



CHINA SPORTS INTERNATIONAL LIMITED

PROSPECTUS DATED 9 JULY 2007

(registered by the Monetary Authority of Singapore on 9 July 2007)

This document is important. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax or other professional adviser.

We have made an application to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in and for quotation of the ordinary shares of HK\$0.08 each (the "Shares") in the capital of China Sports International Limited (the "Company") already issued and the new Shares which are the subject of the Invitation (the "New Shares"). Such permission will be granted when we have been admitted to the Official List of the SGX-ST. The dealing in and quotation of the Shares will be in Singapore dollars.

Acceptance of applications will be conditional upon permission being granted to deal in, and for quotation of, all of the existing issued Shares and the New Shares. If the completion of the Invitation does not occur because the SGX-ST's permission is not granted or for any other reasons, monies paid in respect of any application accepted will be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claims whatsoever against us, the Manager, the Underwriter or the Placement Agent.

The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company and our subsidiaries, our Shares and the New Shares.

A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore (the "Authority"). The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act (Chapter 289) of Singapore, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the Shares being offered for investment.

The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. A copy of this Prospectus will be filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority in granting such permission and the Registrar of Companies in Bermuda in accepting this Prospectus for filing accept no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed in this Prospectus or any other documents.

Investing in our Shares involves risks which are described in the section "Risk Factors" in this Prospectus. No Shares will be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.

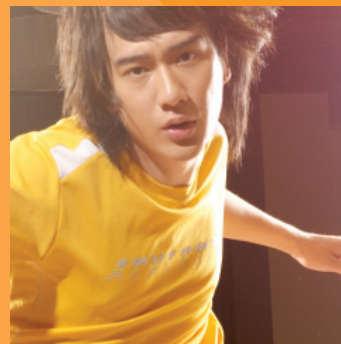
CHINA SPORTS INTERNATIONAL LIMITED

(Incorporated in Bermuda on 27 March 2007)

(Company Registration No: 39798)

Invitation in respect of 100,000,000 New Shares of HK\$0.08 each as follows:

- (i) 3,000,000 Offer Shares at S\$0.80 for each Offer Share by way of public offer; and
 - (ii) 97,000,000 Placement Shares at S\$0.80 for each Placement Share by way of placement,
- payable in full on application.



Manager, Underwriter and Placement Agent



STIRLING COLEMAN

施霖高诚

www.stirlingcoleman.com

Sub-Underwriter and Sub-Placement Agent

UOB Kay Hian



Our Business

We are principally engaged in the design, manufacture and sale of sports fashion footwear and the design and sale of sports fashion apparel under our own YELI brand. In addition, we also produce shoes for our OEM customers under international labels such as "Kappa".

Our YELI Products

Our YELI products include sports fashion footwear and apparel

- Target youths aged between 12 to 30 years old
- Designed to be trendy and fashionable to cater to the active and youthful lifestyle of our target end-consumers
- High quality and value for money
- Awarded "Fujian Province Famous Brand" in December 2006
- 20 distributors with retail network comprising more than 1,500 sales outlets within the PRC
- Exported to Europe (Spain, Italy and Greece), the Middle East (the United Arab Emirates and Israel), South America (Brazil, Panama and Argentina), Asia (Japan and South Korea) and South Africa

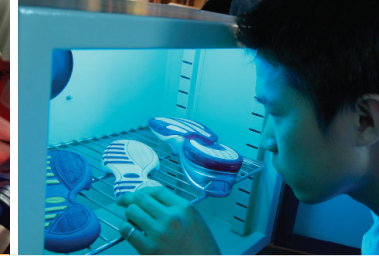
Our YELI Footwear

- Broad range of styles, colours and fabrics
- Broad selection of footwear to respond to changing fashion trends and consumer preferences
- Encompasses specific performance footwear for basketball, running and hiking, and casual footwear suitable for leisure activities
- Introduce over 100 new footwear designs for every new season's launch, with two to three such launches annually

Our YELI Apparel

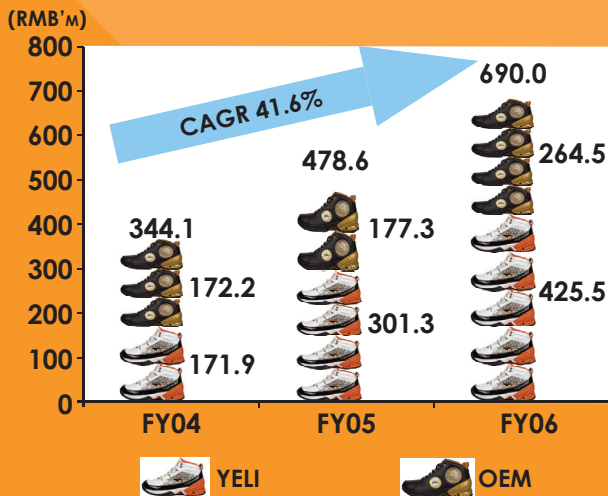
- Commenced sale of sports apparel in November 2006
- Broad range of designs to complement our existing footwear range



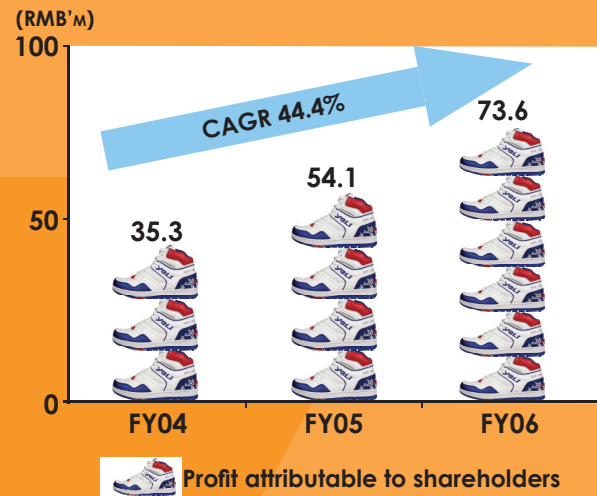


Financial Highlights

Revenue



Profit attributable to shareholders



Competitive Strengths

Focused approach and strategy towards our sale of YELI products

- Three-pronged strategy of high product quality, expanding at low cost and brand building

Our YELI products have a large target market in PRC

- Targets consumers aged between 12 to 30 years old which accounts for 29.8% of PRC's total population in 2006

Strong product design and development team

- Dedicated and experienced team
- Consistently produced and sold products which are accepted by the market
- Extensive market research to understand market and fashion trends and develop products that satisfy such market demand

Established market presence and recognition of our YELI brand

- Our products are well recognised as "value-for-money" and quality sports fashion products
- YELI was awarded "Fujian Province Famous Brand" in December 2006

Wide sales geographical footprint in PRC

- 20 distributors with sales network comprising more than 1,500 sales outlets within PRC

Strategic location

- Strategically located in Jinjiang City, Fujian Province which is renowned as one of the world's largest sports shoe manufacturing base
- Access to large pool of raw material suppliers and contract manufacturers

Strong management team

- Experienced management which is goal-oriented and focused on execution of Group strategies
- Capable and sensitive to market changes



Strategy and Future Plans

Acquire or lease manufacturing premises, purchase additional machinery and equipment or upgrade our existing facilities to increase our production capacity and production efficiency to meet the expected increase in sales

Strengthen our YELI brand through increase in advertising and promotion activities

Expand distribution network and add visibility to our YELI products by opening YELI specialty stores

Increase product design and development efforts and purchase of technology and know-how for future products. We also intend to further develop our range of Thermal Shoes for different "vertical" market segments

Prospects

Rising affluence of PRC market

- The PRC's sporting goods market is estimated to have reached US\$8.7 billion in 2006 and to hit a high of US\$11.8 billion by 2010
- It is predicted that by 2010, PRC will become the world's largest market for sporting goods

Growth in demand for sports fashion wear in PRC

- Demand for sports fashion wear will be boosted by the Beijing Olympic Games in 2008 and the Guangzhou Asian Games in 2010
- Sportswear will no longer be restricted to sporting activities but become fashion wear to be seen in

Potential Market for our Thermal Shoes

- Further develop our range of Thermal Shoes for different "vertical" market segments, such as the uniformed groups (eg. military and police), the construction segment and the children segment

Sales to OEM customers

- Continue to maintain strong relationships with our OEM customers with international markets to hedge against our PRC market exposure and also to keep abreast of the latest developments and know-how of international brands

TABLE OF CONTENTS

CORPORATE INFORMATION	4
DEFINITIONS	6
GLOSSARY OF TECHNICAL TERMS	12
PROSPECTUS SUMMARY	14
THE INVITATION	18
DETAILS OF THE INVITATION	19
LISTING ON THE SGX-ST	19
INDICATIVE TIMETABLE FOR LISTING	22
RISK FACTORS	23
RISKS RELATING TO OUR BUSINESS AND INDUSTRY	23
RISKS RELATING TO THE PRC	27
RISKS RELATING TO OUR COMPANY BEING INCORPORATED IN BERMUDA	29
RISKS RELATING TO INVESTMENT IN OUR SHARES	29
INDUSTRY OVERVIEW	31
FINANCIAL INFORMATION	34
EXCHANGE RATES	34
SELECTED FINANCIAL INFORMATION	35
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	37
REVIEW OF FINANCIAL POSITIONS	44
LIQUIDITY AND CAPITAL RESOURCES	45
FOREIGN EXCHANGE EXPOSURE	47
CAPITAL EXPENDITURES, DIVESTMENTS AND COMMITMENTS	48
CHANGES IN ACCOUNTING POLICIES	48
DIVIDEND POLICY	49
EXCHANGE CONTROL	50
CAPITALISATION AND INDEBTEDNESS	52
USE OF PROCEEDS AND EXPENSES OF THE INVITATION	53
INFORMATION ON THE OFFERING	55
MANAGEMENT AND UNDERWRITING AND PLACEMENT ARRANGEMENTS	55
PLAN OF DISTRIBUTION	56
INVITATION STATISTICS	57
DILUTION	59
SHARE CAPITAL	60
SHAREHOLDERS	63
MORATORIUM	65

RESTRUCTURING EXERCISE	66
GROUP STRUCTURE	67
GENERAL INFORMATION ON OUR GROUP.....	68
HISTORY	68
BUSINESS OVERVIEW	70
PRODUCTION PROCESS	72
MANUFACTURING FACILITIES AND UTILISATION	74
QUALITY ASSURANCE	74
SALES AND MARKETING	75
PRODUCT DESIGN AND DEVELOPMENT	76
STAFF TRAINING POLICY.....	76
TRADE MARKS/PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS	77
MAJOR SUPPLIERS	78
MAJOR CUSTOMERS	80
CREDIT MANAGEMENT	81
INVENTORY MANAGEMENT.....	83
COMPETITION	84
COMPETITIVE STRENGTHS	84
PROPERTIES AND FIXED ASSETS	85
GOVERNMENT REGULATIONS	86
INSURANCE.....	87
ORDER BOOKS	87
PROSPECTS	87
TREND INFORMATION	88
STRATEGY AND FUTURE PLANS	88
DIRECTORS, MANAGEMENT AND STAFF	90
MANAGEMENT REPORTING STRUCTURE.....	90
DIRECTORS	90
EXECUTIVE OFFICERS	93
REMUNERATION	95
EMPLOYEES	95
SERVICE AGREEMENTS	96
INTERESTED PERSON TRANSACTIONS	97
PAST INTERESTED PERSON TRANSACTIONS	97
PRESENT ON-GOING INTERESTED PERSON TRANSACTIONS	98
POTENTIAL CONFLICTS OF INTEREST	98
REVIEW PROCEDURES FOR FUTURE INTERESTED PERSON TRANSACTIONS	98
CORPORATE GOVERNANCE.....	100

OTHER MATTERS	102
SELLING RESTRICTIONS	102
SELLING RESTRICTIONS IN THE PRC	102
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	103
PURCHASE BY OUR COMPANY OF OUR OWN SHARES.....	104
ATTENDANCE AT GENERAL MEETINGS	105
TAKE-OVERS	106
ENFORCEMENT OF CIVIL LIABILITIES	107
CLEARANCE AND SETTLEMENT	108
GENERAL AND STATUTORY INFORMATION	109
APPENDIX A : AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006.....	A-1
APPENDIX B : UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006	B-1
APPENDIX C : SUMMARY OF MEMORANDUM OF ASSOCIATION AND SELECTED BYE-LAWS OF THE COMPANY	C-1
APPENDIX D : SUMMARY OF BERMUDA COMPANY LAW	D-1
APPENDIX E : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS.....	E-1
APPENDIX F : TAXATION	F-1
APPENDIX G : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE	G-1

CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Lin Shaoxiong (林少雄) (Chairman, Executive Director and CEO) Lin Shaoqin (林少钦) (Executive Director) Lin Yongjian (林永建) (Non-executive Director) Lai Chin Yee (Lead Independent Director) Tham Hock Chee (Independent Director) Sam Kok Yin (Independent Director)
COMPANY SECRETARIES	:	Ira Stuart Outerbridge III, FCIS* Nicole Tan Siew Ping (LLB, Hons) Long Hsueh Ching (LLB, Hons)
REGISTERED OFFICE	:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	:	Dingxing Industrial Zone Yangdai, Jinjiang City Fujian Province The People's Republic of China 862218 (中国福建省晋江洋埭定兴工业区)
REGISTRAR FOR THE INVITATION AND SINGAPORE SHARE TRANSFER AGENT	:	B.A.C.S. Private Limited 63 Cantonment Road Singapore 089758
BERMUDA SHARE REGISTRAR	:	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
MANAGER, UNDERWRITER AND PLACEMENT AGENT	:	Stirling Coleman Capital Limited 4 Shenton Way #07-03 SGX Centre 2 Singapore 068807
SOLICITORS TO THE INVITATION	:	Rajah & Tann 4 Battery Road #26-01 Bank of China Building Singapore 049908
SOLICITORS TO THE MANAGER, UNDERWRITER AND PLACEMENT AGENT	:	KhattarWong 80 Raffles Place #25-01 UOB Plaza 1 Singapore 048624
LEGAL ADVISERS TO THE COMPANY ON PRC LAW	:	GFE Law Office 18th Floor, Guangdong Holdings Tower No. 555 Dongfeng East Road Guangzhou The People's Republic of China

* Ira Stuart Outerbridge III will resign as joint company secretary and be appointed assistant company secretary upon the listing of our Shares on the SGX-ST.

LEGAL ADVISERS TO THE COMPANY ON BERMUDA LAW	:	Conyers Dill and Pearman 50 Raffles Place #18-04 Singapore Land Tower Singapore 048623
AUDITORS AND REPORTING ACCOUNTANTS	:	Foo Kon Tan Grant Thornton 47 Hill Street #05-01 Singapore Chinese Chamber of Commerce & Industry Building Singapore 179365 Partner-in-charge: Wong Kian Kok
RECEIVING BANK	:	The Bank of East Asia Limited 137 Market Street Bank of East Asia Building Singapore 048943
PRINCIPAL BANKERS	:	China CITIC Bank, Quanzhou Branch Level 1-2 The People's Bank of China Building Fengze Street Quanzhou City Fujian Province The People's Republic of China (中国福建省泉州市丰泽街人民银行大厦1-2层) Industrial Bank Co., Ltd., Quanzhou Plaza Branch Fengze Street Quanzhou City Fujian Province The People's Republic of China (中国福建省泉州丰泽街建设大厦一层内)

DEFINITIONS

In this Prospectus and the accompanying Application Forms and, in relation to Electronic Applications, the instructions appearing on the screens of ATMs and IB websites of the relevant Participating Banks, the following definitions apply where the context so admits:

Our Group Companies

“Company” or “China Sports”	: China Sports International Limited, a company incorporated in Bermuda as an exempted company with limited liability
“Hengfa Light Industry”	: Hengfa (Fujian) Light Industry Development Co., Ltd. (恒发(福建)轻工业发展有限公司), a wholly foreign-owned enterprise established in the PRC
“Group”	: Our Company, Themeway (HK) and our PRC subsidiaries, Hengfa Light Industry and Quanzhou YELI
“Quanzhou YELI”	: Quanzhou YELI Sport Things Co., Ltd. (泉州市野力体育用品有限公司), a wholly foreign-owned enterprise established in the PRC
“Themeway (HK)”	: Theme Way Limited (香港理进有限公司), a company incorporated in Hong Kong

Other Corporations and Agencies

“Authority”	: The Monetary Authority of Singapore
“CDP”	: The Central Depository (Pte) Limited
“Converging Knowledge”	: Converging Knowledge Pte. Ltd.
“CPF”	: The Central Provident Fund
“Depository Agent”	: An entity registered as a depository agent with CDP for the purpose of maintaining a securities account
“ISO”	: International Organisation for Standardisation, a worldwide federation of national standards bodies
“Manager” or “Placement Agent” or “Underwriter” or “Placement Agent and Underwriter” or “Stirling Coleman”	: Stirling Coleman Capital Limited
“Nolasco (Philippines)”	: L. Nolasco Import/Export Company, a company incorporated in the Philippines
“Participating Banks”	: United Overseas Bank Limited and its subsidiary, Far Eastern Bank Limited (the “UOB Group”), DBS Bank Ltd (including POSB) (“DBS”) and Oversea-Chinese Banking Corporation Limited (“OCBC”)
“SAFE”	: State Administration of Foreign Exchange of the PRC
“SCCS”	: Securities Clearing & Computer Services (Pte) Ltd of Singapore
“SGX-ST”	: Singapore Exchange Securities Trading Limited

General

- “Application Forms” : The printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
- “Application List” : The list of applications for subscription of the New Shares
- “associates” : (a) in relation to an entity, means:
- (i) in a case where the entity is a substantial shareholder, controlling shareholder, substantial interest-holder or controlling interest-holder, its related corporation, related entity, associated company or associated entity; or
 - (ii) in any other case, (A) a director or an equivalent person, (B) where the entity is a corporation, a controlling shareholder of the entity, (C) where the entity is not a corporation, a controlling interest-holder of the entity, (D) a subsidiary, a subsidiary entity, an associated company, or an associated entity, or (E) a subsidiary, a subsidiary entity, an associated company, or an associated entity, of the controlling shareholder or controlling interest-holder, as the case may be, of the entity; and
- (b) in relation to an individual, means:
- (i) his immediate family;
 - (ii) a trustee of any trust of which the individual or any member of the individual's immediate family is (A) a beneficiary or, (B) where the trust is a discretionary trust, a discretionary object, when the trustee acts in that capacity; or
 - (iii) any corporation in which he and his immediate family (whether directly or indirectly) have interests in voting shares of an aggregate of not less than 30% of the total votes attached to all voting shares.

The terms “associated company”, “associated entity”, “controlling interest-holder”, “related corporation”, “related entity”, “subsidiary”, “subsidiary entity” and “substantial interest-holder” shall have the same meanings ascribed to them respectively in the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005

- “ATM” : Automated teller machine
- “Audit Committee” : The audit committee of our Company
- “Bermuda Companies Act” : The Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time
- “Board” : Board of Directors of our Company

“business trust”	: Has the same meaning as in section 2 of the Business Trusts Act 2004 (Chapter 31A) of Singapore
“Bye-laws”	: Bye-laws of our Company, as amended, supplemented or modified from time to time
“CEO”	: Chief Executive Officer
“Companies Act”	: The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Controlling Shareholder”	: In relation to a corporation, means: <ul style="list-style-type: none"> (a) a person who has an interest in the voting shares of a corporation and who exercises control over the corporation; or (b) a person who has an interest (whether directly or indirectly) of 15% or more of the aggregate of all the voting shares in a corporation, unless he does not exercise control over the corporation
“Directors”	: The directors of our Company as at the date of this Prospectus
“Electronic Applications”	: Applications for the Offer Shares made through an ATM or the IB website of one of the relevant Participating Banks in accordance with the terms and conditions of this Prospectus
“entity”	: Has the same meaning as in Section 2 of the Securities and Futures Act (Chapter 289) of Singapore
“EPS”	: Earnings per share
“Executive Directors”	: The executive Directors of our Company
“Executive Officers”	: The executive officers of our Company as at the date of this Prospectus
“FY”	: Financial year ended or, as the case may be, ending 31 December
“GDP”	: Gross Domestic Product
“GST”	: Singapore Goods and Services Tax
“Hong Kong”	: The Hong Kong Special Administrative Region of the PRC
“IB”	: Internet Banking
“immediate family”	: Immediate family in relation to a person, means the person’s spouse, child, adopted child, step-child, sibling and parent
“Independent Directors”	: The independent Directors of our Company
“Invitation”	: The invitation by our Company to the public to subscribe for the New Shares, subject to and on the terms and conditions of this Prospectus

“Issue Price”	: S\$0.80 for each New Share
“Latest Practicable Date”	: 31 May 2007, being the latest practicable date prior to the lodgement of this Prospectus with the MAS
“Listing Manual”	: Listing Manual of the SGX-ST
“Macao”	: The Macao Special Administrative Region of the PRC
“Market Day”	: A day on which the SGX-ST is open for trading in securities
“NAV”	: Net asset value
“New Shares”	: The 100,000,000 new Shares for which our Company invites applications to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus
“Nominating Committee”	: The nominating committee of our Company
“Non-executive Directors”	: Non-executive Directors (including Independent Directors)
“NTA”	: Net tangible assets
“Offer”	: The offer by our Company of the New Shares to the public in Singapore for subscription at the Issue Price, subject to and on the terms and conditions of this Prospectus
“Offer Shares”	: 3,000,000 of the New Shares which are the subject of the Offer
“PAT”	: Profit after taxation
“PBT”	: Profit before taxation
“PER”	: Price earnings ratio
“Placement”	: The placement by the Placement Agent on behalf of our Company of the Placement Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus
“Placement Shares”	: 97,000,000 of the New Shares which are the subject of the Placement
“PRC” or “China”	: The People’s Republic of China, excluding Macao and Hong Kong for the purpose of this Prospectus and for geographical reference only
“Pre-IPO Investors”	: Rudolf Rolles, See Lop Fu James, Aw Cheok Huat, Goh Soo Siah, Cheong Shiang Kiat, Chau-Chan Sui Yung, Goh Bee Lan, Lin Yucheng, Tan Choon Kiat, Pang Tuck Wing, Wong Tat Hei, Chan Kwok Weng, Chong Li Pin and Ong Chee Khoon
“Remuneration Committee”	: The remuneration committee of our Company
“Restructuring Exercise”	: The corporate restructuring exercise undertaken in connection with the Invitation, as described in the section “ <i>Restructuring Exercise</i> ” in this Prospectus

“Securities Account”	:	The securities account maintained by a Depositor with CDP
“Securities and Futures Act”	:	The Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“Shareholders”	:	Registered holders of Shares
“Shares”	:	Ordinary shares of HK\$0.08 each in the capital of our Company
“Singapore Take-over and Merger Laws and Regulations”	:	Sections 138, 139 and 140 of the Securities and Futures Act and the Singapore Code on Take-overs and Mergers
“State” or “PRC Government”	:	The Central Government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities)
“Substantial Shareholder”	:	A person who has an interest in voting shares of a company the nominal amount of which is not less than 5% of the aggregate of nominal amount of all the voting shares in the company

Currencies, Units and Others

“HK\$” and “HK cents”	:	Hong Kong dollars and cents respectively
“RMB” and “RMB cents”	:	Renminbi and Renminbi cents respectively
“\$” or “S\$” and “cents”	:	Singapore dollars and cents respectively
“US\$”	:	United States dollars
“m”	:	Metre(s)
“sq ft”	:	Square feet
“sq m”	:	Square metre(s)
“%” or “per cent.”	:	Per centum

Any reference in this Prospectus and the Application Forms and Electronic Applications to any statute or enactment is a reference to that statute or enactment for the time being amended or re-enacted. Unless expressly provided in this Prospectus, any word defined under the Companies Act, the Securities and Futures Act, the Bermuda Companies Act or any statutory modification thereof and used in this Prospectus and the Application Forms and Electronic Applications shall have the meaning assigned to it under the Companies Act, the Securities and Futures Act, the Bermuda Companies Act or such statutory modification, as the case may be.

Any reference in this Prospectus and the Application Forms and Electronic Applications to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

Any reference to a time of day in this Prospectus and the Application Forms and Electronic Applications is a reference to Singapore time unless otherwise stated.

The expressions “we”, “us”, “our”, “ourselves”, or other grammatical variations thereof shall, unless otherwise stated, mean our Company and our subsidiaries.

The terms “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any discrepancies between the amounts listed and the totals thereof in tables included herein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of investors. The English names may not have been registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters.

Market and Industry

Market data and certain industry forecasts used throughout this Prospectus, in particular in the section “Industry Overview” are principally extracted from an industry report titled “*Customer Report Sportswear/China*” dated 15 February 2007 prepared by Converging Knowledge, a company principally engaged in the business of the provision of corporate intelligence and whose address is at 43B and C, Tras Street, Singapore 078982, for Stirling Coleman Capital Limited on behalf of our Company for the purpose of incorporation in this Prospectus. The said report was based on a combination of primary and desktop (published resources) research. Primary research involves interviews tapping on the knowledge, experience and opinions of relevant companies and industry associations and desktop research includes, but not limited to, a review of (i) local newspapers and news wires/agencies, (ii) leading industry and trade publications, (iii) official statistics, and (iv) websites of companies. While our Directors have taken reasonable action to ensure that statements from the report have been reproduced in their proper form and context, and that such statements have been extracted accurately and fairly from the report, none of the Manager, Underwriter and Placement Agent, or our Company or any other party, and their and our respective officers, agents and employees have conducted an independent review of the contents in such statements and have not verified the accuracy of the contents.

In addition, certain market data and certain industry forecasts used throughout this Prospectus have also been extracted from the report by Euromonitor International titled “*Disposable Paper Products – China*” dated January 2006 which was not issued for the purpose of incorporation in this Prospectus. Euromonitor International has not consented to the inclusion of such statements extracted from the report for the purposes of Section 249 of the Securities and Futures Act and is thereby not liable for such statements under Sections 253 and 254 of the Securities and Futures Act. Our Directors are not aware of any disclaimer made by Euromonitor International in relation to the reliance on the contents of the statement. While our Directors have taken reasonable actions to ensure that such statements have been reproduced in their proper form and context, and that such statements have been extracted accurately and fairly from the report, none of the Manager, Underwriter and Placement Agent, or our Company or any other party, and their and our respective officers, agents and employees have conducted an independent review of the contents in such statements and have not verified the accuracy of the contents.

GLOSSARY OF TECHNICAL TERMS

To facilitate better understanding of the business of our Group, the following glossary contains an explanation and description of certain terms used in this Prospectus in connection with our Group. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms.

“distributors”	: Distributors who have entered into distributorship agreements with our Group whereby such distributors will purchase our products in bulk for sale to retailers
“export sales” or “exports”	: Means the sales of our products to exporters intended for resale to overseas markets
“First Production Facility”	: Our first production facility at Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, PRC
“insole”	: A layer of material shaped to the bottom of the last and sandwiched between the insole board and the sole of the foot inside the shoe
“insole board”	: The insole board is used for the attachment of the upper and the midsole and is placed just below the insole and above the midsole
“last”	: A block of plastic shaped like a foot and used for shaping shoes
“North-east Provinces”	: Commonly used term to describe the three provinces in the north-east of the PRC, comprising Heilongjiang Province, Liaoning Province and Jilin Province
“midsole”	: The midsole is located between the outsole and the upper. It is the most important part of any pair of running shoes. It controls excessive foot motion and provides cushioning and shock absorption. The primary materials used in midsoles are ethylene-vinyl acetate and polyurethane
“OEM”	: Original Equipment Manufacturer
“OEM customers”	: Our customers who procure our production of footwear on their behalf, or exporters which had been appointed as authorised distributors of the OEM brands by the brand owners who procure our production of footwear on their behalf
“outsole”	: The outsole is the treaded layer glued to the bottom of the midsole. It resists wear, provides traction and absorbs shock
“retailers”	: Individuals or companies who purchase our products from our distributors for retail to consumers at premises (owned or rented by the retailers or otherwise), such as department stores, chain stores etc.
“sales outlet”	: Our retailers’ own or rented retail premises at which our products are sold to consumers
“Second Production Facility”	: Our second production facility at Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, PRC, which is located across the road from our First Production Facility

“shop-in-shop”	:	Delineated or dedicated shelves or retail spaces at a retailer’s premises such as department stores, chain stores etc. through which a vendor’s products are sold
“sole unit”	:	The sole unit which comprises the midsole and outsole
“sports fashion footwear and apparel”	:	Sports fashion footwear and apparel comprises the various types of footwear such as basketball shoes, tennis shoes and casual shoes and various apparel such as sports tops, sports shorts, sports pants, jogging suits, wristbands, headbands, socks, caps and other clothing and accessories, typically worn for sporting activities and as casual wear
“Thermal Shoes”	:	Shoes that contain an electronic rechargeable heating device that heats the shoes to a predetermined level to provide warmth to the wearer
“upper”	:	All parts or sections of the shoes above the sole that are stitched or otherwise joined together to become a unit, and then attached to the insole and outsole. The upper is made up of different components including tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim stitched together
“YELI”	:	Our brand name, which is also known as “野力” in Chinese

PROSPECTUS SUMMARY

The information contained in this summary is derived from, and should be read in conjunction with, the full text of this Prospectus. As it is a summary, it does not contain all of the information that prospective investors should consider before investing in our Shares. Prospective investors should read this entire Prospectus carefully, especially the matters set out in the section “*Risk Factors*” in this Prospectus and our financial statements and related notes before deciding on whether or not to invest in our Shares.

OUR BUSINESS

Our Company was incorporated in Bermuda on 27 March 2007 under the Bermuda Companies Act as an exempted company with limited liability, under the name of China Sports International Limited. Pursuant to the Restructuring Exercise as described under the section “*Restructuring Exercise*” of this Prospectus, our Company acquired Themeway (HK), which in turn owns the entire registered capital of Hengfa Light Industry and Quanzhou YELI.

Our Group is principally engaged in the design, manufacture and sales of sports fashion footwear and the design and sales of sports fashion apparel under our own YELI brand. We also produce shoes for OEM customers under international labels. As at the Latest Practicable Date, we mainly produce for the “Kappa” brand for OEM customers. Our YELI products are sold to both PRC distributors for domestic sales and exporters for export to countries in Europe (Spain, Italy and Greece), the Middle East (United Arab Emirates and Israel), South America (Brazil, Panama and Argentina), Asia (Japan and South Korea) and South Africa. Our YELI products accounted for all of our domestic sales in the PRC.

Our YELI products are designed for a broad range of activities catering to the lifestyles of our target consumer base aged between 12 to 30 years. According to Euromonitor International, the total population in the PRC aged between 10 and 29 years was estimated to be approximately 390 million in 2006, or approximately 29.8% of the total population in the PRC.

