (the “Arrangement of Avoidance of Double Taxation”), the tax rate of 5% will be applied to the dividend income received by a Hong Kong company from a PRC resident enterprise in which it holds more than 25% of the shares.

Our Company may be regarded as non-resident enterprises which should generally be subject to the tax rate of 10% leveraged on the dividend income generated from the PRC. However, companies within our Group that were established in Hong Kong are subject to the tax rate of 5% leveraged on the dividend income generated from the PRC.

However, as the new income tax law was just implemented recently, tax authority in different areas may have inconsistent understanding about the interpretation of resident enterprise and non-resident enterprise. It is possible that our Company and its foreign subsidiaries might be deemed as resident enterprises. In such case, our Company and its subsidiaries will be subject to the standard tax rate of 25% leveraged on the income generated both within and outside PRC.

Value-added Tax

Pursuant to the Provisional Regulations of the PRC on Value Added Tax effective from January 1, 1994 and their implementing rules, all units or individuals who are engaged in the sale of goods, the provision of proceeding, repairs and replacement services, and the importation of goods within the territory of the PRC are required to pay value added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. Input VAT payable by our subsidiaries in China on purchases is recoverable out of the output VAT collected from their customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT is 17% or in certain limited circumstances, 13% depending on the product type. Our sales in the PRC are subject to VAT and the applicable VAT rate is 17%.

Dividends paid by the Company to its overseas investors

Under the New EIT Law and its implementation regulations, the source of income from equity investments such as dividends and bonus payable to non-resident enterprises is determined according to location of the enterprises where the proceeds are generated. Hence, the source of the bonus payable to our investors is Bermuda and investors are not subject to tax in respect of the bonus derived from the Company under the PRC Laws.

Transfer or disposition of our Shares

As we are not incorporated in the PRC, under current PRC law, any transfer or disposition of our shares by an overseas investor does not trigger PRC tax liabilities. However, if you are a PRC mainland citizen, or if you have lived in the PRC for no less than 1 year, you may be subject to the PRC individual income tax at a rate of 20% as you are liable for PRC tax for your global income under the current PRC law.

Under the New EIT Law and its implementation regulations, the source of gain on the transfer of equity investment assets is determined according to the places where the investees operate. Hence, the source of proceeds generated from the transfer of the shares of the Company by institutional investors is Bermuda and the proceeds generated from the transfer is not subject to income tax under the PRC Laws.

HONG KONG TAXATION

Dividends

Under the current law in Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on individuals at a maximum rate of 16.0%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment.

Gains from sales of Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Shares registered on our Hong Kong branch register. The duty is charged at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the shares transferred on each of the seller and purchaser. In order words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

No Hong Kong stamp duty will be levied on the transfer of Shares that are registered on a share register outside Hong Kong.

Estate Duty

No Hong Kong estate duty is payable.

TAIWAN TAXATION**Dividends paid by the subsidiaries to its foreign or overseas investors**

Under the Statute for Upgrading Industries and its implemental regulations, the rate of withholding is 20% if a non-Taiwanese holder obtains foreign investment approval pursuant to the Statute for Foreigner's Investment or the Statute for Overseas Chinese's Investment. Distributions of stock dividends declared by the subsidiaries out of capital reserves are subject to withholding tax of 20% because the subsidiaries are invested by the foreign investors obtaining Investment Commission's approval pursuant to the Statute for Foreigner's Investment or the Statute for Overseas Chinese's Investment.

Estate taxation and gift tax

Taiwan estate tax is payable on any property within Taiwan of a deceased non-resident individual, and Taiwan gift tax is payable on any property within Taiwan donated by a non-resident individual. Estate tax is currently imposed at rates ranging from two percent of the first NT\$670,000 to 50 percent of amounts in excess of NT\$111,320,000. Gift tax is imposed at rates ranging from four percent of the first NT\$670,000 donated to 50 percent of amounts donated in excess of NT\$50,090,000.

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on May 14, 2008. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorized by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board,

which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarized in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorization by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so canceled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorized or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general

meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorized representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorized representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution — majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and rights to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorized representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Bye-laws) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorization including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the

auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon

which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realizable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in

advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the

sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarized in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a

share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorizing the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorized by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or

out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorized by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be canceled or held as treasury shares. Any purchased shares that are canceled will, in effect, revert to the status of authorized but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorized to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a

company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorization.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until March 28, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20% interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall

repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorized it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or

the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisors on Bermuda law, have sent to the Company a letter of advice summarizing certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in Appendix IX to this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on November 14, 2007.

We have been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and our principal place of business in Hong Kong is at Suites 3108–11, 31/F., Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms. CHANG Karen Yi-Fen, has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

As our Company was incorporated in Bermuda, we operate subject to the Companies Act and our Company's constitution which comprises the Memorandum and Bye-laws. A summary of our Company's constitution and relevant aspects of the Companies Act is set out in Appendix VII to this prospectus.

2. Changes in share capital of our Company

- (a) At the date of incorporation of our Company, our authorized share capital was HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each. On November 22, 2007, one subscriber's Share was transferred to Major Focus Management Limited for nil consideration.
- (b) By resolutions in writing of our sole Shareholder passed on May 14, 2008, the authorized share capital of our Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of 29,990,000,000 new Shares ranking *pari passu* in all respects with the then existing issued Shares.
- (c) Immediately upon completion of the Global Offering but assuming the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$300,000,000 divided into 30,000,000,000 Shares, of which 3,550,000,000 Shares will be issued fully paid or credited as fully paid, and 26,450,000,000 Shares will remain unissued.

There is at present no intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in the sub-sections headed “— 4. Resolutions of the Company's sole Shareholder passed on May 14, 2008” and “— 5. Reorganization” below, there has been no alteration in our Company's share capital since its incorporation.

3. Changes in share capital or registered capital of our subsidiaries

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus. The following alterations in the share or registered capital of our subsidiaries had taken place within the two years immediately preceding the date of this prospectus:

(a) *YY Sports Holdings Limited* (“YY Sports”)

YY Sports was incorporated in the British Virgin Islands with limited liability on October 31, 2006. On October 31, 2006, 1 ordinary share of US\$1.00 was issued and allotted to Manfield for a consideration of US\$1.00, which was settled in cash.

(b) *Richwin Management Limited* (“Richwin”)

Richwin was incorporated in the British Virgin Islands with limited liability on July 12, 2007. On September 21, 2007, 1 ordinary share of US\$1.00 was issued and allotted to Manfield for a consideration of US\$1.00, which was settled in cash.

(c) *Brightup Group Limited* (“Brightup”)

Brightup was incorporated in Hong Kong with limited liability on September 12, 2007. On September 12, 2007, 1 ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On September 24, 2007, the subscriber share was transferred to Richwin.

(d) *Treasure Chain International Limited* (“Treasure Chain”)

Treasure Chain was incorporated in the British Virgin Islands with limited liability on October 2, 2007. On November 8, 2007, 1 ordinary share of US\$1.00 was issued and allotted to YY Sports for a consideration of US\$1.00, which was settled in cash.

(e) *Dragonlight Group Limited* (“Dragonlight”)

Dragonlight was incorporated in the British Virgin Islands with limited liability on March 22, 2006. On April 18, 2006, 1 ordinary share of US\$1.00 was issued and allotted to Manfield for a consideration of US\$1.00, which was settled in cash.

(f) *A-Grade Holdings Limited* (“A-Grade”)

A-Grade was incorporated in the British Virgin Islands with limited liability on October 10, 2003.

On November 28, 2006, 630 new ordinary shares of US\$1.00 was issued and allotted to Manfield at a total consideration of US\$630, which was settled in cash. On December 4, 2006, 5,600 new ordinary shares of US\$1.00 each were issued and allotted to Manfield at a total consideration of US\$15,050,000, which was settled in cash.

On November 28, 2006, 135 new ordinary shares of US\$1.00 each were issued and allotted to Jollyard at a total consideration of US\$135, which was settled in cash. On December 4, 2006, 1,400 new ordinary shares of US\$1.00 each were issued and allotted to Jollyard at a total consideration of US\$3,762,500, which was settled in cash.

On November 28, 2006, 135 new ordinary shares of US\$1.00 each were issued and allotted to Sports Group at a total consideration of US\$135, which was settled in cash. On December 4, 2006, 1,000 new ordinary shares of US\$1.00 each were issued and allotted to Sports Group at a total consideration of US\$2,687,500, which was settled in cash.

(g) *Business Network Holdings Limited* (“*Business Network*”)

Business Network was incorporated in the British Virgin Islands with limited liability on October 8, 2003.

On November 28, 2006, 630 ordinary shares of US\$1.00 each were issued and allotted to Manfield at a total consideration of US\$630, which was settled in cash.

On November 28, 2006, 135 ordinary shares of US\$1.00 each were issued and allotted to Jollyard at a total consideration of US\$135, which was settled in cash.

On November 28, 2006, 135 ordinary shares of US\$1.00 each were issued and allotted to Sports Group at a total consideration of US\$135, which was settled in cash.

On November 15, 2007, Manfield, Jollyard and Sports Group transferred all of their respective shares to Gerossa Management Limited, which is an independent third party, at a total consideration of US\$1,000, which was settled in cash.

(h) *Dedicated Group Limited* (“*Dedicated Group*”)

Dedicated Group was incorporated in the British Virgin Islands with limited liability on November 28, 2001.

On November 28, 2006, 630 ordinary shares of US\$1.00 each was issued and allotted to Manfield at a total consideration of US\$630, which was settled in cash. On November 28, 2006, 135 new ordinary shares of US\$1.00 each were issued and allotted to Jollyard at a total consideration of US\$135, which was settled in cash.

On November 28, 2006, 135 ordinary shares of US\$1.00 each were issued and allotted to Sports Group at a total consideration of US\$135, which was settled in cash.

(i) *Favour Mark Holdings Limited* (“*Favour Mark*”)

Favour Mark was incorporated in Hong Kong with limited liability on August 17, 2007.

On August 17, 2007, one new ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On October 24, 2007, the subscriber share was transferred to A-Grade. On October 24, 2007, 199 ordinary shares of HK\$1.00 each was issued and allotted to A-Grade at a total consideration of HK\$199, which was settled in cash.

(j) *Rainbow Faith Investments Limited (“Rainbow Faith”)*

Rainbow Faith was incorporated in Hong Kong with limited liability on August 21, 2007.

On August 21, 2007, one new ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On October 24, 2007, the subscriber share was transferred to Wellmax. On October 24, 2007, 199 ordinary shares of HK\$1.00 each were issued and allotted to Wellmax at a total consideration of HK\$199, which was settled in cash.

(k) *Selangor Gold Limited (“Selangor Gold”)*

Selangor Gold was incorporated in the British Virgin Islands with limited liability on June 12, 1998.

On December 4, 2006, a total of 560 ordinary shares of US\$1.00 each were issued and allotted to Manfield at a total consideration of US\$1,050,000, which was settled in cash.

On December 4, 2006, a total of 140 ordinary shares of US\$1.00 each in Selangor Gold was issued and allotted to Jollyard at a total consideration of US\$262,500, which was settled in cash. On December 4, 2006, a total of 100 ordinary shares of US\$1.00 each in Selangor Gold were issued and allotted to Mr. Huang at a total consideration of US\$187,500, which was settled in cash.

(l) *Wellmax Business Group Limited (“Wellmax”)*

Wellmax was incorporated in the British Virgin Islands with limited liability on October 20, 2000.

On November 28, 2006, a total of 630 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Manfield at a total consideration of US\$630, which was settled in cash. On December 4, 2006, a total of 5,600 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Manfield at a total consideration of US\$14,700,000, which was settled in cash.

On November 28, 2006, a total of 135 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Sports Group at a total consideration of US\$135, which was settled in cash. On December 4, 2006, a total of 1,000 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Sports Group at a total consideration of US\$2,625,000, which was settled in cash.

On November 28, 2006, a total of 135 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Jollyard at a total consideration of US\$135, which was settled in cash. On December 4, 2006, a total of 1,400 ordinary shares of US\$1.00 each in Wellmax were issued and allotted to Jollyard at a total consideration of US\$3,675,000, which was settled in cash.

(m) *Nice Palace Investments Limited (“Nice Palace”)*

Nice Palace was incorporated in Hong Kong with limited liability on July 5, 2007.

On July 5, 2007, one ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On October 24, 2007, the subscriber share was transferred to Charming Technology. On October 24, 2007, a total of 199 ordinary shares of HK\$1.00 each in Nice Palace were issued and allotted to Charming Technology at a total consideration of HK\$199, which was settled in cash.

(n) *Hong Kong Dragonlight Limited*

Hong Kong Dragonlight Limited was incorporated in Hong Kong with limited liability on December 12, 2007.

On December 12, 2007, one ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On January 22, 2008, the subscriber share was transferred to Dragonlight Group Limited. On January 22, 2008, 99 ordinary shares of HK\$1.00 each were issued and allotted to Dragonlight Group Limited for a total consideration of HK\$99, which was settled in cash.

(o) *Shengdao (Hong Kong) Limited*

Shengdao (Hong Kong) Limited was incorporated in Hong Kong with limited liability on December 12, 2007.

On December 12, 2007, one ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On January 18, 2008, the subscriber share was transferred to YY Sports Holdings Limited. On January 18, 2008, 99 ordinary shares of HK\$1.00 each were issued and allotted to YY Sports Holdings Limited for a total consideration of HK\$99, which was settled in cash.

(p) *Diodite (Hong Kong) Limited*

Diodite (Hong Kong) Limited was incorporated in Hong Kong with limited liability on December 12, 2007.

On December 12, 2007, one ordinary share of HK\$1.00 was subscribed by the initial subscriber, Harefield Limited. On January 18, 2008, the subscriber share was transferred to Diodite Limited. On January 18, 2008, 99 ordinary shares of HK\$1.00 each was issued and allotted to Diodite Limited for a total consideration of HK\$99, which was settled in cash.

(q) *Pau Yuen Trading Corporation (寶原興業股份有限公司)*

Pau Yuen Trading Corporation (寶原興業股份有限公司) was established in Taiwan with limited liability on May 23, 2000.

As bonus issue, on August 22, 2006, 1,980,000 shares of NT\$10 each were issued and allotted to Selangor Gold Limited, 22,000 shares of NT\$10 each were issued and allotted to Son Li Wei (沈力為), 22,000 shares of NT\$10 each were issued and allotted to Yang Yueh Er (楊月娥), 22,000 shares of NT\$10 each were issued and allotted to Shih Chin Yun (施錦雲), 22,000 shares of NT\$10 each were issued and allotted to Shih Chin-Chu (施錦珠), 88,000 shares of NT\$10 each were issued and allotted to Lin Tien Te (林天德), 22,000 shares of NT\$10 each were issued and allotted to Cheng Chi Ming (鄭志明), 22,000 shares of NT\$10 each were issued and allotted to Lin Chi Cheng (林旗城).

(r) *Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司)*

Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司) was established in the PRC with limited liability on January 5, 2006 and whose entire equity interest is held by Wellmax. The total registered capital of Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司) is US\$8,880,000 and is fully paid up.

(s) *Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司)*

Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司) was established in the PRC on March 17, 2008 with limited liability and whose entire equity interest is held by Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司). The total registered capital of Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司) is RMB5,000,000 and is fully paid up.

(t) *Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司)*

Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司) was established in the PRC with limited liability on July 19, 2007 and whose entire equity interest is held by Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). The total registered capital of Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司) is RMB20,000,000 and is fully paid up.

(u) *Tianjin Baozhe Sports Goods Company Limited* (天津寶哲體育用品有限公司)

Tianjin Baozhe Sports Goods Company Limited (天津寶哲體育用品有限公司) was established in the PRC with limited liability on August 6, 2007 and whose entire equity interest is held by Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). The total registered capital of Tianjin Baozhe Sports Goods Company Limited (天津寶哲體育用品有限公司) is RMB20,000,000 and is fully paid up.

(v) *Shanghai Baohong Sports Goods Company Limited* (上海寶宏體育用品有限公司)

Shanghai Baohong Sports Goods Company Limited (上海寶宏體育用品有限公司) was established in the PRC with limited liability on September 17, 2007 and whose entire equity interest is held by Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司). The total registered capital of Shanghai Baohong Sports Goods Company Limited (上海寶宏體育用品有限公司) is RMB5,000,000 and is fully paid up.

(w) *Harbin Baosheng Sports Goods Company Limited* (哈爾濱寶勝體育用品有限公司)

Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) was established in the PRC with limited liability on March 20, 2007 and whose entire equity interest is held by Baosheng Daoji (Beijing) Trading Company (寶盛道吉(北京)貿易有限公司). The initial total registered capital of Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) was RMB2,000,000. On September 10, 2007, the total registered capital was increased to RMB5,000,000 and is fully paid up.

(x) *Dalian Baoshun Sports Goods Company Limited* (大連寶順體育用品有限公司)

Dalian Baoshun Sports Goods Company Limited (大連寶順體育用品有限公司) was established in the PRC with limited liability on July 6, 2007 and whose entire equity interest is held by Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司). The initial total registered capital of Dalian Baoshun Sports Goods Company Limited (大連寶順體育用品有限公司) was RMB1,000,000. On September 19, 2007, the total registered capital was increased to RMB2,000,000 and is fully paid up.

(y) *Beijing Baoxuan Sports Goods Company Limited* (北京寶渲體育用品有限公司)

Beijing Baoxuan Sports Goods Company Limited (北京寶渲體育用品有限公司) was established in the PRC with limited liability on December 6, 2007 and whose entire equity interest is held by Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司). The total registered capital of Beijing Baoxuan Sports Goods Company Limited (北京寶渲體育用品有限公司) is RMB2,000,000 and is fully paid up.

(z) *Tianjin Baoxin Sports Goods Company Limited* (天津寶信體育用品有限公司)

Tianjin Baoxin Sports Goods Company Limited (天津寶信體育用品有限公司) was established in the PRC with limited liability on December 7, 2007 and whose entire equity interest is held by Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司). The total registered capital of Tianjin Baoxin Sports Goods Company Limited (天津寶信體育用品有限公司) is RMB1,000,000 and is fully paid up.