The sports fashion wear industry is unique in that sportswear are not just for sporting activities, but also worn as casual wear as they cater to the active lifestyle of the trendy and fashionable urban youth. According to the industry report by Converging Knowledge titled “*Customer Report Sportswear/ China*” dated 15 February 2007, PRC’s sporting goods market has seen double-digit growth since 2000. It is estimated to reach US\$ 8.7 billion in 2006 and will likely hit a high of US\$ 11.8 billion by 2010 and it is predicted that by 2010, PRC will be the world’s largest market for sporting goods. For further details, please refer to the section “*Industry Overview*” of this Prospectus.

The sportswear market will also be boosted by international sporting events being held in the PRC. Apart from the Beijing Olympics in 2008, there is also the Guangzhou Asian Games to be held in 2010. The sports fashion wear industry will also be boosted by higher personal disposable income, which has risen by 36.48%, from RMB 5,805 billion in 2002 to RMB 9,139 billion in 2006.

Our products are sold through distributors covering mainly second-tier and third-tier cities in more than 20 provinces, autonomous regions and municipalities in the PRC. Second-tier and third-tier cities commonly refers to cities such as Anshan (鞍山), Yancheng (盐城), Haicheng (海城), Siping (四平) and Fuyang (阜阳) but excluding cities such as Beijing City, Shanghai City, Guangzhou City and Shenzhen City. As at the Latest Practicable Date, our YELI products are sold through 20 distributors who have a retail network of more than 1,500 sales outlets, comprising mainly of shop-in-shop throughout the PRC, particularly in the North-east Provinces, and 7 exporters to our overseas markets.

Further details are set out in the sections “*Industry Overview*” and “*Business Overview*” of this Prospectus.

COMPETITIVE STRENGTHS

We believe that some of our competitive strengths are:

We have a focused approach and strategy towards our sale of YELI products

We believe that our business strategies of high product quality, expanding at low costs and brand building (discussed in further detail in the section “*Business Overview*” of this Prospectus) provides us with a competitive edge over our competitors in the PRC. This has enabled us to grow our sales of YELI products in the PRC by approximately 197.6% to RMB 312.2 million in FY2006 from RMB 104.9 million in FY2004.

Our YELI products have a large target market in the PRC

Our YELI brand’s target consumers are aged between 12 to 30 years. According to Euromonitor International, the total population in the PRC aged between 10 to 29 years of age was estimated to be approximately 390 million in 2006 or approximately 29.8% of the total population in the PRC. This translates into a large potential market for our products in the PRC.

We have strong product design and development capabilities

We recognise the importance of product design and development in ensuring our competitiveness in the sports fashion market. As such, we have a dedicated team of experienced personnel in our Product Design and Development Department to ensure that we keep up with latest trends and design products suitable for our target consumers.

As a testament to our strength in this area, through our collaboration with Li Chengkuan, an independent third party, we succeeded in developing a new category of footwear, the Thermal Shoes, which we believe has not yet been sold on a commercial basis in the PRC. Please refer to the section “*Business Overview*” of this Prospectus for further details.

We have established market presence and market recognition of our YELI brand

We believe our YELI brand is increasingly being recognised by our customers and consumers as “value-for-money” and quality sports fashion products. This is evidenced by our ability to increase our average selling price of YELI footwear by approximately 5.1% to RMB 50.3 per pair in FY2006 from RMB 47.8 per pair in FY2004, coupled with an increase in the quantity of YELI footwear sold. As a testament to the growing strength of our YELI brand, YELI was accorded “Fujian Province Famous Brand” in December 2006.

Our YELI products have a wide sales geographical footprint in PRC

Our strategy of selling our YELI products to distributors, who then resell to retailers has enabled us to expand our sales geographical footprint in the PRC rapidly within a short period of time. Our strategy has allowed us to avoid the high financial risks associated with opening and running of our own speciality stores, while enabling us to focus our efforts on brand building and product design and development during the past few years.

We are strategically located

We believe that the location of our production facilities in the PRC has enabled us to achieve lower production costs, as operating costs (such as labour costs and the cost of raw materials) are generally lower in the PRC than those in developed and some other developing countries.

Furthermore, we are located in Jinjiang City, Fujian Province, which is renowned as one of the world’s largest sports shoe manufacturing base, while our neighbouring Shishi City is renowned for sports apparel manufacturing (Converging Knowledge Report titled “*Customer Report Sportswear/ China*” dated 15 February 2007). This enables us to have access to a large pool of raw materials suppliers and contract manufacturers.

We have an experienced management team

Our Non-executive Director, Lin Yongjian, who is the founder of our Group has more than 15 years' experience in the shoe industry. With his experience, he assists in our Group's strategic planning and is not involved in day-to-day operations. We have a relatively young but experienced management led by our Executive Director and CEO, Lin Shaoxiong, who has been with our Group since 1998. The management team is goal oriented and focused on the execution of our Group's strategies. They have demonstrated the ability to meet and anticipate the industry and target market changes as evidenced in the growth of our sales of YELI products by approximately 147.5% to RMB 425.5 million in FY2006 from RMB 171.9 million in FY2004.

For more details, please refer to the section "*Competitive Strengths*" of this Prospectus.

STRATEGY AND FUTURE PLANS**Acquisition and/or construction of new manufacturing facilities and the addition of new production lines to our existing facilities**

Our production facilities for FY2006 had a maximum capacity of 12,960,000 pairs of footwear per annum. We added two production lines to our existing production facilities in March and May 2007. With the two new production lines, our production capacity has increased by approximately 33.3% to 17,280,000 pairs of footwear per annum. We will consider expanding our production capacity at the appropriate time through acquisition or construction and establishment of new manufacturing facilities to keep pace with increase in our sales. We intend to utilise approximately RMB 110.1 million of the net proceeds from the Invitation for such expansion plans.

Strengthen our YELI brand through the increase in advertising and promotion activities

We intend to utilise approximately RMB 40.0 million of the net proceeds from the Invitation to increase our budget for advertising and promotion activities to strengthen our YELI brand.

Expand our distribution network and increase our sales channels

We believe that there are still significant opportunities to increase the distribution of our YELI products in the PRC. We intend to expand our distribution network to cover the regions in the PRC where we do not currently have a presence and increase our distribution network in regions where we currently do not have a strong presence. We intend to utilise approximately RMB 40.0 million of the net proceeds from the Invitation to carry out our plans to expand our distribution network and increase our sales channels.

Increase our product design and development efforts

We intend to increase our product design and development efforts to expand the product range of our YELI brand as well as the development of new products for the market. Consequently, we intend to increase the number of our product design and development staff and invest in product design and development. We may also purchase technology and know-how for our future products. We intend to utilise approximately RMB 30.0 million of the net proceeds from the Invitation to increase our product design and development efforts.

For more details, please refer to the section "*Strategy and Future Plans*" of this Prospectus.

DIVIDEND POLICY

We intend to recommend and distribute dividends of not less than 20% of our profits attributable to Shareholders for FY2007 and FY2008.

For more details, please refer to the section "*Dividend Policy*" of this Prospectus.

OUR FINANCIAL PERFORMANCE

The following summary is derived from the “Audited Combined Financial Statements for Years Ended 31 December 2004, 2005 and 2006” as set out in Appendix A to this Prospectus and “Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006” as set out in Appendix B to this Prospectus. You should read this summary in conjunction with those financial statements and related notes, the sections “Selected Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Prospectus.

Selected items from the operating results of our Group

RMB'000	Audited		
	FY2004	FY2005	FY2006
Revenue	344,100	478,569	690,018
Gross profit	60,181	90,416	122,335
Profit before taxation	48,337	74,109	100,820
Profit attributable to shareholders	35,286	54,100	73,588
Pre-Invitation EPS (RMB cents)	14.90	22.84	31.07
Post-Invitation EPS (RMB cents)	10.48	16.06	21.85

Note: For comparative purposes, the pre-Invitation EPS and the post-Invitation EPS for the Review Period have been computed based on the profit attributable to shareholders and the pre-Invitation and post-Invitation share capital of 236,850,000 Shares and 336,850,000 Shares respectively.

Selected items from the financial position of our Group

RMB'000	Audited		
	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006
Total assets	70,114	92,968	126,693
Total liabilities	38,188	66,442	69,567
Net assets	31,926	26,526	57,126
Total equity	31,926	26,526	57,126

WHERE YOU CAN FIND US

Our registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and our business address is at Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, PRC 862218 (中国福建省晋江洋埭定兴工业区). Our telephone number is +86 (595) 8509 5555 and our facsimile number is +86 (595) 8508 0789. Our internet address is www.chinasportsintl.com. **Information contained in our website does not constitute part of this Prospectus.**

THE INVITATION

Issue Size	: The 100,000,000 New Shares, by way of public offer and placement. The New Shares will, upon issue and allotment, rank <i>pari passu</i> in all respects with the existing issued Shares.
Issue Price	: S\$0.80 for each New Share.
The Offer	: The Offer comprises an invitation by our Company to the public in Singapore to subscribe for the 3,000,000 Offer Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus.
The Placement	: The Placement comprises a placement of 97,000,000 Placement Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus.
Purpose of the Invitation	<p>: Our Directors believe that the listing of our Company and the quotation of our Shares on the SGX-ST will enhance the public image of our Group in the PRC and overseas and enable us to tap the capital markets for the expansion of our operations.</p> <p>The Invitation will also provide members of the public in Singapore with an opportunity to participate in the equity of our Company.</p>
Listing Status	: Our Shares will be quoted on the Official List of the SGX-ST in Singapore dollars, subject to admission of our Company to the Official List of the SGX-ST and permission for dealing in and for quotation of our Shares being granted by the SGX-ST.
Risk Factor	: Investing in our Shares involves risks which are described in the section “ <i>Risk Factors</i> ” of this Prospectus.
Trading Currency	: Our Shares will be quoted and traded in Singapore dollars on the Official List of the SGX-ST.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

We have applied to the SGX-ST for permission to deal in, and for quotation of, all our Shares already issued and the New Shares on the Official List of the SGX-ST. Such permission will be granted when our Company has been admitted to the Official List of the SGX-ST. Acceptance of applications for the New Shares will be conditional upon permission being granted by the SGX-ST to deal in and for the quotation of all our issued Shares and the New Shares. If the said permission is not granted, monies paid in respect of any application accepted will be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom, and you will not have any claim against us, the Manager, the Underwriter or the Placement Agent.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries and the Invitation Shares.

A copy of this Prospectus has been lodged with and registered by the Authority. The Authority assumes no responsibility for the contents of the Prospectus. Registration of the Prospectus by the Authority does not imply that the Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the New Shares or units of Shares, as the case may be, being offered for investment.

We are subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure. In particular, if after this Prospectus is registered but before the close of the Invitation, we become aware of:

- (a) a false or misleading statement in this Prospectus;
- (b) an omission from this Prospectus of any information that should have been included in it under Section 243 of the Securities and Futures Act; or
- (c) a new circumstance that has arisen since this Prospectus was lodged with the Authority which would have been required by Section 243 of the Securities and Futures Act to be included in this Prospectus, if it had arisen before this Prospectus was lodged,

that is materially adverse from the point of view of an investor, we may lodge a supplementary or replacement prospectus with the Authority pursuant to Section 241 of the Securities and Futures Act and will file a copy of such prospectus with the Registrar of Companies in Bermuda.

Where prior to the lodgement of the supplementary or replacement prospectus, applications have been made under this Prospectus to subscribe for the New Shares and:

- (a) where the New Shares have not been issued to the applicants, our Company shall:
 - (i) within two days (excluding any Saturday, Sunday or public holiday) from the date of the lodgement of the supplementary or replacement prospectus, give the applicant's notice in writing of how to obtain, or arrange to receive, a copy of the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; and take all reasonable steps to make available within a reasonable period, the supplementary or replacement prospectus, as the case may be, to the applicants who have indicated that they wish to obtain, or who have arranged to receive, a copy of the supplementary prospectus or replacement prospectus;
 - (ii) within seven days from the date of lodgement of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; or

- (iii) treat the applications as withdrawn and cancelled, in which case the applications shall be deemed to have been withdrawn and cancelled, and within seven days from the date of lodgement of the supplementary or replacement prospectus, pay the applicants all monies the applicants have paid on account of their applications for the Invitation Shares, without interest or a share of revenue or benefit arising therefrom; or
- (b) where the New Shares have been issued to the applicants, our Company shall either:
 - (i) within seven days from the date of lodgment of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to return to our Company the Invitation Shares, which they do not wish to retain title in; or
 - (ii) treat the issue of the New Shares as void, in which case the issue shall be deemed void and our Company shall, subject to compliance with the Bermuda Companies Act, within seven days from the date of lodgment of the supplementary or replacement prospectus, return all monies paid in respect of any application, without interest or a share of revenue or benefit arising therefrom.

An applicant who wishes to exercise his option under paragraph (a)(ii) to withdraw his application shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this, whereupon our Company shall within seven days from the receipt of such notification, pay to him all monies paid by him on account of his application for those Shares without interest or a share of revenue or benefit arising therefrom, at the applicant's risk.

An applicant who wishes to exercise his option under paragraph (b)(i) to return the New Shares issued to him shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this and return all documents, if any, purporting to be evidence of title to those New Shares, to our Company, whereupon our Company shall subject to compliance with the Bermuda Companies Act, within seven days from the receipt of such notification and documents, if any, pay to him all monies paid by him for those Shares, without interest or a share of revenue or benefit arising therefrom, at the applicant's risk, and the issue of those Shares shall be deemed to be void.

Under the Securities and Futures Act, the Authority may, in certain circumstances issue a stop order (the "Stop Order") to our Company, directing that no Shares or no further Shares to which this Prospectus relates, be allotted, issued or sold. Such circumstances will include a situation where this Prospectus (i) contains a statement, which in the opinion of the Authority is false or misleading, (ii) omits any information that should be included in accordance with the Securities and Futures Act, (iii) does not, in the opinion of the Authority comply with the requirements of the Securities and Futures Act or (iv) if the Authority is of the opinion that it is in the public interest to do so.

Where applications to subscribe for the New Shares to which this Prospectus relates have been made prior to the Stop Order, and:

- (a) where the New Shares have not been issued and/or transferred to the applicants, the applications shall be deemed to have been withdrawn and cancelled and our Company shall within 14 days from the date of the Stop Order, pay to the applicants all monies the applicants have paid on account of their applications for the New Shares; or
- (b) where the New Shares have been issued to the applicants, the Securities and Futures Act provides that the issue of our Shares shall be deemed to be void and our Company is required to, within 14 days from the date of the Stop Order, pay to the applicants all monies paid by them for the New Shares.

If our Company is required by applicable Singapore laws to cancel issued New Shares and repay application monies to applicants (including instances where a stop order under the Securities and Futures Act is issued), subject to compliance with the Bermuda Companies Act, our Company will purchase New Shares at the Issue Price. Information relating to the purchase of Shares by our Company is set out in the section "*Purchase by our Company of our own shares*" of this Prospectus.

Where monies are to be returned to applicants for the New Shares, it shall be paid to the applicants without interest or share of revenue or other benefit arising therefrom, and at the applicant's own risk, and applicants will not have any claim against our Company, the Manager, the Underwriter or the Placement Agent.

The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. A copy of this Prospectus will be filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority in granting such permission and the Registrar of Companies in Bermuda in accepting this Prospectus for filing accept no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed in this Prospectus or any other documents.

This Prospectus has been seen and approved by our Directors, and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed in this Prospectus are fair and accurate in all material respects as at the date of this Prospectus and that there are no material facts the omission of which would make any statements in the Prospectus misleading, and that the profit forecast (if any) has been stated by the Directors after due and careful enquiry.

No person has been or is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Manager, the Underwriter or the Placement Agent. Neither the delivery of this Prospectus and the Application Forms nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in our affairs or in the statements of fact or information contained in this Prospectus since the Latest Practicable Date. Where such changes occur, we may make an announcement of the same to the SGX-ST and will comply with the requirements of the Securities and Futures Act. All applicants should take note of any such announcement and, upon release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to our future performance or policies.

Neither our Company, the Manager, the Underwriter and the Placement Agent nor any other parties involved in the Invitation is making any representation to any person regarding the legality of an investment in our Shares by such person under any investment or other laws or regulations. No information in this Prospectus should be considered as being business, legal or tax advice. Each prospective investor should consult his own professional or other advisers for business, legal or tax advice regarding an investment in our Shares.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any persons, other than the applicants in connection with their application for the New Shares, for any other purpose. **This Prospectus does not constitute an offer, solicitation or invitation to subscribe for New Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation.**

Copies of this Prospectus and the Application Forms may be obtained on request, subject to availability, during office hours from:

**Stirling Coleman Capital Limited
4 Shenton Way #07-03
SGX Centre 2
Singapore 068807**

and from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website <http://www.sgx.com>.

The Application List will open at 10.00 a.m. on 16 July 2007 and will remain open until noon on the same day or for such further period or periods as our Directors may, in consultation with the Manager, in their absolute discretion decide, subject to any limitation under all applicable laws. In the event a supplementary prospectus or replacement prospectus is lodged, the Application List will remain open for at least 14 days after the lodgment of the supplementary or replacement prospectus.

Details for the procedure for application for the New Shares are set out in Appendix G – Terms and Conditions and Procedures for Application and Acceptance of this Prospectus.

INDICATIVE TIMETABLE FOR LISTING

An indicative timetable is set out below for your reference:

Indicative date/time	Event
9.00 a.m. on 10 July 2007	Opening of Offer
12.00 noon on 16 July 2007	Close of Application List
17 July 2007	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares)
9.00 a.m. on 18 July 2007	Commence trading on a “ready” basis
23 July 2007	Settlement date for all trades done on a “ready” basis on 18 July 2007

The above timetable is only indicative as it assumes that the date of closing of the Application List is 16 July 2007, the date of admission of our Company to the Official List of the SGX-ST is 18 July 2007, the SGX-ST's shareholding spread requirement will be complied with and the New Shares will be issued and fully paid-up prior to 18 July 2007.

The above timetable and procedure may be subject to such modifications as the SGX-ST may in its discretion decide, including the decision to permit trading on a “ready” basis.

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same:

- (i) through an SGXNET announcement to be posted on the Internet at the SGX-ST website, <http://www.sgx.com>; and
- (ii) in a local English newspaper.

Investors should consult the SGX-ST announcement of the “ready” listing date on the Internet (at the SGX-ST website, <http://www.sgx.com>) or newspapers, or check with their brokers on the date on which trading on a “ready” basis will commence.

We will publicly announce the level of subscription for the New Shares and the basis of allotment of the New Shares, as soon as it is practicable after the closure of the Application List through the channels in (i) and (ii) above.

RISK FACTORS

Prospective investors should carefully consider and evaluate each of the following considerations and all the other information contained in this Prospectus before deciding to invest in our Shares. Some of the following risk factors relate principally to the industry in which our Group operates and the business of our Group in general. Other considerations relate principally to general economic and political conditions and the securities market and ownership of our Shares, including possible future sales of our Shares.

If any of the following considerations and uncertainties develops into actual event, our business, results of operations and financial condition could be materially and adversely affected. In such cases, the trading price of our Shares could decline due to any of these considerations and uncertainties, and you may lose all or part of your investment in our Shares.

To the best of our Directors' knowledge and belief, all risk factors that are material to investors in making an informed judgment of our Group have been set out below.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We operate in the highly competitive sports fashion footwear and apparel industry

We believe that the sports fashion footwear and apparel industry is highly competitive in the PRC and on a worldwide basis. There are no strong barriers to entry for new competitors to enter the market. Numerous domestic and international brands compete with one another based on, amongst other things, brand loyalty, product variety, product design, product quality and price. Competitors may also position their brand at the same level as us and target the same market segment as us. Moreover, many of our competitors are larger and have achieved greater recognition of their brands, have captured greater market share and/or have substantially greater financial, marketing, distribution and other resources than our Group. If we are unable to compete effectively with existing or new competitors in the future, in particular, in light of the changing and competitive market environment, our business, operating results and financial condition will be adversely affected.

We may not be able to respond to fashion and market trends and produce commercially viable products

We believe our success depends on our ability to keep abreast of fashion and market trends as well as our ability to anticipate and react to fast changing fashion and market trends in a timely manner, in particular in the sports fashion segment which changes rapidly. Hence, it is important that we are able to react effectively to changing fashion trends and produce designs that would appeal to our target market.

Our design team in our Product Design and Development Department is responsible for developing new designs for our sports fashion footwear and apparel and keeping abreast of fashion and market trends. However, there can be no assurance that our Group, will be able to continue to develop products with mass appeal or successfully meet fast changing fashion and market trends. If we are unable to consistently produce commercially viable products, our business operating results and financial condition will be adversely affected. In the long term, this could also lead to a loss or diminution in the commercial value of our brand.

We are exposed to fluctuations in the economic conditions of the PRC and our other overseas markets

Our manufacturing operations are located in the PRC and we derive our revenue from PRC domestic sales and from sales to our overseas markets through our exporters to countries such as Spain, Italy, Greece and the United Arab Emirates. Accordingly, the success of our business depends to a large extent on the conditions and the continued growth in the PRC consumer market and the overseas consumer market. The growth in such markets in turn depends on the conditions and the continued growth in their respective economies and individual income levels. We believe that consumer spending habits are adversely affected during periods of economic downturn, recession in the economy or

uncertainties regarding future economic prospects which may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including our Group. Any future slowdown or decline in the economy of the PRC and/or our overseas markets and general consumer spending would adversely affect our business, operating results and financial condition.

Our YELI brand image may be affected by negative publicity

We are dependent on the goodwill of YELI brand for the continued growth of our business. Consumer perception of our brand may be affected by various factors such as negative publicity arising from the actions of our celebrity spokesperson or the poor management of retail activities of our customers and retailers. We may also suffer negative publicity if we are unable to maintain the quality of our products or if our advertising and promotion activities cause any controversy within our target markets. In such event, our brand image may be adversely affected and consequently our business, financial condition and operating results may be adversely affected.

Overseas countries that our products are sold in may impose import restrictions on our products

Sales (including sales to OEM customers) to the overseas markets through our exporters to countries such as Spain, Italy, Greece and the United Arab Emirates, formed approximately 69.5%, 49.4% and 54.8% of our revenue for FY2004, FY2005 and FY2006 respectively. As at the Latest Practicable Date, we are not aware of any import restrictions on our products in the countries that our products are sold. However, there is no assurance that the relevant government authorities will not impose such import restrictions in the future. In such event, our business, financial condition and operating results may be adversely affected.

We are reliant on our contract manufacturers

We outsource the production of part of our footwear and all our sports fashion apparel to external third party contract manufacturers. Revenue generated from products produced by contract manufacturers accounted for approximately 5.8%, 16.8% and 26.7% of our revenue for FY2004, FY2005 and FY2006 respectively. If our contract manufacturers are unable to deliver the required products to us on time or at all or in accordance with the quality required, we may not be able to fulfil our orders with our customers on time or in accordance with their delivery requirements. In such event, our business and financial performance may be materially and adversely affected.

We may be affected by fire and other calamities at our production facilities

A fire or a natural calamity at our production facilities will result in major disruptions to our production process and would have significant adverse effects on our business, financial conditions and operating results. Our two production facilities are across the road from one another at Jinjiang City, Fujian Province. We place fire extinguishers at critical points and make periodic checks to minimise the outbreak of fire. In addition, all our production floor employees are briefed on safety procedures during their orientation upon joining our Group. Nevertheless, we cannot assure you that such measures would be sufficient to prevent any outbreak of fire in the future.

Furthermore, while we maintain insurance policies covering losses due to fire and other calamities, which we consider adequate, we cannot assure you that our insurance coverage would be sufficient to cover all our potential losses. In particular, we do not maintain any insurance against business disruption. In the event our insurance policies cannot sufficiently cover our losses due to fire and other calamities, our operations will be adversely affected.

We may be affected by power shortages and other disruptions to our production facilities

Our production processes consume a material amount of electricity. Disruptions to our operations such as machine breakdowns or disruptions to the power supply at our production facilities will adversely affect our operations.

We are exposed to the credit risks of our distributors

We usually offer our distributors credit terms ranging from 30 to 60 days. Although there has not been any material collection problem for trade receivables or bad debts in the past three financial years and as at the Latest Practicable Date, there is no assurance that we will not encounter bad debt problems in the future. Should we experience any unexpected delay or difficulty in collections from our distributors, our operating results and financial condition may be adversely affected. Please refer to the section “*Credit Management*” of this Prospectus for more details.

Our new product lines may not be commercially viable or successful

We continually launch new product lines to broaden our customer base and increase our revenue, such as our new Thermal Shoes, which is a new product line we expect to commence commercial production following the transfer of the patent to us in the second half of 2007. The launch and development of each new product line involves considerable time and resource commitment. In the event that any new product line that we launch in the future is not commercially viable or successful and is unable to generate a positive cash flow, our financial results may be adversely affected.

We face possible infringements of our intellectual property rights and the counterfeiting of our YELI brand products in the market

We believe our intellectual property rights are important to our success and competitive position. Therefore, we have registered or sought to register trademarks which are used for the branding, marketing and sale of our products and the transfer of the patent in relation to the Thermal Shoes, details of which are set forth in the paragraph headed “*Trade Marks/Patents and Other Intellectual Property Rights*” in the section “*General Information on our Group*” of this Prospectus.

We believe the quality of our products is critical to our brand. Our efforts to build our brand may be undermined by the sale of counterfeit goods. The counterfeiting of our products may increase if our products become more popular and well known, and may adversely affect our reputation, operating results and financial condition.

We are not aware of any violations or infringements of our intellectual property rights over the past three financial years and as at the Latest Practicable Date. Nevertheless, there can be no assurance that actions taken by us to protect our trademarks and patent will be adequate to prevent brand infringement, product imitation and counterfeit by others. Such events could adversely affect our brand, operating results and financial condition.

We may inadvertently infringe third-party intellectual property rights

We are not aware of any violations or infringements of intellectual property rights of third parties by our Group as at the Latest Practicable Date. Nevertheless, there can be no assurance that as we develop new apparel and footwear designs and methods in which to market our products, we would not inadvertently infringe the intellectual property rights of others or others would not assert infringement claims against us or claim that we have infringed their intellectual property rights. Such claims against us, even if untrue or baseless, could result in significant legal and other costs and may be a distraction to our management. Adverse determinations in such litigation could result in our loss of proprietary rights and/or subject us to significant liabilities. Our financial condition and operating results will thus be adversely affected.

We may be subject to legal suits if we infringe third party intellectual property rights. Our intellectual property rights and proprietary know-how may be subject to dispute and it is possible that there is competing technical know-how vested in third parties. As at the date of this Prospectus, we have not received any claims from third parties in respect of the infringement of any intellectual property rights owned by such third parties. However, there can be no assurance that third parties may not assert claims against us or claim that we have infringed their intellectual property rights. Any such claims, with or without merit, could be time consuming, result in costly litigation and diversion of technical and management personnel, cause product shipment delays, require us to develop non-infringing products or enter into licensing agreements. Such licensing agreements, if required, may not be available on terms

acceptable to us or at all. In the event of a successful claim of intellectual property rights infringement against us and our failure or inability to develop non-infringing products or to license the infringed intellectual property rights in a timely or cost-effective basis, our business, operations and financial performance will be adversely affected.

We are dependent on our Executive Director and CEO, Lin Shaoxiong, and our Executive Director, Lin Shaoqin

We believe that the success of our business depends to a significant extent on the continued services of our Executive Director and CEO, Lin Shaoxiong, and our Executive Director, Lin Shaoqin, who are spearheading the growth and development of our Group. Notwithstanding that Lin Shaoxiong and Lin Shaoqin have entered into service agreements with our Company for a period of three years, there is no assurance that we will be successful in retaining them or hiring qualified management personnel to replace them should such a need arise. As such, any loss of the services of our Executive Directors or our inability to hire or retain qualified personnel would have an adverse impact on our business operations.

Certain preferential tax treatment to which we are entitled may be subject to change

Under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法), the current enterprise income tax rate for an enterprise with foreign investment is 30% and the rate of local income tax is 3%.

Pursuant to the Notice of the State Council Regarding Approval of the Summary of the Seminar in Changjiang, Zhujiang Delta and Minnan Xia Zhang Quan Delta Zones (ZF No. 3 of 1985) (国务院关于批转《长江、珠江三角洲和闽南厦漳泉三角地区座谈会纪要》的通知), Jinjiang City, Fujian Province was regarded as a coastal economic open zone. In addition, according to provision 7 of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, our subsidiary, Hengfa Light Industry, being a wholly foreign-owned enterprise engaged in manufacturing business established in a coastal economic open zone of the PRC and is entitled to enjoy the reduced rate of the PRC enterprise income tax. Accordingly, Hengfa Light Industry presently enjoys a reduced tax rate of 24% charged by the State Tax Bureau of Jinjiang City, Fujian Province during the period of its business operations and a local income tax rate of 3% charged by the Jinjiang Local Tax Bureau.

Quanzhou YELI will be applying to enjoy full exemption from income tax in the first and second profit-making years, and 50% income tax reduction for the following three years. In the event the application is not approved, Quanzhou YELI will be subject to the same tax rates as Hengfa Light Industry as set out above.

On 16 March 2007, the PRC National People's Congress promulgated the PRC Corporate Income Tax Law (企业所得税法) which stipulates that corporate income tax will be standardised to 25% for all PRC resident enterprises ("New Income Tax Law"). This change will take effect from 1 January 2008 and will accordingly apply to us as from that date.

There is no assurance that the existing PRC income tax law or New Income Tax Law, their application or their interpretation will remain in effect or will not be subject to change, in which case we may be required to pay the higher income tax rate generally applicable to PRC companies as is required by PRC law or that Quanzhou YELI will be successful in its application for the aforesaid exemption. To the extent that there are any such changes or if we are unsuccessful in our application, our financial results may be adversely affected.

The outbreak, or threatened outbreak, of any severe communicable disease in the PRC, could materially and adversely affect our Group's business and results of operations

The outbreak, or threatened outbreak, of any severe communicable disease (such as severe acute respiratory syndrome or avian influenza) in the PRC, could materially and adversely affect overall business sentiments and environment in the PRC, particularly if such outbreak is inadequately controlled. This in turn could materially and adversely affect domestic consumption, labour supply and, possibly, the overall GDP growth of the PRC. Our Group's revenue is currently derived mainly from our PRC operations and any labour shortages on contraction or slowdown in the growth of domestic consumption in the PRC could materially and adversely affect our Group's business and results of operations. In

addition, if any of our Group's employees is affected by any severe communicable disease, it could adversely affect or disrupt our Group's production at the relevant plants and materially and adversely affect our results of operations as our Group may be required to close our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our Group's customers and suppliers, which could materially and adversely affect our Group's business and results of operations.

RISKS RELATING TO THE PRC

We are dependent on the political, economic, regulatory and social conditions in the PRC

Most of our products are sold in the PRC market and our focus is on developing our YELI brand in the PRC market, while all our manufacturing operations are located in the PRC. Accordingly, our Directors believe that the general economic, political, legal and social conditions prevailing in the PRC will directly and indirectly affect our financial performance and operations. Particularly, any changes in the policies implemented by the government in the PRC which results in currency and interest rate fluctuations, capital restrictions, and changes in duties and taxes detrimental to our business may materially affect our operations, financial performance and future growth.

The economy of the PRC differs from the economies of most developed countries in many respects, including:

- the level of government involvement;
- the level of development;
- the growth rate;
- the level of capital reinvestment;
- the control of capital reinvestment;
- the control of foreign exchange; and
- the allocation of resources.

Before its adoption of reform and open-door policies in 1978, the PRC was primarily a planned economy. Since then, the PRC government has been reforming the PRC's economic system and has in recent years also begun reforming the government structure. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasised autonomous enterprises and the utilisation of market mechanisms. Although we believe these reforms will have a positive effect on its overall and long-term development, there is no assurance that such policies will continue to prevail in the future and we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on our business, operating results or financial condition.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business

Our business and operations in the PRC and the business and operations of our customers and suppliers in the PRC are subject to the laws and regulations promulgated by the PRC government. The PRC government is still in the process of developing a comprehensive set of laws and regulations in the course of the PRC's transformation from a centrally planned economy to a more free market oriented economy. As the legal system in the PRC is still in a state of flux, laws and regulations or the interpretation of the same may be subjected to change. Furthermore, any change in the political and economic policy of the PRC government may also lead to similar changes in the laws and regulations or the interpretation thereof. Such changes may adversely affect our operations and business in the PRC.

The PRC legal system is a codified legal system made up of written laws, regulations, circulars, administrative directives, and internal guidelines as well as judicial interpretations. Unlike common law jurisdictions like Singapore, decided cases do not form part of the legal structure of the PRC and thus have no binding effect. As such, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the authorities. This has resulted in the outcome of dispute resolutions not having the level of consistency or predictability as in other countries with more developed legal systems. Due to such inconsistency and unpredictability, if we should be involved in any legal dispute in the PRC, we may experience difficulties in obtaining legal redress or in enforcing our legal rights.

From time to time, changes in law and regulations or the implementation thereof may also require us to obtain additional approvals and licences from the PRC authorities for the conduct of our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business costs will increase. Furthermore, there can be no assurance that such approvals or licences will be granted to us promptly or at all. If we experience delay in obtaining or inability to obtain such required approvals or licences, our operations and business in the PRC, and hence our overall financial performance will be adversely affected.

PRC foreign exchange control may affect our ability to receive dividends and other payments from our PRC subsidiaries

The applicable law in respect of conversion of RMB into other currencies is the Regulation for Foreign Exchange Controls of the PRC the ("Regulation") which came into effect on 1 April 1996 and amended as of 14 January 1997.

Under the Regulation:

- conversion of RMB into foreign currencies for the use of recurring items, including the distribution of dividends and profits to foreign investors of foreign investment enterprises is permissible and foreign investment enterprises are permitted to remit foreign currencies from their foreign currency bank accounts in the PRC upon presentation of board resolutions which authorise the distribution of profits or dividends and subject to other requirements being satisfied; and
- conversion of RMB into foreign currencies for capital items, such as repatriation of capital, repayment of loans, and for securities investment, is still under control.

We cannot provide any assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. Any future restrictions on currency exchanges may affect our ability to receive and distribute such revenues for the distribution of dividends to our Shareholders or for funding our other business activities outside the PRC.

Fluctuation of the RMB could materially affect our financial condition and the results of our operations

The value of the RMB is subject to changes in the PRC government's policies and depends to a large extent on the PRC's domestic and international economic and political developments, as well as supply and demand in the local market. On 21 July 2005, the People's Bank of China announced that the RMB would no longer be pegged to the US\$ in favour of a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies as part of the reform of the RMB exchange rate mechanism. The People's Bank of China will announce the closing price of a foreign currency such as the US\$ traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day. The exchange rate of the US\$ against the RMB was adjusted to RMB 8.11 per US\$ as at 19:00 hours on 21 July 2005. The daily trading price of the US\$ against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of 0.3% around the central parity published by the People's Bank of China, while the trading prices of the non-US\$ currencies against the RMB will be allowed to move within a certain band announced by the People's Bank of China. The People's Bank of China will make adjustments to the RMB exchange rate band when

necessary according to market developments as well as the economic and financial situation. As such, our exposure to foreign exchange fluctuations arising from movements of the RMB against the US\$ is minimal. However, given the economic instability and currency fluctuations in Asia in recent years, there is no assurance that the value of the RMB will continue to remain stable against the US\$ or any other foreign currency. In the event that there are significant fluctuations in the exchange rates of the RMB against US\$, this may have an adverse effect on our financial results.

Our subsidiaries, operations and significant assets are located in the PRC. Our Shareholders may not be accorded the same rights and protection that would be accorded under the Companies Act. In addition, it could be difficult to enforce a Singapore judgment against us, our Directors and our officers

Our subsidiaries, Hengfa Light Industry and Quanzhou YELI, and our operations are located in the PRC. Our principal subsidiaries are therefore subject to the applicable laws and regulations in the PRC. The Companies Act may provide Shareholders with certain rights and protection of which there may be no corresponding or similar provisions under applicable PRC laws and regulations. As such, investors in our Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Act in relation to a Singapore incorporated company. In addition, our Executive Directors and all of our Executive Officers are non-residents of Singapore, and substantially all their assets are located outside Singapore. As a result, it could be difficult for investors to effect service of process in Singapore if they wish to make a claim against our Company or our subsidiaries or any of our Executive Directors or Executive Officers, or to enforce a judgment obtained in Singapore against our Company or our subsidiaries or any of our Executive Directors or Executive Officers.

RISKS RELATING TO OUR COMPANY BEING INCORPORATED IN BERMUDA

Rights and protection accorded to our Shareholders may be different from those applicable to shareholders of a Singapore-incorporated company

We are incorporated in Bermuda as an exempted company under the Bermuda Companies Act. The Companies Act may provide shareholders of Singapore-incorporated companies rights and protection for which there may be no corresponding or similar provisions under Bermuda Companies Act. As such, if you invest in our Shares, you may or may not be accorded the same level of shareholder rights and protection that a shareholder of a Singapore-incorporated company may be accorded under the Companies Act. We have set out in Appendix D a summary of certain provisions under the Bermuda company law and in Appendix C a summary of the Memorandum of Association and selected Bye-laws of our Company. Explanatory statements on specific issues have been set out in the sections *"Purchase by our Company of our own Shares"*, *"Attendance at General Meetings"* and *"Take-overs"* of this Prospectus. Each of the summaries and explanatory statements is not intended to be and does not constitute legal advice and any person wishing to have advice on the differences between the Bermuda Companies Act and the Companies Act and/or the laws of any jurisdiction with which he is not familiar is recommended to seek independent legal advice. Copies of the Memorandum of Association and the Bye-laws of our Company are available for inspection at such place and time as set out in the section *"General and Statutory Information - Documents Available for Inspection"* of this Prospectus.

RISKS RELATING TO INVESTMENT IN OUR SHARES

Our Controlling Shareholder, Executive Director and CEO, Lin Shaoxiong, and our Controlling Shareholder, Li Tung Kwo, will collectively own approximately 63.3% of our issued share capital upon completion of the Invitation

Upon completion of the Invitation, our Controlling Shareholder, Executive Director and CEO, Lin Shaoxiong, and our Controlling Shareholder, Li Tung Kwo, will collectively own approximately 63.3% of our issued share capital. These shareholders, if acting together, would be able to significantly influence all matters requiring approval by our Shareholders, including the election of directors and the approval of significant corporate transactions, and will have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by the rules of the Listing Manual to abstain from voting. This concentration of ownership could have the effect of delaying or preventing a change in control of our Company or otherwise discouraging a potential acquirer from attempting to obtain control of us through corporate actions such as mergers or takeover attempts (notwithstanding that the same may be synergistic or beneficial to our Group) in a manner that could conflict with the interests of our public shareholders.

We may have significant future capital needs which will require additional financing

We may need to raise significant additional funds in the future, through public or private financing, to support our growth, undertake acquisitions, develop new or enhanced products, respond to competitive pressures and/or acquire complementary businesses or technologies. There is no assurance that such additional funding, if needed, will be available on acceptable terms.

Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit our operating flexibility. If additional funds are raised through the issuance of equity or equity-linked instruments, our Shareholders may experience a reduction in their percentage shareholdings and a dilution in EPS. In addition, such equity or equity-linked instruments may have rights, preferences or privileges senior to those of our existing Shares.

Failure to secure adequate funds on acceptable terms will have an adverse impact on our business, competitiveness and financial performance and condition.

Future sale of Shares could adversely affect the Share price

Any future sale or availability of our Shares can have a downward pressure on our Share price. The sale of a significant amount of our Shares in the public market after the Invitation, or the perception that such sales may occur, could materially affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. Except as otherwise described in the section “*Moratorium*” in this Prospectus, there will be no restriction on the ability of the Substantial Shareholders to sell their Shares either on the SGX-ST or otherwise.

Our Share price may fluctuate following the Invitation

The market price of our Shares may fluctuate significantly and rapidly as a result of, among others, the following factors, some of which are beyond our control:

- variations of our operating results;
- changes in securities analysts’ estimates of our financial performance;
- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

INDUSTRY OVERVIEW

Unless expressly stated below, the information set out in this section are drawn from the industry report titled "Customer Report Sportswear/ China" dated 15 February 2007 by Converging Knowledge.

As there are no market research information specific to the sports fashion wear industry, Converging Knowledge had drawn its analysis from the general sportswear industry in the PRC which has been widely researched on. While our Directors have taken reasonable action to ensure that statements from the report have been reproduced in their proper form and context, and that such statements have been extracted accurately and fairly from the report, none of the Manager, Underwriter and Placement Agent, or our Company or any other party, and their and our respective officers, agents and employees have conducted an independent review of the contents in such statements and have not verified the accuracy of the contents.

The report by Euromonitor International titled "Disposable Paper Products – China" was not issued for the purpose of incorporation in this Prospectus. Euromonitor International has not consented to the inclusion of such statements extracted from the report for the purposes of Section 249 of the Securities and Futures Act and is thereby not liable for such statements under Section 253 and 254 of the Securities and Futures Act. Our Directors are not aware of any disclaimer made by Euromonitor International in relation to the reliance on the contents of the statement. While our Directors have taken reasonable actions to ensure that such statements have been reproduced in their proper form and context, and that such statements have been extracted accurately and fairly from the report, none of the Manager, Underwriter and Placement Agent, or our Company or any other party, and their and our respective officers, agents and employees have conducted an independent review of the contents in such statements and have not verified the accuracy of the contents.

SPORTS FASHION WEAR INDUSTRY

We are in the sports fashion wear industry and our products are designed for a broad range of activities catering to the lifestyles of our target consumer base of ages between 12 to 30 years. According to Euromonitor International (see disclaimer above), the total population in the PRC aged between 10 and 29 years was estimated to be approximately 390 million in 2006, or approximately 29.8% of the total population in the PRC.

The sports fashion wear industry is unique in that sportswear is not worn only for sporting activities, but also worn as casual wear as they cater to the active lifestyle of trendy and fashionable urban youth.

SPORTSWEAR INDUSTRY IN THE PRC

The PRC's sporting goods market has seen double-digit growth since 2000. It is estimated to reach US\$8.7 billion in 2006 and will likely hit a high of US\$11.8 billion by 2010. It is predicted that by 2010, the PRC will be the world's largest market for sporting goods.

Research suggests that the PRC produces an estimated 65% of the world's output of sportswear. The output is predominantly by OEMs, with increasing technology transfer and sophistication. Most foreign players have OEM production bases in the PRC to serve their global market. For example, in 2006, the PRC exported US\$1.56 billion worth of sports shoes compared to US\$2.49 million worth of imports.

Most PRC manufacturers of sportswear are located along the coastal provinces of Fujian and Guangdong, with Fujian Province being the leading province in the PRC. In Fujian Province, Jinjiang City and Putian City are the world's largest sports shoes manufacturing bases, while Shishi City is renowned for sports apparel manufacturing.

The sportswear market in the PRC comprises 45% shoes, 42% apparel and 13% accessories respectively. This differs from the world market ratio of 20:45:35 for shoes, apparel and others respectively. In general, sports apparel generates greater margins than shoes and accessories.

Distribution channels within the PRC for the sportswear industry are not yet mature, particularly within the second and third-tier cities. In general, brand owners in the PRC use a combination of the following channels to distribute their goods:

- (a) directly managed retail stores; and/or
- (b) retail stores based on franchise model; and/or
- (c) distributors.

The sportswear market is expected to be boosted as a result of more international sporting events being held in the PRC. Apart from the Beijing Olympic Games in 2008, there is also the Guangzhou Asian Games to be held in 2010. There is also a wide range of international sporting events that are staged in China annually such as Formula One motor racing, tennis and golf tournaments.

GROWTH OF THE PRC ECONOMY

	2002	2003	2004	2005	2006
GDP (RMB billion)	12,033	13,582	15,988	18,232	20,940
GDP growth	N/A	12.9%	17.7%	12.3%	12.9%
GDP per capital (RMB)	9,398	10,542	12,336	14,040	15,921
Personal disposable income (RMB billion)	5,805	6,453	7,337	8,217	9,139

Exchange rate: RMB 1 = US\$ 0.12825

For the past five years, the PRC has enjoyed double-digit growth with an exceptional upsurge in 2004. In 2006, the PRC's GDP was approximately RMB 20,940 billion. Correspondingly, total personal disposable income rose by 36.48% between 2002 and 2006. In 2002, total personal disposable income was RMB 5,805 billion and by 2006, it had increased to RMB 9,139 billion.

Chinese citizens' incomes and spending levels are expected to continue to grow, thus creating more growth opportunities in the PRC. It is expected that market liberalisation and restructuring to sustain GDP growth at an average of 8.6% a year from 2007 to 2010. While the forecasted average is below past double-digit growth, the past couple of years have seen GDP growth being supported by large positive contribution from the foreign balance.

China's GDP forecast

	2006	2007	2008	2009	2010
GDP forecast (RMB billion)	20,940	22,929	24,993	27,067	29,206
GDP growth	12.9%	9.5%	9.0%	8.3%	7.9%

GDP growth has been strong and was expected to achieve 12.9% in 2006. However, due to tightening measures enacted to control investment and credit growth, GDP growth is expected to slow to 9.5% in 2007 and 9% in 2008. This comes amidst the Chinese government's desire to wean the economy off export and investment led growth. This seems to have an effect as urban fixed-asset investment and industrial production have cooled off.

To make up for the reduced contribution of export and investment to economic growth, the Chinese government is attempting to boost private consumption. The size of the PRC's middle class, led by a well-educated and upwardly mobile urban population, is expanding quickly. There is also a growing trend for urban Chinese to buy homes and cars. Taxes on rural residents are expected to drop, boosting their disposable income. Coupled with the increasing purchasing power of the middle class, the PRC should see private consumption transformed into a driver of Chinese economic growth.

Retail sales growth is expected to remain strong over the next couple of years. This reflects both rising private consumption growth and the liberalisation of the retail sector to all players, including foreign firms, in early 2005. Savings are growing to record levels, as individuals set money aside for big ticket purchases. Although unemployment is expected to remain high, government assistance to low-income groups is expected to support private consumption growth.

FINANCIAL INFORMATION

EXCHANGE RATES

The financial statements of our Group are prepared in RMB.

As at the Latest Practicable Date, the exchange rate between the RMB and the S\$ was RMB 5.004 to S\$1.00. The table below sets out the high and low exchange rates for RMB/S\$ for each month during the 6 months prior to the Latest Practicable Date. The table below indicates the equivalent amount of RMB for S\$1.00.

	RMB/S\$	
	High	Low
December 2006	5.093	5.051
January 2007	5.100	5.045
February 2007	5.075	5.036
March 2007	5.285	5.044
April 2007	5.111	5.073
May 2007	5.083	4.994

The following table sets out, for each of the financial periods indicated, the average and closing exchange rates between RMB and S\$. The average exchange rate between RMB and S\$ is calculated using the average of the exchange rates on the last day of each month during each financial year. Where applicable, the exchange rates in this table are used for our financial statements disclosed elsewhere in this Prospectus.

	RMB/S\$	
	Average	Closing
FY2004	4.8986	5.071
FY2005	4.9235	4.852
FY2006	5.0198	5.088

The exchange rates between RMB and S\$ as outlined above have been presented solely for information. The exchange rates should not be construed as a representation that these RMB amounts could have been or could be converted into S\$ at any particular rates, the rates above, or at all.

SELECTED FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the full text of this Prospectus, including the sections “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Audited Combined Financial Statements for Years Ended 31 December 2004, 2005 and 2006*” as set out in Appendix A to this Prospectus and “*Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006*” as set out in Appendix B to this Prospectus.

Operating Results of our Group

(RMB'000)	← Audited →		
	FY2004	FY2005	FY2006
Revenue	344,100	478,569	690,018
Cost of sales	(283,919)	(388,153)	(567,683)
Gross profit	60,181	90,416	122,335
Other income	45	79	119
Selling and distribution expenses	(8,884)	(12,080)	(15,978)
Administrative expenses	(2,617)	(3,617)	(5,063)
Profit from operations	48,725	74,798	101,413
Finance costs	(388)	(689)	(593)
Profit before taxation	48,337	74,109	100,820
Income tax expense	(13,051)	(20,009)	(27,232)
Profit attributable to shareholders	35,286	54,100	73,588
Pre-Invitation EPS (RMB cents) ⁽²⁾	14.90	22.84	31.07
Post-Invitation EPS (RMB cents) ⁽³⁾	10.48	16.06	21.85

Notes:

- Had the Service Agreements entered into with our Executive Directors, Lin Shaoxiong and Lin Shaoqin, been in effect for FY2006, the profit before taxation, profit attributable to shareholders, Pre-Invitation EPS and Post-Invitation EPS would have been approximately RMB 100.1 million, RMB 72.5 million, 30.60 RMB cents and 21.52 RMB cents respectively.
- For comparative purposes, pre-Invitation EPS for the Review Period have been computed based on the profit attributable to Shareholders and the pre-Invitation share capital of 236,850,000 Shares.
- For comparative purposes, post-Invitation EPS for the Review Period have been computed based on the profit attributable to shareholders and the post-Invitation share capital of 336,850,000 Shares

Financial Position of our Group

(RMB'000)	Audited		
	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006
Non-current assets			
Property, plant and equipment	18,720	18,639	16,718
Land use rights	2,154	2,105	2,755
	20,874	20,744	19,473
Current assets			
Inventories, at cost	23,358	26,732	9,909
Trade and other receivables	21,941	42,812	90,401
Cash and bank balances	3,941	2,680	6,910
	49,240	72,224	107,220
Total Assets	70,114	92,958	126,693
Less: Current liabilities			
Trade and bills payables	20,965	39,576	45,070
Accrued liabilities and other payables	6,230	7,383	9,401
Interest-bearing bank borrowings	6,840	14,690	8,150
Provision for income tax	4,153	4,793	6,946
Total Liabilities	38,188	66,442	69,567
Net current assets	11,052	5,782	37,653
Net assets	31,926	26,526	57,126
Equity			
Share capital	8,462	8,462	18,874
Capital surplus	66	66	66
Statutory reserves	7,529	12,939	20,302
Retained earnings	15,869	5,059	17,884
Total Equity	31,926	26,526	57,126
NTA per Share (RMB cents) ⁽¹⁾	13.48	11.20	24.12

Note:

- For comparative purposes, NTA per Share for the Review Period have been computed based on the pre-Invitation share capital of 236,850,000 Shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our business, financial condition and results of operations for FY2004, FY2005 and FY2006 should be read in conjunction with the *"Audited Combined Financial Statements for the Years Ended 31 December 2004, 2005 and 2006"* set out in Appendix A to this Prospectus and *"Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006"* set out in Appendix B to this Prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include but are not limited to, those discussed below and contained elsewhere in this Prospectus, particularly in the section *"Risk Factors"* of this Prospectus.

Overview

Our Group is principally engaged in the design, manufacture and sale of sports fashion footwear and the design and sale of sports fashion apparel under our own YELI brand. We also produce shoes for OEM customers under their international labels. As at the Latest Practicable Date, we mainly produce for the "Kappa" brand for OEM customers. Our YELI products are sold to both PRC distributors for domestic sales and exporters for export to countries in Europe (Spain, Italy and Greece), the Middle East (United Arab Emirates and Israel), South America (Brazil, Panama and Argentina), Asia (Japan and South Korea) and South Africa. Our YELI products accounted for all of our domestic sales in the PRC.

We do not sell our YELI products directly to consumers but through distributors covering mainly second-tier and third-tier cities in more than 20 provinces, autonomous regions and municipalities in the PRC. As at the Latest Practicable Date, our YELI products are sold through a retail network of more than 1,500* sales outlets comprising mainly of shop-in-shop throughout the PRC. Currently we focus on the second-tier and third-tier cities, particularly in the North-east Provinces, where operating costs are relatively lower and where there is less competition. In FY2006, our PRC sales accounted for approximately 45.2% of our Group's revenue. Export of our YELI products through our exporters accounted for 16.5% of our Group's revenue while export of OEM products to countries such as Israel and Greece accounted for 38.3%.

Number of sales outlets for our YELI products in the PRC:

	FY2004	FY2005	Growth	FY2006	Growth
Shop-in-shop	Over 700*	Over 900*	28.6%	Over 1,500*	66.7%

* The above numbers were compiled by aggregating the number of sales outlets provided by each of our distributors.

Our Group's marketing focus is to position and enhance our YELI brand as a fashionable and casual, sports and lifestyle brand that stands for quality, comfort and design innovation. Our YELI products are designed for a broad range of activities catering to the lifestyles of our target consumer group aged between 12 to 30 years. In 2006, as part of our marketing effort to enhance our YELI brand image, our Group appointed Shuimu Nianhua ("水木年华"), a two-member music band that enjoys a good following amongst youths in the PRC, as YELI's celebrity spokespersons.

We would typically introduce over 100 new footwear designs to coincide with the launch of each new season to capitalise on changing market trends. We would usually have at least two to three of such launches annually. In November 2006, we launched our YELI apparel line to complement our YELI footwear.

Revenue

During the past 3 financial years ended 31 December 2006 (the "Review Period"), we derived our revenue mainly from the sale of footwear. We only commenced our YELI apparel sales in the last quarter of FY2006. Our Group doubled our revenue from approximately RMB 344.1 million in FY2004 to approximately RMB 690.0 million in FY2006 or a compounded annual growth rate ("CAGR") of approximately 41.6%. The growth in revenue was primarily driven by expansion of our distribution network and our marketing efforts under our YELI brand.

Breakdown of Revenue by Geographical Regions:

(RMB 'mil)	Domestic sales		Export sales		Total sales	
FY2004	104.9	30.5%	239.2	69.5%	344.1	100%
FY2005	242.2	50.6%	236.4	49.4%	478.6	100%
FY2006	312.2	45.2%	377.8	54.8%	690.0	100%

To capitalise on the expected fast growing consumer spending in the PRC and to reduce our reliance on OEM manufacturing, we focused on building our own YELI brand and the expansion of our distribution network in the PRC in the Review Period. During the Review Period, our PRC domestic sales grew by approximately 197.6% from approximately RMB 104.9 million in FY2004 to approximately RMB 312.2 million in FY2006. Our Group's successful execution of our business strategies for our YELI brand was the main driver for the growth in our domestic sales. Please refer to the section *"Business Overview"* of this Prospectus for details on our YELI brand.

Breakdown of Revenue by Business Lines:

(RMB 'mil)	OEM		YELI products		Total sales	
FY2004	172.2	50.0%	171.9	50.0%	344.1	100%
FY2005	177.3	37.0%	301.3	63.0%	478.6	100%
FY2006	264.5	38.3%	425.5 ⁽¹⁾	61.7%	690.0	100%

(1) This includes RMB 13.5 million in sales of our YELI apparel that was launched in November 2006.

During the Review Period, sales of our YELI products increased by approximately 147.5% from approximately RMB 171.9 million in FY2004 to approximately RMB 425.5 million in FY2006 which reflected our success in building our YELI brand. The proportion of sales of YELI products also increased from approximately 50.0% in FY2004 to approximately 61.7% in FY2006 of our total sales. Correspondingly, our reliance on OEM sales reduced from approximately 50.0% of total sales in FY2004 to approximately 38.3% in FY2006. In FY2006, our main OEM customer was for the production of "Kappa" brand products.

Breakdown of Footwear Revenue by Production Method:

	In-house production			Outsourced production			Total		
	Volume ('000 pairs)	Sales (RMB 'mil)	(%)	Volume ('000 pairs)	Sales (RMB 'mil)	(%)	Volume ('000 pairs)	Sales (RMB 'mil)	(%)
FY2004	7,956	324.1	94.2	485	20.0	5.8	8,440	344.1	100
FY2005	9,382	398.0	83.2	1,927	80.6	16.8	11,309	478.6	100
FY2006	11,759	499.0	73.8	3,952	177.5	26.2	15,711	676.5	100

During the Review Period, sales from outsourced production increased by approximately 787.5% from approximately RMB 20.0 million in FY2004 to approximately RMB 177.5 million in FY2006 and sales from in-house production increased by approximately 54.0% from approximately RMB 324.1 million in FY2004 to RMB 499.0 million in FY2006. In FY2005 and FY2006, our gross profit margin from outsourced production was approximately 18.9% and 17.6% respectively while gross profit margin from in-house production was approximately 18.7% and 19.0% respectively (excluding product design and development costs such as, raw materials used for prototypes and labour costs because these costs applied to both in-house and outsourced products).

We have chosen the outsourcing production strategy as it allowed us to scale up our revenue within a short period of time and allowed us to focus our management and financial resources on our YELI brand building and sales and marketing.

The entire production of our YELI apparel is outsourced to contract manufacturers. The gross profit margin for YELI apparel was approximately 35.0% in FY2006.

Average selling price of YELI footwear:

	FY2004 (RMB)	FY2005 (RMB)	Growth	FY2006 (RMB)	Growth
Average selling price per pair of YELI footwear	47.8	48.2	0.8%	50.3	4.4%

Our selling prices are determined based on prevailing market demand and supply conditions, particularly the market recognition and strength of our YELI brand and prices of our competitors' products. Our average selling price per pair of our YELI footwear increased by 5.2% from RMB 47.8 in FY2004 to RMB 50.3 in FY2006. The average selling prices of our OEM footwear had remained relatively constant at approximately RMB 35.0 during the Review Period.

A detailed account of the risk factors affecting our business activities are set out under the section "*Risk Factors*" of this Prospectus. The main factors affecting our revenue are:

- (a) our ability to compete effectively with existing or new competitors in the future, given the highly competitive industry we operate in and there are no strong barriers to entry for new competitors to enter the market;
- (b) our ability to continuously develop products with mass appeal or successfully meet fast changing fashion trends and market trends such that our products for each season will be commercially viable;
- (c) the general economic conditions of the PRC and our overseas markets, which may affect the disposable income and spending patterns of consumers which, in turn, may affect demand for our products;
- (d) our dependence on the goodwill of our YELI brand, any adverse impact on our brand image may affect our business, financial condition and operating results; and
- (e) our sales (including sales to OEM customers) to our overseas markets is conducted through our exporters, such that if there are any import restrictions imposed on our products in the countries that our products are sold, our revenue may be adversely affected.

Seasonality

Other than higher sales experienced in the period leading up to the festive season such as the Lunar New Year, we do not experience any significant seasonality in our revenue and profitability, as our products are sold to distributors and exporters, who typically make orders and maintain a certain level of inventory of our products throughout the year.

Cost of Sales / Gross Profit Margin

Direct material costs comprising mainly costs of raw materials such as leather, synthetic leather, cloth, nylon and soles, accounted for approximately 91.2%, 91.1% and 90.7% of our cost of sales in FY2004, FY2005 and FY2006 respectively. We obtained our supply of raw materials from a number of suppliers located in the Fujian Province. We did not experience any significant fluctuation in the prices of raw materials during the Review Period.

Our Group outsources the production of a portion of our footwear products from time to time to third party contractors to meet unforeseen surges in demand and also outsources the entire production of our apparel products. We would procure the raw materials ourselves and supply them to our subcontractors who will in turn charge us subcontracting fees for their workmanship. The proportion of sales of products made by our subcontractors over total sales increased from approximately 5.8% in FY2004 to approximately 26.2% in FY2006. Our subcontracting fees accounted for approximately 0.7%, 2.1% and 3.4% of our cost of sales in FY2004, FY2005 and FY2006 respectively.

Direct labour costs accounted for approximately 6.1%, 5.1% and 4.4% of our cost of sales in FY2004, FY2005 and FY2006 respectively. Direct labour costs comprised mainly salaries and wages and other staff-related costs (mainly the social security contribution which is stipulated by PRC law) of workers who were directly involved in the production of our products, including salaries and other staff-related costs of our Product Design and Development Department. Direct labour costs are dependent on factors such as the number of employees, the production volume, the industry level of wages and labour conditions.

Manufacturing overheads accounted for approximately the remaining 2.0%, 1.7% and 1.5% of our cost of sales in FY2004, FY2005 and FY2006 respectively. Manufacturing overheads comprised mainly depreciation of plant and equipment, utility expenses and repair and maintenance expenses. These expenses are affected by sales, the level of production activity, capital expenditure on plant and equipment as well as water and electricity charges.

Our gross profit margins for FY2004, FY2005 and FY2006 were 17.5%, 18.9% and 17.7% respectively.

Factors which would affect our cost of sales and gross profit margin if we are unable to pass on such increases to our customers include, amongst other things:

- (a) an increase in the prices of key raw materials;
- (b) an increase in the proportion of products outsourced to contract manufacturers for production and/or an increase in subcontracting fees; and
- (c) an increase in water or electricity rate, higher labour wages and staff-related costs or higher repairs and maintenance expenses.

Other Income

Other income comprised solely interest income on bank deposits.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salaries and staff-related expenses of our sales and marketing staff, advertising and promotion expenses (such as entertainment, advertising and trade show expenses) and travelling expenses of our sales and marketing personnel. These items in aggregate accounted for more than 90% of our selling and distribution expenses during the Review Period. Advertising and promotion expenses accounted for approximately 1.3%, 1.4% and 1.6% of our Group's revenue in FY2004, FY2005 and FY2006 respectively.

Administrative Expenses

Administrative expenses comprised mainly salaries and staff-related expenses of general administrative staff, travelling expenses of administrative and management staff and government charges which are based on a percentage of revenue. These items in aggregate accounted for more than 90% of our total administrative expenses (excluding the one-off pre-listing expenses) during the Review Period.