(aa) *Shaanxi Baoxiang Sports Goods Company Limited* (陝西寶祥體育用品有限公司)

Shaanxi Baoxiang Sports Goods Company Limited (陝西寶祥體育用品有限公司) was established in the PRC with limited liability on April 11, 2007 and whose entire equity interest is held by Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司). The total registered capital of Shaanxi Baoxiang Sports Goods Company Limited (陝西寶祥體育用品有限公司) is RMB2,000,000 and is fully paid up.

(bb) *Xian Baoqin Trading Company Limited* (西安寶秦貿易有限公司)

Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) was established in the PRC with limited liability on March 10, 2006 and whose entire equity interest was then held by Wellmax. The initial total registered capital Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) was US\$3,700,000. On May 24, 2007, the total registered capital was increased to US\$10,000,000 and is fully paid up.

(cc) *Xinjiang Baoxin Sports Goods Company Limited* (新疆寶新體育用品有限公司)

Xinjiang Baoxin Sports Goods Company Limited (新疆寶新體育用品有限公司) was established in the PRC on March 4, 2008 with limited liability and whose entire equity interest is held by Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司). The total registered capital of Xinjiang Baoxin Sports Goods Company Limited (新疆寶新體育用品有限公司) is RMB5,000,000 and is fully paid up.

(dd) *Ningxia Baojia Sports Goods Company Limited* (寧夏寶佳體育用品有限公司)

Ningxia Baojia Sports Goods Company Limited (寧夏寶佳體育用品有限公司) was established in the PRC on January 17, 2008 with limited liability and whose entire equity interest is held by Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司). The total registered capital of Ningxia Baojia Sports Goods Company Limited (寧夏寶佳體育用品有限公司) is RMB2,000,000 and is fully paid up.

- (ee) *Shaanxi Wuhuan Shengdao Sports Production Development Company Limited* (陝西五環勝道運動產業開發有限公司)

Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) was established in the PRC with limited liability on September 7, 2007 and which is owned as to 40% by Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) (RMB10,000,000) and as to 60% by Shaanxi Wuhuan Investment Management Company Limited (陝西五環投資管理有限公司) (RMB15,000,000). The total registered capital of Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) is RMB25,000,000 and is fully paid up.

- (ff) *Jinan Baoyue Sports Goods Company Limited* (濟南寶嶽體育用品有限公司)

Jinan Baoyue Sports Goods Company Limited (濟南寶嶽體育用品有限公司) was established in the PRC with limited liability on June 7, 2007 and whose entire equity interest is held by Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司). The total registered capital of Jinan Baoyue Sports Goods Company Limited (濟南寶嶽體育用品有限公司) is RMB2,000,000 and is fully paid up.

- (gg) *Guiyang Baoxin Sports Goods Company Limited* (貴陽寶新體育用品有限公司)

Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) was established in the PRC with limited liability on September 28, 2005 and whose entire equity interest was then held by A-Grade. The initial total registered capital of Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) was US\$1,300,000. On October 8, 2006, the total registered capital was increased to US\$2,100,000 and is fully paid up.

- (hh) *Guiyang Baoshang Sports Goods Company Limited* (貴陽寶尚體育用品有限公司)

Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) was established in the PRC with limited liability on August 30, 2007 and whose equity interest is held as to 50% by Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) (RMB5,500,000) and as to 50% by Guiyang Nanming Tengwei Trading Company Limited (貴陽南明騰威貿易有限公司) (RMB5,500,000). The total registered capital of Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) is RMB11,000,000 and is fully paid up.

- (ii) *Shanghai Baoyuan Sports Goods Trading Company Limited* (上海寶原體育用品商貿有限公司)

Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) was established in the PRC with limited liability on January 20, 2006 and whose entire equity interest was then held by A-Grade. The total registered capital of Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) is US\$10,000,000 and is fully paid up.

(jj) *Wenzhou Baofeng Trading Company Limited* (溫州寶豐商貿有限公司)

Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) was established in the PRC with limited liability on September 27, 2007 and whose equity interest is held as to 50% by Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) (RMB9,000,000) and as to 50% by Wenzhou City Yijia Sports Commercial Complex Company Limited (溫州市一家體育商城有限公司) (RMB9,000,000). The total registered capital of Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) is RMB18,000,000 and as at the Latest Practicable Date, RMB6,000,000 had been paid up.

(kk) *Hefei Baoxun Sports Goods Trading Company Limited* (合肥寶勳體育用品商貿有限公司)

Hefei Baoxun Sports Goods Trading Company Limited (合肥寶勳體育用品商貿有限公司) was established in the PRC with limited liability on September 18, 2007 and whose entire equity interest is held by Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司). The total registered capital of Hefei Baoxun Sports Goods Trading Company Limited (合肥寶勳體育用品商貿有限公司) is RMB1,000,000 and is fully paid up.

(ll) *Wuxi Baoyuan Sports Goods Trading Company Limited* (無錫寶原體育用品商貿有限公司)

Wuxi Baoyuan Sports Goods Trading Company Limited (無錫寶原體育用品商貿有限公司) was established in the PRC with limited liability on September 17, 2007 and whose entire equity interest is held by Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司). The total registered capital of Wuxi Baoyuan Sports Goods Trading Company Limited (無錫寶原體育用品商貿有限公司) is RMB1,000,000 and is fully paid up.

(mm) *Baoyu (Chengdu) Trading Company Limited* (寶渝 (成都) 商貿有限公司)

Baoyu (Chengdu) Trading Company Limited (寶渝 (成都) 商貿有限公司) was established in the PRC with limited liability on March 27, 2006 and whose equity interest was then held as to 90% by A-Grade (US\$6,660,000) and as to 10% by Cheng Su Nan (鄭夙男) (US\$740,000). The total registered capital of Baoyu (Chengdu) Trading Company Limited (寶渝 (成都) 商貿有限公司) is US\$7,400,000 and is fully paid up.

(nn) *Fujian Baomin Sports Goods Company Limited* (福建寶閩體育用品有限公司)

Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) was established in the PRC with limited liability on May 23, 2006 and whose equity interest is held as to 90% by A-Grade (US\$4,050,000) and as to 10% by Glorious Win Developments Limited (US\$450,000), an independent third party. The total registered capital of Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) is US\$4,500,000 and is fully paid up.

(oo) *Baoxin (Chengdu) Trading Company Limited* (寶信 (成都) 商貿有限公司)

Baoxin (Chengdu) Trading Company Limited (寶信 (成都) 商貿有限公司) was established in the PRC with limited liability on September 6, 2006 and whose entire equity interest is held by Technico Business Group Limited. The total registered capital of Baoxin (Chengdu) Trading Company Limited (寶信 (成都) 商貿有限公司) is US\$5,000,000 and is fully paid up.

(pp) *Diodite (China) Sports Goods Company Limited* (笛亞泰 (中國) 體育用品有限公司)

Diodite (China) Sports Goods Company Limited (笛亞泰 (中國) 體育用品有限公司) was established in the PRC with limited liability on May 25, 2006 and whose entire equity interest is held by Diodite (formerly known as Powerbright Limited). The initial total registered capital of Diodite (China) Sports Goods Company Limited (笛亞泰 (中國) 體育用品有限公司) was US\$12,000,000. On March 18, 2008, the total registered capital was increased to US\$20,000,000 and is fully paid up.

(qq) *Dragonlight (China) Sports Goods Company Limited* (龍光 (中國) 體育用品有限公司)

Dragonlight (China) Sports Goods Company Limited (龍光 (中國) 體育用品有限公司) was established in the PRC with limited liability on November 15, 2006 and whose entire equity interest is held by Dragonlight. The initial total registered capital of Dragonlight (China) Sports Goods Company Limited (龍光 (中國) 體育用品有限公司) was US\$20,000,000. On April 29, 2007, the total registered capital of Dragonlight (China) Sports Goods Company Limited (龍光 (中國) 體育用品有限公司) was increased to US\$36,000,000 and is fully paid up.

(rr) *Zhejiang Jinguan Industrial Development Company Limited* (浙江金冠實業發展有限公司)

Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) was established in the PRC with limited liability on September 7, 2007 and whose equity interest is held as to 50% by Zhejiang Jinguan Industrial Development Company Limited (浙江金冠體育用品有限公司) (RMB26,800,000) and as to 50% by Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司) (RMB26,800,000). The total registered capital of Zhejiang Jinguan Industrial Development Company Limited (浙江金冠實業發展有限公司) is RMB53,600,000 and is fully paid up.

- (ss) *Yunnan Orientalsport Economy Trade Company Limited* (雲南奧龍世博經貿有限公司)

Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) was established in the PRC with limited liability on December 5, 2006 and whose entire equity interest is held by Profit Concept Group Limited. The total registered capital of Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) is RMB56,100,000 and is fully paid up.

- (tt) *Taicang Yusheng Moulding Company Limited* (太倉裕盛模具有限公司)

Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) was established in the PRC with limited liability on November 5, 2004 and whose entire equity interest is now held by Brightup. The initial total registered capital of Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) was US\$1,050,000. On February 23, 2006, the total registered capital was increased to US\$2,100,000 and is fully paid up.

- (uu) *Shengdao (Yangzhou) Sports Goods Development Company Limited*
(勝道 (揚州) 體育用品開發有限公司)

Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) was established in the PRC with limited liability on December 22, 2006 and whose entire equity interest is held by YY Sports. The initial total registered capital of Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) was US\$12,000,000. On June 18, 2007, the total registered capital was increased to US\$36,000,000 and is fully paid up.

- (vv) *Shanghai Shengdao Sports Goods Company Limited* (上海勝道體育用品有限公司)

Shanghai Shengdao Sports Goods Company Limited (上海勝道體育用品有限公司) was established in the PRC with limited liability on May 25, 2007 and whose entire equity interest is held by Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司). The total registered capital of Shanghai Shengdao Sports Goods Company Limited (上海勝道體育用品有限公司) is RMB100,000 and is fully paid up.

- (ww) *Guizhou Shengdao Sports Goods Development Company Limited* (貴州勝道體育用品開發有限公司)

Guizhou Shengdao Sports Goods Development Company Limited (貴州勝道體育用品開發有限公司) was established in the PRC with limited liability on June 20, 2007 and whose equity interest is held as to 60% by Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) (RMB10,500,000) and as to 40% by Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) (RMB7,000,000). The total registered capital of Guizhou Shengdao Sports Goods Development Company Limited (貴州勝道體育用品開發有限公司) is RMB17,500,000 and is fully paid up.

(xx) *Hubei Shengdao Sports Goods Company Limited* (湖北勝道體育用品有限公司)

Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) was established in the PRC with limited liability on July 2, 2007 and whose equity interest is held as to 60% by Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (RMB30,000,000), as to 20% by Qiu Xiaojie (邱小杰) (RMB10,000,000) and as to 20% by Xu Feng (徐風) (RMB10,000,000). The total registered capital of Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) is RMB50,000,000 and is fully paid up.

(yy) *Yunnan Shengdao Sports Goods Company Limited* (雲南勝道體育用品有限公司)

Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) was established in the PRC with limited liability on July 24, 2007 and whose equity interest is held as to 60% by Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (RMB52,500,000), as to 16% by Lu Shan (廬山) (RMB14,000,000), as to 16% by Lu Li (盧力) (RMB14,000,000) and as to 8% by Lu Yi (盧毅) (RMB7,000,000). The total registered capital of Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) is RMB87,500,000 and is fully paid up.

(zz) *Chengdu Shengdao Sports Goods Company Limited* (成都勝道體育用品有限公司)

Chengdu Shengdao Sports Goods Company Limited (成都勝道體育用品有限公司) was established in the PRC with limited liability on December 13, 2007, and whose equity interest is held as to 60 % by Shengdao (Yangzhou) Sports Goods Company Development Limited (勝道(揚州)體育用品開發有限公司) and as to 40% by Shanghai Baoyuen Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司). The total registered capital of Chengdu Shengdao Sports Goods Company Limited (成都勝道體育用品有限公司) is RMB106,400,000 and is fully paid up.

(Aa) *Shanghai Haodong Trading Company Limited* (上海好動商貿有限公司)

Shanghai Haodong Trading Company Limited (上海好動商貿有限公司) was established in the PRC with limited liability on December 27, 2007 and whose equity interest is held as to 100% by Shengdao (Yangzhou) Sports Goods Company Development Limited (勝道(揚州)體育用品開發有限公司). The total registered capital of Shanghai Haodong Trading Company Limited (上海好動商貿有限公司) is RMB10,000,000 and is fully paid up.

(Ab) *Guangzhou Shengdao Sports Goods Company Limited* (廣州勝道體育用品有限公司)

Guangzhou Shengdao Sports Goods Company Limited (廣州勝道體育用品有限公司) was established in the PRC with limited liability on February 4, 2008 and whose equity interest is held as to 60% by Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) and 40% by Guangzhou

Baoyuan Trading Company Limited (廣州寶元貿易有限公司). The total registered capital of Guangzhou Shengdao Sports Goods Company Limited (廣州勝道體育用品有限公司) is RMB100,000,000. As at the Latest Practicable Date, RMB20,000,000 has been paid up.

(Ac) *Hangzhou Baohong Sports Goods Company Limited* (杭州寶宏體育用品有限公司)

Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) was established in the PRC with limited liability on August 20, 2007 and whose equity interest was then held as to 50% by A-Grade (RMB7,100,000) and as to 50% by Shanghai Zeyou Trading Development Company Limited (上海澤友貿易發展有限公司) (RMB7,100,000). The total registered capital of Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) is RMB14,200,000 and is fully paid up.

(Ad) *Yangzhou Longsheng Sports Goods Company Limited* (揚州龍勝體育用品有限公司)

Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司) was established in the PRC with limited liability on August 27, 2007 and whose entire equity interest is held by Dragonlight (China) Sports Goods Company Limited (龍光(中國)體育用品有限公司). The total registered capital of Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司) is RMB5,000,000 and is fully paid up.

(Ae) *Yucheng (Kunshan) Sports Goods Company Limited* (裕程(昆山)體育用品有限公司)

Yucheng (Kunshan) Sports Goods Company Limited (裕程(昆山)體育用品有限公司) was established in the PRC with limited liability on July 20, 2007 and whose entire equity interest is held by Selangor Gold Limited. The total registered capital of Yucheng (Kunshan) Sports Goods Company Limited (裕程(昆山)體育用品有限公司) was US\$10,000,000 and is fully paid up.

(Af) *Guangzhou Baojin Sports Goods Company Limited* (廣州寶晉體育用品有限公司)

Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司) was established in the PRC with limited liability on May 29, 2002 and whose equity interest was held as to 72% by Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司). Technic Holding Corporation, which owns 96.7% of Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司), held the equity interest in Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司) on trust for Dedicated Group Limited. Guangzhou Baojin Sports Goods Company Limited (廣州寶晉體育用品有限公司) was de-registered on September 29, 2006.

(Ag) *Fuzhou Baomin Trading Company Limited* (福州寶閩貿易有限公司)

Fuzhou Baomin Trading Company Limited (福州寶閩貿易有限公司) was established in the PRC with limited liability on August 25, 2004 and whose equity interest was held as to 70% by Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司). Fuzhou Baomin Trading Company Limited (福州寶閩貿易有限公司) was de-registered on November 27, 2007.

(Ah) *Chongqing Baoyu Industrial and Trading Company Limited* (重慶寶渝工貿有限公司)

Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司) was established in the PRC with limited liability on February 12, 2004 and whose equity interest was held as to 75% by Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) and 25% by Cheng Su Nan (鄭夙男) who is a substantial shareholder of our other non-wholly owned subsidiary, Baoyu (Chengdu) Trading Company Limited (寶渝(成都)商貿有限公司). Chongqing Baoyu Industrial and Trading Company Limited (重慶寶渝工貿有限公司) was de-registered on March 27, 2007.

(Ai) *Harbin Baojun Trading Company Limited* (哈爾濱寶駿貿易有限公司)

Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司) was established in the PRC with limited liability on December 23, 2004 and whose entire equity interest was held by Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司). Harbin Baojun Trading Company Limited (哈爾濱寶駿貿易有限公司) was de-registered on June 1, 2007.

4. Resolutions of the Company's sole Shareholder passed on May 14, 2008

Written resolutions were passed by our sole Shareholder on May 14, 2008 pursuant to which, among other matters:

- (a) we approved and adopted our current memorandum of association and the Bye-laws;
- (b) our authorized share capital was increased from HK\$100,000 to HK\$300,000,000 by the creation of 29,990,000,000 new Shares ranking *pari passu* in all respects with the then existing issued Shares;
- (c) conditional upon the Reorganization Agreement becoming unconditional, the following issue and allotment of new Shares on May 23, 2008 were approved:
 - (i) the issue and allotment of 75,492 new Shares credited as fully paid to Major Focus and credit as fully paid the one Share issued nil paid to Major Focus;

- (ii) the issue and allotment of 13,944 new Shares credited as fully paid to Jollyard; and
 - (iii) the issue and allotment of 10,563 new Shares credited as fully paid to Sports Group.
- (d) conditional on (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Offer Shares as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option), any Shares which may be issued to our Call Option JVs' partners and Share Swap JV's partner, any Shares which may be issued under the Pre-IPO Share Subscription Plan and any Shares which may be issued pursuant to the exercise of options which may be granted, or to satisfy the grant of share options, under the Share Option Scheme; (ii) the execution and delivery of the International Offering Agreement on or around the Price Determination Date; and the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Offering Agreement having become unconditional and not have been terminated in accordance with the terms of the respective Underwriting Agreements,
- (i) the Global Offering of 823,378,000 new Shares was approved and the Directors were authorised to implement the Global Offering including but not limited to the issue and allotment of such Shares pursuant to the Global Offering;
 - (ii) conditional on the share premium account of the Company being credited as a result of the issue of Shares pursuant to the Global Offering, the allotment and issue of 2,631,544,000 new Shares to the Shareholders of the Company whose names appear in the register of members of the Company at the close of business on the Price Determination Date (or as they may direct) in the following manner (the "Capitalization Issue") were approved:

| <u>Name of Shareholder</u> | <u>Number of Shares to be allotted and issued pursuant to the Capitalization Issue</u> | <u>Resultant shareholding</u> |
|----------------------------|--|-----------------------------------|
| Major Focus | 1,986,647,507 | 75.5% |
| Jollyard | 366,931,056 | 13.9% |
| Sports Group | 277,965,437 | 10.6% |

, and the Directors were authorised to issue and allot such new Shares under the Capitalization Issue;

- (iii) the Share Option Scheme was approved, and the Directors, or any duly authorized committee of them, were authorized to grant Shares or options thereunder;
 - (iv) the Pre-IPO Share Subscription Plan was approved, and the Directors, or any duly authorized committee of them, were authorized to make invitations to subscribe thereunder; and
 - (v) the issue of Shares to each Call Option JV's partners and Share Swap JV's partner was approved, and the Directors, or any duly authorised committee of them, were authorized to allot and issue such Shares;
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, the exercise of options granted under the Share Option Scheme, the issue of Shares under the Pre-IPO Share Subscription Plan, any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws or any adjustment of rights to subscribe for Shares under options or warrants or a specific authority granted by the shareholders of the Company or exercise of the subscription or conversion rights attaching to any warrants issued by the Company, Shares with an aggregate nominal amount not exceeding the sum of (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option); and (ii) the aggregate nominal amount of the share capital of our Company which may be purchased or repurchased by our Company pursuant to the authority granted to the Directors as referred to in paragraph (e) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first;
- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of our Company to purchase or repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws, Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by any applicable law or the

Bye-laws to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first; and

- (f) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (e) above.

5. Reorganization

The companies in the Group underwent the Reorganization in preparation for the listing of the Shares on the Stock Exchange which involved the following:

- (a) the transfer by Manfield to Treasure Chain of:
 - (i) 700 ordinary shares of US\$1.00 each in Selangor Gold;
 - (ii) 6,300 ordinary shares of US\$1.00 each in Wellmax;
 - (iii) 6,300 ordinary shares of US\$1.00 each in A-Grade;
 - (iv) 140 ordinary shares of US\$1.00 each in Charming Technology; and
 - (v) 700 ordinary shares of US\$1.00 each in Dedicated Group;
- (b) the transfer by Jollyard to Treasure Chain of:
 - (i) 175 ordinary shares of US\$1.00 each in Selangor Gold;
 - (ii) 1,575 ordinary shares of US\$1.00 each in Wellmax;
 - (iii) 1,575 ordinary shares of US\$1.00 each in A-Grade;
 - (iv) 35 ordinary shares of US\$1.00 each in Charming Technology; and
 - (v) 175 ordinary shares of US\$1.00 each in Dedicated Group;
- (c) the transfer by Sports Group to Treasure Chain of:
 - (i) 125 ordinary shares of US\$1.00 each in Selangor Gold;
 - (ii) 1,125 ordinary shares of US\$1.00 each in Wellmax;
 - (iii) 1,125 ordinary shares of US\$1.00 each in A-Grade;
 - (iv) 25 ordinary shares of US\$1.00 each in Charming Technology; and
 - (v) 125 ordinary shares of US\$1.00 each in Dedicated Group;

- (d) in consideration of the above transfers, the Company issued and allotted:
 - (i) 75,492 new Shares credited as fully paid to Major Focus (at the direction of Manfield) and credit as fully paid the one Share issued nil paid to Major Focus;
 - (ii) 13,944 new Shares credited as fully paid to Jollyard; and
 - (iii) 10,563 new Shares credited as fully paid to Sports Group.

In addition to the above, the Group also underwent the following corporate restructuring:

- (a) on November 16, 2007, the transfer by Forearn Company Limited to Brightup of the entire equity interest in Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) at a total consideration of US\$2,740,822.00;
- (b) on November 28, 2007, the transfer by Pou Yuen Industrial (Holdings) Limited (寶元工業 (集團) 有限公司) to Brightup of the entire equity interest in Yusheng (Taicang) Footwear Company Limited (裕盛 (太倉) 鞋業有限公司) at a total consideration of US\$24,161,842.00;
- (c) on December 27, 2007, the transfer by Pou Yuen Industrial (Holdings) Limited (寶元工業 (集團) 有限公司) to Brightup of the entire equity interest in Taicang Yusheng Sports Goods Company Limited (太倉裕盛體育用品有限公司) at a total consideration of US\$11,837,604;
- (d) on December 31, 2007, the transfer by Manfield to YY Sports of 1 ordinary share of US\$1.00 in Diodite representing the entire issued share capital of Diodite at a total consideration of US\$1.00;
- (e) on December 31, 2007, the transfer by Manfield to YY Sports of 1 ordinary share of US\$1.00 in Dragonlight representing the entire issued share capital of Dragonlight at a total consideration of US\$10,731,764.00;
- (f) on December 31, 2007, the transfer by Manfield to YY Sports of 1 ordinary share of US\$1.00 in Richwin representing the entire issued share capital of Richwin at a total consideration of US\$1.00; and
- (g) on December 31, 2007, the transfer by Manfield to the Company of 1 ordinary share of US\$1.00 in YY Sports representing the entire issued share capital of YY Sports at a total consideration of US\$1.00.

6. Repurchase of the Company's Own Securities

This section includes information relating to the repurchase by us of our own securities, including information required by the Stock Exchange to be included in this prospectus concerning the repurchase.

(a) *Shareholders' approval*

All our proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to resolutions in writing passed by our sole Shareholder on May 14, 2008, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing them to exercise all powers of our Company to purchase or repurchase our Shares on the Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(b) *Number of Shares which may be repurchased*

The exercise in full of the Repurchase Mandate, on the basis of 3,550,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalization Issue, could accordingly result in up to 355,000,000 Shares being repurchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Bye-laws to be held; or (3) the revocation or variation of the Repurchase Mandate by ordinary resolution of the Shareholders in a general meeting, whichever occurs first.

(c) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from our Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) *Source of funds*

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Memorandum and the Bye-laws, the applicable laws and regulations of Bermuda and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by our Company may be made out of our profits or out of the proceeds of a fresh issue of

Shares made for the purpose of the repurchase or, if authorized by the Bye-laws and subject to the Companies Act, out of capital and in the case of any premium payable on a repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company, or if authorized by the Bye-laws and subject to the Companies Act, out of capital.

(e) *Impact of repurchase*

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) *Directors' intention to sell shares*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention, in the event that the Repurchase Mandate is exercised, to sell any Shares to us.

(g) *Directors' undertakings*

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Bermuda.

(h) *Takeovers Code*

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

(i) *Share repurchase by our Company*

No repurchase of Shares has been made by our Company since its incorporation.

(j) *Connected parties*

No connected person of our Company has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) Business Separation Deed;
- (b) an agreement dated April 29, 2008 entered into between Yue Yuen, Jollyard, Sports Group, Mr. Huang and the Company for the acquisition by Treasure Chain of the respective interests held by Manfield, Jollyard, Sports Group and Mr. Huang in Selangor Gold, Wellmax, A-Grade, Charming Technology and Dedicated Group (together the “Relevant Companies”), representing the entire issued share capital of the Relevant Companies, in consideration of which the Company agreed to credit as fully paid one nil paid Share issued and allotted to Major Focus and to issue and allot, credited as fully paid, of an aggregate of 99,999 new Shares as to 75,492 Shares to Major Focus (at the direction of Manfield), as to 13,944 Shares to Jollyard, as to 10,563 Shares to Sports Group;
- (c) a deed of indemnity dated May 23, 2008 executed by Yue Yuen, Jollyard, Sports Group and Mr. Huang in favor of the Company for itself and as trustee for our subsidiaries stated therein containing the indemnities in relation to certain taxation and property matters; and
- (d) Hong Kong Underwriting Agreement.









2. Our intellectual property rights

As of the Latest Practicable Date, we have registered or applied for the registration of, or were licensed to use, the following intellectual property rights which are or may be material in relation to our business.

A. Registered Trademarks

As at the Latest Practicable Date, we have registered the following trademarks:

| Trademark | Name of registered owner | Place of registration | Class | Registration number | Commencement date | Expiry date |
|--|--|-----------------------|-------------------|---------------------|-------------------|-------------------|
| 1.  | Yusheng (Kunshan) Sports Goods Company Limited (裕晟 (昆山) 體育用品有限公司) | PRC | 35 ⁽¹⁾ | 3302905 | June 14, 2004 | June 13, 2014 |
| 2.  | Yusheng (Kunshan) Sports Goods Company Limited (裕晟 (昆山) 體育用品有限公司) | PRC | 25 ⁽²⁾ | 3302906 | May 28, 2004 | May 27, 2014 |
| 3. SUV 4×4 | Yusheng (Kunshan) Sports Goods Company Limited (裕晟 (昆山) 體育用品有限公司) | PRC | 25 ⁽²⁾ | 3388175 | September 7, 2004 | September 6, 2014 |
| 4.  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 18 ⁽³⁾ | 01189670 | January 1, 2006 | December 31, 2015 |
| 5.  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 25 ⁽⁴⁾ | 01189989 | January 1, 2006 | December 31, 2015 |
| 6.  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 35 ⁽⁵⁾ | 01212339 | June 1, 2006 | May 31, 2016 |
| 7.  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 35 ⁽⁵⁾ | 01212340 | June 1, 2006 | May 31, 2016 |
| 8.  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 18 ⁽³⁾ | 01202058 | April 1, 2006 | March 31, 2016 |



| | Trademark | Name of registered owner | Place of registration | Class | Registration number | Commencement date | Expiry date |
|-----|---|--|-----------------------|-------------------|---------------------|-------------------|-------------------|
| 9. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 18 ⁽³⁾ | 01295211 | January 1, 2008 | December 31, 2017 |
| 10. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 25 ⁽⁴⁾ | 01295414 | January 1, 2008 | December 31, 2017 |
| 11. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 35 ⁽⁵⁾ | 01290968 | December 1, 2007 | November 30, 2017 |
| 12. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 18 ⁽³⁾ | 01183848 | December 1, 2005 | November 30, 2015 |
| 13. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 25 ⁽⁴⁾ | 01184094 | December 1, 2005 | November 30, 2015 |
| 14. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 35 ⁽⁶⁾ | 01202837 | April 1, 2006 | March 31, 2016 |
| 15. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 18 ⁽³⁾ | 01183847 | December 1, 2005 | November 30, 2015 |
| 16. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 25 ⁽⁴⁾ | 01184093 | December 1, 2005 | November 30, 2015 |
| 17. |  | Pau Yuen Trading Corporation (寶原興業股份有限公司) | Taiwan | 35 ⁽⁷⁾ | 01202836 | April 1, 2006 | March 31, 2016 |
| 18. |  | Charming Technology Limited (魅力科技有限公司) | PRC | 9 ⁽⁸⁾ | 4244555 | January 28, 2007 | January 27, 2017 |
| 19. |  | Charming Technology Limited (魅力科技有限公司) | PRC | 9 ⁽⁸⁾ | 4244556 | January 28, 2007 | January 27, 2017 |

| | Trademark | Name of registered owner | Place of registration | Class | Registration number | Commencement date | Expiry date |
|-----|------------------|--|-----------------------|--------------------------------|---------------------|--------------------|--------------------|
| 20. | FOOTZONE | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) ³⁵ | PRC | 18 ⁽⁹⁾ | 737626 | March 28, 2005 | March 27, 2015 |
| 21. | FOOTZONE | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) ³⁵ | PRC | 25 ⁽¹⁰⁾ | 725290 | January 14, 2005 | January 13, 2015 |
| 22. | FOOTZONE | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) ³⁵ | PRC | 35 ⁽¹¹⁾ | 769022 | October 7, 2004 | October 6, 2014 |
| 23. | FOOTZONE | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) ³⁵ | PRC | 41 ⁽¹²⁾ | 776224 | January 21, 2005 | January 20, 2015 |
| 24. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹³⁾ | 300948646 | September 6, 2007 | September 5, 2017 |
| 25. | (A) 勝道 (B) 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹³⁾ | 300948655 | September 6, 2007 | September 5, 2017 |
| 26. | 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹⁴⁾ | 300958023 | September 20, 2007 | September 19, 2017 |
| 27. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹⁴⁾ | 300958032 | September 20, 2007 | September 19, 2017 |






| | Trademark | Name of registered owner | Place of registration | Class | Registration number | Commencement date | Expiry date |
|-----|---|--|------------------------------|--------------------------------|----------------------------|--------------------------|--------------------|
| 28. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹⁴⁾ | 300958041 | September 20, 2007 | September 19, 2017 |
| 29. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | HONG KONG | 18, 25, 28, 35 ⁽¹⁴⁾ | 300958014 | September 20, 2007 | September 19, 2017 |


B. Application for Registration of Trademarks

As at the Latest Practicable Date, we have applied for registration of the following trademarks, but registration of which has not yet been granted:









| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|----|---|--|-----------------------------|--------------------|--|---|
| 1. | 揚基 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 9 ⁽¹⁵⁾ | 4690785 | May 31, 2005 |
| 2. |  | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 9 ⁽¹⁵⁾ | 4690784 | May 31, 2005 |
| 3. | YANKEE | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 9 ⁽¹⁵⁾ | 4690803 | May 31, 2005 |
| 4. | 揚基 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 35 ⁽¹⁶⁾ | 4690788 | May 31, 2005 |
| 5. | YANKEE | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 35 ⁽¹⁶⁾ | 4690787 | May 31, 2005 |
| 6. |  | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 35 ⁽¹⁶⁾ | 4690786 | May 31, 2005 |

| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|-----|---|--|----------------------|--------------------|--|--|
| 7. | 扬基 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 42 ⁽¹⁷⁾ | 4690800 | May 31, 2005 |
| 8. |  | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 42 ⁽¹⁷⁾ | 4690801 | May 31, 2005 |
| 9. | YANKEE | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | PRC | 42 ⁽¹⁷⁾ | 4690802 | May 31, 2005 |
| 10. | 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 35 ⁽¹⁸⁾ | 5563270/ 200732569 | August 25, 2006/ July 5, 2007 |
| 11. | 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 28 ⁽¹⁹⁾ | 5563269/ 200732568 | August 25, 2006/ July 5, 2007 |
| 12. | 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 18 ⁽²⁰⁾ | 5571652/ 200732566 | August 29, 2006/ July 5, 2007 |
| 13. | 胜道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 25 ⁽²¹⁾ | 5571653/ 200732567 | August 29, 2006/ July 5, 2007 |
| 14. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 35 ⁽¹⁸⁾ | 5706404/ 200732577 | November 7, 2006/July 5, 2007 |
| 15. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) ³⁶ | PRC | 28 ⁽¹⁹⁾ | 5706406/ 200732576 | November 7, 2006/July 5, 2007 |

| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|-----|---|--|----------------------|--------------------|--|--|
| 16. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 25 ⁽²¹⁾ | 5706407/ 200732575 | November 7, 2006/July 5, 2007 |
| 17. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 18 ⁽²⁰⁾ | 5706405/ 200732574 | November 7, 2006/July 5, 2007 |
| 18. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 28 ⁽¹⁹⁾ | 5681965/ 200732572 | October 26, 2006/July 5, 2007 |
| 19. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 35 ⁽¹⁸⁾ | 5681964/ 200732573 | October 26, 2006/July 5, 2007 |
| 20. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 25 ⁽²¹⁾ | 5681966/ 200732571 | October 26, 2006/July 5, 2007 |
| 21. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) ³⁶ | PRC | 18 ⁽²⁰⁾ | 5681963/ 200732570 | October 26, 2006/July 5, 2007 |
| 22. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 28 ⁽²²⁾ | 6213699 | August 10, 2007 |
| 23. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 18 ⁽²³⁾ | In progress ⁽³⁸⁾ | August 10, 2007 |
| 24. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 25 ⁽²⁴⁾ | 6213695 | August 10, 2007 |

| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|-----|---|--|----------------------|--------------------|--|--|
| 25. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 35 ⁽²⁵⁾ | 6213694 | August 10, 2007 |
| 26. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 28 ⁽²²⁾ | 6213697 | August 10, 2007 |
| 27. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 18 ⁽²³⁾ | In progress ⁽³⁸⁾ | August 10, 2007 |
| 28. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 25 ⁽²⁴⁾ | 6213689 | August 10, 2007 |
| 29. | YYSPORTS | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 35 ⁽²⁵⁾ | 6213688 | August 10, 2007 |
| 30. | 勝道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 28 ⁽²²⁾ | 6213698 | August 10, 2007 |
| 31. | 勝道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 18 ⁽²³⁾ | In progress ⁽³⁸⁾ | August 10, 2007 |
| 32. | 勝道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 25 ⁽²⁴⁾ | 6213692 | August 10, 2007 |
| 33. | 勝道 | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 35 ⁽²⁵⁾ | 6213691 | August 10, 2007 |

| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|-----|---|--|----------------------|--------------------|--|--|
| 34. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 35 ⁽²⁶⁾ | 6353682 | November 1, 2007 |
| 35. |  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) | PRC | 35 ⁽²⁶⁾ | 6353681 | November 1, 2007 |
| 36. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 18 ⁽²⁷⁾ | 96032425 | July 9, 2007 |
| 37. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 25 ⁽²⁸⁾ | 96032423 | July 9, 2007 |
| 38. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 28 ⁽²⁹⁾ | 96032426 | July 9, 2007 |
| 39. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 35 ⁽³⁰⁾ | 96032428 | July 9, 2007 |
| 40. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 18 ⁽²⁷⁾ | 96032430 | July 9, 2007 |
| 41. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 25 ⁽²⁸⁾ | 96032431 | July 9, 2007 |
| 42. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 28 ⁽²⁹⁾ | 96032432 | July 9, 2007 |
| 43. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 35 ⁽³⁰⁾ | 96032433 | July 9, 2007 |
| 44. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 18 ⁽²⁷⁾ | 96032434 | July 9, 2007 |
| 45. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 25 ⁽²⁸⁾ | 96032435 | July 9, 2007 |
| 46. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 28 ⁽²⁹⁾ | 96032436 | July 9, 2007 |
| 47. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 35 ⁽³⁰⁾ | 96032437 | July 9, 2007 |
| 48. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 18 ⁽²⁷⁾ | 96032438 | July 9, 2007 |
| 49. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 25 ⁽²⁸⁾ | 96032439 | July 9, 2007 |

| | Trademark | Name of applicant | Place of application | Class | Application number/ Transfer application number | Application date/Transfer application date |
|-----|---|--|-----------------------------|--------------------|--|---|
| 50. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 28 ⁽²⁹⁾ | 96032441 | July 9, 2007 |
| 51. |  | Pou Chen Corporation (寶成工業股份有限公司) | Taiwan | 35 ⁽³⁰⁾ | 96032442 | July 9, 2007 |
| 52. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³¹⁾ | 4649707 | May 11, 2005 |
| 53. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 18 ⁽³²⁾ | 4649704 | May 11, 2005 |
| 54. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 25 ⁽³³⁾ | 4649708 | May 11, 2005 |
| 55. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³⁴⁾ | 4678641 | May 25, 2005 |
| 56. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³⁴⁾ | 4678642 | May 25, 2005 |
| 57. |  | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³⁴⁾ | 4678643 | May 25, 2005 |
| 58. | 互動 | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³⁴⁾ | 4678644 | May 25, 2005 |
| 59. | 寶元互動 | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) ³⁷ | PRC | 35 ⁽³¹⁾ | 4631551 | April 28, 2005 |

1. *Goods/Services registered in Class 35:*

Advertising; commercial information agencies; commercial or industrial management assistance; marketing studies; professional business consultancy; bid and tender price; organisation of exhibitions for commercial or advertising purposes; import-export agencies; auctioneering; sales promotion (for others).