Finance Costs

Finance costs comprised mainly interest charges on short-term bank borrowings.

Income Tax Expense

The provision for PRC income tax is calculated based on the national income tax at a rate of 24% plus a local income tax of 3% of the assessable income of our operating subsidiary in the PRC.

FY2004 VS FY2005

Revenue

Our revenue increased by approximately RMB 134.5 million or 39.1% from approximately RMB 344.1 million in FY2004 to approximately RMB 478.6 million in FY2005 due mainly to the increase of approximately 35.0% in sales volume from approximately 8.4 million pairs in FY2004 to approximately 11.3 million pairs in FY2005 mainly due to sales of our YELI footwear and an increase in the average selling price per pair of YELI footwear of approximately 0.8% from FY2004 to FY2005.

The increase in sales volume for YELI footwear was due primarily to increased sales in our PRC market as a result of:

- (i) the addition of four new distributors in FY2005 who contributed RMB 124.7 million in revenue and the expansion of our distributors' sales network from approximately over 700* shop-in-shop in FY2004 to over 900* in FY2005 (inclusive of the sales network of the four new distributors);
- (ii) increase in demand from end-consumers due to greater brand recognition; and
- (iii) growth in the PRC economy which resulted in greater spending power of end-consumers.

Cost of sales and gross profit margin

Our cost of sales increased in line with the increase in revenue by approximately RMB 104.3 million or 36.7% from approximately RMB 283.9 million in FY2004 to approximately RMB 388.2 million in FY2005.

Direct material costs increased by approximately RMB 94.8 million or 36.6% from approximately RMB 259.0 million in FY2004 to approximately RMB 353.8 million in FY2005. The increase was in line with the higher sales volume, while raw materials prices remained relatively stable for both FY2004 and FY2005.

Subcontracting fees increased by approximately RMB 6.0 million or 315.8% from approximately RMB 1.9 million in FY2004 to approximately RMB 7.9 million in FY2005. The increase was mainly due to the higher outsourced production to fulfil the increase in demand compounded by the 10.6% increase in average subcontracting fees. Outsourced production volume increased from approximately 0.5 million pairs in FY2004 to approximately 1.9 million pairs in FY2005.

Direct labour costs increased by approximately RMB 2.6 million or 15.0% from approximately RMB 17.3 million in FY2004 to approximately RMB 19.9 million in FY2005. The increase was mainly due to an increase in the average number of production staff from 959 in FY2004 to 1,058 in FY2005 in line with the higher production volume. Average monthly wage per production staff also increased from approximately RMB 1,523 in FY2004 to approximately RMB 1,581 in FY2005.

Manufacturing overheads increased by approximately RMB 0.9 million or 15.8% from approximately RMB 5.7 million in FY2004 to approximately RMB 6.6 million in FY2005. The increase was mainly attributed to higher utilities charges of approximately RMB 0.7 million, in line with our higher production volume and higher depreciation charge of approximately RMB 0.2 million due to addition of new production equipment.

Our Group's gross profit increased by approximately 50.2% from approximately RMB 60.2 million in FY2004 to approximately RMB 90.4 million in FY2005. Our gross profit margin in FY2005 improved to approximately 18.9% from approximately 17.5% in FY2004 mainly due to:

- (i) the increase in overall average selling price of footwear of approximately 3.7% in FY2005 compared to FY2004 due to increased contribution from YELI footwear to 63.0% of our revenue in FY2005 from 50.0% in FY2004. Average selling price of YELI footwear was approximately RMB 48.2 per pair which was higher than the average selling price of our OEM footwear at approximately RMB 35.0 per pair;

* The above numbers were compiled by aggregating the number of sales outlets provided by each of our distributors.

- (ii) the slower rate of increase in cost of sales; and
- (iii) cost savings achieved as a result of economies of scale due to the increase of in-house production from approximately 7,956,000 pairs of shoes in FY2004 to 9,382,000 pairs in FY2005. Our Group's unit manufacturing overheads decreased from approximately RMB 0.72 in FY2004 to approximately RMB 0.71 in FY2005.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB 3.2 million or 36.0% from approximately RMB 8.9 million in FY2004 to approximately RMB 12.1 million in FY2005. The increase was due mainly to higher advertising and promotion expenses and travelling expenses of approximately RMB 2.0 million and RMB 1.1 million respectively. This was in line with our Group's intensified marketing efforts to build our YELI brand and expansion of our distribution network. The number of sales staff also increased from 22 in FY2004 to 25 in FY2005.

Administrative expenses

Administrative expenses increased by approximately RMB 1.0 million or 38.5% from approximately RMB 2.6 million in FY2004 to approximately RMB 3.6 million in FY2005. The increase was due mainly to increase in entertainment of approximately RMB 0.4 million and increase in management and related expenses of approximately RMB 0.5 million. There was also an increase of RMB 0.2 million arising from higher government charges.

Finance costs

Finance costs increased by approximately RMB 0.3 million or 75.0% from approximately RMB 0.4 million in FY2004 to approximately RMB 0.7 million in FY2005. The increase was due mainly to interest expense paid for the RMB 10 million revolving loan taken from Agriculture Bank of China in FY2005 to fund our working capital requirements.

Effective interest rates on borrowings were also slightly higher in FY2005 at 6.82% compared to 6.44% in FY2004.

PBT

PBT increased by approximately RMB 25.8 million or 53.4% from approximately RMB 48.3 million in FY2004 to approximately RMB 74.1 million in FY2005. The increase was attributable mainly to the increase in gross profit of approximately RMB 30.2 million, partly offset by the increase in operating expenses of approximately RMB 4.1 million.

Income tax expense

Income tax expense increased by approximately RMB 6.9 million or 52.7% from approximately RMB 13.1 million in FY2004 to approximately RMB 20.0 million in FY2005 due to higher PBT. Our Group's effective income tax rate remained constant at approximately 27% for both FY2004 and FY2005.

FY2005 VS FY2006

Revenue

Our revenue increased by approximately RMB 211.4 million or 44.2% from RMB 478.6 million in FY2005 to approximately RMB 690.0 million in FY2006 due mainly to increase in sales volume of approximately 4.4 million pairs of footwear or 38.9% from approximately 11.3 million pairs in FY2005 to 15.7 million pairs in FY2006 and an increase in the average selling price per pair of YELI footwear of approximately 4.4% from FY2005 to FY2006.

The increase in sales volume was due mainly to:

- (i) increase in sales of our YELI footwear in the PRC market as a result of the addition of two new distributors in FY2005 who contributed RMB 70.4 million in revenue, and the expansion of our distributors' network from approximately over 900* shop-in-shop in FY2005 to over 1,500* in FY2006 (inclusive of the sales network of the two new distributors);
- (ii) increase in export sales of our YELI footwear by approximately RMB 54.3 million or 1.0 million pairs of footwear mainly due to increase in end-consumer demand in our existing export markets and sales to new export markets such as the United Arab Emirates;
- (iii) increase in OEM sales volume of approximately RMB 87.2 million or 1.4 million pairs of footwear due to increase in end-consumer demand for the OEM products; and
- (iv) a new casual sports footwear product line launched during the last 2 months of FY2006. Sales from this new product line was approximately RMB 26.1 million or 0.4 million pairs of footwear (inclusive of sales to our two new distributors).

We also launched our YELI sports fashion apparel line in the November 2006. Sales of YELI apparel contributed approximately RMB 13.5 million amounting to approximately 2.0% of our revenue in FY2006.

Cost of sales and gross profit margin

Our cost of sales increased in line with revenue by approximately RMB 179.5 million or 46.2% from approximately RMB 388.2 million in FY2005 to approximately RMB 567.7 million in FY2006.

Direct material costs for shoes increased by approximately RMB 154.1 million or 43.6% from approximately RMB 353.8 million in FY2005 to approximately RMB 507.9 million in FY2006. The increase was in line with the higher sales volume, while raw materials prices remained relatively stable in both FY2005 and FY2006. The direct materials costs for YELI apparel was approximately RMB 7.3 million in FY2006.

Subcontracting fees for footwear increased by approximately RMB 9.9 million or 125.3% from approximately RMB 7.9 million in FY2005 to approximately RMB 17.8 million in FY2006. The increase was mainly attributed to the higher proportion of outsourced production and the increase in unit subcontracting fees charged. Outsourced production volume increased by approximately 2.1 million pairs of footwear or 113.2% from approximately 1.9 million pairs in FY2005 to approximately 4.0 million pairs in FY2006.

Production of all YELI apparel are outsourced. Subcontracting fees for YELI apparel was approximately RMB 1.5 million in FY2006. Total subcontracting fees contributed to 3.4% of our cost of sales in FY2006.

Direct labour costs increased by approximately RMB 5.1 million or 21.6% from approximately RMB 19.9 million in FY2005 to approximately RMB 25.0 million in FY2006. The increase was due mainly to increase in production staff from 1,058 in FY2005 to 1,226 in FY2006 in line with the higher in-house production volume. Average monthly wage per production staff increased by approximately 5.1% from approximately RMB 1,581 in FY2005 to approximately RMB 1,666 in FY2006.

Manufacturing overheads increased by approximately RMB 1.6 million or 24.2% from approximately RMB 6.6 million in FY2005 to approximately RMB 8.2 million in FY2006. The increase was mainly attributed to higher utilities charges of approximately RMB 1.5 million, in line with our higher production volume. Unit manufacturing overhead cost remained relatively stable for both FY2005 and FY2006.

Our gross profit increased by approximately RMB 31.9 million or 35.3% from approximately RMB 90.4 million in FY2005 to approximately RMB 122.3 million in FY2006. Our Group's gross profit margin in FY2006 decreased from approximately 18.9% in FY2005 to approximately 17.7%. The gross profit margin for footwear decreased from 18.9% to 17.4%. The gross profit margin for apparel was approximately 35.0%.

* The above numbers were compiled by aggregating the number of sales outlets provided by each of our distributors.

The decrease in gross profit margin for footwear was due mainly to the following:

- (i) growth in demand exceeded our production capacity resulting in us having to rely more on outsourced production to fulfil our production demands. Proportion of sales of outsourced footwear increased from approximately 16.8% of total sales in FY2005 to 26.2% in FY2006. The gross profit margin for outsourced footwear production and in-house footwear production were approximately 17.6% and 19.0% respectively in FY2006;
- (ii) proportion of revenue from our YELI products only accounted for 61.7% in FY2006 compared with 63.0% in FY2005; and
- (iii) we were unable to fully pass on the increase in our cost of sales to our OEM customers as the prices of OEM products are typically set by our OEM customers and the average selling price of OEM products remained constant at approximately RMB 35 per pair.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB 3.9 million or 32.2% from approximately RMB 12.1 million in FY2005 to approximately RMB 16.0 million in FY2006. The increase was due mainly to increase in advertising and promotion expenses of approximately RMB 4.3 million mainly attributed to the appointment of Shuimu Nianhua (“水木年华”) as our YELI celebrity spokespersons in FY2006, partially offset by decrease in travelling expenses of approximately RMB 0.6 million.

Administrative expenses

Administrative expenses increased by approximately RMB 1.5 million or 41.7% from approximately RMB 3.6 million in FY2005 to approximately RMB 5.1 million in FY2006. The increase was due mainly to expenses incurred for the preparation of the Invitation of approximately RMB 1.6 million incurred in FY2006 and government charges of approximately RMB 0.5 million, partially offset by decrease in management travelling and related expenses of approximately RMB 1.0 million.

Finance costs

Finance costs decreased by approximately RMB 0.1 million or 21.8% from approximately RMB 0.6 million in FY2005 to approximately RMB 0.5 million in FY2006. The decrease was due mainly to the retirement of a revolving loan due to the Agriculture Bank of China in FY2006.

Effective interest rates in FY2006 decreased slightly to 6.64% from 6.82% in FY2005.

PBT

PBT increased by approximately RMB 26.7 million or 36.0% from approximately RMB 74.1 million in FY2005 to approximately RMB 100.8 million in FY2006. The increase was due mainly to the increase in gross profit of approximately RMB 31.9 million that was partially offset by increase in operating expenses of approximately RMB 5.3 million.

Income tax expense

Income tax expense increased by approximately RMB 7.2 million or 36.0% from approximately RMB 20.0 million in FY2005 to approximately RMB 27.2 million in FY2006 due mainly to increase in PBT. Our Group's effective income tax rate in FY2005 and FY2006 remained constant at approximately 27%.

REVIEW OF FINANCIAL POSITIONS

Non-current assets

For the Review Period, our non-current assets comprised property, plant and equipment and land use rights for our First Production Facility.

Current assets

For the Review Period, our current assets comprised mainly inventories consisting raw materials and finished goods, trade and other receivables and cash and bank balances.

Current liabilities

For the Review Period, our current liabilities comprised trade and other bills payables, accrued liabilities and other payables, short-term bank borrowings and provisions for income tax.

For detailed information on the movements of the above items, please refer to the section “*Liquidity and Capital Resources*” of this Prospectus.

LIQUIDITY AND CAPITAL RESOURCES

Our operations and expansion strategies are mainly financed through shareholders’ equity, external bank borrowings and cash generated from operations. The principal uses of these cash resources are for purchases of raw materials and consumables, meeting operating expenses, acquisition of fixed assets and payment of dividend to shareholders.

As at 31 December 2006, we had total bank borrowings amounting to approximately RMB 8.2 million and bills payable amounting to approximately RMB 2.2 million. Our gearing ratio (computed based on our total indebtedness and shareholders’ equity) was approximately 0.2 times.

As at the Latest Practicable Date, we have total bank borrowings of approximately RMB 1.6 million. Our cash and cash equivalents as at the Latest Practicable Date was RMB 25.8 million. Please refer to the section “*Capitalisation and Indebtedness*” of this Prospectus for further details.

In addition, we have unutilised banking facilities of RMB 0.7 million available for our use.

Based on the above and to the best of their knowledge, our Directors are of the opinion that we have sufficient working capital for our present requirements after taking into account the present banking facilities, shareholders’ funds and cash generated from operations.

We set out below a summary of our Group’s net cash flow summary for the Review Period:

(RMB '000)	← Audited →		
	FY2004	FY2005	FY2006
Net cash generated from operating activities	29,722	52,229	54,465
Net cash used in investing activities	–	(1,840)	(2,247)
Net cash used in financing activities	(31,010)	(51,650)	(49,528)
Net (decrease)/increase in cash and cash equivalents	(1,288)	(1,261)	2,690
Cash and cash equivalents at the beginning of financial year	5,229	3,941	2,680
Cash and cash equivalents at the end of financial year	3,941	2,680	5,370

FY2004

Net cash generated from operating activities

Net cash generated from operating activities was approximately RMB 29.7 million. This was due mainly to operating profits of approximately RMB 48.7 million adjusted for depreciation (including amortisation of land use rights) of approximately RMB 1.8 million. This was partly offset by an increase in working capital requirement of approximately RMB 9.8 million due to increase in trade and other receivables of approximately RMB 15.4 million, increase in inventories of approximately RMB 3.1 million, offset by increases in trade and other payables of approximately RMB 8.7 million. In addition, we have paid income tax of approximately RMB 10.6 million.

The increase in trade and other receivables was in line with our increase in revenue. Our average trade receivables turnover had also increased from approximately 11 days in FY2003 to 19 days in FY2004 due to the expansion of our business and longer credit terms given to our customers.

The increase in trade and bills payable was due mainly to increase in purchases to meet sales requirements. Our average trade payables turnover had decreased from approximately 29 days in FY2003 to 24 days in FY2004 as a result of us making earlier payments to our creditors to maintain good relationships. The increase in other payables and accruals was due to the increase in salaries as more employees were employed and an increase in our tax payable.

The increase in inventories was mainly due to our Group stocking up in anticipation of higher market demand for the upcoming festive season. However, our inventory turnover had improved from approximately 39 days in FY2003 to 30 days in FY2004 due to better inventory management.

Net cash used in investing activities

We had no investing activities during the year.

Net cash used in financing activities

Net cash used in financing activities amounted to approximately RMB 31.0 million. This was due mainly to repayment of bank loans of approximately RMB 4.9 million and dividend payment of approximately RMB 33.0 million. This was partly offset by new bank loans of approximately RMB 6.8 million obtained for working capital purpose.

FY2005

Net cash generated from operating activities

Net cash generated from operating activities was approximately RMB 52.2 million. This was due mainly to operating profits of approximately RMB 74.7 million adjusted for depreciation (including amortisation of land use rights) of approximately RMB 2.0 million. This was partly offset by increase in working capital requirement of approximately RMB 4.5 million due to increase in trade and other receivables of approximately RMB 20.9 million, increase in inventories of approximately RMB 3.4 million, offset by increases in trade and other payables of approximately RMB 19.8 million. In addition, we had paid income tax of approximately RMB 19.4 million.

The increase in trade and other receivables was in line with the increase in revenue. Our average trade receivables turnover had increased from approximately 19 days in FY2004 to 27 days in FY2005 due to the expansion of our business and longer credit terms given to our major customers.

The increase in trade and other payables was due mainly to an increase in purchases to meet our sales demands. Our average trade payables turnover had increased from approximately 24 days in FY2004 to 33 days in FY2005 due to better terms given by our suppliers for bulk orders. The increase in other payables and accruals was due to an increase in salaries as more employees were employed and an increase in our tax payable.

The increase in inventories was mainly due to our Group stocking up in anticipation of higher market demand from the upcoming festive season. However, our inventory turnover improved from approximately 30 days in FY2004 to 25 days in FY2005 due to continued improvement in inventory management.

Net cash used in investing activities

Net cash used in investing activities was approximately RMB 1.8 million due mainly to purchases of property, plant and equipment for our two additional production lines.

Net cash used in financing activities

Net cash used in financing activities was approximately RMB 51.7 million due mainly to the repayment of bank borrowings of approximately RMB 7.1 million and dividend payment of approximately RMB 59.5 million. This was partially offset by new bank borrowings obtained for working capital purpose of approximately RMB 14.9 million.

FY2006

Net cash generated from operating activities

Net cash generated from operating activities was approximately RMB 54.5 million. This was due mainly to operating profits of approximately RMB 101.3 million adjusted for depreciation (including amortisation of land use rights) of approximately RMB 2.0 million. This was partially offset by increase in working capital requirement of approximately RMB 23.3 million due to increase in trade and other receivables of approximately RMB 47.6 million, offset by decrease in inventories of approximately RMB 16.8 million and increases in trade and other payables of approximately RMB 7.5 million. In addition, we had paid income tax of approximately RMB 25.1 million.

The increase in trade and other receivables was in line with the increase in revenue. Due to the expansion of our business and longer credit terms provided to our larger customers, our average trade receivables turnover increased from approximately 27 days in FY2005 to 39 days in FY2006.

The increase in trade and other payable was due mainly to an increase in purchases to meet sales requirements. However, our average trade payables turnover had decreased from approximately 33 days in FY2005 to 26 days in FY2006, as we took advantage of bulk discounts by paying suppliers earlier when purchasing raw materials. The increase in other payables and accruals was due to increase in salaries as more employees were employed and tax payable.

The decrease in inventories was mainly due to better management of delivery schedules with our raw material suppliers and distributors, as well as a one-off effect of higher stocking up of products by distributors at year-end in anticipation of higher sales due to the longer shopping period during the 2007 Lunar New Year which fell on February compared to late January in 2006, resulting in our Group being able to reduce the amount of inventory carried. Our inventory turnover had improved from approximately 25 days in FY2005 to 6 days in FY2006.

Net cash used in investing activities

Net cash used in investing activities was approximately RMB 2.2 million. This relates to bank deposits placed to secure trade finance facility of approximately RMB 1.5 million in addition to land use rights costs of approximately RMB 0.7 million being the remainder consideration for the acquisition of the land use rights in relation to our First Production Facility.

Net cash used in financing activities

Net cash used in financing activities was approximately RMB 49.5 million. This was due mainly to repayment of bank borrowings of approximately RMB 14.1 million and dividend payment of approximately RMB 53.4 million, partially offset by the issue of share capital of Themeway (HK) through the capitalisation of the shareholders' advance of approximately RMB 10.4 million and bank borrowings of approximately RMB 7.6 million.

FOREIGN EXCHANGE EXPOSURE

Our reporting currency is in RMB and all our operations are carried out in the PRC. Besides RMB, our Company does not transact in any other currency. Accordingly, we are not subject to any foreign exchange exposure.

CAPITAL EXPENDITURES, DIVESTMENTS AND COMMITMENTS

Capital Expenditures and Divestments

The table below sets out the major capital expenditures for FY2004, FY2005, FY2006 and from 1 January 2007 to the Latest Practicable Date. The acquisition of the assets below was financed mainly through cash generated from operations.

(RMB'000)	FY2004	FY2005	FY2006	1 January 2007 to the Latest Practicable Date
Land use rights	–	–	707	–
Plant and machinery	–	1,840	–	8,784
Furniture, fixtures and office equipment (including computer)	–	–	–	21
Total	–	1,840	707	8,805

The capital expenditure in relation to land use rights relates to the payment of the remainder consideration for the acquisition of the land use rights in relation to our First Production Facility. The capital expenditure in relation to plant and machinery relates to the setting up of additional production lines in the respective periods. Please refer to the section “*Manufacturing Facilities and Utilisation*” of this Prospectus for further details.

We have not made any material divestment in FY2004, FY2005, FY2006 and from 1 January 2007 to the Latest Practicable Date.

Commitments

Our Group had contracted for the acquisition of the patent for our Thermal Shoes from Li Chengkuan amounting to approximately RMB 6.0 million, of which RMB 1.0 million has not been paid. We intend to fund the remaining balance for the acquisition from cash generated from operations.

For the period between 1 January 2007 and the Latest Practicable Date, we have outstanding commitments amounting to approximately RMB 0.4 million relating to our additional production line installed in May 2007. We intend to fund this from cash generated from operations.

Operating Leases Commitments

(RMB'000)	FY2004	FY2005	FY2006	As at the Latest Practicable Date
Within one year	–	–	990	981
In the second to fifth years	–	–	2,880	2,624
After five years	–	–	–	–
Total	–	–	3,870	3,605

In FY2004 and FY2005, our Group did not enter into any operating leases commitments. In FY2006, our Group entered into two operating lease agreements for the lease of our warehouse and our Second Production Facility.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in our accounting policies for the last three financial years from FY2004 to FY2006. Please refer to the “*Audited Combined Financial Statements of China Sports International Limited for the Years ended 2004, 2005 and 2006*” set out in Appendix A to this Prospectus for details on our Group’s accounting policies.

DIVIDEND POLICY

Our subsidiary, Hengfa Light Industry declared dividends of RMB 33.0 million, RMB 59.5 million and RMB 53.4 million for FY2004, FY2005 and FY2006 respectively. Such dividend distribution in the past shall not be taken to be indicative of future dividends that may be declared or distributed by us in the future.

We currently do not have a formal dividend policy. The form, frequency and amount of future dividends on our Shares will depend on our earnings and financial position, our results of operations, our capital needs, our plans for expansion and other factors as our Directors may deem appropriate.

Subject to the Bermuda Companies Act, Shareholders in general meeting may from time to time declare a dividend or other distribution but no dividend or distribution shall be declared in excess of the amount recommended by our Directors. Subject to the Bermuda Companies Act, our Directors may also from time to time declare a dividend or other distribution.

We expect to declare dividends in RMB and make payment of the dividends in S\$. Shareholders should note that there will be exchange rate exposure in respect of dividends declared in RMB and subsequently paid to them in the S\$ equivalent amounts. Neither our Company nor CDP will be liable for any loss howsoever arising from the conversion of the dividend entitlement of Depositors holding their Shares through CDP from RMB into the S\$ equivalent.

Information relating to taxes payable on dividends are set out in Appendix F to this Prospectus.

Proposed Dividends for FY2007 and FY2008

We intend to recommend and distribute dividends of not less than 20% of our profit attributable to Shareholders for FY2007 and FY2008 (the "Proposed Dividends") subject to the aforesaid factors determining the declaration and payment of future dividends. However, investors should note that the foregoing statements, including the Proposed Dividends, are merely statements of our present intention and shall not constitute any legally binding statement in respect of our future dividends which may be subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion. Investors should not treat the Proposed Dividends as an indication of our future dividend policy. No inference should or can be made from any of the foregoing statements as to our actual future profitability or ability to pay dividends in any periods discussed.

EXCHANGE CONTROL

PRC

The following is a description of the exchange controls which exist in the PRC.

On 28 December 1993, the People's Bank of China announced that the dual exchange rate system for RMB against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the People's Bank of China publishes the RMB exchange rate against the US\$ daily. The daily exchange rate is set by reference to the RMB/US\$ trading price on the previous day on the "inter-bank foreign exchange market".

On 1 April 1996, the Foreign Exchange Control Regulations of the PRC (as amended on 14 January 1997) came into effect. On 20 June 1996, the Regulations on Sale and Purchase of and Payment in Foreign Exchange were promulgated by the People's Bank of China and came into effect on 1 July 1996.

On 25 October 1998, the People's Bank of China and SAFE issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December 1998, foreign exchange transactions for foreign investment enterprises may only be conducted at designated banks. In addition, some of the swap centres would be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the "CFETC") by the computerised network will be merged with the CFETC and sub-centres to the CFETC.

In summary, the present position under the PRC law relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations are as follows:

- (a) The previous dual exchange rate system for RMB was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between RMB and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the exchange rates against major foreign currencies.
- (b) PRC enterprises had been generally required to sell their foreign exchange earnings to designated banks unless specifically approved otherwise and purchase foreign exchange at designated banks for current account transactions. However, after the Implementing Rules for Administration of Current Transaction Foreign Exchange Accounts of Domestic Entities (境内机构经常项目外汇帐户管理实施细则) was promulgated by the SAFE on 9 September 2004, PRC enterprises with foreign exchange accounts are entitled to reserve their foreign exchange earnings in their foreign exchange accounts and pay for current transactions with the foreign exchanges in such accounts to the extent that its foreign exchanges earnings in the accounts do not exceed the maximum limit as approved by the relevant foreign exchange control authorities.
- (c) Foreign investment enterprises may have their own foreign currency account and are permitted to retain a certain percentage of their recurrent foreign exchange earnings.
- (d) Foreign investment enterprises which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (e) Foreign investment enterprises may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of our Directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated foreign exchange banks.

- (f) Foreign investment enterprises may apply to the Bank of China or other designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by the PRC laws, rules and regulations are met.
- (g) The injection of funds into our subsidiaries in the PRC for the purposes of business expansion may be subject to prior approvals from the competent foreign exchange administration authorities.
- (h) Where the foreign investment enterprise is wound up or in the process of winding up for any reasons and there is residual assets after settlement of all debts or liabilities including taxes pursuant to the PRC liquidation law, the liquidation committee may, through the designated bank, purchase and remit the foreign exchange to its foreign shareholders by presentation of the liquidation documents, the tax settlement certificate and approval by SAFE.

As our operations are primarily located in the PRC, we are required to comply with the PRC foreign exchange controls, as set out above, when we transfer funds from our PRC subsidiaries to our non-PRC subsidiaries (whether in the form of dividend or not). Save as disclosed above, there are no restrictions on the ability of our PRC subsidiaries to transfer funds to our Company in the form of dividends.

Bermuda

Please refer to Appendix D to this Prospectus for more details on the exchange controls in relation to Bermuda.

CAPITALISATION AND INDEBTEDNESS

The following table shows the cash and cash equivalents, indebtedness and capitalisation of our Group as at 31 May 2007:

- (i) on an actual basis based on management accounts, after taking into account the Restructuring Exercise; and
- (ii) as adjusted for the net proceeds from the Invitation.

You should read this in conjunction with the “Audited Combined Financial Statements of China Sports International Limited for the Years Ended 2004, 2005 and 2006” set out in Appendix A to this Prospectus and “Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006” set out in Appendix B to this Prospectus.

(RMB'000)	← 31 May 2007 →	
	After taking into account the Restructuring Exercise	As adjusted for the Invitation
Cash and cash equivalents	25,839	399,639
Short term debt		
– Guaranteed bank loan	1,600	1,600
Total indebtedness	1,600	1,600
Shareholders' equity:		
– Share capital	19,827	27,666
– Reserves	121,700	487,661
Total Shareholders' equity	141,527	515,327
Total capitalisation	143,127	516,927

Bank Loan

Our bank loan is repayable within one year and is guaranteed by a third party and by personal guarantees of our Executive Director and CEO, Lin Shaoxiong, and our Non-executive Director, Lin Yongjian. Our bank loan bears an effective interest rate of approximately 5.51% per annum.

Contingent Liabilities

As at the Latest Practicable Date, we do not have any borrowings or indebtedness and liabilities under acceptances (other than normal trading bills) or acceptance credits, mortgages, charges, obligations under finance leases, guarantees or other material contingent liabilities.

USE OF PROCEEDS AND EXPENSES OF THE INVITATION

Use of Proceeds

The estimated net proceeds from the issue of the New Shares (after deducting estimated expenses incurred in relation to the Invitation) is approximately S\$74.7 million (equivalent to approximately RMB 373.8 million⁽¹⁾). We intend to use such proceeds in the following manner:

- (i) approximately RMB 110.1 million (approximately S\$22.0 million) for the acquisition and/or construction of new manufacturing facilities, addition of new production lines and upgrading of our existing facilities to increase our production capacity;
- (ii) approximately RMB 40.0 million (approximately S\$8.0 million) for advertising and promotion activities;
- (iii) approximately RMB 40.0 million (approximately S\$8.0 million) for the expansion of our distribution network and increase of our sales channels;
- (iv) approximately RMB 30.0 million (approximately S\$6.0 million) for the increase in our product design and development efforts; and
- (v) the balance of approximately RMB 153.7 million (approximately S\$30.7 million) to be used as general working capital of our Group.

Note:

- (1) Based on the exchange rate of S\$1.00 to RMB 5.004 as at the Latest Practicable Date.

For further details, please refer to the section “*Strategy and Future Plans*” of this Prospectus.

Pending the deployment of the net proceeds from the issue of the New Shares as aforesaid, we may use the funds as working capital or invest in short-term money market instruments as our Directors may, in their absolute discretion, deem fit.

In the event that any part of our proposed use of the net proceeds from the issue of the New Shares does not materialise or proceed as planned, our Directors will carefully evaluate the situation and may reallocate the intended funding to other purposes and/or hold such funds on short-term deposits for so long as our Directors deem it to be in the interest of our Company and our Shareholders. Any change in the use of the net proceeds will be subject to the listing rules of the SGX-ST and appropriate announcements will be made by our Company on SGXNET.

In the reasonable opinion of our Directors, no minimum amount must be raised by the Invitation. In the event the Invitation is cancelled, such amounts proposed to be provided for the items above will be provided out of our existing bank facilities and/or funds generated from our operations.