2. *Goods/Services registered in Class 25:*

Clothing; bathing suits; waterproof clothing; football shoes; mountain climbing shoes; footwear; headgear for wear; hosiery; gloves (clothing); scarves.

3. *Goods/Services registered in Class 18:*

School satchels; valise; Garment bag for travel; suitcase; back packs for sporting purposes; bag for mountain climbing; bag for campers; umbrellas; baby carrier (straps).

4. *Goods/Services registered in Class 25:*

Clothes; clothes for sports; leisurewear; leotard; boots; shoes for sports; shoes for leisure; scarves; caps; earmuffs to protect against coldness; hosiery; gloves to protect against coldness and to use as accessories; belts; skidproof device for boots.

5. *Goods/Services registered in Class 35:*

Import and export agencies and agency for quotations of various products from factories in or outside of country and the provision of information about tender agencies; shopping via the internet; retail for clothing and accessories; retail for sportswear; retail for shoes and boots; retail for cultural and educational products; retail for ironware and household articles for daily use; purchasing services for others; department stores; supermarkets; convenience stores; shopping centres; mail order shopping; television shopping; retail for watches and clocks; retail for spectacles; auctioneering via the internet.

6. *Goods/Services registered in Class 35:*

Retail of clothing and accessories; retail of sports products; retail of shoes and boots; retail of educational materials; retail of ironware and daily household products; retail of watches and clocks; retail of spectacles; auctioneering via the internet.

7. *Goods/Services registered in Class 35:*

Shopping via the internet; retail of clothing and accessories; retail of sports products; retail of shoes and boots; retail of educational products; retail of ironware and daily household products; department stores; supermarkets; convenience stores, super stores; shopping centres; mail order shopping; television shopping; retail of watches and clocks; retail of spectacles; auctioneering via the internet.

8. *Goods/Services registered in Class 9:*

Recorded computer programmes; recorded computer operating programmes; recorded computer software; computer programmes (downloadable software); electronic publications (downloadable); computers; sighting telescopes for firearms; cash registers; printers for use with computers; fingerprint inspection machines.

9. *Goods/Services registered in Class 18:*

Pelts; leather cases; fur-skins; umbrellas; canes; whips.

10. *Goods/Services registered in Class 25:*

Clothing; tight clothing for ladies; clothing of leather; rainwear; theatrical costumes; bathing suits; shoes; shoes for sports; hats; hosiery; scarves.

11. *Goods/Services registered in Class 35:*

Operation management assistance; business enquiries; bill posting; outdoor advertising industry; import-export agencies; commercial information agencies; cost price analysis; accounting industry; commercial information agencies; Dissemination of advertising matter industry; photocopying industry; statistical information; employment agencies; office machine and equipment rental; Personnel management consultancy; typing industry; product information; direct mail advertising; auctioneering; distribution of samples; efficiency experts; document reproduction; marketing studies; business estimation; business

investigations; location of freight cars by computer; transcription; shop window dressing; opinion polling; relocation services for business; sales promotion industry; secretarial services; tax preparation; telephone answering; public relations; word processing; arranging newspaper subscriptions; publicity agency.

12. *Goods/Services registered in Class 41:*

Educational service industry; conducting and arranging of conferences; lending libraries; publication of books industry; movie studios; animal training; instruction service industry.

13. *Goods/Services applied for in Class 18:*

Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.

Goods/Services applied for in Class 25:

Clothing, footwear, headgear.

Goods/Services applied for in Class 28:

Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.

Goods/Services applied for in Class 35:

Advertising; business management; business administration; office functions

14. *Goods/Services applied for in Class 18:*

Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.

Goods/Services applied for in Class 25:

Clothing, footwear, headgear.

Goods/Services applied for in Class 28:

Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.

Goods/Services applied for in Class 35:

Advertising; business management; business administration; office functions; import, export, wholesale, retail, distribution and mail order services relating to leather and imitations of leather, and goods made of these materials, animal skins, hides, trunks and travelling bags, umbrellas, parasols and walking sticks, whips, harness and saddlery, clothing, footwear, headgear, games and playthings, gymnastic and sporting articles, decorations for Christmas trees.

15. *Goods/Services applied for in Class 9:*

Computers; recorded computer programmes; computer software (recorded); computer software (recorded-) downloadable electronic publications; processors (central processing units); computer programmes (downloadable software); readers (data processing equipment); counters; electronic noticeboards; optical communication instrument; sound recording carriers.

16. *Goods/Services applied for in Class 35:*

Advertising; online advertising on a computer network; commercial information agencies; import-export agencies; sales promotion (for others); personnel management consultancy; relocation services for businesses; word processing; auditing; rental of vending machines.

17. *Goods/Services applied for in Class 42:*

Technical research; creating and maintaining websites for others; computer programming; computer software design; consultancy in the field of compute hardware; maintenance of computer software; computer systems analysis; conversion of data or documents from physical to electronic media; hosting computer sites (websites); computer system design; data conversion of computer programmes and data (not physical conversion).

18. *Goods/Services applied for in Class 35:*

Direct mail advertising; distribution of samples; shop window dressing; opinion polling; import and export agencies; sales promotion (for others); procurement services for others (purchasing goods and services for other businesses); personnel recruitment; psychological testing (for the selection of personnel).

19. *Goods/Services applied for in Class 28:*

Balls for games; balls for sporting activities; playing balls; nets for sports; bats for games; bats for sporting activities; rackets; batting gloves (accessories for games); shin guards (sports articles); gloves for games; elbow guards (sports articles); knee guards (sports articles); cuff.

20. *Goods/Services applied for in Class 18:*

Purses; school bags; school satchels; back packs; shopping bags; handbags; travelling bags; haversacks; alpenstocks.

21. *Goods/Services applied for in Class 25:*

Trousers; outer clothing; knitwear (clothing); sports jerseys; tee-shirts; bathing caps; bathing drawers; bathing suits; sports shoes; boots for sports; hosiery; gloves (clothing); scarves; girdles.

22. *Goods/Services applied for in Class 28:*

Playing cards; playing cards; kites; baseballs; golf balls; tennis balls; table tennis balls; elbow-guards (sports articles); knee-guards (sports articles); playing balls.

23. *Goods/Services applied for in Class 18:*

Back packs; shopping bags; handbags; travelling bags; haversacks; leather, unworked or semi-worked; key cases (leatherware); cases used for golfing sports; beach bags; mountaineering bags; waist-bags; umbrella; parasols.

24. *Goods/Services applied for in Class 25:*

Coats; tee-shirts; shirts; thick sports jerseys; skirts; trousers; jackets (clothing); sports wear (not including diving suits); jackets for sports; sports hats; vests; tee-shirts for sports; shoes for sports; boots for sports.

25. *Goods/Services applied for in Class 35:*

Direct mail advertisement; distribution of samples; shop window dressing; opinion polling; personnel recruitment; advertising; dissemination of advertising matter; rental of advertising space; publication of publicity text; direct mailing advertising; advertisement planning; television advertising.

26. *Goods/Services applied for in Class 35:*

Bill posting; outdoor advertising; dissemination of advertising matter; demonstration of goods; direct mail advertising; distribution of samples; advertising; publicity; television advertising; television commercials; shop window dressing; rental of advertising space; on-line advertising on a computer network; advertisement plan; marketing studies; professional business consultancy; business information; organisation of trade fairs for commercial or advertising purposes; sales promotion (for others); compilation of information into computer databases; systemisation of information into computer databases.

27. *Goods/Services applied for in Class 18:*

Back packs; shopping bags; handbags; travelling bags; haversacks; leather, unworked or semi-worked; key cases (leatherware); back packs for sports use; beach bags; mountaineering bags; waist-bags; umbrella; parasols.

28. *Goods/Services applied for in Class 25:*

Clothing; tee-shirts; shirts; clothing for sports; skirts; trousers; jackets (clothing); sports hats; singlets; vests; shoes.

29. *Goods/Services applied for in Class 28:*

Playing cards; playing cards; kites; baseballs; golf balls; tennis balls; table tennis balls; elbow-guards (sports articles); knee-guards (sports articles); playing balls.

30. *Goods/Services applied for in Class 35:*

Advertisement planning; advertisement devising; advertisement production; advertising agencies; publicity; delivery of publicity materials; introduction to professions; market investigations; opinion investigation.

31. *Goods/Services applied for in Class 35:*

Advertising; demonstration of goods; business management assistance; import-export agencies; sales promotion (for others); personnel management consultancy; relocation services for businesses; word processing; auditing; rental of vending machines.

32. *Goods/Services applied for in Class 18:*

Pelts; purses; back packs; leather straps (non-clothing); keycases (leatherware); animal skins; umbrellas; canes; saddlery; gut for making sausages.

33. *Goods/Services applied for in Class 25:*

Clothing; layettes; bathing suits; waterproof clothing; masquerade costumes; shoes; caps (headwear); hosiery; gloves (clothing); belts (clothing).

34. *Goods/Services applied for in Class 35:*

Import-export agencies; auctioneering; sales promotion (for others); procurement services for others (purchasing goods and services for other businesses).

35. *Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) is one of the Relevant PRC Subsidiaries which we intend to put into liquidation by the end of 2008. Before Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) is deregistered, we propose to transfer the trademarks for which it is the registered owner to our other subsidiary, Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司).*

36. *These trademarks were originally applied for by Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司). Subsequently, Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司) transferred the right of application to Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司).*
37. *Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) is one of the Relevant PRC Subsidiaries which we intend to put into liquidation by the end of 2008. Before Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) is deregistered, we propose to transfer the right of application for the trademarks for which it is the applicant to our other subsidiary, Guangzhou Baoyuan Trading Company Limited (廣州寶元貿易有限公司).*
38. *Applications have been submitted for registration of these trademarks. As at the Latest Practicable Date, no application number has yet been allocated by the relevant authority.*

C. Trade or service marks licensed to the Group to use

(i) Converse

Pursuant to an agreement made effective as of January 1, 2005 between Converse Inc. and Selangor Gold Limited, Selangor Gold Limited is licensed to use the logos and trademarks (numbered as 1 to 11 below) in Taiwan, Hong Kong and Macau during January 1, 2005 to December 31, 2007 subject to the terms therein. In accordance with the terms of the agreement, Selangor Gold Limited sublicensed the use of the relevant logos and trademarks to Pau Yuen Trading Corporation for the business in Taiwan and to Yue Ming International Limited for the business in Hong Kong. Upon expiry of this agreement, the following two agreements were entered into:

1. Pursuant to a manufacturing, distribution and trademark license agreement made effective as of January 1, 2008 between Converse Inc. and Selangor Gold Limited, Selangor Gold Limited is licensed to utilise the logos and trademarks (numbered as 12 to 21 below) in Hong Kong and Macau in connection with the manufacture, advertisement, promotion, distribution and sale of apparel and accessories licensed articles and in connection with the advertisement, promotion, distribution and sale of athletic and leisure footwear identical or substantially identical to the athletic and leisure footwear manufactured for Converse and sold by Converse in the U.S. and *Chuck Taylor All Star*, *Chuck Taylor* extensions, *Jack Purcell*, *Skid Grip*, and *One Star* footwear during January 1, 2008 to December 31, 2010 subject to the terms therein. Selangor Gold Limited may sublicense to Yue Ming International Limited under the terms of the agreement.
2. Pursuant to a manufacturing, distribution and trademark license agreement made effective as of January 1, 2008 between Converse Inc. and Selangor Gold Limited, Selangor Gold Limited is licensed to utilise the logos and trademarks (numbered as 12 to 21 below) in Taiwan in connection with the manufacture, advertisement, promotion, distribution and sale of apparel and accessories licensed articles and in

connection with the advertisement, promotion, distribution and sale of athletic and leisure footwear identical or substantially identical to the athletic and leisure footwear manufactured for Converse and sold by Converse in the U.S. and *Chuck Taylor All Star*, *Chuck Taylor* extensions, *Jack Purcell*, *Skid Grip*, and *One Star* footwear during January 1, 2008 to December 31, 2012 subject to the terms therein. Selangor Gold Limited may sublicense to Pau Yuen Trading Corporation under the terms of the agreement.

Pursuant to an agreement made effective as of January 1, 2003 between Converse Inc. and Technic Holdings Corporation and the amendments to the agreement made thereafter (in which the rights and obligations of Technic Holdings Corporation were novated to Selangor Gold Limited), Selangor Gold Limited is granted the exclusive right and license to utilise the logos and trademarks (numbered as 22 to 31 below) in connection with the manufacture, advertisement, promotion, distribution and sale of licensed articles to the retail and wholesale trade in the PRC during January 1, 2003 to December 31, 2008 subject to the terms contained therein. Effective from July 1, 2007, Selangor Gold Limited shall grant this right and license to Yue Cheng (Kunshan) Sports Co. Ltd. through the end of the contract period. Pursuant to a certificate of license dated July 1, 2007, Converse Inc. consented to Selangor Gold Limited's grant of rights to Yue Cheng (Kunshan) Sports Co. Ltd. as a non-exclusive sublicense of Selangor Gold Limited to conduct the above-mentioned business in the PRC until December 31, 2008.

Pursuant to a term sheet of key provisions of a proposed distributorship agreement between Converse Inc. and Selangor Gold Limited signed on June 14, 2007 between Converse Inc. and Selangor Gold Limited, the parties agreed on the key provisions of a proposed distributor agreement to be entered into covering the period from January 1, 2009 to December 31, 2011 for the sale of footwear products and apparel and accessory products of Converse in the PRC. By way of a letter from Converse to Selangor Gold Limited dated February 1, 2008, Converse confirmed that they are in the course of preparing a long form distribution agreement and expects it to be executed in March 2008.

(ii) *Hush Puppies*

Pursuant to an agreement made effective as of January 1, 2000 between Wolverine World Wide, Inc. and Pou Yuen Trading Corporation and the amendments to the agreement made thereafter, Pou Yuen Trading Corporation is licensed to use the trademarks (numbered as 32 to 36 below) in Taiwan in association with the advertising, promotion, sale and distribution of footwear products subject to the terms therein. Under the same agreement, Wolverine World Wide, Inc. also granted Pou Yuen Trading Corporation a non-exclusive license to manufacture footwear bearing one or more of the trademarks numbered as 32 to 36 below.

Pursuant to an agreement made effective as of October 1, 2002 between Wolverine World Wide, Inc. and Dedicated Group Limited and the amendments to the agreement made thereafter, Dedicated Group Limited is licensed exclusively to use the trademarks (numbered as 37 to 41 below) in the PRC, excluding Hong Kong and Macau in association with the advertising, promotion, sale and distribution of footwear and footwear care products subject to the terms therein. Under the same agreement, Wolverine World Wide, Inc. granted Dedicated Group Limited a non-exclusive license to manufacture footwear bearing one or more of the trademarks numbered as 37 to 41 below. Dedicated Group Limited is licensed to use the trademarks (numbered as 37 to 41 below) for footwear retail store services or separate departments for products in existing stores under the “HUSH PUPPIES” service mark subject to the terms therein. At various times, Wolverine World Wide, Inc. has authorised Dedicated Group Limited to sublicense its rights under the agreement to other companies within the Group.















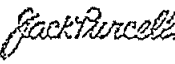



(iii) *Wolverine*

Pursuant to an agreement made effective as of November 1, 2004 between Wolverine World Wide, Inc. and Selangor Gold Limited and the amendments to the agreement made thereafter, Selangor Gold Limited is licensed to use the trademarks (numbered as 42 to 45 below) in the PRC, Hong Kong, Taiwan and Macau in association with the advertising, promotion, sale and distribution of footwear products. Under the same agreement, Wolverine World Wide, Inc. granted Selangor Gold Limited a non-exclusive license to manufacture footwear bearing one or more of the trademarks numbered as 42 to 45 below. At various times, Wolverine World Wide, Inc. has authorised Selangor Gold Limited to sublicense its rights under the Agreement to other companies within the Group.

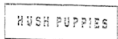
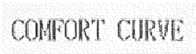



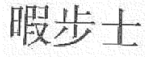

Trade/service marks

1. 
2. 
3. 
4. 
5. 
6. 
7. 
8. 
9. 

Trade/service marks


10. 
11. 
12. 
13. 
14. 
15. 
16. 
17. 
18. 
19. 
20. 
21. 
22. 
23. 
24. 
25. 
26. 
27. 
28. 
29. 
30. 
31. 
32. 
33. 
34. 
35. 

Trade/service marks

36. 
37. 
38. 
39. 
40. 
41. 
42. WOLVERINE
43. WOLVERINE SINCE 1883
44. WOLVERINE BOOTS & SHOES SINCE 1883
45. 

D. Design Patents

As at the Latest Practicable Date, we have registered the following design patents:

| <u>Design Patents</u> | <u>Name of applicant</u> | <u>Place of registration</u> | <u>Class</u> | <u>Registration number</u> | <u>Date of public announcement</u> |
|---|--|------------------------------|--------------|----------------------------|------------------------------------|
|  | Shengdao (Yangzhou) Sports Goods Development Company Limited 勝道(揚州)體育用品開發有限公司 | PRC | 20-03 | ZL 2007 30075049.4 | March 12, 2008 |

As at the Latest Practicable Date, we have applied for registration of the following design patents:

| <u>Design Patents</u> | <u>Name of applicant</u> | <u>Place of application</u> | <u>Application number</u> | <u>Application date</u> |
|---|--|-----------------------------|---------------------------|-------------------------|
|  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | PRC | 200730075047.5 | April 26, 2007 |
|  | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) | PRC | 200730075048.X | April 26, 2007 |

E. Domain name

As at the Latest Practicable Date, we have registered the following domain names:

| Domain Name | Name of Registrant | Expiry Date of Registration |
|------------------------|--------------------------------|-----------------------------|
| poushen.com . . . | 廣州市揚基信息科技有限公司 | December 10, 2008 |
| pousheng.com . . . | 廣州市揚基信息科技有限公司 | December 10, 2008 |
| 胜道. 公司 | 寶盛道吉(北京)貿易有限公司 | December 26, 2008 |
| yy-sports.cn | 寶盛道吉(北京)貿易有限公司 | December 26, 2008 |
| yy-sports.com . . . | 寶盛道吉(北京)貿易有限公司 | December 26, 2008 |
| sd-sports.cn | 寶盛道吉(北京)貿易有限公司 | December 26, 2008 |
| sd-sports.com.cn . | 寶盛道吉(北京)貿易有限公司 | December 26, 2008 |
| pouyuen.com.cn . | 廣州寶元工貿有限公司 ⁽¹⁾ | June 27, 2010 |
| yue-cheng.com.cn | 裕晟(昆山)體育用品有限公司 ⁽²⁾ | July 4, 2009 |
| yue-ming.com . . . | Yue Ming International Limited | February 3, 2009 |
| yankee.com.cn . . | 揚基訊息科技有限公司 ⁽³⁾ | June 4, 2008 |
| pouxin.cn | 廣州寶元工貿有限公司 ⁽¹⁾ | July 15, 2008 |
| pouqin.com.cn . . | 廣州寶元工貿有限公司 ⁽⁴⁾ | August 12, 2008 |
| 宝盛道吉. 中国 . . | 北京寶盛道吉體育用品有限公司 ⁽⁴⁾ | July 12, 2008 |
| bsdj-sports.com.cn | 北京寶盛道吉體育用品有限公司 ⁽⁴⁾ | July 24, 2008 |
| bsdj-sports.ln.cn . | 北京寶盛道吉體育用品有限公司 ⁽⁴⁾ | November 11, 2008 |
| pouguan.com.cn . | 廣西寶冠體育用品有限公司 ⁽¹⁾ | December 1, 2008 |
| wolverine.com.cn | 廣州寶旭貿易有限公司 ⁽⁵⁾ | January 5, 2009 |
| footzone.com.cn . | 北京寶盛道吉體育用品有限公司 ⁽⁴⁾ | December 31, 2008 |
| 胜道 | 寶盛道吉(北京)貿易有限公司 ⁽⁴⁾ | December 26, 2008 |
| yuenshen.com.cn . | 裕晟(昆山)體育用品有限公司 ⁽³⁾ | January 15, 2009 |
| pouxue.com.cn . . | 廣州寶元工貿有限公司 ⁽⁵⁾ | March 19, 2009 |
| 宝盛国际. com . . | 廣州市揚基信息科技有限公司 | April 11, 2009 |
| 宝盛国际. 公司 . . | 廣州市揚基信息科技有限公司 | April 9, 2009 |

Notes:

1. We will transfer the ownership of these domain names to 上海寶原體育用品商貿有限公司.
2. We will transfer the ownership of this domain name to 裕程(昆山)體育用品有限公司.
3. We will transfer the ownership of these domain names to 廣州市揚基信息科技有限公司.
4. We will transfer the ownership of these domain names to 寶盛道吉(北京)貿易有限公司.
5. We will transfer the ownership of these domain names to 寶信(成都)商貿有限公司.

Pursuant to an authorisation letter dated January 1, 2008, Converse Inc. granted Selangor Gold Limited and its sublicensee Yue Cheng (Kunshan) Sports Co. Ltd. the right to use the domain name “converse.com.cn” in the PRC until December 31, 2008.

F. Computer software copyright

As at the Latest Practicable Date, we have registered the following computer software copyrights:

| No. | Name of software | Registration number | Copyright owner | Date of initial publication |
|------------|---|----------------------------|--|------------------------------------|
| 1. | Yuansheng Jinxiaocun Software System V2.0 (元盛進銷存軟件系統 V2.0) | 2005SR00073 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | November 16, 2004 |
| 2. | Yuansheng Jinxiaocun Software System V3.0 (元盛進銷存軟件系統 V3.0) | 2006SR01506 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | March 1, 2005 |
| 3. | Yuansheng Finance Software System V2.0 (元盛財務軟件系統 V2.0) | 2006SR11938 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | January 1, 2006 |

As at the Latest Practicable Date, we have applied for registration of the copyrights in the following computer software:

| No. | Name of software | Application number | Applicant | Application date |
|------------|---|---------------------------|--|-------------------------|
| 1. | Yuansheng Human Resources Management System V2.0 (元盛人力資源管理系統V2.0) | 2007111777 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | August 8, 2007 |
| 2. | Yuansheng Shopping Malls Management System V2.0 (元盛商場管理系統V2.0) | 2007111778 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | August 8, 2007 |
| 3. | Yuansheng Members Management System V2.0 (元盛會員管理系統V2.0) | 2007111779 | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司) | August 8, 2007 |

Save as aforesaid, there are no other trade or service marks, design patents, registered computer software copyrights, or other intellectual or industrial property rights which are material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR ESTABLISHMENTS IN THE PRC

The Group has more than 50% equity interests in the registered capital of the following enterprises in the PRC. A summary of the corporate information of each of the enterprises as at the Latest Practicable Date is set out as follow (The attributable interest to the Group of each enterprise below assumes completion of the Reorganization):

1. Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司)

| | |
|---|---|
| (i) Name of the enterprise: | Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Wellmax Business Group Limited (100%) |
| (iv) Total investment: | US\$22,190,000 |
| (v) Registered capital: | US\$8,880,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from January 5, 2006 to January 4, 2026 |
| (viii) Scope of business | Retail sales and wholesale of sports goods, sports equipment, sports apparel, including sports shoes, casual shoes, backpacks, machines and accessories (goods subject to quota license or special regulations shall be dealt with according to the relevant state requirements). |

2. Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from March 20, 2007 to March 19, 2027 |
| (viii) Scope of business | General trading items: sales of sports goods, apparel, shoes and hats, sports equipment; counters leasing. |

3. Dalian Baoshun Sports Goods Company Limited (大連寶順體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Dalian Baoshun Sports Goods Company Limited (大連寶順體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 10 years commencing from July 6, 2007 to July 5, 2017 |
| (viii) Scope of business | Sales of sports goods, apparel, shoes and hats, sports equipment. |

4. Beijing Baoxuan Sports Goods Company Limited (北京寶渲體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Beijing Baoxuan Sports Goods Company Limited (北京寶渲體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Register owner: | Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from December 6, 2007 to December 5, 2027 |
| (viii) Scope of business: | Sales of sports goods, apparel, shoes and hats, and sports equipment |

5. Tianjin Baoxin Sports Goods Company Limited (天津寶信體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Tianjin Baoxin Sports Goods Company Limited (天津寶信體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Register owner: | Harbin Baosheng Sports Goods Company Limited (哈爾濱寶勝體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital | RMB1,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from December 7, 2007 to December 6, 2027 |
| (viii) Scope of business: | Sales of sports goods, apparel, shoes and hats, and sports equipment; leasing of counters (items subject to state operation regulations shall operate accordingly) |

6. Shaanxi Baoxiang Sports Goods Company Limited (陝西寶祥體育用品有限公司)

| | |
|---|--|
| (i) Name of the enterprise: | Shaanxi Baoxiang Sports Goods Company Limited (陝西寶祥體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from April 11, 2007 to April 10, 2027 |
| (viii) Scope of business | Retail sales and wholesale of sports goods, sports equipment, sports apparel, sports shoes, casual shoes, backpacks, machines and accessories (goods subject to quota license and special regulations shall be dealt with according to the relevant state requirements). |

7. Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司)

| | |
|---|--|
| (i) Name of the enterprise: | Taiyuanshi Baoliwei Sports Goods Company Limited (太原市寶利威體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | From March 17, 2008 to October 27, 2009 |
| (viii) Scope of business: | Sale of sports goods, apparel, shoes and hats, backpacks and accessories products, sports equipment (items prohibited by laws and regulations shall not be operated, items which require approval shall not be operated before obtaining the approval, items requiring permits shall operate within the terms specified in the permit) |

8. Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉 (北京) 貿易有限公司) (49%) Gao Zhen Geng (高振庚) (51%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB60,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 49% |
| (vii) Term: | 20 years commencing from June 5, 2007 to June 20, 2027 |
| (viii) Scope of business | General trading items: retail sales and wholesale of sports goods, sports equipment, sports apparel, including sports shoes, casual shoes, backpacks, machines and accessories (goods and technology subject to quota license and special regulations shall be dealt with according to the relevant state requirements). |

9. Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Beijing Baozhe Sports Goods Company Limited (北京寶哲體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB20,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 49% |
| (vii) Term: | 20 years commencing from July 19, 2007 to July 18, 2027 |
| (viii) Scope of business | Sales of cultural sports goods, apparel, shoes and hats, backpacks, sports equipment and accessories (except items not authorized by administrations in the scope of business). |

10. Tianjin Baozhe Sports Goods Company Limited (天津寶哲體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Tianjin Baozhe Sports Goods Company Limited (天津寶哲體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB20,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 49% |
| (vii) Term: | 20 years commencing from August 6, 2007 to August 5, 2027 |
| (viii) Scope of business | Retail sales and wholesale of sports goods, sports equipment and accessories, sports apparel, sports shoes, casual shoes, backpacks (items subject to exclusive operation as required by the state shall be dealt with according to the requirements). |

11. Shanghai Baohong Sports Goods Company Limited (上海寶宏體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Shanghai Baohong Sports Goods Company Limited (上海寶宏體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Zhejiang Baohong Sports Goods Company Limited (浙江寶宏體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 49% |
| (vii) Term: | 20 years commencing from September 17, 2007 to September 16, 2027 |
| (viii) Scope of business | Sales of sports goods, apparel, shoes and hats, leather goods (items subject to administrative license shall operate according to the license). |

12. Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司)

| | |
|---|--|
| (i) Name of the enterprise: | Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Rainbow Faith Investments Limited (100%) |
| (iv) Total investment: | US\$17,400,000 |
| (v) Registered capital: | US\$10,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from March 10, 2006 to March 9, 2026 |
| (viii) Scope of business | Retail sales, wholesale, import and export of sports goods, sports equipment and accessories (including sports shoes, sports apparel, casual shoes, casual wear, backpacks) (import and export goods involving quota license shall be dealt with according to the relevant state requirements). |

13. Xinjiang Baoxin Sports Goods Company Limited (新疆寶新體育用品有限公司)

| | |
|---|---|
| (i) Name of the enterprise: | Xinjiang Baoxin Sports Goods Company Limited (新疆寶新體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | From March 4, 2008 to February 28, 2028 |
| (viii) Scope of business: | Retail sales and wholesale of sports goods, sports equipment, sports shoes, casual shoes, casual wear, backpack; counter leasing, general operating items (excluding items subject to special approval pursuant to state laws and administrative regulations. Items subject to special regulations shall be operated after obtaining approval documents, licence and quality certificate from the relevant authorities. The operating items and terms specified on the approval documents, licence and quality certificate issued shall be final.) |

14. Ningxia Baojia Sports Goods Company Limited (寧夏寶佳體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Ningxia Baojia Sports Goods Company Limited (寧夏寶佳體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | From January 17, 2008 to January 20, 2028 |
| (viii) Scope of business: | Sales of sports goods, apparel, shoes and hats, sports equipment, counters leasing |

15. Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (陝西五環勝道運動產業開發有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Xian Baoqin Trading Company Limited (西安寶秦貿易有限公司) (40%) Shaanxi Wuhuan Investment Management Company Limited (陝西五環投資管理有限公司) (60%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB25,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 40% |
| (vii) Term: | Long term |
| (viii) Scope of business | Sales of apparel, shoes and hats, sports goods, sports equipment, office items, daily goods; counters leasing, investment and planning in large and medium sized sports-related activities; investment in, production and development of the sports industry and related products (items which, according to state laws, administrative regulations and decisions of the State Council, are subject to reporting and approval, shall operate with the relevant license within the effective term). |

16. Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) |
| (ii) Economic nature: | Sino-foreign equity joint venture |
| (iii) Registered owner: | Wellmax Business Group Limited (72%) Weifang Liwei Economic and Trading Company Limited (維坊力威經貿有限公司) (28%) |
| (iv) Total investment: | RMB30,000,000 |
| (v) Registered capital: | RMB20,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 72% |
| (vii) Term: | 20 years commencing from September 14, 2005 to September 14, 2025 |
| (viii) Scope of business | Wholesale and retail sales: sports and casual shoes, apparel, socks, hats, backpacks, accessory parts, equipment (items subject to quota license and exclusive operation shall be dealt with according to the relevant state requirements) (operations of the above items which are subject to license shall operate according to the license). |

17. Jinan Baoyue Sports Goods Company Limited (濟南寶嶽體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Jinan Baoyue Sports Goods Company Limited (濟南寶嶽體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 72% |
| (vii) Term: | No definite term |
| (viii) Scope of business | Wholesale, retail sales: cultural and sports goods, general goods, daily products, apparel, shoes and hats, textile goods, cases and bags (except goods for which special license has not been obtained). |

18. Guangzhou Baoyuan Trading Company Limited (廣州寶元貿易有限公司)

| | |
|---|---|
| (i) Name of the enterprise: | Guangzhou Baoyuan Trading Company Limited (廣州寶元貿易有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | A-Grade Holdings Limited (100%) |
| (iv) Total investment: | US\$4,930,000 |
| (v) Registered capital: | US\$2,470,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from December 23, 2005 to December 23, 2025 |
| (viii) Scope of business | Retail sales of sports goods, sports equipment, sports apparel and related accessories. |

19. Guangzhou Shengdao Sports Goods Company Limited (廣州勝道體育用品有限公司)

| | |
|----------------------------------|---|
| Name of the enterprise: | Guangzhou Shengdao Sports Goods Company Limited (廣州勝道體育用品有限公司) |
| Economic nature: | PRC domestic company with limited liability |
| Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (60%) Guangzhou Baoyuan Trading Company Limited (廣州寶元貿易有限公司) (40%) |
| Total investment: | N/A |
| Registered capital: | RMB100,000,000 (as at the Latest Practicable Date, RMB20,000,000 had been paid up) |
| Attributable interest the Group: | 100% |
| Terms: | Commencing from February 4, 2008 to June 30, 2008 |
| Scope of business: | Retail sales of sports goods, sports equipment, general goods; leasing and management of properties; investment consultation. |

20. Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司)

| | |
|--|--|
| (ix) Name of the enterprise: | Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) |
| (x) Economic nature: | Wholly foreign owned enterprise |
| (xi) Registered owner: | Favour Mark Holdings Limited (100%) |
| (xii) Total investment: | US\$3,100,000 |
| (xiii) Registered capital: | US\$2,100,000 (fully paid up) |
| (xiv) Attributable interest to the Group | 100% |
| (xv) Term: | 10 years commencing from September 28, 2005 to September 27, 2015 |
| (xvi) Scope of business | <ol style="list-style-type: none"> Wholesale and retail sales: sports and casual female apparel, shoes, socks, hats, backpacks, outdoor sports goods, competition equipment, fitness equipment. Importing and exporting self-operated goods. |

21. Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司)

| | |
|---|--|
| (i) Name of the enterprise: | Guiyang Baoshang Sports Goods Company Limited (貴陽寶尚體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | <p>Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) (50%)</p> <p>Guiyang Nanming Tengwei Trading Company Limited (貴陽南明滕威貿易有限公司) (50%)</p> |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB11,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 50% |
| (vii) Term: | 20 years commencing from August 30, 2007 to August 29, 2027 |
| (viii) Scope of business | Sales of apparel, shoes and hats, leather bags, cases (excluding items subject to prior authorization), cultural and sports goods; premises leasing. |

22. Nanning Baoguan Sports Goods Company Limited (南寧寶冠體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Nanning Baoguan Sports Goods Company Limited (南寧寶冠體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | A-Grade Holdings Limited (100%) |
| (iv) Total investment: | US\$1,850,000 |
| (v) Registered capital: | US\$1,300,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from October 27, 2005 to October 27, 2025 |
| (viii) Scope of business | Retail sales of sports goods, apparel (sports apparel), sports shoes, casual shoes, backpacks, sports equipment and accessories. |

23. Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Favour Mark Holdings Limited (100%) |
| (iv) Total investment: | US\$20,960,000 |
| (v) Registered capital: | US\$10,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 30 years commencing from January 20, 2006 to January 19, 2036 |
| (viii) Scope of business | Retail sales, wholesale and commission-based agency (excluding auction), import and export of sports goods, sports equipment, sports apparel, including sports shoes, casual shoes, apparel, backpacks, machines and accessories and provision of related ancillary services (goods subject to quota, license and special regulations shall be dealt with according to the relevant state requirements) (items involving administration license shall be operated according to the license). |

24. Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司)

- | | | |
|--------|------------------------------------|--|
| (i) | Name of the enterprise: | Wenzhou Baofeng Trading Company Limited (溫州寶豐商貿有限公司) |
| (ii) | Economic nature: | PRC domestic company with limited liability |
| (iii) | Registered owner: | Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) (50%) Wenzhou City Yijia Sports Commercial Complex Company Limited (溫州市一家體育商城有限公司) (50%) |
| (iv) | Total investment: | N/A |
| (v) | Registered capital: | RMB18,000,000. (As at the Latest Practicable Date, RMB6,000,000 had been paid up) |
| (vi) | Attributable interest to the Group | 50% |
| (vii) | Term: | 10 years commencing from September 27, 2007 to September 26, 2017 |
| (viii) | Scope of business | Manufacture, sales of sports goods (excluding shooting goods, bows and arrows), apparel, shoes and hats. |

25. Hefei Baoxun Sports Goods Trading Company Limited (合肥寶勳體育用品商貿有限公司)

- | | | |
|--------|------------------------------------|---|
| (i) | Name of the enterprise: | Hefei Baoxun Sports Goods Trading Company Limited (合肥寶勳體育用品商貿有限公司) |
| (ii) | Economic nature: | PRC domestic company with limited liability |
| (iii) | Registered owner: | Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) (100%) |
| (iv) | Total investment: | N/A |
| (v) | Registered capital: | RMB1,000,000 (fully paid up) |
| (vi) | Attributable interest to the Group | 100% |
| (vii) | Term: | 30 years commencing from September 18, 2007 to September 16, 2037 |
| (viii) | Scope of business | Sales of sports goods, counters leasing. |