Expenses of the Invitation

The estimated amount of expenses of the Invitation and of the application for listing, including underwriting and placement commission, brokerage, management, audit and legal fees, advertising and printing expenses, fees payable to the SGX-ST and the Authority and all other incidental expenses in relation to the Invitation is approximately S\$5.3 million. Such expenses will be borne by us and deducted from the gross proceeds from the issue of the New Shares. The following table sets out the breakdown of the use of proceeds and the estimated expenses incurred:

	S\$'000	As a percentage of gross proceeds from the Invitation (%)
Use of proceeds		
Acquisition and/or construction of new manufacturing facilities, addition of new production lines and upgrading of our existing facilities	22,000	27.5
Our advertising and promotion activities	8,000	10.0
Expansion of our distribution network and increase of our sales channels	8,000	10.0
Increase in our product design and development efforts	6,000	7.5
General working capital	30,700	38.4
Expenses		
Professional fees	1,400	1.7
Underwriting commission, placement commission and brokerage	2,800	3.5
Miscellaneous expenses (including listing fees)	1,100	1.4
Total	80,000	100.0

In the event that the estimated expenses listed above are in excess of the actual expenses incurred in connection with the Invitation, such excess will be applied towards our working capital purposes.

INFORMATION ON THE OFFERING

MANAGEMENT AND UNDERWRITING AND PLACEMENT ARRANGEMENTS

Pursuant to the Management and Underwriting Agreement, our Company appointed the Manager to manage the Invitation, and the Underwriter to underwrite the Offer Shares. The Manager will receive a management fee from our Company for its services rendered in connection with the Invitation.

Pursuant to the Management and Underwriting Agreement, the Underwriter agreed to underwrite the Offer Shares for a commission of 3.25% of the Issue Price for each Share, payable by our Company.

Pursuant to the Placement Agreement, the Placement Agent agreed to subscribe or procure subscriptions for the Placement Shares for a placement commission of 3.50% of the Issue Price for each Placement Share, payable by our Company.

Brokerage will be paid by our Company to members of the SGX-ST, merchant banks and members of the Association of Banks in Singapore in respect of accepted applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at the rate of 0.25% of the Issue Price for each Offer Share or Placement Share as the case may be.

Subscribers of Placement Shares may be required to pay a brokerage of up to 1.00% of the Issue Price.

Save as aforesaid, no commission, discount or brokerage, has been paid or other special terms granted within the two years preceding the Latest Practicable Date or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in our Company.

The Management and Underwriting Agreement may be terminated by the Manager at any time on or before the close of the Application List on the occurrence of certain events including, *inter alia*:-

- (i) any adverse change, or any development involving a prospective adverse change in the condition (financial or otherwise) of our Group; or
- (ii) any change, or any development involving a prospective change in local, national or international financial (including stock market, foreign exchange market, inter-bank market or interest rates or money market), political, military, industrial, economic, legal or monetary conditions, taxation or exchange controls; or
- (iii) the issue of a stop order by the Authority in accordance with section 242 of the Securities and Futures Act.

The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement and may be terminated on the occurrence of certain events, including those specified above.

Save as disclosed above and in the section “Shareholders” of this Prospectus, we do not have any material relationship with any of the Manager, Underwriter or Placement Agent.

PLAN OF DISTRIBUTION

The Issue Price is determined by us, in consultation with the Manager, Underwriter and Placement Agent, based on market conditions and estimated market demand for our Shares determined through a book-building process. The Issue Price is the same for all New Shares and is payable in full on application.

Offer Shares

The Offer Shares are made available to the members of the public in Singapore for subscription at the Issue Price. The terms and conditions and procedures for application and acceptance are described in Appendix G of this Prospectus.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, the number of Offer Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed for or over-subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

Placement Shares

Application for the Placement Shares may only be made by way of Application Forms. The terms and conditions and procedures for application and acceptance are described in Appendix G of this Prospectus.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that number of Placement Shares not subscribed for shall be made available to satisfy excess applications for the Offer Shares to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

None of our existing Shareholders or Directors intends to subscribe for Shares in the Invitation.

None of the members of our Company's management or employees intend to subscribe for the New Shares in the Invitation amounting to more than 5% of the Invitation Shares.

We are not aware of any person who intends to subscribe for more than 5% of the Shares in the Invitation. However, through a book-building process to assess market demand for our Shares, there may be person(s) who may indicate his interest to subscribe for more than 5% of the New Shares. If such person(s) were to make an application for more than 5% of the New Shares pursuant to the Invitation and subsequently allotted such number of Shares, we will make the necessary announcements at an appropriate time.

Further, no Shares shall be allocated or allotted on the basis of this Prospectus later than six months after the date of registration of this Prospectus.

INVITATION STATISTICS

Issue Price S\$0.80

NTA⁽¹⁾

The NTA per Share based on the balance sheet of our Group as at 31 December 2006 and after adjusting for the Subscription, the Subdivision and Share Consolidation referred to in the section “*Share Capital*” of this Prospectus (the “Adjusted NTA”):

- | | | |
|-----|---|-------------|
| (a) | before adjusting for the estimated net proceeds of the Invitation and based on the pre-Invitation share capital of 236,850,000 Shares | 6.35 cents |
| (b) | after adjusting for the estimated net proceeds of the Invitation and based on the post-Invitation share capital of 336,850,000 Shares | 26.64 cents |

Premium of Issue Price over the Adjusted NTA per Share:

- | | | |
|-----|---|-----------|
| (a) | before adjusting for the estimated net proceeds of the Invitation and based on the pre-Invitation share capital of 236,850,000 Shares | 1,159.84% |
| (b) | after adjusting for the estimated net proceeds of the Invitation and based on the post-Invitation share capital of 336,850,000 Shares | 200.30% |

EPS⁽¹⁾

Historical net EPS of our Group for FY2006 based on the pre-Invitation share capital of 236,850,000 Shares	6.21 cents
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Historical net EPS of our Group for FY2006 based on the pre-Invitation share capital of 236,850,000 Shares, assuming that the Service Agreements (as set out in the section “ <i>Service Agreements</i> ” in this Prospectus) had been in place in FY2006	6.12 cents
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Price Earnings Ratio

Historical net PER based on the historical net EPS of our Group for FY2006	12.88 times
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Historical net PER based on the historical net EPS of our Group for FY2006 assuming that the Service Agreements (as set out in the section “ <i>Service Agreements</i> ” in this Prospectus) had been in place in FY2006	13.07 times
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Net Operating Cash Flow^{(1) (2)}

Historical net operating cash flow per Share of our Group for FY2006 based on the pre-Invitation share capital of 236,850,000 Shares	4.60 cents
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Price to Cash Flow Ratio

Historical price to net operating cash flow based on the historical net operating cash flow per Share (using the pre-Invitation share capital of 236,850,000 Shares) for FY2006	17.39 times
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Market Capitalisation

Market capitalisation based on the Issue Price and the post-Invitation share capital of 336,850,000 Shares S\$269.48 million

Notes:

- (1) Our NTA, EPS and net operating cash flow are converted to S\$ based on the exchange rate of S\$1.00 to RMB 5.004 as at the Latest Practicable Date.
- (2) Net operating cash flow is extracted from our Group's cash flow statement for FY2006.

DILUTION

Dilution is the amount by which the Issue Price paid by subscribers of our New Shares in the Invitation exceeds our NAV per Share after the Invitation. The NAV of our Group as at 31 December 2006 after adjusting for the Subscription, the Subdivision and the Share Consolidation ("Adjusted NAV") but before adjusting for the net proceeds from the issue of the New Shares and based on the pre-Invitation share capital of 236,850,000 Shares was 6.35 cents. Our NAV as at 31 December 2006 was equivalent to our NTA.

Based on the issue of 100,000,000 New Shares at an Issue Price of 80.00 cents per Share pursuant to the Invitation and after deducting estimated issue expenses, the NAV of our Group as at 31 December 2006 would have been 26.64 cents per Share. This represents an immediate increase in NAV of 20.29 cents per Share to our existing Shareholders and an immediate dilution in NAV of 53.36 cents per Share to our new investors. The following table illustrates this per Share dilution:

	cents
Issue Price per Share	80.00
Adjusted NAV per Share as of 31 December 2006, before adjusting for the Invitation	6.35
Increase in NAV per Share attributable to the Invitation	20.29
NAV per Share after the Invitation	26.64
Dilution in NAV per Share to new investors	53.36
Dilution in NAV per Share to new investor as a percentage of Issue Price	66.70%

The following table summarises the total number of Shares held by Lin Shaoxiong and Li Tung Kwo ("Controlling Shareholders"), Ricco Strategic Long Term Holdings Limited ("Ricco Strategic") and Colinton Investment Limited ("Strategic Investors"), Pre-IPO Investors prior to the issue of 100,000,000 New Shares, the total consideration paid to us and the average price paid per Share by our new investors pursuant to the Invitation.

	Number of Shares	Total Consideration (S\$)	Average Price Per Share (cents)
Controlling Shareholders ⁽¹⁾	213,150,000	3,338,293	1.57
Strategic Investors ⁽¹⁾	11,850,000	185,591	1.57
Pre-IPO investors	11,850,000	3,570,000	30.13
New investors	100,000,000	80,000,000	80.00

Note:

- (1) The considerations paid by our Controlling Shareholders and Strategic Investors were converted to S\$ based on the exchange rate of S\$1.00 to HK\$ 5.108 as at the Latest Practicable Date.

SHARE CAPITAL

Our Company (Registration No. 39798) was incorporated in Bermuda on 27 March 2007 under the Bermuda Companies Act as an exempted company with limited liability. As at the date of incorporation, we had an authorised share capital of HK\$100,000 comprising 100,000 ordinary shares of HK\$1.00 each. Subsequent to the incorporation of our Company, 20,000 ordinary shares of HK\$1.00 each were issued nil-paid to Lin Shaoxiong and Li Tung Kwo. Our Company's constitutive documents is our Memorandum of Association and Bye-laws.

Pursuant to the Restructuring Exercise, further details of which are in the section "*Restructuring Exercise*" of this Prospectus, the following changes were made to our Share Capital:

- (a) On 10 April 2007, the authorised share capital of our Company was increased from HK\$100,000 comprising 100,000 ordinary shares of HK\$1.00 each to HK\$50,000,000 comprising 50,000,000 ordinary shares of HK\$1.00 each;
- (b) Pursuant to the Share Swap Agreement dated 10 April 2007, in consideration for the acquisition of Themeway (HK) from Lin Shaoxiong and Li Tung Kwo, our Company issued on 10 April 2007 17,980,000 ordinary shares of HK\$1.00 each credited as fully paid to Lin Shaoxiong and Li Tung Kwo and credited as fully paid, the 20,000 ordinary shares of HK\$1.00 each in the capital of the Company held by Lin Shaoxiong and Li Tung Kwo, which had been previously issued nil-paid;
- (c) Pursuant to a sale and purchase agreement dated 23 February 2007, on 12 April 2007, Li Tung Kwo transferred to Ricco Strategic and Colinton Investment Limited 758,400 and 189,600 shares of HK\$1.00 each in our Company respectively for an aggregate purchase consideration of HK\$948,000; and
- (d) Pursuant to a subscription agreement dated 5 April 2007, the Pre-IPO Investors subscribed for an aggregate of 948,000 shares of HK\$1.00 in the capital of our Company for an aggregate subscription consideration of S\$3,570,000 (the "Subscription"), whereby such shares were issued on 4 June 2007.

Following the Restructuring Exercise, our issued share capital was HK\$18,948,000 comprising 18,948,000 ordinary shares of HK\$1.00 each.

Pursuant to written resolutions dated 4 June 2007, the shareholders of our Company, approved, *inter alia*, the following:

- (a) the increase in the authorised share capital of our Company from HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1.00 each to HK\$500,000,000 divided into 500,000,000 ordinary shares of HK\$1.00 each;
- (b) the sub-division of every one ordinary share of HK\$1.00 in the authorised and issued share capital of our Company into 25 ordinary shares of HK\$0.04 each in the capital of our Company (the "Subdivision");
- (c) the consolidation of every two ordinary shares of HK\$0.04 each in the authorised and issued share capital of our Company into one ordinary share of HK\$0.08 (the "Share Consolidation");
- (d) the adoption of a new set of Bye-laws of our Company;
- (e) the allotment and issue of the New Shares which are the subject of the Invitation, and the New Shares, when issued and fully paid-up, will rank *pari passu* in all respects with the existing issued and fully paid-up Shares; and

(f) the authorisation of our Directors, to

- (i) issue shares whether by way of rights, bonus or otherwise (including Shares as may be issued pursuant to any Instrument (as defined below) made or granted by our Directors while the resolution is in force notwithstanding that the authority conferred by the resolution may have ceased to be in force at the time of issue of such Shares), and/or
- (ii) make or grant offers, agreements or options or otherwise convertible securities (collectively, “Instruments”) that might or would require Shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as our Directors may in their absolute discretion deem fit provided that the aggregate number of Shares issued pursuant to such authority (including Shares issued pursuant to any Instrument and including Shares which may be issued pursuant to any adjustments (“Adjustments”) effected under any relevant Instrument, which Adjustment shall be made in compliance with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws for the time being of our Company), shall not exceed 50% of the issued share capital of our Company immediately after the Invitation, and provided that the aggregate number of such Shares to be issued other than on a pro rata basis in pursuance to such authority (including Shares issued pursuant to any Instrument) to the existing Shareholders shall not exceed 20% of the issued share capital of our Company immediately after the Invitation, and, unless revoked or varied by our Company in general meeting, such authority shall continue in force 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 law to be held, whichever is the earlier.

For the purposes of this resolution and pursuant to Rules 806(3) and 806(4) of the Listing Manual, the “post-Invitation share capital” shall mean the enlarged issued and paid-up share capital of our Company after the Invitation, after adjusting for any subsequent consolidation or sub-division of our Shares.

As at the Latest Practicable Date, our Company has only one class of shares, being ordinary shares of HK\$0.08 each. The rights and privileges of our Shares are stated in our Bye-laws. There are no founder, management, deferred or unissued shares reserved for the issuance for any purpose. No person has been, or is entitled to be, given an option to subscribe for or purchase any securities of our Company or any of its subsidiaries.

There are no Shares that are held by or on behalf of our Company or by our subsidiaries.

As at the Latest Practicable Date, the issued and paid-up capital of our Company is HK\$18,948,000 comprising 236,850,000 Shares. Upon the allotment of the New Shares, the resultant issued and paid-up share capital of our Company will be increased to HK\$26,948,000 comprising 336,850,000 Shares.

Details of the changes in the issued and paid-up share capital of our Company since incorporation and the resultant issued and paid-up share capital immediately after the Invitation are as follows:

Purpose	Par Value (HK\$)	Number of shares	Issued and paid-up capital (HK\$)
Issued nil-paid ordinary shares of HK\$1.00 each upon incorporation	1.00	20,000	20,000/nil paid
Acquisition of Themeway (HK)	1.00	17,980,000	18,000,000
Subscription	1.00	948,000	948,000
		18,948,000	18,948,000
Subdivision	0.04	437,700,000	18,948,000
Share Consolidation	0.08	236,850,000	18,948,000
Pre-Invitation share capital	0.08	236,850,000	18,948,000
New Shares to be issued pursuant to the Invitation	0.08	100,000,000	8,000,000
Issued and paid-up capital after the Invitation	0.08	336,850,000	26,948,000

The shareholders' funds of our Company (i) as at incorporation, (ii) after the adjustments to reflect the Subscription, the Subdivision and the Share Consolidation (the "Adjustments") and (iii) after the Invitation are set forth below.

	As at incorporation (HK\$'000)	After the Adjustments (HK\$'000)	After the Invitation (HK\$'000)
AUTHORISED SHARE CAPITAL			
Ordinary shares at HK\$1.00 each	100	—	—
Ordinary shares at HK\$0.08 each	—	50,000	500,000
SHAREHOLDERS' FUNDS			
Issued and fully paid-up share capital	—	18,948	26,948
Share premium ⁽¹⁾	—	17,438	418,078 ⁽²⁾
	—	36,386	445,026

Notes:

(1) Share premium is computed based on estimated net issue proceeds less the aggregate par value of the New Shares.

(2) Converted to HK\$ based on the exchange rate of S\$1.00 to HK\$5.108 as at the Latest Practicable Date.

SHAREHOLDERS

Our Shareholders (where the registered holder is CDP, the Depositors whose Securities Accounts are credited with Shares) and their respective shareholdings immediately before the Invitation (as at the Latest Practicable Date) and immediately after the Invitation are set out as follows:

	Immediately before the Invitation				Immediately after the Invitation			
	Direct interest		Deemed interest		Direct interest		Deemed interest	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Directors								
Lin Shaoxiong ⁽¹⁾	112,500,000	47.5	–	–	112,500,000	33.4	–	–
Lin Shaoqin ⁽¹⁾	–	–	–	–	–	–	–	–
Lin Yongjian ⁽¹⁾	–	–	–	–	–	–	–	–
Lai Chin Yee	–	–	–	–	–	–	–	–
Tham Hock Chee	–	–	–	–	–	–	–	–
Sam Kok Yin	–	–	–	–	–	–	–	–
Holders of 5% or more								
Li Tung Kwo ⁽⁵⁾	100,650,000	42.5	–	–	100,650,000	29.9	–	–
Others								
Ricco Strategic ⁽²⁾	9,480,000	4.0	–	–	9,480,000	2.8	–	–
Colinton Investment Limited ⁽³⁾	2,370,000	1.0	–	–	2,370,000	0.7	–	–
Pre-IPO Investors ⁽⁴⁾	11,850,000	5.0	–	–	11,850,000	3.5	–	–
Public	–	–			100,000,000	29.7		
TOTAL	236,850,000	100.0			336,850,000	100.0		

Notes:

- (1) Our Executive Director and CEO, Lin Shaoxiong, and our Executive Director, Lin Shaoqin, are sons of our Non-executive Director, Lin Yongjian.
- (2) Ricco Strategic Long Term Investment Holdings Limited (“Ricco Strategic”) is an investment holding company whose investment objective is to invest in companies for long-term capital appreciation. Ricco Strategic was incorporated in the British Virgin Islands and is wholly-owned by Stirling Coleman Investment Management Pte Ltd (“SCIM”), which is in turn wholly-owned by Stirling Coleman Limited (“SCL”). SCL is also the sole shareholder of Stirling Coleman Capital Limited, the Manager, Underwriter and Placement Agent for the Invitation. The shareholders of SCL are Keith Tay Ah Kee, Ang Kay Tiong, Khoo Kuan Lee, Lucy Lim and Chu Hui Yi, all of whom are unrelated to any of our Directors and Substantial Shareholders. By virtue of Section 4 of the Securities and Futures Act, SCIM, SCL and Keith Tay Ah Kee and Ang Kay Tiong (who each hold more than 20% of SCL) are deemed interested in all the Shares held by Ricco Strategic.
- (3) Colinton Investment Limited is an investment holding company and was incorporated in Hong Kong. It is wholly-owned by Kelly Tong Kim Weng and Irene Tong in equal proportion. They are both unrelated to any of our Directors and Substantial Shareholders. By virtue of Section 4 of the Securities and Futures Act, Kelly Tong Kim Weng and Irene Tong are deemed interested in all the Shares held by Colinton Investment Limited.

- (4) The holdings of the Pre-IPO Investors are as follows:

	Immediately before the Invitation		Immediately after the Invitation	
	Number of Shares	%	Number of Shares	%
Pre-IPO Investors				
Rudolf Rolles	2,748,400	1.2	2,748,400	0.8
See Lop Fu James	2,748,400	1.2	2,748,400	0.8
Ong Chee Khoon	948,310	0.4	948,310	0.3
Aw Cheok Huat	610,763	0.3	610,763	0.2
Goh Soo Siah	610,763	0.3	610,763	0.2
Cheong Shiang Kiat	610,763	0.3	610,763	0.2
Chau-Chan Sui Yung	610,763	0.3	610,763	0.2
Goh Bee Lan	564,950	0.2	564,950	0.2
Chong Li Pin	488,275	0.2	488,275	0.1
Chan Kwok Weng	458,063	0.2	458,063	0.1
Lin Yucheng	381,725	0.2	381,725	0.1
Tan Choon Kiat	381,725	0.2	381,725	0.1
Pang Tuck Wing	381,725	0.2	381,725	0.1
Wong Tat Hei	305,375	0.1	305,375	0.1
TOTAL	11,850,000	5.0	11,850,000	3.5

The Pre-IPO Investors are unrelated to any of our Directors and Substantial Shareholders. Any discrepancies between the amounts listed and the totals thereof in the table included above are due to rounding.

- (5) Li Tung Kwo is solely a passive investor with no executive role in our Company. He is not related to any of our Directors or Executive Officers.

The Shares held by our Directors and Substantial Shareholders do not carry different voting rights from the New Shares which are the subject of the Invitation. Our Directors are not aware of any arrangement, the operation of which may at a subsequent date result in a change in control of our Company. Save as disclosed above, our Company is not directly or indirectly owned or controlled by another corporation, any government or other natural or legal person whether severally or jointly.

Save as disclosed in the section “*Restructuring Exercise*” of this Prospectus, there has been no significant changes in the percentage ownership of our Company held by our Directors and Substantial Shareholders since the date of incorporation.

MORATORIUM

To demonstrate their commitment to our Group, each of our Controlling Shareholders, Lin Shaoxiong and Li Tung Kwo, who will own 112,500,000 and 100,650,000 Shares representing 33.4% and 29.9% respectively of our Company's issued and paid-up share capital after the Invitation, has undertaken not to transfer or realise any part of their shareholding in our Company for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

Ricco Strategic and Colinton Investment Limited, which will own 9,480,000 and 2,370,000 Shares representing 2.8% and 0.7% respectively of our Company's issued and paid-up share capital after the Invitation, has undertaken not to transfer or realise any part of their shareholding in our Company for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

The sole shareholder of Ricco Strategic, SCIM, has undertaken not to transfer or realise any part of its shareholding in Ricco Strategic for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

The sole shareholder of SCIM, SCL, has undertaken not to transfer or realise any part of its shareholding in SCIM for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

The shareholders of Colinton Investment Limited, Kelly Tong Kim Weng and Irene Tong, have undertaken not to transfer or realise any part of their shareholding in Colinton Investment Limited for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

Each of the Pre-IPO Investors, who owns an aggregate of 11,850,000 Shares representing 3.5% of our Company's issued and paid-up share capital after the Invitation, has undertaken not to transfer or realise any part of their shareholding in our Company for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST.

RESTRUCTURING EXERCISE

Establishment of Our Company

Our Company was incorporated on 27 March 2007 in Bermuda with 20,000 nil-paid ordinary shares of HK\$1.00 each, which were held by Lin Shaoxiong and Li Tung Kwo in equal proportion.

Acquisition of Hengfa Light Industry

On 4 March 2006, Themeway (HK) and Nolasco (Philippines) (which was the original sole shareholder of Hengfa Light Industry and wholly-owned by our Non-executive Director Lin Yongjian) entered into a share transfer agreement dated 4 March 2006 pursuant to which Themeway (HK) acquired from Nolasco (Philippines) the entire registered capital of Hengfa Light Industry for an aggregate consideration of HK\$7,980,000 (such amount being the equivalent of the registered capital of Hengfa Light Industry).

Capitalisation of Shareholders' Advances

Each of Lin Shaoxiong and Li Tung Kwo had previously made advances amounting to HK\$9,000,000 to Themeway (HK) for the purposes of the company's acquisition of Hengfa Light Industry. The said advances were unsecured, interest free and had no fixed date of repayment. Subsequently, the said advances were capitalised to equity on 21 March 2007.

Acquisition of Themeway (HK)

Our Company, Lin Shaoxiong and Li Tung Kwo entered into a sale and purchase agreement dated 10 April 2007 (the "Share Swap Agreement"), pursuant to which our Company acquired from Lin Shaoxiong and Li Tung Kwo, the entire issued and paid-up capital of Themeway (HK) of HK\$18,000,002. The purchase consideration, which was determined based on the paid-up capital of Themeway, was satisfied by the crediting as fully paid of the 20,000 ordinary shares of HK\$1.00 each in the capital of our Company which had been issued nil-paid and the issuance of 17,980,000 ordinary shares of HK\$1.00 each to Lin Shaoxiong and Li Tung Kwo in equal proportion.

Strategic Investment by Ricco Strategic and Colinton Investment Limited

On 23 February 2007, the shareholders of Themeway (HK), Lin Shaoxiong and Li Tung Kwo, and Ricco Strategic and Colinton Investment Limited entered into a sale and purchase agreement dated 23 February 2007, whereby Ricco Strategic and Colinton Investment Limited acquired 4.21% and 1.05% in the capital of our Company respectively from Li Tung Kwo for an aggregate purchase consideration of HK\$948,000.

Pursuant to the sale and purchase agreement dated 23 February 2007 between Lin Shaoxiong and Li Tung Kwo and Ricco Strategic and Colinton Investment Limited, on 12 April 2007 Li Tung Kwo transferred to Ricco Strategic and Colinton Investment 758,400 and 189,600 shares of HK\$1.00 each in our Company amounting to 4.21% and 1.05% of the issued share capital of our Company respectively for an aggregate purchase consideration of HK\$948,000.

Subscription of Shares by Pre-IPO Investors

Pursuant to a subscription agreement dated 5 April 2007, the Pre-IPO Investors subscribed for an aggregate of 948,000 new ordinary shares of HK\$1.00 in the capital of our Company for an aggregate subscription consideration of S\$3,570,000, which were issued on 4 June 2007. The subscription consideration was injected into our Company on 11 April 2007 and was used to finance the two new production lines added in March and May 2007 and for general working capital purposes.

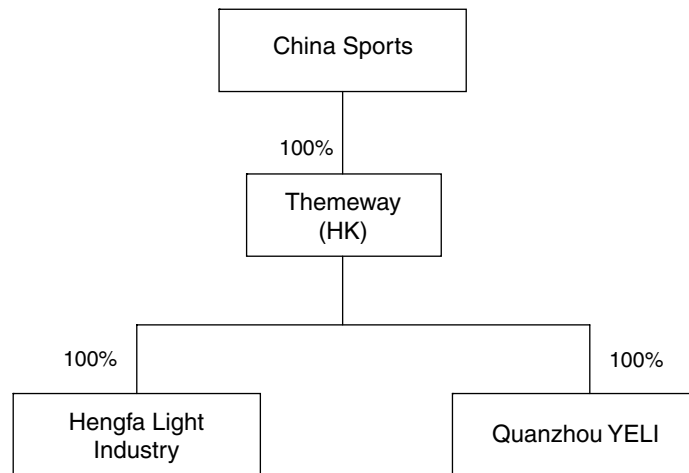
Pursuant to the restructuring exercise as set out above (the "Restructuring Exercise"), our Company became the holding company of our Group.

Acquisition of Quanzhou YELI

Pursuant to the share transfer agreement between Themeway (HK) and Su Chun Xu, an unrelated third party, dated 17 April 2007, we acquired Quanzhou YELI, a wholly foreign-owned enterprise, on 1 June 2007 to undertake the business of the design, manufacture and sale of our YELI products. As at the Latest Practicable Date, Quanzhou YELI is a dormant company with a registered capital of HK\$13,880,000 (out of which HK\$9,350,000 remains unpaid). The consideration for the acquisition was HK\$4,530,000, such amount being equivalent to the partly paid-up registered capital of Quanzhou YELI.

GROUP STRUCTURE

Our Group structure is shown as follows:



Save for the following wholly-owned subsidiaries of our Group, there are no other subsidiaries and associated companies of our Group:

Name of Company	Date and Place of Incorporation	Principal Activities	Paid Up/ Registered Capital	Percentage Interest held beneficially by our Company
Themeway (HK)	14 October 2005 Hong Kong	Investment Holding	HK\$18,000,002	100%
Hengfa Light Industry	20 August 1998 PRC	Production of plastic footwear, footwear-making materials, clothing and plastic products (excluding varieties subject to the management of export quota license)	HK\$18,000,000	100%
Quanzhou YELI	9 May 2006 PRC	Production of casual shoes, sports shoes, apparel, footwear-making materials, bags and badminton products	HK\$13,880,000*	100%

* The registered capital is paid up to HK\$4,530,000 as at the Latest Practicable Date with the remaining HK\$9,350,000 to be paid up within 18 months of the incorporation date.

GENERAL INFORMATION ON OUR GROUP

HISTORY

Our history began in 1992, when our founder and Non-executive Director, Lin Yongjian, established Yangdai Shoe Manufacturing Factory (洋埭制鞋厂) to carry on the business of the production and sale of sports shoes for local OEM customers. Yangdai Shoe Manufacturing Factory started operations with two production lines in Jinjiang City, Fujian Province the PRC.

In 1998, we reorganised our operations under Hengfa Light Industry, our current principal subsidiary. Hengfa Light Industry was established by Lin Yongjian through Nolasco (Philippines), a company wholly owned by him. During this time, our Executive Director and CEO, Lin Shaoxiong, joined the business to assist his father. Shortly thereafter, Yangdai Shoe Manufacturing Factory ceased all operations.

In 1998, we established our first brand WEI NA SHU (“维纳舒”) and began selling shoes under this brand in addition to producing shoes for OEM customers. However, as the profit margins from producing for foreign brands were greater than those for sales of our own brand products, we discontinued selling shoes with our brand WEI NA SHU in the same year.

In December 1998, Hengfa Light Industry shifted its two production lines to the First Production Facility. Our new strategic location ensures a ready access to raw materials required for our production.

In early 2000, as our production capabilities and quality control improved over time, we began to produce shoes on a larger scale for OEM customers, for international brands such as “Puma”, “Diadora”, “Fila” and “Kappa”. These shoes were mainly exported to countries outside the PRC, in particular, Israel and Greece. It was a great testament of our management, quality control and production capabilities, as we had to meet the stringent standards of such OEM customers.

As the sales volume of our shoes increased from approximately 4.0 million pairs in 2000 to approximately 5.8 million pairs in 2003, and in anticipation of higher future sales volume, we added an additional three production lines to our production facilities in 2003 and discontinued an old production line.

Since 2002, we grew our production for OEM customers at a slower rate while intensifying our efforts to build our own brand in the PRC as part of our core business strategy. As at the Latest Practicable Date, our production for OEM customers was primarily for the “Kappa” brand.

In 2002, we introduced a new brand for our products under the name of YELI (“野力”). YELI products target the youth market segment (i.e. individuals between the ages of 12 and 30) which we believe is the biggest cluster of consumers of sports fashion footwear and apparel in the PRC. The visual image of our YELI brand is manifested in the various designs and type of shoes we produce. We believe that we have built our YELI brand into one which our target consumers can identify with. We believe our target consumers are receptive to trendy and sports fashion and our YELI footwear is visually attractive, has original styling and identity and provides an impression of vitality.