26. Wuxi Baoyuan Sports Goods Trading Company Limited (無錫寶原體育用品商貿有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Wuxi Baoyuan Sports Goods Trading Company Limited (無錫寶原體育用品商貿有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB1,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 30 years commencing from September 17, 2007 to September 16, 2037 |
| (viii) Scope of business | Sales of sports goods. |

27. Baoyu (Chengdu) Trading Company Limited (寶渝 (成都) 商貿有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Baoyu (Chengdu) Trading Company Limited (寶渝 (成都) 商貿有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Favour Mark Holdings Limited (90%) Nice Well Investments Limited (10%) |
| (iv) Total investment: | US\$14,800,000 |
| (v) Registered capital: | US\$7,400,000 (fully paid up) |
| (vi) Attributable interest to the Group | 90% |
| (vii) Term: | 20 years commencing from March 27, 2006 to March 26, 2026 |
| (viii) Scope of business | Wholesale, retail sales and chain operation of sports goods, sports equipment, sports apparel and accessories, leasing of self-owned properties and provision of related ancillary services (items involving state exclusive operation requirements shall follow such requirements). |

28. Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | A-Grade Holdings Limited (90%) Glorious Win Developments Limited (10%) |
| (iv) Total investment: | US\$7,500,000 |
| (v) Registered capital: | US\$4,500,000 (fully paid up) |
| (vi) Attributable interest to the Group | 90% |
| (vii) Term: | 10 years commencing from May 23, 2006 to May 22, 2016 |
| (viii) Scope of business | Retail sales, wholesale of cultural and sports goods, apparel, shoes and hats, daily goods, daily sundries, cases and bags, artistic articles, office items and advising on business information (items involving approval license shall only be produced and operated within the scope of such license and effective term). |

29. Baoxin (Chengdu) Trading Company Limited (寶信 (成都) 商貿有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Baoxin (Chengdu) Trading Company Limited (寶信 (成都) 商貿有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Technico Business Group Limited (100%) |
| (iv) Total investment: | US\$10,000,000 |
| (v) Registered capital: | US\$5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 10 years commencing from September 6, 2006 to September 5, 2016 |
| (viii) Scope of business | Wholesale, retail sales of shoes, apparel, packing and related products; import and export of the aforementioned products and provision of related ancillary services (items involving state exclusive operation requirements shall follow such requirements). |

30. Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Hangzhou Baohong Sports Goods Company Limited (杭州寶宏體育用品有限公司) |
| (ii) Economic nature: | Sino-foreign equity joint venture |
| (iii) Registered owner: | Favour Mark Holdings Limited (50%) Shanghai Zeyou Trading Development Company Limited (上海澤友貿易發展有限公司) (50%) |
| (iv) Total investment: | RMB14,200,000 |
| (v) Registered capital: | RMB14,200,000 (fully paid up) |
| (vi) Attributable interest to the Group | 50% |
| (vii) Term: | From August 20, 2007 to September 16, 2008 |
| (viii) Scope of business | Design, development of sports goods, sports equipment, sports apparel, sports shoes and accessories; production, processing; sports apparel (branch office is separately set up in the production premises). |

31. Diodite (China) Sports Goods Company Limited (笛亞泰 (中國) 體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Diodite (China) Sports Goods Company Limited (笛亞泰 (中國) 體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Diodite Limited (100%) |
| (iv) Total investment: | US\$36,000,000 |
| (v) Registered capital: | US\$20,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 30 years commencing from May 25, 2006 to May 25, 2036 |
| (viii) Scope of business | Retail sales, wholesale, import and export of sports goods, sports equipment, accessories and sports apparel (import and export goods subject to quota license shall be dealt with according to relevant state requirements). Production of goods sold by the company, including sports shoes, sports apparel, casual wear, backpacks, hats, packing and glasses etc. |

32. Dragonlight (China) Sports Goods Company Limited (龍光(中國)體育用品有限公司)

| | |
|---|---|
| (i) Name of the enterprise: | Dragonlight (China) Sports Goods Company Limited (龍光 (中國) 體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Dragonlight Group Limited (100%) |
| (iv) Total investment: | US\$68,000,000 |
| (v) Registered capital: | US\$36,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 50 years commencing from November 15, 2006 to November 14, 2056 |
| (viii) Scope of business | Production of knit and tatting apparel, shoes, garments, hats, handbags, tents, sleeping bags, sales of self-manufactured products of the company; retail sales, wholesale and import and export of apparel, shoes, hats, daily goods, textile goods, office items, sports goods, sports equipment and accessories, sports apparel (including sports shoes, sports apparel, casual shoes, casual wears, backpacks, hats, packing and glasses), education and entertainment products; rock-climbing services; property management; development and operation of sport goods complex; development and operation of multi-brand stores (items subject to administrative license shall operate according to the license). |

33. Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司)

| | |
|---|--|
| (i) Name of the enterprise: | Yangzhou Longsheng Sports Goods Company Limited (揚州龍勝體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Dragonlight (China) Sports Goods Company Limited (龍光 (中國) 體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from August 27, 2007 to August 27, 2027 |
| (viii) Scope of business | Wholesale and retail sales of knitting and shuttle-woven clothing, shoes, garment, hats, bags, tents, sleeping bags, general merchandise, textile, office items, sports equipment and accessories, sports apparel (including sports shoes, sports apparel, casual shoes, casual wear, backpacks, hats and glasses), educational and entertainment products, self-operation or agency of import and export business for various goods and technology (except goods and technology which are restricted by the state to be operated by certain enterprise or prohibited by the state to be imported and exported). (Items with business scope for which the government has specific regulations shall be executed according to the specific regulations) |

34. Yusheng (Taicang) Footwear Company Limited (裕盛 (太倉) 鞋業有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Yusheng (Taicang) Footwear Company Limited (裕盛 (太倉) 鞋業有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Brightup Group Limited (100%) |
| (iv) Total investment: | US\$32,500,000 |
| (v) Registered capital: | US\$15,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 50 years commencing from January 31, 2002 to January 30, 2052 |
| (viii) Scope of business | Production and processing of shoes products, semi-finished goods, moulds and sports-related goods, sales of self-manufactured goods. |

35. Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Taicang Yusheng Moulding Company Limited (太倉裕盛模具有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Brightup Group Limited (100%) |
| (iv) Total investment: | US\$3,000,000 |
| (v) Registered capital: | US\$2,100,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 50 years commencing from November 5, 2004 to November 4, 2054 |
| (viii) Scope of business | Design and manufacture of non-metallic product moulds, accurate cavity mould, mould mark accessories, sales of self-manufactured goods of the company (operation and production of items which are subject to administrative license shall be conducted according to the license). |

36. Taicang Yusheng Sports Goods Company Limited (太倉裕盛體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Taicang Yusheng Sports Goods Company Limited (太倉裕盛體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Brightup Group Limited (100%) |
| (iv) Total investment: | US\$28,950,000 |
| (v) Registered capital: | US\$12,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 50 years commencing from January 8, 2004 to January 7, 2054 |
| (viii) Scope of business | Manufacturing and processing footwear products, apparel and related sports goods, sales of self-manufactured products (the abovementioned items subject to authorization shall operate according to the authorization). |

37. Yusheng (Kunshan) Sports Goods Company Limited (裕晟 (昆山) 體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Yusheng (Kunshan) Sports Goods Company Limited (裕晟 (昆山) 體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Selangor Gold Limited (100%) |
| (iv) Total investment: | US\$7,200,000 |
| (v) Registered capital: | US\$4,200,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 50 years commencing from December 29, 2001 to December 28, 2051 |
| (viii) Scope of business | Production, processing and sales of shoes, apparel, hats, packing, balls, glasses, stop watches, sports goods and accessories, sports equipment, and sales of goods authorized to process, and provision of after-sales services. |

38. Yucheng (Kunshan) Sports Goods Company Limited (裕程 (昆山) 體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Yucheng (Kunshan) Sports Goods Company Limited (裕程 (昆山) 體育用品有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Selangor Gold Limited (100%) |
| (iv) Total investment: | US\$25,000,000 |
| (v) Registered capital: | US\$10,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 30 years commencing from July 20, 2007 to July 19, 2037 |
| (viii) Scope of business: | Wholesale of shoes, apparel, hats, bags, balls, sports goods, sports equipment and accessories, as well as after-sales services; the import and exports of the above goods, excluding goods that are subject to restrictions of the state in respect of operation and import and export. (items with design licence shall operate with the license) |

39. Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | YY Sports Holdings Limited (100%) |
| (iv) Total investment: | US\$99,800,000 |
| (v) Registered capital: | US\$36,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | From December 22, 2006 to December 20, 2036 |
| (viii) Scope of business | Operation of sports department stores (including retail and chain operation), joint development of commercial real estate, leasing and property management, provision of consultation services of business information (except items subject to special regulations). |

40. Shanghai Shengdao Sports Goods Company Limited (上海勝道體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Shanghai Shengdao Sports Goods Company Limited (上海勝道體育用品 有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道 (揚州) 體育用品開發有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB100,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 10 years commencing from May 25, 2007 to May 24, 2017 |
| (viii) Scope of business | Retail sales of sports goods, apparel, shoes and hats, daily goods, business consultation (items involving administrative license shall be operated according to the license). |

41. Guizhou Shengdao Sports Goods Development Company Limited (貴州勝道體育用品開發有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Guizhou Shengdao Sports Goods Development Company Limited (貴州勝道體育用品開發有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (60%) Guiyang Baoxin Sports Goods Company Limited (貴陽寶新體育用品有限公司) (40%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB17,500,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 10 years commencing from June 20, 2007 to June 19, 2017 |
| (viii) Scope of business | Sales of daily goods, sports goods, apparel, shoes and hats, socks, backpacks, sports goods, competition equipment, fitness equipment; development and sales of real estate, property management, information consultation services (except items subject to prior authorization). |

42. Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (60%) Qiu Xiaojie (邱小杰) (20%) Xu Feng (徐風) (20%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB50,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 60% |
| (vii) Term: | From July 2, 2007 to June 27, 2017 |
| (viii) Scope of business | Operation of department stores of daily and sports goods (including retail, leasing of commercial real estate, sales and chain operation business and property management, provision of consultation services of business information). |

43. Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (60%) Lu Shan (廬山) (16%) Lu Li (廬力) (16%) Lu Yi (廬毅) (8%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB87,500,000 (fully paid up) |
| (vi) Attributable interest to the Group | 60% |
| (vii) Term: | 10 years commencing from July 24, 2007 to July 24, 2017 |
| (viii) Scope of business | Sales of general merchandise, sports apparel and equipment, fitness equipment, property management, business information advisory (items requiring the government's special approval shall operate with valid licenses and qualification certificates.) (Items requiring special approval pursuant to the state laws and administrative regulations, shall begin operation pursuant to the approved items and terms) |

44. Chengdu Shengdao Sports Goods Company Limited (成都勝道體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Chengdu Shengdao Sports Goods Company Limited (成都勝道體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (60%) Shanghai Baoyuan Sports Goods Trading Company Limited (上海寶原體育用品商貿有限公司) (40%) |
| (iv) Total investment: | RMB106,400,000 |
| (v) Registered capital: | RMB106,400,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from December 13, 2007 to December 12, 2027 |
| (viii) Scope of business | Sale of apparel footwear and hats, sports goods and equipment; retail sale of general goods (except items limited or prohibited by state laws and regulations) |

45. Shanghai Haodong Trading Company Limited (上海好動商貿有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Shanghai Haodong Trading Company Limited (上海好動商貿有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州)體育用品開發有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB10,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 20 years commencing from December 27, 2007 to December 26, 2027 |
| (viii) Scope of business: | Wholesale of sports goods and equipment, general goods; investment consultation (items subject to administrative authorisation shall operate in accordance with the authorisation) |

46. Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Guangzhou Yangji Information Technology Company Limited (廣州市揚基信息科技有限公司有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Charming Technology Limited (100%) |
| (iv) Total investment: | HK\$3,000,000 |
| (v) Registered capital: | HK\$3,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | 15 years commencing from September 7, 2004 to August 27, 2019 |
| (viii) Scope of business | Development of computer software and hardware, maintenance of software system, provision of data analysis services, provision of automatic implementation of information services and technical consultation services, sales of products of the enterprise. |

47. Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Yunnan Orientalsport Economy Trade Company Limited (雲南奧龍世博經貿有限公司) |
| (ii) Economic nature: | Wholly foreign owned enterprise |
| (iii) Registered owner: | Profit Concept Group Limited (100%) |
| (iv) Total investment: | RMB112,200,000 |
| (v) Registered capital: | RMB56,100,000 (fully paid up) |
| (vi) Attributable interest to the Group | 51% |
| (vii) Term: | 20 years commencing from December 5, 2006 to December 4, 2026 |
| (viii) Scope of business | Retail sales and wholesale, commission-based agency (except auction) of sports goods, daily goods, apparel, shoes and hats, artistic articles; operation of relevant ancillary services (items subject to state laws, administrative regulations and special approvals shall begin operation activities according to the subject and time limit of the approval). |

48. Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限責任公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限責任公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Dongguan Baoyuan Footwear Company Limited (東莞寶元鞋業有限公司) (96.7%) (Technic Holdings Corporation, which wholly owns Dongguan Baoyuan Footwear Company Limited (東莞寶元鞋業有限公司), holds the equity interest in Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司) on trust for Selangor Gold Limited.) Haixia Advertisement Company Limited (海峽廣告有限責任公司) (3.3%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB6,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | No definite term |
| (viii) Scope of business: | Manufacturing and retail sale of shoes, hats, hair bands, bags, wrist guard, knee guard, apparel, socks, balls (manufactured by subsidiaries). Sales of sports goods, general goods. Consultation of trading goods, trading information. Self operating and operating as an agent the import and export of various goods and technologies, except goods and technologies the operating or importing and exporting of which are prohibited by the state. |

49. Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司)

- | | |
|---|--|
| (i) Name of the enterprise: | Xiamen Baohui Industrial and Trading Company Limited (廈門寶暉工貿有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限責任公司) (85%) Du Zhi Hong (杜志鴻) (7.5%) Gong Xi (龔璽) (7.5%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 85% |
| (vii) Term: | 10 years commencing from September 16, 2004 to September 16, 2014 |
| (viii) Scope of business: | It shall not engage in any business which is not allowed by the laws or regulations of the state or required prior approval. The company is allowed to choose the business it is to operate and when to begin such operation. (Business which can only be commenced after obtaining approval pursuant to the state laws and regulations shall only begin operations after obtaining the approval.) |

50. Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限責任公司) (90%) (Technic Holdings Corporation, which owns 96.7% of Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司), holds the equity interest in Guangzhou Baoxu Trading Company Limited (廣州寶旭貿易有限公司) on trust for Dedicated Group Limited.) Cheng Chi Ming (鄭志明) (10%) (holding on trust for Dedicated Group Limited) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB1,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | No definite term |
| (viii) Scope of business: | Wholesale and retail sales trading (except goods subject to state special franchise and control); consultation on goods information |

51. Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司)

- | | |
|---|---|
| (i) Name of the enterprise: | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company with limited liability |
| (iii) Registered owner: | Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限責任公司) (99%) (Technic Holdings Corporation, which owns 96.7% of Guangzhou Baoyuan Industrial and Trading Company Limited (廣州寶元工貿有限公司), holds the equity interest in Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) on trust for Dedicated Group Limited.) Wang Ming Fen (王明芬) (1%) (holding on trust for Dedicated Group Limited) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB5,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | No definite term |
| (viii) Scope of business: | Sale of sports goods, cultural goods, general daily goods, apparel, shoes and hats, leather goods, sports equipment; e-commerce (except items without specific approval); leasing of counters. |

52. Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司)

| | |
|---|---|
| (i) Name of the enterprise: | Shaanxi Baoqin Sports Goods Company Limited (陝西寶秦體育用品有限公司) |
| (ii) Economic nature: | PRC domestic company (有限責任公司) |
| (iii) Registered owner: | Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司) (100%) |
| (iv) Total investment: | N/A |
| (v) Registered capital: | RMB2,000,000 (fully paid up) |
| (vi) Attributable interest to the Group | 100% |
| (vii) Term: | No definite term |
| (viii) Scope of business: | Sale of sports goods, cultural goods, general daily goods, apparel, shoes and hats, leather goods, construction equipment; leasing of counters. |

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' service agreements**

Each of our Directors (except for the non-executive Directors and the independent non-executive Directors) has entered into a service agreement with our Company pursuant to which they agreed to act as a Director for an initial term of three years commencing from June 6, 2008 to June 5, 2011. Each of these service agreements may be terminated by either party by giving to the other party at least six month's prior notice in writing.

Save as disclosed above, none of our Directors has or is proposed to have entered into any service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(a) Remuneration of Directors

Remuneration and benefits in kind of approximately US\$340,000, US\$409,000, US\$600,000 and US\$134,000 in aggregate were paid and granted by the Group to the Directors in respect of the three financial years in the Track Record Period and the three months ended December 31, 2007.

Under the arrangements currently in force, the Directors will be entitled to receive remuneration and benefits in kind which, for the financial year ending September 30, 2008, is expected to be no more than US\$2.5 million.

(b) Remuneration Policies

Our Company's policy concerning the remuneration of the executive Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility and the time devoted to the business of the Group.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years in the Track Record Period and the three months ended December 31, 2007 by our Company to the Directors.

2. Disclosure of interests

(a) *Interests and/or short positions of the Directors and chief executives in the share capital of our Company and its associated corporations following the Global Offering and the Capitalization Issue*

Immediately following completion of the Global Offering and the Capitalization Issue (but taking no account of any Shares to be issued pursuant to the exercise of the Over-allotment Option), the interests and/or short positions of our Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Long position in the Shares and underlying Shares of our Company

| <u>Name</u> | <u>Capacity/Nature of interest</u> | <u>Number of shares</u> | <u>Approximate percentage of shareholding</u> |
|----------------------------|--------------------------------------|-----------------------------------|---|
| Lee Chung Wen | Beneficial Interest | 18,638,000 Shares ⁽¹⁾ | 0.525% |
| Huang Chun Hua | Beneficial Interest | 12,425,000 Shares ⁽¹⁾ | 0.350% |
| Chang Karen Yi-Fen | Beneficial Interest | 14,910,000 Shares ⁽¹⁾ | 0.420% |
| Mr. Huang | Interest of a controlled corporation | 277,976,000 Shares ⁽²⁾ | 7.830% |

(1) *These represent the aggregate number of Shares which may be allotted and issued to such Directors pursuant to the Pre-IPO Share Subscription Plan.*

(2) *These 277,976,000 Shares are held by Sports Group which is wholly-owned by Mr. Huang, our executive Director. Mr. Huang is therefore deemed to be interested in these Shares.*

(b) *Interests and/or short positions of the Substantial Shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering, the issuance of Shares to the joint venture partners and the Capitalization Issue (but taking no account of any Shares to be issued pursuant to exercise of the Over-allotment Option), so far as the Directors are aware, the following persons (not being a Director or a chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(a) *Interest in the Shares and underlying Shares*

| <u>Name of Shareholder</u> | <u>Nature of Interest</u> | <u>Number and class of securities⁽¹⁾</u> | <u>Approximate percentage of interest in our Company immediately after the Global Offering⁽²⁾</u> |
|---------------------------------------|---|---|--|
| Yue Yuen. | Interest of a controlled corporation ⁽³⁾ | 1,986,723,000 Shares (L) 123,506,000 Shares (S) ⁽⁴⁾ | 56.0% 3.5% |
| Pou Chen Corporation | Interest of a controlled corporation ⁽⁵⁾ | 1,986,723,000 Shares (L) 123,506,000 Shares (S) ⁽⁴⁾ | 56.0% 3.5% |
| Sitori Trading Limited | Interest of a controlled corporation | 366,945,000 Shares (L) ⁽⁶⁾ | 10.3% |
| Shih Ching I. | Interest of a controlled corporation | 366,945,000 Shares (L) ⁽⁶⁾ | 10.3% |
| Chiang Lin-Lin ⁽⁷⁾ . . . | Spousal Interest | 277,976,000 Shares (L) | 7.8% |
| Sports Group ⁽⁸⁾ | Beneficial Interest | 277,976,000 Shares (L) | 7.8% |

(1) The letters “L” and “S” denote the person’s long position and short position in such Shares, respectively.

(2) Assuming the over-allotment option is not exercised.

(3) These Shares are held by Major Focus. Major Focus is a wholly owned subsidiary of Yue Yuen.

(4) These Shares will be the subject of the stock borrowing agreement as explained in the section headed “Structure of the Global Offering — Stock Borrowing Arrangement” in this prospectus.

- (5) *Pou Chen Corporation is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus Holdings Limited, which in turn is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus Holdings Limited is wholly owned by Pou Chen Corporation and is interested in 46.15% of the issued share capital of Yue Yuen.*
- (6) *These shares are held by Jollyard. Jollyard is wholly owned by Sitori Trading Limited, which is in turn wholly-owned by Ms. Shih Ching I.*
- (7) *These 277,976,000 Shares are held by Mr. Huang, our executive Director. Ms. Chiang Lin-Lin is a spouse of Mr. Huang and is therefore deemed to be interested in these Shares as Mr. Huang is also interested in more than 5% of the issued share capital of the Company.*
- (8) *Sports Group is wholly-owned by Mr. Huang, our executive Director. Mr. Huang is therefore deemed to be interested in these 277,976,000 Shares.*

(b) *Substantial Shareholders of other members of the Group*

| Name of entities or person holding 10% or more interest in a member of the Group | Nature of interest | Interest in relevant company | Name of the subsidiary |
|---|---------------------------|-------------------------------------|--|
| Weifang Liwei Economic and Trading Company Limited (濰坊力威經貿有限公司) | Beneficial | 28% | Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司) |
| Glorious Win Developments Limited | Beneficial | 10% | Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司) |
| Qiu Xiao Jie (邱小杰) | Beneficial | 20% | Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) |
| Xu Feng (徐風) | Beneficial | 20% | Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) |
| Lu Shan (盧山) | Beneficial | 16% | Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) |
| Lu Li (盧力) | Beneficial | 16% | Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司) |
| Parfeuri Investments Limited | Beneficial | 49% | Profit Concept Group Limited |

3. Agency fees or commission

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

4. Related party transactions

During the Track Record Period and for the three months ended December 31, 2007, we have engaged in dealings with certain Directors and their associates as described in note 27 to the “Notes to the Financial Information” section of the accountants’ report set out in Appendix I to this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Global Offering, the issuance of Shares to our Call Option JVs’ partners and Share Swap JV’s partner and the Capitalization Issue have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (b) none of our Directors nor any chief executive of our Company has any interest or a short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties whose names are listed in the paragraph headed “Qualification of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (d) none of the Directors nor any of the parties whose names are listed in the paragraph headed “Qualification of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (e) save in connection with the Underwriting Agreement, none of the parties listed in the paragraph “Qualification of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of any member of the Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (f) save as referred to above, there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensations) between our Company or our Company’s subsidiaries and any other Directors; and
- (g) none of our Directors or their associates or any shareholders of our Company who to the knowledge of the Directors owns more than 5% of our issued share capital has any interest in our five largest suppliers or our top five business customers.

E. SHARE-BASED REMUNERATION SCHEMES

We believe in incentivising, retaining and rewarding employees, and attracting new talent, through share-based incentives which will align their interests with that of our Company. To this end, we currently have two share-based remuneration schemes, of which grants of options may continue after the Listing under the Share Option Scheme while no further invitation to subscribe for Shares will be made under the Pre-IPO Share Subscription Plan.

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme (the “Scheme”), conditionally approved by a written resolution of the sole Shareholder passed on May 14, 2008 and approved by resolution of the shareholders of Yue Yuen on May 22, 2008 and conditionally adopted by a resolution of the Board on May 14, 2008. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

Definitions:

- | | |
|-----------------|--|
| “Adoption Date” | the date on which this Scheme was conditionally adopted by resolution of the Company and which is subject to the approval of the shareholders of Yue Yuen; |
| “Date of Grant” | in respect of any particular Option, the date on which the Board resolves to make an Offer to a Participant; |

| | |
|----------------------|---|
| “Grantee” | any Participant who accepts an Offer in accordance with the terms of the Scheme, or (where the context so permits) any person who is entitled to any such Option in consequence of the death of the original Grantee or the legal personal representative of such person; |
| “Offer” | the offer of the grant of an Option made in accordance with the terms of the Scheme; |
| “Option” | an option to subscribe for Shares pursuant to the Scheme; |
| “Option Period” | a period to be notified by the Board to each Participant and in any event the period shall not be more than ten (10) years from the Date of Grant during which an Option can be exercised; |
| “Participant” | directors (including executive directors, non-executive directors and independent non-executive directors) and full time employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the development and growth of the Group; |
| “Subscription Price” | the price per Share at which a Grantee may subscribe for shares on the exercise of an Option in accordance with the terms of the Scheme; |
| “Trustee” | such persons as the Company may from time to time appoint as the trustee of any employee trust; and |
| “Vest” or “Vesting” | in relation to an Option, means an Option becoming exercisable. |

(a) Purpose of the Scheme

The purpose of the Scheme is to attract and retain personnel, to provide incentives to Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole.

(b) *Who may join and basis of eligibility*

The Board may, at its discretion and on such terms as it may think fit, grant any Participant an Option as it may determine in accordance with the terms of the Scheme.

The basis of eligibility of any Participant to the grant of any Option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(c) *Duration and Administration*

The Scheme will be valid and effective for a period of ten (10) years commencing on the Adoption Date, after which period no further Options will be offered or granted. The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided herein) shall be final and binding on all parties. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right and at its discretion and based on such factors as it shall consider relevant to:

- (i) interpret and construe the provisions of the Scheme and Options made under it;
- (ii) determine the eligibility of persons who will be granted Options under the Scheme;
- (iii) determine the date of the grant of Option;
- (iv) determine the number of Shares to be subject to the Option;
- (v) determine the terms and conditions of the Option including:
 - (a) the Subscription Price (if relevant);
 - (b) the minimum period, if any, for which the Option must be held before it Vests;
 - (c) performance targets and other criteria, if any, to be satisfied before the Option can Vest;
 - (d) the amount, if any, payable on application or acceptance of the Option and the period within which payments or calls must or may be made or loans for such purposes must be repaid;
 - (e) the period, if any, during which Shares allotted and issued or transferred upon Vesting of the Option shall be subject to restrictions on dealings, and the terms of such restrictions;

- (f) the notification period, if any, to be given to the Company of any intended sale of Shares allotted and issued or transferred upon Vesting of the Option; and
- (g) Option Period (if relevant).
- (vi) approve the form of Option agreements;
- (vii) prescribe, amend and rescind rules and regulations relating to the Scheme;
- (viii) subject to the other provisions of the Scheme, make appropriate and equitable adjustments to the terms and conditions of any Option agreement, including extending the Option Period (provided that it shall not be greater than the period (if any) prescribed by the Listing Rules from time to time (which is, at the Adoption Date, not more than 10 years from the Commencement Date) and waiving or amending (in whole or in part) any conditions to which Options are subject; and
- (ix) to make such other decisions or determinations as it shall deem appropriate in the administration of the Scheme.

(d) *Options to be offered within 10 Years*

The Board will be entitled at any time within ten (10) years after the Adoption Date and subject to such conditions as the Board may think fit make an Offer to any Participant as the Board may in its absolute discretion select.

(e) *Terms and Conditions*

The Board may grant Options on such terms and subject to such conditions as it thinks fit. The Board may, in its absolute discretion, determine that Options will be subject to performance targets that must be achieved before Vesting.

(f) *Offer and Acceptance*

An offer of an Option must be accepted within twenty-eight (28) days from the Date of Grant. Any Offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the Offer is not accepted within the prescribed time period, it will be deemed to have been irrevocably declined.

(g) *Offers made to Directors, chief executive, and substantial shareholders and their respective Associates*

Insofar as the Listing Rules require and subject to the terms of the Scheme, where any Offer proposed to be made to a Director or a chief executive or a substantial shareholder of the Company or any of his, her or its associates (as defined

by the Listing Rules) must be approved by all the independent non-executive Directors (excluding an independent non-executive Director who is the proposed grantee of Options in question).

(h) *Subscription Price for Options*

The Subscription Price payable on the exercise of an Option shall be a price determined by the Board at its absolute discretion and notified to a Participant and shall be no less than the greatest of:

- (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the Date of Grant;
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five (5) business days immediately preceding the Date of Grant; or
- (iii) the nominal value of the Shares.

(i) *Transfer*

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any Option, unless under the circumstances permitted by the Scheme.

(j) *Vesting of Options*

The Board will determine the minimum period, if any, for which a Share Option must be held before it vests and any other conditions in relation to dealing with Shares on vesting. In particular:

- (i) in the event of the Grantee ceasing to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as specified in paragraph (l)(v) having arisen, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within the period of 12 months following his death;
- (ii) in the event of a Grantee who is an employee or a Director of the Company or another member of the Group ceasing to be a Participant for any reason other than his death or the termination of his employment or directorship on one or more of the grounds specified in paragraph (l)(v), the Option (to the extent not already exercised) shall lapse on the date of cessation or termination of such employment and shall on that day cease to be exercisable;

- (iii) in the event of a Grantee who is not an employee or a director of the Company or another member of the Group ceasing to be a Participant (which shall be as and when determined by the Board by resolution) for any reason other than his death the Board may by written notice to such Grantee within one month from (and including) the date of such cessation determine the period within which the Option (or such remaining part thereof) shall be exercisable following the date of such cessation and if the Board does not serve such a written notice within that one month period, the Option shall remain exercisable at any time during the original Option Period;
- (iv) in the event of the Grantee ceasing to be a Participant by reason of the termination of his employment or directorship on one or more of the grounds specified in paragraph (l)(v), his Option shall lapse automatically (to the extent not already exercised) and shall not be exercisable on or after the date of termination of his employment and to the extent the Grantee has exercised the Option in whole or in part pursuant to the Scheme, but Shares have not been allotted to him, the Grantee shall be deemed not to have so exercised such Option and the Company shall return to the Grantee the amount of the Subscription Price for the Shares received by the Company in respect of the purported exercise of such Option;
- (v) if a general offer by way of takeover (other than by way of scheme of arrangement pursuant to paragraph (j)(vi) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or, where appropriate, his or her personal representatives) shall be entitled to exercise the Option in full (to the extent not already exercised) or to the extent as notified by the Company at any time within such period as shall be notified by the Company;
- (vi) if a general offer by way of scheme of arrangement is made to all the holders of Shares with the Scheme having been approved by the necessary number of holders of Shares at the requisite meetings, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or his or her personal representatives) may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option to its full extent or to the extent specified in such notice;
- (vii) in the event a notice is given by the Company to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or his or her personal representatives) may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option

to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued; and

- (viii) other than a scheme of arrangement contemplated in paragraph (j)(vi) above, in the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such compromise or arrangement, and the Grantee (or his or her personal representatives) may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on exercise of such Option.

(k) *Consequences of Vesting*

(i) *Options*

On Vesting, an Option becomes exercisable to the extent that it Vests. An Option shall be exercised in whole or in part by the Grantee to the extent it has Vested, by giving notice in writing to the Company in a prescribed form. Any partial exercise of an Option shall be in respect of such number of Shares as from time to time constitutes a board lot for the purposes of trading Shares on the Stock Exchange or an integral multiple thereof.

(ii) *Allotment and Issue of Shares*

Within twenty-eight (28) days after receipt of the notice and, where appropriate, other necessary documentations, and subject to the accompanying remittance having been honored in full, the Company shall allot and issue the relevant Shares to the Grantee credited as fully paid and shall instruct the Share registrar to issue to the Grantee a share certificate in respect of the Shares so allotted and issued.

(iii) *Rights*

A Grantee shall not be entitled to vote, to receive dividends or to have any other rights, including those arising on the liquidation of the Company.

(iv) *Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Memorandum and the Bye-laws of the Company for the time being in force and will rank *pari passu* in all respects with the existing fully paid Shares in issue as from the date when the name of Grantee is registered on the register of members of the Company.

(I) *Lapse of Options*

An Option shall lapse automatically (to the extent not already Vested or in the case of an Option, to the extent not already exercised) on the earliest of:

- (i) in the case of an Option and subject to the terms of the Scheme, the expiry of the Option Period;
- (ii) the expiry of the periods referred to in paragraph (k);
- (iii) the expiry of the period referred to in paragraph (j)(v) provided that if any court of competent jurisdiction makes an order the effect of which is to prevent the offeror from acquiring the remaining Shares in the Offer, the relevant period within which Options may be exercised, shall not begin to run until the discharge of the order in question or unless the Offer lapses or is withdrawn before that date;
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (j)(vi);
- (v) where the Grantee is an employee or Director, the date on which the Grantee ceases to be a Participant by reason of the termination of his or her employment or directorship on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect being able to pay debts or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or any ground on which an employer would be entitled to terminate his or her employment summarily;
- (vi) the date of the commencement of the winding-up of the Company;
- (vii) the date on which the Grantee commits a breach of paragraph (i); and
- (viii) subject to paragraph (j)(ii) the date the Grantee ceases to be a Participant for any other reason.

(m) *Cancellation of Options*

Any Options granted but not exercised may be cancelled if the Grantee so agrees with or without new Options being granted to the Grantee provided that any new Options granted shall fall within the limits prescribed by the terms of this Scheme (excluding the cancelled Options), and are otherwise granted in accordance with the terms of this Scheme.

(n) *Maximum Number of Shares Available for Subscription*

(i) *Overriding Limit (the “Overriding Limit”)*

Subject to the Listing Rules, the overall limit on the number of Shares subject to Options from time to time under the Scheme and any other schemes must not, in aggregate, exceed 10 per cent of the Shares in issue from time to time. No Options may be granted under the Scheme or any other schemes if this will result in this overriding limit being exceeded.

(ii) *Mandate Limit (the “Mandate Limit”)*

Subject to the Overriding Limit and to paragraphs (o)(iii) and (o)(iv) below, the total number of Shares available for issue or transfer in satisfaction of all Options which may be granted under the Scheme and any other schemes of the Company must not, in aggregate, exceed 355,000,000 Shares, representing 10 per cent of the Shares in issue on the Listing Date and Shares which may be allotted and issued under the Over-allotment Option, subject to an annual cap, renewable by shareholders of the Company and Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen). Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the Mandate Limit.

(iii) *Refreshing of the Mandate Limit*

Subject to the Overriding Limit and to paragraph (n)(iv), the Company may refresh the Mandate Limit at any time subject to approval by the shareholders of the Company and Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen). However, the Mandate Limit as refreshed must not exceed 10 per cent of the Shares in issue at the date of the aforesaid Shareholders' approval (the “Refreshed Limit”) or such other limits imposed by the Stock Exchange. Options previously granted or to be granted under the Scheme and any other schemes of the Company (including those outstanding, canceled, exercised or lapsed in accordance with such schemes) will not be counted for the purpose of calculating the Refreshed Limit.

(iv) *Grant of Options Limit*

Subject to the Overriding Limit, the Company may also seek separate approval by the shareholders of the Company and Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen) for granting Options beyond the Mandate Limit provided that the Options in excess of the Mandate Limit are granted only to Participants specifically identified by the Company before such approval is sought.

(v) *Limit for each Participant*

The total number of Shares issued and to be issued upon exercise of Options granted and to be granted to each Grantee (including exercised and outstanding Options) in any twelve (12)-month period shall not exceed 1 per cent of the Shares in issue for the time being (the “Individual Limit”). Any further grant of Options in excess of the Individual Limit must be subject to approval by the shareholders of the Company and Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen) with such Participant and his, her or its associates abstaining from voting. The number and terms (including the Subscription Price (if relevant)) of the Options to be granted to such Participant must be fixed before the date of the relevant shareholders’ meeting.

(o) *Grant to substantial Shareholders and independent non-executive Director*

Where any Offer proposed to be made to a substantial Shareholder or an independent non-executive Director of the Company or any of his, her or its associates would result in the total number of Shares issued and to be issued to satisfy Options already granted and to be granted to such person in the twelve (12) month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1 per cent. of the Shares in issue at the date of such grant; and
- (ii) having an aggregate value, based on the closing price of the Shares at the Date of Grant, in excess of HK\$5 million,

then such Offer and any acceptance thereof must be subject to approval of the Shareholders taken on a poll.