In 2003, we established our distribution network, which has since grown to approximately 20 distributors covering various provinces, autonomous regions and municipalities throughout the PRC as at the Latest Practicable Date. Our distributors assist us in offering our products to over 1,500 sales outlets or shop-in-shop located throughout the PRC. This sales strategy has allowed our products to reach out to a large number of consumers within a short period of time.

In 2004, we commenced the export of our YELI footwear through exporters in the PRC to Greece, Israel and the United Arab Emirates.

In 2005, in order to keep pace with the growth in our sales as well as the projected growth moving forward, we leased another premises for our Second Production Facility and added two new production lines.

In 2005, in order to keep pace with latest technological trends and to develop new types of shoes, we collaborated with Li Chengkuan, an independent third party, to tap on his research capabilities. From this collaboration, our Thermal Shoes was successfully developed in early 2006, a new product which we believe has not yet been introduced to the PRC or international market on a commercial basis. As at the Latest Practicable Date, we are in the process of transferring the patent for the Thermal Shoes from Li Chengkuan to us. We expect to commence commercial production once the patent is transferred, which is expected to be in the second half of 2007.

In January 2006, we obtained our ISO9001 certification which is a testament to our emphasis on production quality.

In November 2006, we also expanded our YELI product range to include sports apparel. We believe that the sports apparel line will further enhance our YELI brand by offering our consumers a more complete range of sports fashion products, as well as providing us with a new revenue stream.

In December 2006, our YELI brand was accorded “Fujian Province Famous Brand” (福建省名牌产品) in recognition of the strength of our brand which we have been steadily building over the years. To further strengthen our branding, we have in October 2006 appointed Shuimu Nianhua (“水木年华”), a two-member music band, as our celebrity spokespersons. The band enjoys a good following among youths, who identify with the band’s image of youth, cultural preferences and interests.

As part of our continued growth and development, we have added two additional production lines in March and May 2007 to increase our production capacity to meet increased demand.

BUSINESS OVERVIEW

Our Group is principally engaged in the design, manufacture and sale of sports fashion footwear and the design and sales of sports apparel under our own YELI brand. We also produce shoes for OEM customers under their labels. As at the Latest Practicable Date, we mainly produce for the “Kappa” brand for OEM customers. Our products are sold to both PRC distributors for domestic distribution and exporters for export to countries in Europe (Spain, Italy and Greece), the Middle East (United Arab Emirates and Israel), South America (Brazil, Panama and Argentina), Asia (Japan and South Korea) and South Africa.

Our YELI Brand

We have built our core YELI brand with the following business strategies:

(i) Pursue high product quality

We have a team of professionals who are engaged in quality control. We obtained ISO9001 certification in 2006. 17 of our staff are also actively engaged in product development so as to keep abreast of the latest market trends.

(ii) Expanding with low costs

Our factories are located in Jinjiang City, Fujian Province where labour costs are still relatively low. According to Converging Knowledge, Jinjiang City is one of the world's largest sports shoe manufacturing base. Hence, we do not expect to have any difficulties in recruiting experienced factory foreman and floor supervisors. We will continue to purchase new and more advanced machinery to increase production capacity and production efficiency. We believe we will benefit from economies of scale and higher operational efficiency.

(iii) Brand building

Through our efforts in brand building since 2003, YELI has gained an image of being trendy sports fashion, original in styling and identity, with an impression of vitality. As a testament of our YELI brand recognition in the PRC market, we received the “Fujian Province Famous Brand” in 2006.

Our Group's products are designed for a broad range of activities, catering to the lifestyles of our target consumers aged between 12 to 30 years (i.e. the youth market). Our products are sold through distributors covering mainly second-tier and third-tier cities in provinces throughout the PRC and exported overseas, to countries such as Spain, Italy, Greece and the United Arab Emirates through exporters. As at the Latest Practicable Date, our YELI products are sold through a retail network of more than 1,500 sales outlets, comprising mainly shop-in-shop throughout the PRC. We produce our YELI footwear in our production facilities and for our OEM customers under their brands. We also outsourced some of our YELI shoes production and all of our YELI apparel products to third parties. For FY2006, our YELI products accounted for 61.7% of our Group's revenue.

Our YELI footwear

We offer sports fashion shoes in a broad range of styles, colours and fabrics. Our YELI sports footwear is designed in-house by personnel from our Product Design and Development Department. We offer a broad selection of footwear in an effort to maximise our ability to respond to changing fashion trends and consumer preferences as well as to limit our exposure to specific styles. The types of sports footwear we produce and sell include specific performance footwear such as basketball, running and hiking footwear, and casual footwear which are suitable for leisure activities. Our footwear is designed to be trendy and fashionable to cater to the active and youthful lifestyle of our target end-consumers. We continuously seek to increase the number of styles offered and new lines under our YELI brand. We typically introduce over 100 new designs of footwear at each new season's launch to keep up with changing market trends. We would usually have two to three of such launches annually.

We also export our YELI footwear through exporters to countries in Europe (Spain, Italy and Greece), the Middle East (United Arab Emirates and Israel), South America (Brazil, Panama and Argentina), Asia (Japan and South Korea) and South Africa.

Customers for our YELI footwear and apparel are our distributors who resell our products to retailers who will offer our products for sale at their retail outlets (i.e. primarily shop-in-shop). The manner in which retailers display our products is based on the specifications which we have established. As part of our business strategy, we typically have one to two distributors in each province who will decide how best to penetrate the market through the selection of appropriate retailers.

With our target end-consumers in mind, the price of our sports fashion footwear and apparel are based on various economical factors, the main ones being, the price charged by our competitors, our cost of production and the expected market demand for such sports fashion. In order to ensure that our brand is not damaged by the pricing of our distributors and retailers, we typically set minimum retail prices for our products. In order to incentivise our distributors to purchase higher volumes of our products, we intend to establish a system whereby distributors who purchase in bulk would be entitled to cash vouchers which can be used towards redemption of future purchases. We believe that this will have the effect of incentivising our distributors to purchase more of our products and accordingly encourage retailers to sell more of our products.

Our YELI sports apparel

In November 2006, we commenced the sale of sports apparel under our YELI brand to complement our existing footwear range. Presently, we have no intention of setting up our own production facility to manufacture sports apparel. We have appointed a contract manufacturer to manufacture our sports fashion apparel and to assist us in designing our range of apparel. The final design of these sports apparel are selected by our personnel from our Sales and Marketing Department.

Sales to our OEM customers

Other than sales of YELI products, we also manufacture footwear for our OEM customers primarily for the “Kappa” brand. Our strategy moving forward is to focus on developing our own YELI brand and hence we do not expect our sales to our OEM customers to increase significantly.

New product

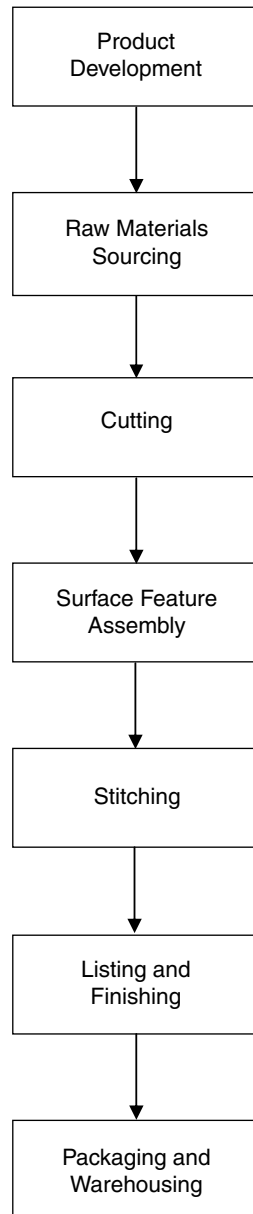
Pursuant to our collaboration with Li Chengkuan, an independent third party, our Thermal Shoes was successfully developed sometime in early 2006. Li Chengkuan is a graduate from Shenyang Liming University and has a degree in electronics. He has over 20 years of experience in the electronics industry. He spent approximately three years researching the technology for the Thermal Shoes.

As at the Latest Practicable Date, Li Chengkuan is in the process of transferring the patent for the Thermal Shoes to us. Upon completion of the transfer, we expect to commence commercial production, which is expected to be in the second half of 2007.

Our Thermal Shoes are installed with a chargeable battery which when charged will generate heat up to a temperature of approximately 37 degrees Celsius to keep the wearer's feet warm in cold conditions for up to 8 hours. There is also a power switch which gives the wearer the option to wear the shoes without the heat. We believe the product is unique in the footwear industry and expect good market demand from traditionally colder regions such as the North-east Provinces in the PRC and Western and Eastern European countries.

PRODUCTION PROCESS

The following chart sets out the major steps involved in the design stage and the production process of our sports footwear.



(a) Product Development

Design of sports footwear

Our YELI branded footwear are designed and developed by our Product Design and Development Department, which designs our products and manufactures the prototypes. New designs are developed through computer design software and experimentation with various footwear materials and various types of soles which other than having different technical specifications also have various designs of their own. Once a new design has been finalised, a prototype would be manufactured for the purposes of prescribing the lowest production costs and most efficient production method.

For products which we produce for our OEM customers, the designs are developed by our Product Design and Development Department in consultation with our OEM customers who will provide us with their overall concepts and specifications.

Testing of Prototypes

The prototypes whether in respect of our own YELI footwear designs or those from our OEM customers are typically put through various quality tests before they are mass manufactured.

Such tests of prototype quality are carried out at an external third party's specialised laboratory using modern equipment capable of producing accurate readings, and they include the "Material Strength Test" where the strength of the prototype is tested by stretching it till its breaking or bursting point, the "Colour Test" and "Endurance Test" where the prototype is exposed to various simulated weather conditions such as ultra-violet radiation, rain and extreme temperatures and the "Wear and Tear Test" where the outsole of the prototype is tested for the amount of wear and tear that takes place through prolonged use. After the prototype has been found to be of acceptable quality by us or our OEM customers, the shoe design is then confirmed for mass production.

(b) Raw Materials Sourcing

Our Procurement Department is responsible for sourcing the required raw materials at the best possible price for the manufacture of our products. They are also responsible for liaising with our raw material suppliers and ensuring the quality of such raw materials.

In ensuring the quality of incoming raw materials, personnel from our Procurement Department carry out inspection and testing on samples from our incoming raw materials on a random basis to ensure that the quality of the raw materials meet our specifications and quality standards. Raw materials that do not meet our specifications and requirements are returned to our suppliers to be replaced or rectified.

(c) Production Process

Our Production Department is responsible for managing the production lines and the manufacture of our products. A brief description of the manufacturing process is as set out below:

Cutting: Shoes typically consist of two major components: the shoe upper and the sole. The upper is made of different components including the tip, eyelet, tongue, tongue lining, heel lining, collar and heel and side trim. We assemble our own uppers from the various raw materials we purchase from our suppliers. The sole unit comprises the midsole and outsole. We do not assemble our own soles but purchase them from our suppliers. The upper is made of various raw materials such as synthetic leather, genuine leather, nylon and mesh. These raw materials are cut into different shapes according to the design specifications to form various parts of the upper at our cutting workshops.

Surface Feature Assembly: The intricate design features such as our YELI logo or the logos of our OEM customers are sewn onto or imprinted onto the different parts of the upper at our surface feature assembly workshops.

Stitching: The various components of the upper such as the tip, eyelet, tongue, tongue lining, heel lining, collar and heel, side trim are stitched together to form a completed upper and the shape of the footwear. Stitching takes place at our stitching workshops where there are numerous stitching teams, each responsible for stitching a different design.

Lasting: The lasting process is the most critical stage of our production process as this is where the semi-finished products are combined to form the finished products. This lasting process is carried out at our lasting production lines. It is the number of such lasting production lines that determines our production capacity. At the lasting production line, the last and the upper are placed together and then placed onto a lasting machine to ensure a good fit of the upper to the shape of the last. The insole board is glued onto the sole unit and the lasted upper is then attached to the insole board together with the sole unit. The completed but unfinished footwear is then pressed around the last using pressing machines to ensure that the sole unit is attached to the upper properly, after which, the last is removed.

Finishing: After the lasting process, finishing operations such as the insertion of insoles and laces are carried out. Each pair of footwear is also cleaned.

Packaging and Warehousing: The finished products are then packed and separated into boxes according to colours and sizes. The boxes are then packed into cartons and stored in our warehouses for our distributors to collect. We do not make deliveries to our distributors.

MANUFACTURING FACILITIES AND UTILISATION

Our production facilities are located at two premises across a road from each other at Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, PRC. The total combined production area of both our manufacturing facilities is approximately 18,000 m².

The utilisation rate of our combined production facilities for the past three financial years is as follows:

FY2004		FY2005		FY2006	
Maximum capacity ⁽¹⁾	Utilisation rate ⁽²⁾ (%)	Maximum capacity ⁽¹⁾⁽³⁾	Utilisation rate ⁽²⁾ (%)	Maximum capacity ⁽¹⁾	Utilisation rate ⁽²⁾ (%)
8,640,000	93.2	10,800,000	88.5	12,960,000	89.1

Notes:

- (1) The production capacity of our production facilities is measured in terms of the number of pairs of footwear manufactured based on: (i) the time interval between the placement of each upper on the lasting production line; (ii) the number of lasting production lines employed by us during the financial year being operational for 20 hours per day 300 days a year; and (iii) the level of experience and productivity of the production staff in FY2006 which is assumed to be constant throughout FY2004, FY2005 and FY2006. The production capacity for each production line is 2,160,000 pairs of footwear per annum.
- (2) The utilisation rate of our production facilities in each financial year is calculated by dividing the total actual number of footwear produced for the whole of that financial year by the production capacity.
- (3) Two additional production lines were added in July 2005. Accordingly, the production capacity from these two lines were only added from July onwards (of 1,080,000 pairs of footwear per line).

In March and May 2007, we added two production lines to our production facilities. With the two additional production lines, we currently have eight production lines with a maximum capacity of 17,280,000 pairs of footwear per annum.

QUALITY ASSURANCE

We believe that our commitment to quality is one of the key contributors to the growth of our revenue and the establishment of our brand. We have put in place quality control procedures in order to ensure that our products meet our quality standards. Brief details of our quality control procedures are set out below:

Raw materials: Personnel from our Procurement Department carry out inspection and testing on samples from our incoming raw materials on a random basis to ensure that the quality of the raw materials meet our specifications and quality standards. Raw materials that do not meet our specifications and requirements are returned to our suppliers to be replaced or rectified.

Production process quality control: Inspections are carried out throughout the production process at various intervals, which allow us to identify and rectify defects at an early stage.

Finished products quality control: Prior to being packed into boxes, samples of our finished products are inspected and tested again to ensure that only products which meet our quality standards are sold to our customers.

In 2006, we obtained an ISO9001 certification. Our OEM customers would from time to time station their quality assurance personnel at our production facilities to monitor our production of their products. In addition, our OEM customers also carry out two audits each year on various aspects of our business including our management, manufacturing and quality capabilities to ensure that we meet their requirements.

As we outsource a portion of production to our contract manufacturers, we also place emphasis on the products produced by such contract manufacturers. In this regard, we regularly send our personnel to the manufacturing premises of our contract manufacturers to audit and to ensure that our contract manufacturers have in place similar quality control procedures as ours. In addition, finished products that are sent to us are also inspected to ensure that they meet our quality requirements and are in accordance with our orders. Finished products that do not meet our quality requirements are rejected and returned.

SALES AND MARKETING

Our Group's marketing focus is to build our YELI brand. Our Sales and Marketing Department is led by our Executive Director, Lin Shaoqin, who in turn reports directly to our Executive Director and CEO, Lin Shaoxiong. The department is responsible for our YELI brand building, execution of our sales and marketing strategies, the monitoring of our sales and marketing activities, obtaining relevant feedback from customers regarding our products, liaising with distributors and OEM customers and providing market feedback to the Product Design and Development Department for market research.

Our distributors who are responsible for their assigned territories in the PRC, on-sell our products to various retailers within their respective territories. These retailers will set up a sales outlet, primarily a shop-in-shop, in chain stores, department stores or sports shops.

We have also built up strong relationships with our OEM customers over the years, and we believe that they are confident of our manufacturing capabilities and pricing.

We advertise our YELI products in various medium targeting the youth, including print media such as magazines and newspapers, on TV and on the Internet. Our advertising and promotion activities are conceptualised and carried out by personnel from our Sales and Marketing Department who are also responsible for liaising with third party service providers such as production houses and advertising agencies.

In October 2006, we appointed Shuimu Nianhua (“水木年华”) as our celebrity spokespersons. We chose this popular two-member music band as our celebrity spokespersons because the band enjoys a good following amongst youths who identify with the band's image of youth, cultural preferences and interests.

To showcase our YELI product offerings to our distributors and retailers, we hold two to three major sales fairs each year, typically around April, September and November, to showcase our new products for the various seasons and to solicit orders for our products from our distributors for that season. These sales fairs are important platforms for us to showcase our latest product designs to our existing and potential distributors and retailers and also to enable us to interact with our distributors and retailers and obtain valuable feedback on market acceptance of our YELI products.

Moving forward, as our focus would be on building our YELI brand, we do not expect our sales to OEM customers to grow as much as in the past. Nevertheless, we will continue to maintain strong relationships with our existing OEM customers whom we mainly produce for under the “Kappa” brand as well as other potential OEM customers, so that we keep abreast of the latest developments and know-how of the international brands.

Our Sales and Marketing Department is also responsible for liaising with third party contract manufacturers of sports apparel, and makes the final selection of sports apparel designed by such contract manufacturers on our behalf.

PRODUCT DESIGN AND DEVELOPMENT

The primary objective in product design is to develop new and trendy sports fashion footwear and apparel that fit our YELI brand image. We believe our product design success is largely due to our ability to recognise and anticipate trends in the sports fashion industry and consumers' ever evolving preferences. The Product Design and Development Department works as part of our Production Department.

From conceptualisation to finalisation of the design, we take approximately one to two months. We typically introduce 100 new footwear designs for each new season's collection launch so as to keep current with latest market trends.

The core areas of product design which we have focused on and which we intend to continue to focus on consists of market research and technological research, which although discussed separately below are not mutually exclusive and are in fact often conducted by the same group of personnel within the Product Design and Development Department.

Market Research

We have to continually keep up to date with the latest trends in fashion as well as consumer preferences. We strive to analyse, interpret and translate current and emerging lifestyle trends affecting our target consumer group with regard to progressive sportswear. To that end, our designers monitor our product sales to key distributors to identify current popular styles and competitors' products as well as obtain information from various market sources such as internet websites, fashion magazines and industry journals regularly. In addition, our designers are also encouraged to attend fashion shows and exhibitions to further their product knowledge and keep abreast of prevailing and future market trends and to interact with foreign designers, such as those of our OEM customers. They also obtain feedback from our Sales and Marketing Department personnel and key distributors which can be incorporated into later designs of our products.

Technological Research

In order to ensure that our products do not lag behind our competitors' in terms of features and other technological advances, we continually look into new advances in technology such as the different types of soles or different types of fabrics or other materials which we can use for our footwear.

In early 2006, we collaborated with Li Chengkuan, an independent third party, who successfully developed our Thermal Shoes. We intend to further our research in this area to refine the product and look into new ways which target consumers can be segmented. For example, our Thermal Shoes may target "vertical" market segments including the uniformed groups (for example, the military and police), the construction segment and the children's segment.

We expended approximately RMB 0.7 million, RMB 0.9 million and RMB 8.1 million on product design and development for FY2004, FY2005 and FY2006 respectively. The increase in FY2006 was mainly due to the development expenses for the apparel line and greater emphasis placed on product design and development.

STAFF TRAINING POLICY

Our employee training is conducted in-house. The most important component of the training which we give to our employees is on-the-job training where in addition to being trained, they can obtain valuable practical experience at the same time.

Based on our employees' job scope, we provide them with the necessary skills and knowledge to allow them to do their jobs efficiently and effectively. The internal training that we provide includes orientation programs for our new employees to familiarise them with the general working environment, our products, quality assurance measures and safety procedures.

In addition, our management-level employees are also encouraged to enrich themselves by attending various external talks and seminars while our designers are encouraged to seek greater exposure to design trends through attendance at fashion shows and exhibitions.

TRADE MARKS / PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS

We are in an industry where consumers are brand-conscious when it comes to making purchasing decisions. Accordingly, we have established our brand name over the years through careful positioning through our sales and marketing activities. As such, our trademarks are valuable to us and are important to the continued growth of our business.

As at the Latest Practicable Date, our Group has registered the following trade marks with the Trademark Office of the State Administration of Industry and Commerce of the PRC:

Trade Mark	Country of Registration	Class	Registration Number	Registration Date	Term
	PRC	25	1040421	28 June 1997	10 years (expiring on 27 June 2007)*
	PRC	25	1238711	14 January 1999	10 years (expiring on 13 January 2009)
	PRC	25	1417220	7 July 2000	10 years (expiring on 6 July 2010)
	PRC	25	1497446	28 December 2000	10 years (expiring on 27 December 2010)
	PRC	25	1509233	21 January 2001	10 years (expiring on 20 January 2011)
	PRC	25	1938428	28 October 2002	10 years (expiring on 27 October 2012)
	PRC	25	1938429	28 October 2002	10 years (expiring on 27 October 2012)
	PRC	25	1936486	7 January 2003	10 years (expiring on 6 January 2013)
	PRC	25	3047376	14 January 2003	10 years (expiring on 13 June 2013)

* Our Group has applied for the extension of the term of this trade mark for a further ten years.

As at the Latest Practicable Date, our Group has applied for the transfer of the following patent:

Description of Patent	Country of Application	Nature	Patent Number	Publication Date	Status
Thermal Shoes	PRC	Utility Model	ZL2005201011 11.8	10 May 2006	10 years (expiring on 17 March 2015)

We have acquired the patent from Li Chengkuan for a consideration of RMB 6.0 million. The RMB 6.0 million consideration was based on arm's length negotiations with Li Chengkuan with reference to his capital outlay and market potential of the patent. As at the Latest Practicable Date, we are in the process of transferring the same from Li Chengkuan to us.

Save as disclosed above, our business or profitability is not dependent on nor do we have any other registered trademark, patent or licence or any other intellectual property rights.

MAJOR SUPPLIERS

Our suppliers include both suppliers of raw materials and our contract manufacturers. They are primarily based in Quanzhou City, Fujian Province, PRC, where we are located. Their proximity allows us to enjoy lower prices for procurements due to lower transportation costs.

We have not experienced any difficulties in sourcing for raw material suppliers or contract manufacturers for our requirements nor do we envisage facing any such difficulties in the future due to our established relationships with them.

We generally purchase raw materials and place orders with our contract manufacturers after we have received orders from our distributors and/or OEM customers. Our Procurement Department is responsible for all our procurement activities from planning to logistics.

Raw material suppliers

The principal raw materials used in the production of our sports footwear are synthetic leather, genuine leather, nylon and mesh. Other raw materials include insoles, sole units, laces, glue and packaging boxes.

We select our raw material suppliers based on their product quality, reliability, price, range of designs (if applicable), availability, speed of delivery and reputation. As there are many such suppliers of the raw materials in Quanzhou City, Fujian Province, PRC, an area with a high concentration of shoe manufacturers, we are not reliant on any one supplier.

Contract Manufacturers

We rely on our contract manufacturers for the manufacture of a portion of our YELI footwear and all our YELI sports apparel. Our business strategy of outsourcing part of our production enables us to meet sudden increases in demand, have greater flexibility in scaling our production volume at the appropriate times and enter into the complementary apparel business quickly without having to expend substantial financial and management resources on building such production capabilities.

We select our contract manufacturers based on our stringent criteria, which include product quality, reliability, price, range of designs (in relation to YELI sports apparel), availability and speed of delivery. As there are many footwear manufacturers based in Quanzhou City, Fujian Province, PRC, we are not reliant on any contract manufacturer for the contract manufacture of our footwear. We also are not reliant on any single contract manufacturer for sports apparel due to the presence of large number of such contract manufacturers in Quanzhou City, Fujian Province, PRC. As at the Latest Practicable Date, we have three contract manufacturers in aggregate for our YELI footwear and apparel.

The following are the raw materials suppliers and contract manufacturers that supplied 5% or more of our purchases in the past three financial years:

Suppliers	Percentage of total purchases (%)		
	FY2004	FY2005	FY2006
Raw Material Suppliers			
Jinjiang City Yitai Footwear Materials Co., Ltd. (晋江市亿泰鞋用材料有限公司)	5.76	13.19	6.98
Jinjiang City Aiermei Footwear Materials Co., Ltd. (晋江市爱尔美鞋材公司)	—	13.95	6.95
Quanzhou City Guosheng Footwear Materials Co., Ltd. (泉州市国盛鞋材有限公司)	—	15.51	4.27
Jinjiang City Chendai Shunxing Composit Factory (晋江市陈埭顺兴复合厂)	—	8.48	3.95
Jinjiang Xiezhi No. 1 Footwear Materials Factory (晋江市协志鞋材一厂)	—	7.45	2.60
Jinjiang City Xinyuan Footwear Materials Co., Ltd. (晋江市新远鞋材有限公司)	6.72	—	—
Fujian Jinjiang City Xielong Footwear Materials Co., Ltd. (福建晋江市协龙鞋料有限公司)	6.64	1.71	4.81
Jinjiang City Nanguang Gum Co., Ltd. (晋江市南光胶水有限公司)	—	5.62	1.98
Jinjiang City Hengdeli Footwear Materials Trading Co., Ltd. (晋江市恒得利鞋材料贸易有限公司)	—	5.45	6.00
Fujian Province Jinjiang City Kete Footwear Materials Co., Ltd. (福建省晋江市科特鞋材料有限公司)	—	4.96	7.33
Jinjiang City Wanhua Synthetic Leather Development Co., Ltd. (晋江市万华合成革发展有限公司)	1.34	1.17	5.47
Quanzhou City Chemical Product Supply and Marketing Co. (泉州市化学工业产品供销公司)	1.27	5.45	2.17
Xinwei (Fujian) Light Industry Co., Ltd. (鑫威(福建)轻工有限公司)	5.00	—	—
Contract Manufacturers			
Xinqile (Fujian) Light Industry Development Co., Ltd. (新琪乐(福建)轻工发展有限公司)	5.78	12.15	14.00
Quanzhou City Buyuan Trading Co., Ltd. (泉州市博源经贸有限公司)	—	—	11.99

The year-to-year fluctuations in purchases from our major suppliers were due mainly to the wide variety of raw materials required and the large number of such suppliers of raw materials in Quanzhou City where we are located.

None of our Directors or Substantial Shareholders has any interest, direct or indirect, in any of the above major suppliers.

MAJOR CUSTOMERS

In respect of our YELI products, our customers are distributors who purchase our products to resell to retailers in the PRC. We also sell to exporters who export our YELI products to overseas markets such as Spain, Italy, Greece and the United Arab Emirates. We do not at present engage in any direct retail sales to consumers.

Our OEM products are presently sold to exporters which had been appointed as authorised distributors of the OEM brands by the brand owners. We will enter into agreements with these authorised distributors who will appoint us as the OEM producer for the particular brand of product. These agreements are typically for a period of 2 years. We do not sell OEM products directly to the brand owners. Presently, we produce mainly for the “Kappa” brand for our OEM customers and our OEM products are exported to countries such as Israel and Greece.

As at the Latest Practicable Date, we have approximately 20 distributors and 7 exporters (including our OEM customers). Our YELI products are sold by our distributors in over 1,500 sales outlets (comprising mainly of shop-in-shop) in the PRC, with the highest concentration found in the North-east Provinces.

The following are our customers whose purchases constituted 5% or more of our revenue in the last three financial years:

Customers	Percentage of total revenue (%)		
	FY2004	FY2005	FY2006
Fujian Province Uptop Trading Co., Ltd. (福建省优拓贸易有限公司)	—	9.25	6.25
Shenzhen City Meite Trading Co., Ltd. (深圳市美特贸易有限公司)	—	13.88	4.16
Fujian Jinjiang City Jiayi Import & Export Trading Co., Ltd. (福建省晋江市加怡进出口贸易有限公司)	—	8.20	5.11
Jiangxi Province Knitted & Cotton Fabrics Import & Export Co. ⁽¹⁾ (江西省针棉织品进出口公司)	14.31	—	—
Xiamen Huamin Import & Export Co. ⁽¹⁾ (厦门华闽进出口有限公司)	12.58	—	—
Fujian Province Headwear & Footwear Import & Export Group Co. ⁽¹⁾ (福建省鞋帽进出口集团公司)	12.36	—	—
Xiamen Huafu Import & Export Co., Ltd. ⁽¹⁾ (厦门华福进出口有限公司)	8.88	—	—
Fujian Province Jinjiang City Foreign Trade Co., Ltd. (福建省晋江市对外贸易有限公司)	8.57	4.74	5.52
Shanghai Hengyi Sports Goods Co., Ltd. (上海恒溢体育用品有限公司)	—	7.82	3.59
China National Bluestar (Group) Corporation (中国蓝星(集团)总公司)	—	7.78	4.80
Fujian Province Footwear & Headwear Import & Export Co., Ltd. (福建省福维尔进出口有限公司)	—	6.46	4.47
Shishi City Yizhong Trading Co., Ltd. (石狮市亿众商贸有限责任公司)	—	3.79	6.24
China Bluestar International Chemical Co., Ltd. (中蓝国际化工有限公司)	—	—	6.22

Customers	Percentage of total revenue (%)		
	FY2004	FY2005	FY2006
Fujian Province Coal Import & Export Co. ⁽¹⁾ (福建省煤炭进出口公司)	6.05	—	—
Ningbo Tengfeng Import & Export Co., Ltd. (宁波腾峰进出口有限公司)	—	5.79	4.89
The Home World Hypermarket Co., Ltd. ⁽²⁾ Lanzhou Tianshui Road Branch (家世界连锁商业集团有限公司兰州天水路分公司)	5.78	—	—
Xiamen Weierqi Import & Export Co., Ltd. (厦门伟尔奇进出口有限公司)	—	5.69	3.96
China National Light Industrial Products Import & Export Corporation (中轻阳光进出口有限公司)	—	2.71	5.36
Jinjiang City Sentai Import Co., Ltd. (晋江市森泰进口公司)	—	5.28	3.96
China National Chemical Construction Corporation (中国化工建设总公司)	—	1.95	5.04

Notes:

- (1) These companies were OEM customers whom we stopped producing for since FY2005.
(2) This company was an exporter of our YELI products. We ceased selling our YELI products to this company since FY2005.

As we sell our products through distributors in the domestic market and export our products through exporters, the sales to our major customers fluctuate from year-to-year depending on the demand from their end customers. We may also increase our sales to a particular distributor / exporter or vice versa or stop selling to a particular distributor / exporter based on our annual evaluation of the performance of our distributors / exporters based on various criteria such as past year sales performance, projected demand, delivery schedules, prices and service provided.

Our business or profitability is not materially dependent on any industrial, commercial or financial contract (including a contract with a customer or supplier) or any new manufacturing process.

None of our Directors or Substantial Shareholders has any interest, direct or indirect, in any of the above major customers.

CREDIT MANAGEMENT

Credit Policy for our Customers

We typically give our existing customers credit terms of 30 to 60 days. We do not have a return goods policy. We invoice our customers upon delivery. New customers are usually either referred to us by our existing customers or solicited during our sales fairs.

Personnel from our Sales and Marketing Department typically conduct visits to our new customers to evaluate their credit worthiness before entering into any distribution agreement with them. If the new customers satisfy the criteria under our credit worthiness evaluation, they will be offered payment terms similar to that of our existing customers.

Personnel from our Finance Department are responsible for contacting our customers to reconcile the outstanding balances near the end of the month. For customers' whose outstanding balances are greater than 30 days, the Finance Department will put those customers on list for easy monitoring. A grace period of 15 days will typically be extended. Upon expiry of the extension period, in the event that the outstanding balances are still not settled, the Finance Department will notify the Sales and Marketing Department and our Executive Director and CEO, Lin Shaoxiong, for further action. Staff from our Sales and Marketing Department or Finance Department will also start to contact the customers and negotiate with them for the full settlement of the outstanding balances as soon as possible. Our Executive Director and CEO, Lin Shaoxiong, will participate in the process if the customers still do not settle their outstanding balances thereafter, whereupon delivery of additional goods to those customers will be withheld until payments are made. Finally, in the event that the outstanding balances are still not settled, we will take legal action to recover the same.

Our trade debtors' turnover days are as follows:

	FY2004	FY2005	FY2006
Debtors' turnover days	19	27	39

For FY2004, FY2005, FY2006, we did not have any bad debts or provisions for doubtful debts. The increase in our debtors' turnover days was generally due to the expansion of our business and the longer credit terms provided to our larger customers. The analysis of the debtors' turnover days is discussed in further detail in the section *"Liquidity and Capital Resources"* of this Prospectus.

The aging schedule for our trade receivables of approximately RMB 89.6 million as at 31 December 2006 is as follows:

	RMB'000
Within 30 days	62,221
Within 31 to 60 days	27,380

As at the Latest Practicable Date, an amount of RMB 89.6 million, representing 100.0% of our total trade receivables of RMB 89.6 million as at 31 December 2006 had been collected.

Credit Policy of our Suppliers

Payment terms granted by our suppliers vary from supplier to supplier and are also dependent, inter alia, on our relationship with the suppliers and the size of the transaction. Typical credit terms range from 30 to 60 days.

Our creditors' turnover days are as follows:

	FY2004	FY2005	FY2006
Creditors' turnover days	24	33	26

The increase in our creditors' turnover days in FY2005 was due mainly to better credit terms provided by certain of our major suppliers for our bulk orders. The decrease in our creditors' turnover days in FY2006 was a result of us making earlier payments to our creditors to maintain good business relationships.

The analysis of the creditors' turnover days is discussed further in the section *"Liquidity and Capital Resources"* of this Prospectus.

INVENTORY MANAGEMENT

Our inventory includes various raw materials such as leather, synthetic leather, cloth, nylon and soles. We do not have high inventory levels nor do we need to make any allowances for obsolescence as we only make the necessary procurement of raw materials, sports apparel and footwear from our suppliers and contract manufacturers after we have received orders from our customers. In addition, we also manufacture our footwear and procure the manufacture of our apparel upon receiving orders.

We have put in place the following inventory management procedures to ensure that our inventories are adequately accounted for:

- (a) Our production plan will incorporate the order requirements by the Production Design and Development Department and forwarded to our Executive Director and CEO, Lin Shaoxiong, for his review and approval. We do not generate any inventory aging report, as the balance from our inventory is consumed before additional quantities are ordered from our suppliers.
- (b) Stock variance control will be carried out by the Finance Department at the end of each month to monitor the efficiencies of the Production Department.
- (c) The same process set out at (b) above will also be applied to the raw materials provided to our contract manufacturers to control and monitor wastages and inefficiencies of our contract manufacturers.
- (d) The delivery of finished goods to our customers will be notified to the Finance Department for billing purposes.

Inventories are stated in our accounts at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Cost of work-in-progress and finished goods comprise of the cost of materials, direct labour cost and an appropriate proportion of production overheads as determined by the management. Net realisable value is the estimated normal selling price, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. For FY2004, FY2005 and FY2006, we have not made any provisions for stock obsolescence nor were stocks written off or written down to net realisable value.

Our inventory turnover days are as follows:

	FY2004	FY2005	FY2006
Inventory turnover days	30	25	6

Our inventory turnover improved from approximately 25 days in FY2005 to 6 days in FY2006 due to the low inventory level as at 31 December 2006 resulting from better management of delivery schedules with our raw material suppliers and distributors as well as a one-off effect of higher stocking up of finished goods by distributors at year-end in anticipation of higher sales due to a longer shopping period made available for consumers during the 2007 Lunar New Year which fell on February compared to late January during the 2006 Lunar New Year.

The analysis of the inventory turnover days is discussed further in the section *“Liquidity and Capital Resources”* of this Prospectus.

COMPETITION

We operate in a competitive market with increasing number of local and international brands. Although there are many different brands in the sports fashion footwear and apparel market, not all brands are in direct competition due to different market segmentation. Based on the experience and industry knowledge of our Executive Directors, we believe that our competitors belong to the middle to low end market segment. Like us, our competitors' products are also sold mainly in second-tier and third-tier cities in the PRC. We consider Fujian Guirenniao Sports Goods Co., Ltd. (福建贵人鸟体育用品有限公司) and Quanzhou Sanxing Sports Goods Co., Ltd. (泉州市三兴体育用品有限公司), which respectively owns the "Guirenniao" (贵人鸟) and "Tebu" (特步) brand of sports footwear and apparel to be our closest competitors.

In addition, there are numerous contract manufacturers like us in the PRC who are able to produce for our OEM customers. They are able to compete with us on the three main factors considered by OEM customers when selecting their contract manufacturers, which are quality, delivery schedule and price.

Even though we operate in a highly competitive environment, in respect of both our own YELI brand of products and the products we produce for our OEM customers, we believe that our competitive strengths as set out below will distinguish us from our competitors.

COMPETITIVE STRENGTHS

We believe that the following are our competitive strengths:

- **We have a focused approach and strategy towards our sale of YELI products**

We believe that our business strategies of high product quality, expanding at low costs and brand building (discussed in further details in the section "*Business Overview*" of this Prospectus) provides us with a competitive edge over our competitors in the PRC. This has enabled us to grow our sales of YELI products in the PRC by approximately 197.6% to RMB 312.2 million in FY2006 from RMB 104.9 million in FY2004.

- **Our YELI products have a large target market in the PRC**

Our YELI brand's target consumers are aged between 12 and 30 years. According to Euromonitor International, the total population in the PRC that are between 10 and 29 years of age was estimated to be approximately 390 million in 2006 or approximately 29.8% of the total population in the PRC. Although we have not commissioned any third party research on consumer behaviour, our Executive Directors believe that brand loyalty amongst our cluster of target consumers is strong. Therefore, if we are successful in our YELI brand building, we believe we will be able to continue growing our business and establish a higher entry barrier for our competitors or future new entrants.

- **We have strong product design and development capabilities**

We recognise the importance of product design and development in ensuring our competitiveness in the sports fashion market. We therefore have a dedicated team of experienced personnel in our Product Design and Development Department to ensure that we keep up with latest trends and design products suitable for our target consumers.

In respect of our products, our Product Design and Development Department has consistently produced and sold products which are accepted by the market, particularly in the niche segment of casual footwear. With extensive market research, we are able to understand market and fashion trends and are able to develop products which satisfy such market demand.

Further, we also have strong technical research capability. As a testament to our strength in this area, through our collaboration with Li Chengkuan, we were successful in developing a new category of footwear, the Thermal Shoes, which we believe has not yet been sold on a commercial basis in the PRC.

We believe that our continued emphasis on product design and development will ensure our continued success.

- **We have established market presence and market recognition of our YELI brand**

We believe our YELI brand is increasingly being recognised by our customers and consumers as “value-for-money” and quality sports fashion products. This is evidenced by our ability to increase our average selling price of YELI shoes by approximately 5.1% to RMB 50.3 per pair in FY2006 from RMB 47.8 per pair in FY2004, coupled with an increase in the quantity of YELI shoes sold. As a testament to the growing strength of our YELI brand, YELI was awarded “Fujian Province Famous Brand” in December 2006.

- **Our YELI products have a wide sales geographical footprint in PRC**

Our strategy of selling our YELI products to distributors, who then resell to retailers has enabled us to expand our sales geographical footprint in the PRC rapidly within a short period of time. Our strategy has allowed us to avoid the high financial risks associated with opening and running our own speciality stores, while enabling us to focus our efforts on brand building and product design and development during the past few years. As at the Latest Practicable Date, our YELI products are sold to approximately 20 distributors and are resold to retailers with more than 1,500 sales outlets comprising mainly shop-in-shop.

- **We are strategically located**

We believe that the location of our production facilities in the PRC has enabled us to achieve lower production costs, as operating costs (such as labour costs and the cost of raw materials) are generally lower in the PRC than those in developed and some other developing countries.

Furthermore, as we are located in Jinjiang City, Fujian Province, the PRC, which is renowned as one of the world’s largest sports shoe manufacturing base, while our neighbouring Shishi City is renowned for sports apparel manufacturing (Converging Knowledge report titled “*Customer Report Sportswear/ China*” dated 15 February 2007). This enables us to have access to a large pool of raw materials suppliers and contract manufacturers.

- **We have an experienced management team**

Our Non-executive Director, Lin Yongjian, who is the founder of our Group has more than 15 years’ experience in the shoe industry. With his experience, he assists in our Group’s strategic planning and is not involved in day-to-day operations. We have a relatively young but experienced management led by Executive Director and CEO, Lin Shaoxiong, who has been with our Group since 1998. The management team is goal oriented and focused on execution of our Group’s strategies. They have demonstrated that they have the ability to meet and anticipate the industry and target market changes as evidenced by the growth of our sales of YELI products by approximately 147.5% to RMB 425.5 million in FY2006 from RMB 171.9 million in FY2004.

PROPERTIES AND FIXED ASSETS

We own the following premises which house our main administration and production facilities:

Location	Uses	Site Area (m²)	Tenure	Encumbrance
First Production Facility Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, PRC (中国晋江洋埭定兴工业区)	Industrial use	Approx. 10,000	50 years ending on 29 April 2056	None

Four of our production lines are located at the First Production Facility. The maximum production capacity of these four production lines is 8,640,000 pairs of footwear per annum.

We lease the following premises for various purposes as set out below:

Location	Uses	Site Area (m ²)	Tenure	Annual rent	Lessor
Second Production Facility Dingxing Industry Zone, Yangdai, Jinjiang City, Fujian Province, PRC (中国晋江洋埭定兴工业区)	Industrial use	Approx. 8,000	5 years (from 1 January 2006 to 31 December 2010)	RMB 960,000	Lin Mingchuan (林明川)
Warehouse Sijing, Chenda, Jinjiang City, Fujian Province, PRC (中国福建省晋江市陈埭四境)	Storage	Approx. 700	1 year (from 1 November 2006 to 31 October 2007)	RMB 36,000	Ding Qinghe (丁清河)

The Second Production Facility is located across the road from our First Production Facility and houses four production lines. The maximum production capacity of these four production lines is 8,640,000 pairs of footwear per annum.

Each of the landlords of the Warehouse and the Second Production Facility has not obtained the land use rights in respect of his plot of land. As at the Latest Practicable Date, the landlord of our Second Production Facility has made the necessary applications to the relevant authorities for the land use rights.

In the event that we are required to vacate the Second Production Facility, our Executive Directors estimate that we will only require seven working days to relocate our equipment and machinery to new premises, which we believe is not difficult to find in Jinjiang City, Fujian Province. Our Executive Directors estimate the relocation expenses to be approximately RMB 100,000 which is not material to our Group. Our Executive Directors also do not expect any significant disruptions to our production operations as the production can be outsourced to contract manufacturers during this period of time. Nevertheless, we have on 4 April 2007 obtained an undertaking from our landlord Lin Mingchuan to reimburse our Group, in respect of any losses, damages, expenses incurred by our Group if we are required by the relevant PRC regulatory authority to vacate the Second Production Facility.

Our Executive Directors are of the view that if we are required to relocate from our Warehouse, this will not have any material adverse impact on our Group as we will be able to find comparable alternatives easily within Jinjiang City, Fujian Province.

GOVERNMENT REGULATIONS

As at the Latest Practicable Date, we are not subject to any government regulations in the countries where we operate, other than those generally applicable to companies and businesses operating in such countries, which have a material effect on our business operations.

As at the Latest Practicable Date, our business operations in the PRC are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses in the PRC.

INSURANCE

We have obtained insurance, in respect of damage to certain of our fixed assets including plant and equipment, furniture and fittings, and inventory arising from, amongst others, fire and other calamities. We also maintain social insurance for our employees in line with applicable PRC laws and regulations.

We believe that the coverage from our insurance policies is adequate. However, significant damage to our operations may still have a material adverse impact on our operations results or financial condition. All insurance coverage is obtained at market rates from independent insurance companies.

ORDER BOOK

In general, our distributors do not place long term orders with us. Instead, they place orders with us from time to time depending on their requirements. As at the Latest Practicable Date, our order book based on confirmed orders from our customers amounted to approximately RMB 179.0 million. These orders are scheduled for delivery within 30 days of the orders being made and are subject to cancellation, deferral or rescheduling by our customers. Accordingly, our order books as at any particular date may not be indicative of our revenue for any succeeding period.

PROSPECTS

Rising affluence of the PRC market

As we are heavily dependent on the local PRC market for our YELI products which accounted for 61.7% of our total revenue in FY2006 and as the products we sell are categorised as consumer products, our business prospects are heavily dependent on the growth of the PRC economy and the rising consumer purchasing power of PRC consumers. Please see further discussion in the section “*Industry Overview*” of this Prospectus on the growth of the PRC economy.

Growth in demand for sports fashion wear in PRC

We believe that the demand for sports fashion wear in the PRC will be boosted by the hosting of the Beijing Olympic Games in 2008 and the Guangzhou Asian Games in 2010 with the expected increase in media coverage and publicity on sports. We believe that sportswear may not be restricted to only those who engage regularly in exercise and sporting activities, but may also become a fashion wear to be seen in. Please also see discussion in the section “*Industry Overview*” of this Prospectus on the sportswear industry in the PRC. This augurs well for sales of our YELI products in the PRC.

Potential market for our Thermal Shoes

Sometime in early 2006, we collaborated with Li Chengkuan, and he successfully developed our Thermal Shoes, a new product which we believe has not yet been introduced to the PRC or the international market on a commercial basis. As at the Latest Practicable Date, we are in the process of transferring the patent from Li Chengkuan to us. We intend to further develop our range of Thermal Shoes for different “vertical” market segments, such as the uniformed groups (for example, the military and police), the construction segment and the children segment.

We believe that there is large market potential for the sales of our Thermal Shoes as the product is suitable for various market segments as described above, in particular, in the colder regions of the PRC which include the North-east Provinces in the PRC, as well as Western and Eastern European countries where our footwear is sold.

Sales to OEM customers

As 38.3% of our total revenue is derived from sales to our OEM customers in FY2006, our prospects are also dependent on the prospects of our OEM customers. Our OEM customers’ brands are sold in the international markets and therefore, their sales will be less affected by the PRC markets and hence, provides us with some hedging against our PRC market exposure. Although our focus moving forward would be on building our YELI brand and we do not expect our sales to OEM customers to grow as much as in the past, we will continue to maintain strong relationships with our existing OEM customers as well as potential OEM customers, so that we can keep abreast of the latest developments and know-how of international brands.

TREND INFORMATION

We expect to reduce our reliance on contract manufacturers for shoe products in FY2007 with our two new production lines having come on-stream in March and May 2007. We also expect greater contribution to our revenue from sales of our sports apparel in FY2007. Based on our Directors' knowledge and experience of the industry and current trends, our Directors do not expect sharp fluctuations in the selling prices of our products although there is a general uptrend in our selling prices based on the current trend to-date. Our cost of sales, which comprises purchase cost of raw materials and packaging materials, labour costs and overheads, had been relatively stable over the last three financial years from FY2004 to FY2006. Based on the current trend to-date and barring any unforeseen circumstances, our Directors do not expect a significant deviation from this trend in FY2007. As we purchase our inventory on a just-in-time basis, we also expect our inventory levels to remain relatively stable.

Save as disclosed above and in the sections *"Risk Factors"*, *"Management Discussion's and Analysis of Financial Condition and Results of Operation"*, *"Sale and Marketing"* and *"Prospects"* of this Prospectus, and barring any unforeseen circumstances, our Directors believe that there are no other known recent trends in production, sales and inventory, the costs and selling prices of our products and services or other known trends, uncertainties, demands, commitments, or events that are reasonably likely to have a material and adverse effect on our revenue, profitability, liquidity or capital resources, or that would cause financial information disclosed in this Prospectus to be not necessarily indicative of our future operating results or financial condition. Please also refer to the section *"Cautionary Note Regarding Forward-Looking Statements"* of this Prospectus.

STRATEGY AND FUTURE PLANS

Our strategy and future plans for the growth and expansion of our businesses are described below:

(a) Acquisition and/or construction of new manufacturing facilities and the addition of new production lines to our existing facilities

We expect the sales of our products to continue to increase. Accordingly, we will consider expanding our production capacity at the appropriate time through the acquisition or construction and establishment of new manufacturing facilities in Jinjiang City, Fujian Province or elsewhere to keep pace with such increase in our sales. In this respect, we may need to acquire and/or lease other manufacturing premises as well as purchase additional machinery and equipment. In addition, we may also upgrade our existing manufacturing facilities to increase our production capacity and production efficiency through the purchase of new machinery and equipment that utilise the latest in shoe manufacturing technology. We have not entered into any such contracts for such plans as at the Latest Practicable Date. We intend to utilise approximately RMB 110.1 million of the net proceeds from the Invitation for such expansion plans.

(b) Strengthen our YELI brand through the increase in advertising and promotion activities

We intend to strengthen our YELI brand through increase in advertising and promotion activities, such as the increase in the number of advertisements placed in print media, the increase in the amount of exposure of our brand on the internet or television and participating in a greater number of trade fairs and exhibitions.

In addition, we intend to leverage on our celebrity spokespersons, Shuimu Nianhua ("水木年华") and utilise their popularity to reach out to a greater audience, in particular, those in the teenage and young adult segments, for example, through the placing of our YELI flyers in their compact disc.

We have engaged an international brand consultant to advise us on our YELI brand strategy, which may include redesigning our YELI logo and creating a new corporate and visual identity associated with the YELI brand that has a more international appeal.

As at the Latest Practicable Date, there are approximately 40 personnel in our Sales and Marketing Department. They are responsible for every aspect of our sales, marketing and distribution functions, which includes collecting feedback from distributors, identifying potential distributors and areas in which to expand our distribution network and developing advertising and promotion strategies.

In order to support the increase in our advertising and promotion activities and the growth of our distribution network in the PRC, as well as the development of new sales channels, we plan to increase the number of staff in our Sales and Marketing Department, as well as ensure that our Sales and Marketing Department is sufficiently equipped to carry out the functions stated above to support the growth of our business.

We intend to utilise approximately RMB 40.0 million of the net proceeds from the Invitation to increase our budget for advertising and promotion activities to carry out the above.

(c) Expand our distribution network and increase our sales channels

We believe that there are still significant opportunities to increase sales distribution of our YELI products in the PRC. We intend to expand our distribution network to cover regions in the PRC where we do not currently have a presence and increase our distribution network in regions where we currently do not have a strong presence. In this regard, we will have to work closely with and incentivise our existing distributors who have intimate knowledge of the geographical area in which they are covering, as well as rely on our Sales and Marketing personnel to identify potential distributors and areas in which to expand our distribution network.

As at the Latest Practicable Date, we do not yet have any YELI specialty stores and our products reach consumers through the shelf spaces of our retailers' premises or shop-in-shop. As our YELI brand becomes stronger with time, we intend at the appropriate time (which would depend largely on market conditions and the extent of the diversity of our product mix) to open such YELI specialty stores by ourselves or in partnership with our business partners or procure the opening by our distributors. We believe this would add another important sales channel and bring increased visibility to our YELI products. Currently, we are exploring opportunities for such expansion. However, there are no concrete plans as yet.

With regard to the above, we intend to utilise approximately RMB 40.0 million of the net proceeds from the Invitation to carry out our plans to expand our distribution network and increase our sales channels.

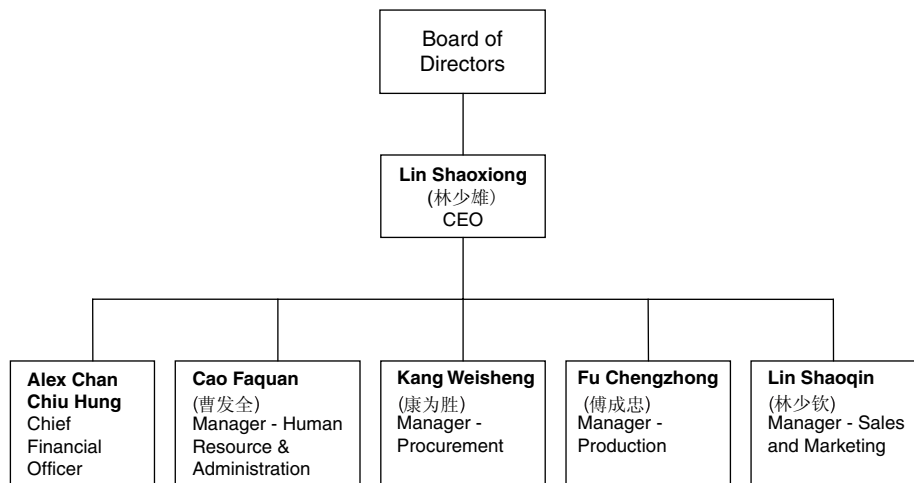
(d) Increase our product design and development efforts

We intend to increase our product design and development efforts to expand the product range of our YELI brand as well as the development of new products for the market. In this regard, we intend to further develop our range of Thermal Shoes for different "vertical" market segments, such as the uniformed groups (for example, the military and police), the construction segment and the children segment. Consequently, we intend to increase the number of our product design and development staff and invest in product design and development. We may also purchase technology and know-how for our future products. We intend to utilise approximately RMB 30.0 million of the net proceeds from the Invitation to increase our product design and development efforts.

We will make appropriate announcements as and when the proceeds from the Invitation are materially disbursed for the purposes set out above.

DIRECTORS, MANAGEMENT AND STAFF

MANAGEMENT REPORTING STRUCTURE



DIRECTORS

Our Board of Directors is entrusted with the responsibility for the overall management of our Group. Our Directors' particulars are listed below:

Name	Age	Address	Occupation
Lin Shaoxiong (林少雄)	30	No. 43, Longquan Road, Yangdai Village, Chendai Town, Jinjiang City, Fujian Province, PRC (中国福建省晋江市陈埭镇洋埭龙泉路43号)	Executive Director and CEO
Lin Shaoqin (林少钦)	25	No. 80, Xiwudaigou, Yangdai Village, Chendai Town, Jinjiang City, Fujian Province, PRC (中国福建省晋江市陈埭镇洋埭村西吾埭沟80号)	Executive Director
Lin Yongjian (林永建)	55	No. 43, Longquan Road, Yangdai Village, Chendai Town, Jinjiang City, Fujian Province, PRC (中国福建省晋江市陈埭镇洋埭龙泉路43号)	Non-executive Director
Lai Chin Yee	41	24 Simei Street 1 #07-10, Singapore 529946	Finance Director
Tham Hock Chee	58	49, Puay Hee Avenue, Singapore 348155	Management Consultant
Sam Kok Yin	31	21 Tampines Street 34, #05-02, The Eden at Tampines, Singapore 529232	Director, of an investments and financial advisory company

Information on the business and working experience of our Directors is set out below:

Lin Shaoxiong (林少雄)

Lin Shaoxiong is our Executive Chairman and CEO. He was appointed onto the Board of Directors of our Company on 9 April 2007. He is responsible for the strategic business direction and development of our Group. Lin Shaoxiong started his career in Hengfa Light Industry in 1998 at its inception, as its Director, where he was responsible for business development and day-to-day operations of our Group. His responsibilities included overseeing product development, sales and production functions of Hengfa Light Industry and liaising with key customers, suppliers and the various government authorities. He was a councillor in Jinjiang City, Fujian Province Youth Commercial Club (晋江市青年商会) from 2005 to 2007 and Fujian Province Footwear Association (福建省鞋业协会) from 2006 to 2007. He has also been the Honorary Chairman of the Quanzhou City Sino-foreign Association (泉州市中外联谊会) since 2006. Lin Shaoxiong graduated with a Diploma in Business Management from the Fujian Forestry College (福建林学院) in 1999.

Lin Shaoqin (林少钦)

Lin Shaoqin is our Executive Director. He was appointed onto the Board of Directors of our Company on 10 April 2007. Lin Shaoqin is also the Sales and Marketing Manager of our Group and is responsible for all aspects of the sales and marketing of our products. He started his career with us in 2004 as a trainee, during which he became well acquainted with all aspects of our business and operation. Thereafter, he was appointed the Sales and Marketing Manager in 2005, and helped develop our Sales and Marketing Department to expand our sales and distribution network. He graduated from the Jin Nan Chinese School, Manila, Philippines in 2003 with a diploma in Economics.

Lin Yongjian (林永建)

Lin Yongjian is our Non-executive Director and is the founder of our Company. He was appointed onto the Board of Directors of our Company on 4 June 2007. He has more than 15 years of experience in the shoe manufacturing industry. His industry experience and contacts with the business community and authorities are invaluable to our Group, allowing us to establish strong and favourable working relationships with our customers and suppliers. Lin Yongjian started his career in the footwear industry in 1984, learning various aspects of the business. In 1992, he established Yangdai Shoes Factory (洋埭制鞋厂) on his own, which undertook production of footwear for many different local brands. Subsequently in 1997, he set up Nolasco (Philippines) in the Philippines before returning to the PRC in 1998 to set up Hengfa Light Industry. He has led the growth and development of Hengfa Light Industry for the past nine years. Lin Yongjian graduated from the Yangdai Secondary School (Private) in 1967.

Lai Chin Yee

Lai Chin Yee was appointed as our Independent Director on 4 June 2007. She is our lead Independent Director. Lai Chin Yee has more than 19 years of experience in auditing, taxation, finance and accounting. She started her career in 1987 as a Graduate Assistant in KPMG Singapore, where she was later promoted to Audit Senior and then Audit Supervisor before being seconded to KPMG Melbourne in 1991. In 1993, she was promoted to Audit Manager. Subsequently, she joined Arthur Andersen, Shanghai in July 1997 as a Senior Audit Manager. She later rejoined KPMG Singapore as a Senior Audit Manager. In May 2000, she joined Qian Hu Corporation Limited, a Singapore listed company, as the Group Financial Controller and Company Secretary. She is currently the Finance Director of Qian Hu Corporation Limited, where she is responsible for overseeing the accounting, finance, treasury and taxation functions of the company and for ensuring the company's compliance with accounting standards in the countries it operates in. In December 2006, she was appointed by the Ministry of Finance as a Council Member of the Council on Corporate Disclosure and Governance (CCDG). Lai Chin Yee graduated with a Bachelor degree in Accountancy from the National University of Singapore in 1987 and is a Fellow of the Institute of Certified Public Accountant of Singapore (FCPA).

Tham Hock Chee

Mr Tham was appointed as our Independent Director on 4 June 2007. From 1972 to 1973, he worked in a German tool company, Fraesmaeschinen Reckermann as a Production Planner. Thereafter, he worked in the Singapore Economic Development Board as an investment officer from 1973 to 1979, where he was responsible for investment promotion and industrial training. He then joined Guthrie Singapore as a Product Manager in 1979 till 1983. From 1984 to 1985, Tham Hock Chee worked as a General Sales Manager of Polaroid Singapore Private Limited. From 1985 to 1999, Tham Hock Chee joined the Trade Development Board as the manager for Market Development (emerging markets) and was promoted to director in 1995, where he was responsible for the approval of subsidies for local companies through evaluation of their financial viability. Tham Hock Chee subsequently worked in the Singapore Confederation of Industries as its Secretary General and was responsible for its entire operation and financial matters, including budget and financial control and cashflow management. He was later appointed a Senior Management Consultant in Droege & Comp Singapore Pte Ltd, a German management consulting company in 2002 till 2003. Between 2003 and July 2004, Mr Tham worked as a freelance management consultant. He then joined Sitoca Pte Ltd in July 2004 as a director of business development. Tham Hock Chee left Sitoca Pte Ltd in March 2005 and is now a freelance management consultant. He received a scholarship from the German Government to study in Germany in 1967, where he graduated in 1972 as a Production Engineer from Fachhochschule Hamburg.

Sam Kok Yin

Sam Kok Yin was appointed as our Independent Director on 4 June 2007. Sam Kok Yin is currently also a director of Perennial Advisory Pte. Ltd., a company involved in investments and financial consultancy. Sam Kok Yin started his career as a practising Advocate and Solicitor. He started his legal career with Rajah & Tann in 2000. In 2003, he left to join Yeo Wee Kiong Law Corporation where he was made a Director in 2004. He also headed the China Practice at Yeo Wee Kiong Law Corporation until he left practice on 31 March 2007. His main areas of practice include corporate finance, mergers and acquisitions, and general corporate work and he had been involved in several initial public offerings, reverse takeovers, investment deals and other capital markets related transactions. Sam Kok Yin obtained his honours degree in law from the National University of Singapore in 2000 under an Overseas Union Bank scholarship. He was called to the Singapore Bar in 2001. He was ranked in first position in the postgraduate Practical Law Course organised by the Board of Legal Education and awarded the Aw Boon Haw and Aw Boon Par Memorial Prize. In 2004, Sam Kok Yin was appointed as a Singapore-China Young Business Ambassador as part of a program organised by the Singapore International Foundation and did a 10 weeks stint in Shanghai as part of the exchange program.