(p) *Reorganization of Capital Structure*

- (i) In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company or otherwise howsoever, other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party, such corresponding alterations (if any) shall be made to:

- (a) the number of nominal amount of Shares subject to outstanding Options; and/or
- (b) the subscription price of each outstanding Option; and/or
- (c) the method of exercise of the Option, and/or
- (d) the Shares to which the Option relates

or any combination thereof as the Company's independent financial adviser or the Auditors shall certify in writing to the Board to be in their opinion to be fair and reasonable, provided that no such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value or which would change the proportion of the equity share capital for which any Grantee is entitled on Vesting of his Options and/or to subscribe pursuant to the Options held by him or her before such alteration.

- (ii) In respect of any such alterations, other than any made under a capitalization issue, the Company's independent financial adviser or the auditors shall also confirm to the Board in writing that such alterations satisfy the requirements of Rule 17.03(13) of the Listing Rules and the note thereto.
- (iii) The capacity of the Company's independent financial adviser or the Auditors in this paragraph (p) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees.

(q) *Alteration of the Scheme*

The Scheme may subject to the Listing Rules be altered in any respect by resolution of the Board except that those specific provisions of the Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of Participants and changes to the authority of the Board in relation to any alteration of the terms of this Scheme shall not be made, in either case, without the prior approval of shareholders of the Company and of Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen) and provided further that any alteration to the terms and conditions of the Scheme which are of a material nature or any change to the terms of Options granted must be approved by the shareholders of the Company and of Yue Yuen (if and for so long as the Company is a subsidiary of Yue Yuen) at a general meeting, except where such alterations take effect automatically under the existing terms of the Scheme. The Scheme so altered must comply with Chapter 17 of the Listing Rules, the supplemental guidance issued on September 5, 2005 by the Stock Exchange entitled “Supplemental Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the note immediately after the Rule” and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(r) *Termination*

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Scheme and in such event no further Options will be offered or granted and all offers of options then outstanding and not accepted shall ipso facto lapse but in all other respects the provisions of the Scheme shall remain in full force and effect. Options which are granted during the life of the Scheme and remain unexpired immediately prior to the termination of the operation of the Scheme shall remain valid in accordance with their terms of issue after the termination of the Scheme.

(s) *Present Status of the Scheme*

As at the date of this prospectus, no option has been granted or agreed to be granted pursuant to the Scheme.

2. Pre-IPO Share Subscription Plan

In addition to the Share Option Scheme, the Company has also in place the Pre-IPO Share Subscription Plan under which invitations have been made to Eligible Persons (as defined below) to invite them to subscribe for Shares at a discount of 30% to the Final Offer Price (as defined below) subject to fulfilment of the relevant vesting conditions. No invitation will be made after the date of this Prospectus. The Pre-IPO Share Subscription Plan shall terminate on the earlier of the lapse of the last invitation made and accepted or the subscription of all Shares under the last invitation made and accepted.

The following is a summary of the principal terms of the Pre-IPO Share Subscription Plan (the “Plan”) which was conditionally approved by resolution of the sole Shareholder on May 14, 2008 and approved by resolution of the shareholders of Yue Yuen on May 22, 2008 and conditionally adopted by resolution of the Board on May 14, 2008.

Definitions:

| | |
|----------------------|---|
| “Adoption Date” | means May 14, 2008, the date on which the Plan was conditionally adopted by resolution of the Board; |
| “Eligible Persons” | means any employee (whether full time or part time), executive or officer, of a Group Company or any Invested Entity and any consultant, adviser or agent of any Group Company or any Invested Entity, who, in the sole discretion of the Board, has contributed or may contribute to the growth and development of the Group or any Invested Entity; |
| “Invested Entity” | means any entity in which the Group holds an equity interest; |
| “Final Offer Price” | means the final price at which Shares are issued at Listing; |
| “Subscription Price” | means the price payable by an Eligible Person for a subscription of Shares pursuant to an invitation to subscribe under the Plan, determined in accordance with the terms of the Plan; |

(a) Purpose of the Plan

The purpose of the Plan is to recognize contributions of Eligible Persons, to seek to retain them for the continued operation and development of the Group and to attract suitable personnel for the further development of the Group.

(b) Duration and Administration

The Plan took effect from and including the Adoption Date. It is a one-off and close-end scheme.

The Plan is in all respects administered under the directions of the Board or a commission of the Board, including but not limited to matters relating to variation of terms of invitations made or cancellation thereof. The Board’s decision, in the absence of manifest error, shall be final and binding upon all parties. The Board (without the necessity of obtaining the prior or subsequent consent of Shareholders or of any Eligible Person or participant) may from time to time amend (including the power to revoke, add to or vary) all or any of the conditions as to vesting or exercise specified in any invitation before or at any time an invitation has been accepted and the provisions of the Plan rules in any respect whatsoever.

(c) Invitation to Eligible Persons

The Board, in its sole discretion, may make invitations to certain Eligible Persons (details of the Eligible Persons who have accepted the invitation are listed below) to participate in the Plan in accordance with the terms of the Plan, and determine the number of Shares to be subscribed for by reference to, amongst other things, their past or potential contributions to the growth and development of the Group.

When invitations are made and accepted, the relevant Eligible Persons must, after satisfaction or waiver of the vesting conditions in relation to service period, subscribe for the number of Shares (but not less) stated in the relevant invitation letter, at the Subscription Price which represents a discount of 30% to the Final Offer Price and shall not in any event be less than the par value of the Share.

Same discount has been offered to all selected Eligible Persons.

All invitations which the Company intended to make under the Plan have been made and accepted as at the date of this prospectus and no further invitation will be made. The following Directors and members of the senior management have accepted invitations to subscribe for Shares set out next to each of them representing a total of approximately 2.13% of the total issued share capital of the Company immediately after completion of the Global Offering, the Capitalization Issue and issuance of Shares to our Call Option JVs' partners and Share Swap JV's partner, assuming that the Over-allotment Option is not exercised:

| <u>Name</u> | <u>Title/Position</u> | <u>Number of Shares accepted to subscribe</u> | <u>Percentage of total issued share capital of the Company (%)</u> |
|-----------------------|-----------------------|---|--|
| Lee Chung Wen | Executive Director | 18,638,000 | 0.525 |
| Huang Chun Hua. . . . | Executive Director | 12,425,000 | 0.350 |
| Chang Karen Yi-Fen . | Executive Director | 14,910,000 | 0.420 |
| Lu Ning | General Manager | 15,975,000 | 0.450 |
| Ku Wen Hao | General Manager | 13,668,000 | 0.385 |

In addition, there are a total of six other employees of the Group who have been extended invitations and accepted to subscribe for a total of 48,636,000 Shares representing approximately 1.37% of the total issued share capital of the Company immediately after completion of the Global Offering, the Capitalization Issue and issuance of Shares to joint venture partners, assuming that the Over-allotment Option is not exercised.

| <u>Name</u> | <u>Title/Position</u> | <u>Number of Shares accepted to subscribe</u> | <u>Percentage of total issued share capital of the Company (%)</u> |
|-------------------------|---|---|--|
| Luke Chu | Investor Relations Manager and Investment Associate director | 5,325,000 | 0.150 |
| Phil Yang | Head of Internal Audit | 8,875,000 | 0.250 |
| Hu Jia He | Special Assistant to Chairman and Non- executive Directors | 13,135,000 | 0.370 |
| Judy Shih | Special Assistant to chief executive officer | 6,213,000 | 0.175 |
| George Zhang | Head of Retail South Region Management Team | 9,763,000 | 0.275 |
| Chen Jian Zhi | Head of information technology | 5,325,000 | 0.150 |

No further invitations will be made under the Plan save as disclosed in this Prospectus.

As at the date of this prospectus, invitations under the Pre-IPO Share Subscription Plan involving a total of 75,616,000 Shares have been made to three Directors and two directors of subsidiaries of the Company (Mr. Lu Ning and Mr. Ku Wen Hao) who are connected persons of the Company representing approximately 2.13% of the total issued share capital of the Company immediately after completion of the Global Offering, the Capitalization Issue and issuance of Shares to our Call Option JVs' partners and Share Swap JV's partner, assuming that the Over-allotment Option is not exercised. The subscription of Shares by the Directors and connected persons of the Company after the relevant vesting conditions are fulfilled would therefore constitute connected transactions of the Company requiring announcement, reporting and independent shareholders' approval were the Company listed at the relevant time. Given that such invitations have been approved by the shareholders of

our controlling shareholder, Yue Yuen, in a special general meeting in which, amongst other matters, the Spin-off was approved, there will not be re-compliance with the announcement, reporting and independent shareholders requirements.

(d) *Listing of the Shares*

If the Board resolves that Listing shall not proceed, no Shares shall be issued under the Plan and any subscription monies paid shall forthwith be returned to the participant that paid them.

(e) *Plan limit*

The overall limit on the number of Shares which may be issued to any Eligible Person under the Plan shall not exceed 124,252,000 Shares, being approximately 3.5 percent of the total issued share capital of the Company immediately after the completion of the Global Offering, the Capitalization Issue and issue of Shares to our Call Option JVs' partners and Share Swap JV's partner, but taking no account of any Shares which may be issued pursuant to an exercise of the Over-allotment Option.

The Shares will be issued under the authority granted by the sole shareholder of the Company on May 14, 2008. Assuming all the Eligible Persons subscribe for their entitlement after the fulfilment or waiver of the vesting conditions, a total of 124,252,000 Shares will be issued representing approximately 3.5% of the total issued share capital of the Company immediately after the completion of the Global Offering, the Capitalization Issue and issue of Shares to our Call Option JVs' partners and Share Swap JV's partner, but taking no account of any Shares which may be issued pursuant to an exercise of the Over-allotment Option.

Similar to share option schemes, the invitations made under the Pre-IPO Share Subscription Plan are treated as "share based payments" for the purpose of the Hong Kong Financial Reporting Standards. The relevant invitations made will be recognised as expense items in the financial statements of the Company over the vesting period. Once a subscription of Shares is made under an invitation, the fair value of the Shares will be credited towards the share premium account of the Company. If an invitation lapses, the amount of the previously recognised expenses will be credited towards the retained profits of the Company.

(f) *Vesting conditions and time of subscription*

After accepting an invitation to subscribe under the Plan, the Eligible Person is obliged to subscribe for such number of Shares in respect of which he or she has accepted an invitation to subscribe after satisfaction or waiver of the vesting conditions in relation to service period. In particular, a portion of the invitations (representing approximately 2% of the total issued share capital of the Company immediately after the completion of the Global Offering, Capitalization Issue and issue of Shares to our Call Option JVs' partners and Share Swap JV's partner, but taking no account of any Shares which may be issued pursuant to an exercise of the Over-allotment Option) impose a condition of a vesting period of five years with the first vesting beginning

from the first anniversary date of the relevant invitation and one-fifth of the Shares under the relevant invitation vesting annually. The remaining portion (representing approximately 1.5% of the total issued share capital of the Company immediately after the completion of the Global Offering, Capitalization issue and issue of Shares to our Call Option JVs' partners and Share Swap JV's partner, but taking no account of any Shares which may be issued pursuant to an exercise of the Over-allotment Option) of the invitations impose a vesting period of ten years with the first vesting beginning from the first anniversary date of the relevant invitation and one-tenth of the Shares under the relevant invitation vesting annually. The Eligible Person must subscribe for his respective number of Shares within the period specified in the invitation.

If the specified conditions were not satisfied or waived, the relevant Eligible Person would not qualify to subscribe for the Shares even though he or she may have had accepted the relevant invitation.

No subscription monies has been paid by the Eligible Persons as at the Latest Practicable Date. The amount of subscription monies to be paid by each Eligible Persons at the time of subscription shall be equal to the product of the number of Shares issued to the Eligible Person under the Plan and the Subscription Price.

No shares will be issued prior to listing or within six months after listing.

(g) *Termination*

No invitations will be made except as disclosed in this prospectus. The Plan is therefore in essence closed after Listing but for the purpose of administration of invitations already made, it will continue to operate and will terminate on the earlier of the date on which all Shares under the last accepted invitation are subscribed for or the lapse of the last accepted invitation. Before that, the Board may suspend or terminate the Plan at any time. The Company shall not make any further invitations under the Plan during the suspended or terminated period, but shall otherwise continue to administer the Plan in accordance with the terms of the Plan.

F. OTHER INFORMATION

1. Tax and other indemnities

We have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in Hong Kong, Bermuda or the PRC.

Under a deed of indemnity, each of Yue Yuen, Jollyard, Sports Group and Mr. Huang (the "Indemnifiers") has, conditional on the fulfilment of the conditions to the Global Offering, given indemnities, on a joint and several basis, to our Group in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the conditions to the Global Offering are fulfilled ("Effective Date").

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group up to September 30, 2007 for the three months ended December 31, 2007, for those members that have a financial year end of September 30, and for the years ended December 31, 2007, for all other members;
- (b) to the extent that such taxation arises as a result of any retrospective change in the law or the interpretation or practice thereof by any relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the Effective Date or to the extent such taxation arises or is increased by an increases in rates of taxation with retrospective effect;
- (c) to the extent of any provision or reserve made for taxation in the relevant accounts which is an over-provision or an excessive reserve in which case the Indemnifiers' liability shall be reduced accordingly;
- (d) relating to Hong Kong profits tax falling on any Group Member in respect of any transaction after the Effective Date unless that liability would not have arisen but for some act or omission of, or transaction entered into by, any Group Member otherwise than in the course of normal day to day operations on or before the Effective Date;

In addition, the Indemnifiers have also agreed in the Deed of Indemnity to provide indemnities on a joint and several basis in connection with:

- (a) any losses, damages, liabilities, costs or expenses suffered or incurred by any member of the Group whereby any member of the Group is prohibited from using or occupying or being evicted from any one or more of the properties currently leased and/or occupied by any member of the Group in the PRC whether by the landlord or any third party whosoever (including without limitation any government authorities or other competent authorities in the PRC) on the grounds that the relevant lease is invalid or unenforceable or has been breached (other than a breach occurred on or prior to the date on which the Global Offering becomes unconditional as a result of any action or inaction of any member of the Group) or the relevant landlord has not obtained the requisite licences, permits and/or title certificates or any requisite procedure (including but not limited to registration or filing with the relevant government authorities in the PRC) has not been completed; and
- (b) any relocation costs and expenses, operating and business losses, liabilities and damages suffered or incurred by any member of the Group as a result of or in connection with, whether directly or indirectly, the events referred to in (a) above.

2. Litigation

Save as disclosed in this prospectus, no member of our Group is engaged in any material litigation, arbitration, claim of material importance or administrative proceedings. So far as our Directors are aware, no such litigation, arbitration or administrative proceedings are pending or threatened or against us, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary expenses

The estimated preliminary expenses are approximately HK\$50,000 and are payable by our Company.

4. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Offer Shares (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option) any Shares which may be issued to our Call Option JVs' partners and Share Swap JV's partner, any Shares which may be issued under the Pre-IPO Share Subscription Plan and any Shares which may be issued pursuant to the exercise of options to be granted, or to satisfy the grant of share options, under the Share Option Scheme (up to 10% of the Shares in issue on the Listing Date (without taking into account the Shares that may be issued upon the exercise of the Over-allotment Option)).

5. No material adverse change

Save as disclosed in this prospectus, the Directors confirm that there has been no material adverse change in the Group's financial or trading position or prospects since December 31, 2007 (being the date on which the latest audited combined financial statements of the Group was made up).

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) neither we nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) none of our equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
 - (v) we have no convertible debt securities or debentures outstanding;
 - (vi) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages fee or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (vii) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company or any of our subsidiaries.
- (b) All necessary arrangements have been made enabling the Shares to be admitted into CCASS.
- (c) Save as disclosed in the accountants report in Appendix I to this prospectus, we have no material mortgage or charge.
- (d) Our promoter is Major Focus. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid, allotted or given or are proposed to be paid, allotted or given to the promoter named above in connection with the Global Offering and the related transactions described in this prospectus.

8. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

| <u>Name of Expert</u> | <u>Qualification</u> |
|--|--|
| Merrill Lynch Far East Limited | Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance |
| Morgan Stanley Asia Limited | Licensed to conduct Type 1 (dealing in securities), Type 4 (advising in securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance |
| Frost & Sullivan | Market consultant |
| Savills Valuation and Professional Services Limited. | Property valuers |
| Deloitte Touche Tohmatsu | Certified public accountants |
| Conyers Dill & Pearman. | Bermuda Attorneys-at-law |
| Commerce & Finance Law Offices. | Registered law firm in the PRC |

9. Consents

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates (as the case may be) and/or the references to its name included herein in the form and context in which they are respectively included.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the Application Forms;
- (b) the written consents referred to in Appendix VIII to this prospectus; and
- (c) copies of the material contracts referred to in Appendix VIII to this prospectus and their certified English translations (where appropriate).

The documents attached to this prospectus and delivered to the Registrar of Companies in Bermuda for filing were copies of the Application Forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler in association with Reed Smith LLP at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Bye-laws;
- (b) the accountants' report, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (e) the audited financial statements of the companies comprising our Company and our subsidiaries for the three years ended September 30, 2005, 2006 and 2007, where applicable;
- (f) the letter and valuation certificate relating to our property interests prepared by Savills Valuation and Professional Services Limited, the texts of which are set out in Appendix IV to this prospectus and the full valuation report (in the English language) of Savills Valuation and Professional Services Limited referred to in Appendix IV to this prospectus;
- (g) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Bermuda company law referred to in Appendix VII to this prospectus;
- (h) the Bermuda Companies Act;
- (i) the PRC legal opinions issued by Commerce & Finance Law Offices;
- (j) the rules of our Pre-IPO Share Subscription Plan and Share Option Scheme;
- (k) the material contracts referred to in Appendix VIII to this prospectus;

- (l) the analysis conducted by Frost & Sullivan referred to in the section headed “Industry Overview” in this prospectus;
- (m) the written consents referred to in the section headed “Consents” in Appendix VIII to this prospectus; and
- (n) the service agreements referred to in Appendix VIII to this prospectus.