The list of present and past directorships of each Director over the last five years, excluding those held in our Company, is set out below:

Name	Present directorships	Past directorships
Lin Shaoxiong (林少雄)	<i>Group Companies</i> Themeway (HK) Hengfa Light Industry Quanzhou YELI <i>Other Companies</i> Nil	<i>Group Companies</i> Nil <i>Group Companies</i> Nil
Lin Shaoqin (林少钦)	<i>Group Companies</i> Quanzhou YELI <i>Other Companies</i> Nil	<i>Group Companies</i> Nil <i>Other Companies</i> Nil
Lin Yongjian (林永建)	<i>Group Companies</i> Hengfa Light Industry <i>Other Companies</i> Nolasco (Philippines)	<i>Group Companies</i> <i>Other Companies</i> Nil

Name	Present directorships	Past directorships
Lai Chin Yee	<i>Group Companies</i> Nil <i>Other Companies</i> Qian Hu Corporation Limited	<i>Group Companies</i> Nil <i>Other Companies</i> Nil
Tham Hock Chee	<i>Group Companies</i> Nil <i>Other Companies</i> Sunpower Group Ltd.	<i>Group Companies</i> Nil <i>Other Companies</i> Global Navsystems Pte. Ltd. Mount Prajna Ltd.
Sam Kok Yin	<i>Group Companies</i> Nil <i>Other Companies</i> Perennial Advisory Pte. Ltd. Asiacap Management Pte Ltd Feixiang Holdings Private Limited	<i>Group Companies</i> Nil <i>Other Companies</i> Yeo Wee Kiong Law Corporation

EXECUTIVE OFFICERS

The particulars of our Executive Officers are set out below:

Name	Age	Address	Occupation
Alex Chan Chiu Hung	41	Flat J, 4/F, 43 Ma Tau Wai Road, Hung Hom, Kowloon, Hong Kong	Chief Financial Officer
Kang Weisheng (康为胜)	40	No. 182 Yudou Village, Yudou Town, Yongchun County, Fujian Province, PRC (中国福建省永春县玉斗村182号)	Manager – Procurement
Cao Faquan (曹发全)	36	No. 54 Guankengtou, Yanggu Township, Changting County, Fujian Province, PRC (中国福建省长汀县羊牯乡官坑村大坑头54号)	Manager – Human Resource
Fu Chengzhong (傅成忠)	39	School dormitory, Meishan Township, Nan'an City, Fujian Province, PRC (中国福建省南安市眉山乡学区宿舍)	Manager – Production

Information on the business and working experience of our Executive Officers is set out below:

Alex Chan Chiu Hung

Alex Chan is our Chief Financial Officer. He oversees the management of the overall finance and accounting operations of our Group. He is also responsible for implementing internal controls and corporate governance and practices, as well as liaising with external parties and regulatory bodies in respect of our Group's financial matters. He started his career in February 1995 as an Accountant in Simmons Bedding and Furniture (HK) Limited, a subsidiary of a Japan-listed company engaged in the distribution and sales of mattresses in Hong Kong and the PRC, till June 1998. Since then, he has worked in various other Hong Kong-listed companies handling compliance, accounting, taxation and financial issues. From June 1998 to July 2003, he worked in FT Far East Limited as an Accounting Manager. Subsequently, he became the Financial Controller and Qualified Accountant of Pak Tak Knitting & Garment Factory Limited, a company that manufactures and sells knitted garments, from July 2003 to July 2005. In July 2005, Alex Chan joined Signal Media and Communications Holdings Limited as its

Financial Controller. From January 2006 to March 2007, he was appointed as the Company Secretary, Qualified Accountant and Authorised Representative of Epro Systems Limited, an IT-services company. He joined us in March 2007. Alex Chan holds a Bachelor Degree with Honours in Finance from Hong Kong Baptist University. He has been a CPA of Hong Kong Certified Public Accountants since 1998 and a fellow member of Association of Chartered Certified Accountant since 2003 and an Associate in the Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators since 2006. Alex Chan has been a member of the Institute of Chartered Accountants in England and Wales since May 2007.

Kang Weisheng (康为胜)

Kang Weisheng is our Procurement Manager and is responsible for the sourcing of and purchase of raw materials for our manufacturing operations. He is also responsible for ensuring the quality of our raw materials. Mr Kang started his career in 1988 as a supply clerk in Tianhushan Mineral Bureau (State owned enterprise) (福建省永春县天湖山矿务局 (国有企业)), a state-owned enterprise involved in the resources industry. He joined us in 1998 as a production supervisor and was appointed as the Procurement Manager in 2006. Kang Weisheng graduated from Yongchun 5th High School (福建省永春县第五中学) in Fujian Province in 1986.

Cao Faquan (曹发全)

Cao Faquan is our Human Resource Manager. He worked as an Administration Assistant in Jinjian Zhenxing Footwear Company (晋江振兴鞋业公司) from 1993 to 1999 before joining us as a Production Assistant in 2000. In 2003, he was promoted to become our Production Manager. In 2004, he was appointed as our Human Resource Manager to be responsible for all our human resource matters. He graduated from Longyan City Occupation Secondary School (龙岩市职业中专学校) in 1992.

Fu Chengzhong (傅成忠)

Fu Chengzhong is our Production Manager and is responsible for overseeing our Group's overall production activities. From 1988 to 1990, he was a teacher in Meishan High School, Nan'an City (南安市眉山中学). Subsequently, he was appointed as the Chairman of the Trade Union of Meishan High School, Nan'an City (南安市眉山中学) where he stayed until 1997. Thereafter he joined us as an Assistant General Manager at our Group's inception in 1998, and was later appointed the Human Resource Manager in 2003. In 2004, he relinquished his position as the Human Resource Manager as he became our Production Manager. He holds a Diploma in Administration from Fujian Radio & TV University (福建广播电视大学).

Save for Alex Chan Chiu Hung, none of the Executive Officers held any present and past directorships over the last five years. The present and past directorships of Alex Chan Chiu Hung over the last five years are set out below:

Name	Present directorships	Past directorships
Alex Chan Chiu Hung	<p><i>Group Companies</i> Nil</p> <p><i>Other Companies</i> A-Max Holdings Limited Vitop Bioenergy Holdings Limited Kong Sun Holdings Limited</p>	<p><i>Group Companies</i> Nil</p> <p><i>Other Companies</i> Nil</p>

Our Executive Director and CEO, Lin Shaoxiong and our Executive Director, Lin Shaoqin are sons of our Non-executive Director, Lin Yongjian. Save as disclosed above, none of our Directors and Executive Officers are related by blood or marriage to one another nor are they so related to any Substantial Shareholder of our Company. To the best of our knowledge and belief, there are no arrangements or undertakings with any Substantial Shareholders, customers, suppliers or others, pursuant to which any of our Directors and Executive Officers was appointed.

REMUNERATION

The compensation paid to our Directors and our Executive Officers for services rendered to us and our subsidiaries on an individual basis and in remuneration bands during FY2005, FY2006 and expected to be paid for the current financial year is as follows:

<u>Names</u>	<u>FY2005</u>	<u>FY2006</u>	<u>Estimated amount for current FY2007⁽¹⁾</u>
<u>Directors</u>			
Lin Shaoxiong	Nil	Nil	Band A
Lin Shaoqin	Band A	Band A	Band A
Lin Yongjian	Nil	Nil	Band A
Lai Chin Yee	N.A.	N.A.	Band A
Tham Hock Chee	N.A.	N.A.	Band A
Sam Kok Yin	N.A.	N.A.	Band A
<u>Executive Officers</u>			
Alex Chan Chiu Hung	N.A.	N.A.	Band A
Kang Weisheng	Band A	Band A	Band A
Cao Faquan	Band A	Band A	Band A
Fu Chengzhong	Band A	Band A	Band A

Notes:

- (1) The estimated amount under FY2007 does not take into account the incentive bonus that our Executive Directors are entitled to receive under their respective Service Agreements, further details of which are set out in the section "Service Agreements" of this Prospectus.
- (2) Band A means compensation of an amount between S\$0 and S\$249,999.
- (3) Band B means compensation of an amount between S\$250,000 and S\$499,999.

We have not set aside or accrued any amounts for our employees to provide for pension, retirement or similar benefits.

EMPLOYEES

As at the Latest Practicable Date, we had a workforce of approximately 1,386 full-time employees. The functional distribution of our full-time employees as at 31 December 2004, 31 December 2005, 31 December 2006 and as at the Latest Practicable Date were as follows:

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at Latest Practicable Date
Function				
Finance	4	4	5	5
Human Resource and Administration	5	8	11	20
Procurement	3	3	4	4
Production	992	1,084	1,249	1,317
Sales and Marketing	16	19	21	40
Total	1,020	1,118	1,290	1,386

All our employees are not unionised. We consider our relationship with our employees to be good. We have not been involved in any labour disputes in the last three financial years and up to the Latest Practicable Date. Our Group has also not experienced any disruption to our operations due to any labour disputes.

Save as required under applicable PRC laws, we have not set aside nor accrued any amount of money to provide for pension, retirement or similar benefits for our Directors, Executive Officers or employees.

SERVICE AGREEMENTS

Our Company has entered into separate service agreements (the “Service Agreements”) with our Executive Directors, Lin Shaoxiong and Lin Shaoqin, for a period of 3 years with effect from date of our Company’s admission to the Official List of the SGX-ST (unless otherwise terminated by either party giving not less than 6 months’ notice to the other). We may also terminate the Service Agreements of our Executive Directors if he, amongst other things, commits any serious and persistent breach of the provisions of his respective Service Agreements, becomes of unsound mind, becomes bankrupt or otherwise acts to the prejudice of our Company. None of these Executive Directors will be entitled to any benefits upon termination of their respective Service Agreements. The Service Agreements cover the terms of employment, specifically salaries and bonuses.

Pursuant to the terms of their respective Service Agreements, each of Lin Shaoxiong and Lin Shaoqin is entitled to a monthly salary of RMB 80,000 and RMB 50,000 and a performance bonus of 3% and 1% of the amount of the PBT (before taking into consideration any performance bonus) in excess of RMB 200 million for that financial year respectively.

Directors’ fees do not form part of the terms of the Service Agreements as these require the approval of Shareholders at our Company’s annual general meeting.

All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by our Executive Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

Had the Service Agreements been in effect since 1 January 2004, the operating results of our Group would have been:

(RMB’000)	FY2004	FY2005	FY2006
Directors remuneration had the Service Agreement been in existence	1,139	1,107	1,103
Adjusted operating results:			
Profit before taxation	47,619	73,412	100,125
Profit attributable to Shareholders	34,147	53,993	72,485
Pre-Invitation EPS (RMB cents) ⁽¹⁾	14.42	22.37	30.60
Post-Invitation EPS (RMB cents) ⁽¹⁾	10.14	15.73	21.52

Note:

- (1) For comparative purposes, the pre-Invitation EPS and the post-Invitation EPS for the Review Period have been computed based on the profit attributable to shareholders and the pre-Invitation and post-Invitation share capital of 236,850,000 and 336,850,000 Shares respectively.

Save as disclosed above, there are no existing or proposed service agreements between our Company, our subsidiaries and any of our Directors. There are no existing or proposed service agreements entered or to be entered into by our Directors with our Company or any of its subsidiaries which provide for benefits upon termination of employment.

INTERESTED PERSON TRANSACTIONS

In brief, transactions between our Group and any of its interested persons (namely, the Directors, Chief Executive Officer or controlling shareholders of our Company or the associates of such Directors, Chief Executive Officer or controlling shareholders) are known as interested person transactions. The following discussion sets out our material interested person transactions during the last three financial years and for the period from 31 December 2006 up to the Latest Practicable Date, with the term “interested persons” construed accordingly. Save as set out below and in the section “*Restructuring Exercise*” of this Prospectus, there are no other interested person transactions between our Group and any of its interested persons.

PAST INTERESTED PERSON TRANSACTIONS

Personal guarantees provided by Lin Shaoxiong

Our Executive Director and CEO, Lin Shaoxiong, has in the past provided a personal guarantee to secure our banking facility. Details of such banking facility which was extended to our Group is set forth below:

<u>Bank</u>	<u>Guarantee Amount</u> <u>(RMB '000)</u>	<u>Expiry Date</u>
Industrial Bank Co., Ltd.	6,000	13 May 2007

We have not paid any form of consideration to Lin Shaoxiong for the provision of the personal guarantee.

Personal guarantees provided by Lin Yongjian

Our Non-executive Director, Lin Yongjian, has in the past provided personal guarantees to secure banking facilities, primarily term loans, extended to our Group. Details of such term loans which were extended to our Group are set forth below:

<u>Bank</u>	<u>Guarantee Amount</u> <u>(RMB '000)</u>	<u>Expiry Date</u>
Industrial Bank Co., Ltd.	3,000	28 February 2006
Industrial Bank Co., Ltd.	6,000	28 September 2006
Industrial Bank Co., Ltd.	6,000	13 May 2007

We have not paid any form of consideration to Lin Yongjian for the provision of such personal guarantees.

Our Directors are of the view that although the above transactions were not on arm's length basis, they were on terms beneficial to our Group.

PRESENT ON-GOING INTERESTED PERSON TRANSACTIONS

Personal guarantee being provided by Lin Yongjian and Lin Shaoxiong

Our Non-executive Director, Lin Yongjian, and Executive Director and CEO, Lin Shaoxiong, are currently providing personal guarantees to secure our banking facility. Details of such banking facility which was extended to our Group is set forth below:

<u>Bank</u>	<u>Guarantee Amount (RMB '000)</u>	<u>Expiry Date</u>
China CITIC Bank	1,600	2 November 2007

As at the Latest Practicable Date, the loan to which the above guarantees relate to has not been repaid.

We have not and will not pay any form of consideration for the above guarantees provided by Lin Shaoxiong and Lin Yongjian. Accordingly, the Directors are of the view that although the transactions are not on an arm's length basis, they are on terms beneficial to our Group.

Save as disclosed above, there are no other present on-going interested person transactions.

POTENTIAL CONFLICTS OF INTEREST

None of our Directors, Controlling Shareholders and Executive Officers or their associates has any material interest, direct or indirect, in:

- (i) any company carrying out the same business or deals in similar products as our Company or any of our subsidiaries;
- (ii) any enterprise or company that is our Group's customer or supplier of goods or services; and
- (iii) any transaction to which we are a party.

REVIEW PROCEDURES FOR FUTURE INTERESTED PERSON TRANSACTIONS

Our Audit Committee will review and approve all interested person transactions to ensure that they are on normal commercial terms and arm's length basis, that is, the transactions are transacted on terms and prices not more favourable to the interested persons than if they were transacted with a third party and are not prejudicial to the interests of our Shareholders in any way.

During its periodic review or such other review deemed necessary by it, our Audit Committee will carry out a review of records of all interested person transactions to ensure that they are carried out in accordance with the following internal control procedures:-

- (a) All interested person transactions above S\$100,000 are to be approved by a Director who shall not be an interested person in respect of that particular transaction. Interested person transactions below S\$100,000 do not require such approval. Any sale or purchase contracts to be made with an interested person shall not be approved unless the pricing is:-
 - (i) determined in accordance with our usual business practices and policies;
 - (ii) consistent with the usual margin given or price received by us for the same or substantially similar type of transactions between us and unrelated parties; and
 - (iii) the terms are no more favourable to the interested person than those extended to or received from unrelated third parties.

For the purpose of the above, contracts for the same or substantially similar type of transactions entered into between us and unrelated third parties, if any, will be used as a basis for comparison to determine whether the price and terms offered to or received from the interested person are no more favourable than those extended to unrelated third parties.

- (b) In addition, we shall monitor all interested person transactions entered into by us and categorise these transactions as follows:-
- (i) a Category 1 interested person transaction is one where the value thereof is in excess of 3.0 per cent of the NTA of our Group; and
 - (ii) a Category 2 interested person transaction is one where the value thereof is below or equal to 3.0 per cent of the NTA of our Group;

All Category 1 interested person transactions must be approved by our Audit Committee prior to entry whereas Category 2 interested person transactions need not be approved by our Audit Committee prior to entry but shall be reviewed on a quarterly basis by our Audit Committee.

We will prepare relevant information to assist our Audit Committee in its review.

Before any agreement or arrangement that is not in the ordinary course of business of our Group is transacted, prior approval must be obtained from our Audit Committee. In the event that a member of our Audit Committee is interested in any of the interested person transactions, he will abstain from reviewing that particular transaction. Any decision to proceed with such an agreement or arrangement would be recorded for review by our Audit Committee.

Our Audit Committee will also review all interested person transactions to ensure that the prevailing rules and regulations of the SGX-ST (in particular, Chapter 9 of the Listing Manual) are complied with.

We will also comply with the provisions in Chapter 9 of the Listing Manual in respect of all future interested person transactions, and if required under the Listing Manual or the Bermuda Companies Act, we will seek our Shareholders' approval (where necessary) for such transactions.

All the Independent Directors, who are members of our Audit Committee, are of the view that the review procedures and systematic monitoring mechanism of all interested person transactions as mentioned above, are adequate in ensuring that such transactions will be on normal commercial terms and will not be prejudicial to the interests of our Shareholders in any way.

CORPORATE GOVERNANCE

Our Bye-laws provide that our Board of Directors shall consist of not less than two Directors. We currently have six Directors on our Board, comprising two Executive Directors, one non-Executive Director and three Independent Directors. Lai Chin Yee, Sam Kok Yin and Tham Hock Chee have been appointed as our Independent Directors. We consider Lai Chin Yee, Sam Kok Yin and Tham Hock Chee to be independent as they do not have any existing business or professional relationship with our Company, our Directors or Substantial Shareholders. They are also not related to any of our Directors or Substantial Shareholders.

Lin Shaoxiong is our Chairman and CEO. Lin Shaoxiong plays a key role in our Company in determining strategic direction and business development as well as the execution of business strategies. Coupled with his experience in the shoe industry, our Company is of the view that he is capable of carrying out both roles concurrently.

In view of Lin Shaoxiong's concurrent appointment as our Chairman and CEO, we have appointed Lai Chin Yee as our lead Independent Director, pursuant to the recommendations in Commentary 3.3 of the Code of Corporate Governance 2005. In accordance with the recommendations in the said Commentary 3.3, the lead independent director will be available to shareholders where they have concerns which contact through the normal channels of our Chairman and CEO has failed to resolve or for which such contact is inappropriate.

We have established an Audit Committee, a Remuneration Committee and a Nominating Committee.

Audit Committee

Our Audit Committee comprises Lai Chin Yee, Tham Hock Chee and Sam Kok Yin. The Chairman of the Audit Committee is Lai Chin Yee. Our Audit Committee shall meet periodically to perform the following functions:

- (a) review the audit plans of our Company's external auditors, and where applicable, our internal auditors, including the results of our auditors' review and evaluation of our system of internal controls;
- (b) review the external auditors' reports;
- (c) review the co-operation given by our Company's officers to the external auditors;
- (d) review the financial statements of our Company and our Group, and discuss any significant adjustments, major risk areas, changes in accounting policies, compliance with Singapore financial reporting standards, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of management, where necessary, before their submission to our Board for approval;
- (e) review and discuss with auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position and our management's response;
- (f) consider the appointment and/or re-appointment of external auditors;
- (g) review interested person transactions falling within the scope of Chapter 9 of the Listing Manual, if any;
- (h) review any potential conflicts of interest;

- (i) undertake such other reviews and projects as may be requested by our Board and report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee; and
- (j) undertake generally such other functions and duties as may be required by law or the Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, our Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on our Group's operating results and/or financial position. Each member of our Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is interested.

Our Company will upon our admission to the Official List of the SGX-ST put in place an internal audit function to check and report on the internal affairs of our Group. The internal audit function will report to our Audit Committee in respect of its work which will include reviewing the risk control environment, business processes and any special projects commissioned by our Audit Committee. In addition, our Company will engage an independent Singapore Certified Practising Accountant to conduct a full review of the internal controls of our Group and report its findings to our Audit Committee within a year after our Company's admission to the Official List of the SGX-ST.

Remuneration Committee

Our Remuneration Committee comprises Tham Hock Chee, Lai Chin Yee and Sam Kok Yin. The Chairman of our Remuneration Committee is Tham Hock Chee. Our Remuneration Committee will recommend to our Board a framework of remuneration for the Directors and key executives, and determine specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee should be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, and benefits in kind, shall be covered by our Remuneration Committee. Each member of our Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package.

The remuneration of employees who are related to our Directors and Substantial Shareholders will be reviewed annually by our Remuneration Committee to ensure that their remuneration packages are in line with our remuneration framework and commensurate with their respective job scopes and level of responsibilities. In the event that a member of our Remuneration Committee is related to the employee under review, he will abstain from the review.

Nominating Committee

Our Nominating Committee comprises Sam Kok Yin, Lai Chin Yee and Tham Hock Chee. The Chairman of the Nominating Committee is Sam Kok Yin. Our Nominating Committee will be responsible for (i) re-nomination of our Directors having regard to the Director's contribution and performance, (ii) determining annually whether or not a Director is independent and (iii) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. Our Nominating Committee will decide how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long term shareholders' value. The performance evaluation will also include consideration of our Company's share price performance over a 5-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. The Board will also implement a process to be carried out by our Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. Each member of our Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as director.

OTHER MATTERS

SELLING RESTRICTIONS

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for and/or purchase our Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, any jurisdiction, except for the filing and/or registration of this Prospectus in Singapore and Bermuda in order to permit a public offering of our Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of our Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by us, the Manager, the Underwriter and the Placement Agent to inform themselves about, and to observe and comply with, any such restrictions.

SELLING RESTRICTIONS IN THE PRC

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for and/or purchase our Shares or any other securities of our Company in the PRC. Under the laws of the PRC, such offer, solicitation or invitation to PRC citizens within PRC is unlawful. The distribution of this Prospectus and the offering of our Shares in the PRC are not permitted by the laws of the PRC.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by us or our officers, Directors or employees acting on our behalf, that are not statements of historical fact, constitute 'forward-looking statements'. You can identify some of these statements by forward-looking terms such as 'expect', 'believe', 'plan', 'intend', 'estimate', 'forecast', 'project', 'future', 'intend', 'probable', 'possible', 'anticipate', 'may', 'will', 'would', and 'could' or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to our revenue and profitability, cost measures, planned strategy and any other matters discussed in this Prospectus regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this Prospectus, undue reliance must not be placed on these statements.

Neither our Company, the Manager, the Underwriter and the Placement Agent nor any other person represents or warrants that our Group's actual future results, performance or achievements will be as discussed in those statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us.

Our Company, the Manager, the Underwriter and the Placement Agent disclaim any responsibility to update any forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future. We are, however, subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure. In particular, pursuant to Section 241 of the Securities and Futures Act, if after this Prospectus is registered but before the close of the Invitation, we become aware of (a) a false or misleading statement or matter in this Prospectus; (b) an omission from this Prospectus of any information that should have been included in it under Section 243 of the Securities and Futures Act; or (c) a new circumstance that has arisen since this Prospectus was lodged with the Authority and would have been required by Section 243 of the Securities and Futures Act to be included in this Prospectus, if it had arisen before this Prospectus was lodged, and that is materially adverse from the point of view of an investor, we may lodge a supplementary or replacement prospectus with the Authority.

PURCHASE BY OUR COMPANY OF OUR OWN SHARES

Under the laws of Bermuda, a company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Shares repurchased may be cancelled or held as treasury shares. Our Company has such power to purchase our own Shares pursuant to paragraph 7 of our memorandum of association and Bye-law 3(2) of our Bye-laws. Such power to purchase our own Shares shall, subject to the Bermuda Companies Act, our memorandum of association and if applicable the rules and regulations of the SGX-ST and other regulatory authorities, be exercisable by the Directors upon such terms and subject to such conditions as they think fit, in accordance with Bye-law 3(2) (which requires the prior approval of our members in general meeting to be obtained for such purchase).

Under the laws of Bermuda, such purchases may only be effected out of the capital paid-up on the purchased Shares or out of the funds of our Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for that purpose. Any premium payable on such a purchase over the par value of the Shares to be purchased must be provided for out of the funds of our Company otherwise available for dividend or distribution or out of our Company's share premium account before the Shares are purchased. Any amount due to a shareholder on a purchase by our Company of our own Shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of our Company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Further, 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 our Company is, or after the purchase would be, unable to pay our liabilities as they become due. Shares purchased by our Company may either be cancelled (in which event, our Company's issued, but not our authorised, capital will be diminished accordingly) or, may be held as treasury shares. Under the laws of Bermuda, if a company holds shares as treasury shares the company shall be entered in the register of members as the member holding the shares but the company is not permitted to exercise any rights in respect of those shares and no dividend or other distribution (whether in cash or otherwise) shall be paid or made to the company in respect of such shares.

For further details, please see *"Purchase of shares and warrants by a company and its subsidiaries"* in paragraph (d) of Appendix D - *"Summary of Bermuda Company Law"* to this Prospectus.

Our Company presently has no intention of purchasing our own Shares after the listing. However, if we decide to do so later, we will seek our shareholders' approval in accordance with the Bye-laws of our Company and the rules of the SGX-ST.

ATTENDANCE AT GENERAL MEETINGS

Under the Bermuda Companies Act, only those persons who agree to become shareholders of a Bermuda company and whose names are entered on the register of members of such a company are considered members, with rights to attend and vote at general meetings. Depositors holding Shares through CDP are not recognised as members of our Company, and do not have a right under the Bermuda Companies Act to attend and to vote at general meetings of our Company. In the event that Depositors wish to attend and vote at general meetings of our Company, CDP will have to appoint them as proxies, pursuant to the Bye-laws and the Bermuda Companies Act.

In accordance with Bye-law 77(1) unless CDP specifies otherwise in a written notice to our Company, CDP shall be deemed to have appointed as CDP's proxies each of the Depositors who are individuals and whose names are shown in the records of CDP, as at a time not earlier than 48 hours prior to the time of the relevant general meeting, supplied by CDP to our Company. Therefore, Depositors who are individuals can attend and vote at general meetings of our Company without the lodgment of any proxy form. Depositors who cannot attend a meeting personally may enable their nominees to attend as CDP's proxies by completing and returning appropriate proxy forms. Depositors who are not individuals can only be represented at a general meeting of our Company if their nominees are appointed by CDP as CDP's proxies. Proxy forms appointing nominees of Depositors as proxies of CDP would need to be executed by CDP as member and must be deposited at the specified place and within the time frame specified by our Company to enable the nominees to attend and vote at the relevant general meeting of our Company.

TAKE-OVERS

There are presently no Bermuda laws or regulations of general application which will require persons who acquire significant holding in our Shares to make take-over offers for our Shares or to notify us.

However, pursuant to the Singapore Take-over and Merger Laws and Regulations, the Code would apply to take-over offers of companies which are incorporated outside Singapore and all or any of the shares of which are listed for quotation on a securities exchange (as defined in the Securities and Futures Act). Accordingly, the Singapore Take-over and Merger Laws and Regulations will apply to take-over offers for our Shares for so long as our Shares are listed on a securities exchange, which includes the SGX-ST.

ENFORCEMENT OF CIVIL LIABILITIES

We are a Bermuda exempted company. Accordingly, the rights of our Members are governed by Bermuda law and our memorandum of association and Bye-laws. The rights of our Members under Bermuda law may differ from the rights of shareholders of companies or corporations incorporated in other jurisdictions. The Bermuda Companies Act provides that documents may be served on a Bermuda company by leaving it at the registered office of the company. Our registered office is located in Bermuda. Save for our three Independent Directors, the other Directors and officers referred to in this Prospectus are not residents of Singapore, and a substantial portion of our assets are located outside Singapore. As a result, it may be difficult for investors to effect service of process on us or on those persons who are not in Singapore or to enforce any judgment obtained in Singapore courts against us or such persons. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions (including Singapore) against us or our Directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our Directors or officers under the securities laws of other jurisdictions.

CLEARANCE AND SETTLEMENT

Upon listing and quotation on SGX-ST, our Shares will be traded under the book-entry settlement system of CDP, and all dealings in and transactions of the Shares through SGX-ST will be effected in accordance with the terms and conditions for the operation of Securities Accounts with CDP, as amended from time to time.

Our Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through depository agents, Securities Accounts with CDP. Depositors and Depository Agents will not be treated, under our Bye-laws and the Bermuda Companies Act, as members of our Company in respect of the number of Shares credited to their respective securities accounts, and may not be accorded the full rights of membership, such as voting rights, the right to appoint proxies, or the right to receive shareholders' circulars, proxy forms, annual reports and prospectuses. In such an event, Depositors and Depository Agents will be accorded only such rights as CDP may make available to them pursuant to CDP's terms and conditions to act as depository for foreign securities.

Persons holding the Shares in Securities Account(s) with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will, however, not be valid for delivery pursuant to trades transacted on SGX-ST, although they will be prima facie evidence of title and may be transferred in accordance with our Bye-laws. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S\$2.00 or such other amount as our Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of S\$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares or S\$0.20 per S\$100 or part thereof of the last-transacted price where it is withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective Securities Accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$20.00 is payable upon the deposit of each instrument of transfer with CDP.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's Securities Account being debited with the number of Shares sold and the buyer's Securities Account being credited with the number of Shares acquired. No transfer of stamp duty is currently payable for the Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in our Shares on the SGX-ST is payable at the rate of 0.05 per cent of the transaction value subject to a maximum of \$200 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to Singapore Goods and Services Tax of 5.0 per cent prior to 1 July 2007 and 7.0 per cent on or after 1 July 2007.

Dealings of our Shares will be carried out in Singapore dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in Securities Accounts. An investor may open a direct account with CDP or a sub-account with a CDP agent. The CDP agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

GENERAL AND STATUTORY INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. None of our Directors or Executive Officers is or was involved in any of the following events:
 - (i) during the last ten years, an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two years from the date he ceased to be a partner;
 - (ii) during the last ten years, an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding-up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;
 - (iii) any unsatisfied judgments against him;
 - (iv) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;
 - (v) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including pending criminal proceedings of which he is aware) for such breach;
 - (vi) during the last ten years, judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part;
 - (vii) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;
 - (viii) disqualification from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;
 - (ix) the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity;
 - (x) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of:
 - (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;
 - (b) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;

- (c) any business trust which has been investigated for breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or
- (d) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; and

- (xi) the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Authority or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.
2. No option to subscribe for shares in, or debentures of, our Company has been granted to, or was exercised by, any Director or Executive Officer within the last financial year.
 3. No person has, or has the right to be given, an option to subscribe for any securities of our Company or our subsidiaries.
 4. No Director or expert is (i) interested, directly or indirectly, in the promotion of, or in any assets acquired or disposed of by, or leased to, our Company within two years preceding the Latest Practicable Date, or in any proposal for such acquisition or disposal or leased as aforesaid, or (ii) interested where the interest consists in being a partner in a firm or a holder of shares in or debentures of a corporation interested in the same.
 5. Save as disclosed in the sections *“Interested Person Transactions”* and *“Service Agreements”* of this Prospectus, no Director has any interest in any existing contract or arrangement which is significant in relation to our business taken as a whole.
 6. There is no shareholding qualification for Directors in the Bye-laws of our Company.
 7. No sum or benefit has been paid or has been agreed to be paid to any Director or expert who is a partner of any firm in which a Director or expert or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise by any person (i) (in the case of a Director) to induce him to become, or to qualify him as our Director or otherwise for the services rendered by him or such firm or corporation in connection with the promotion or formation of our Company or (ii) (in the case of an expert) for services rendered by him or such firm or corporation in connection with the promotion or formation of our Company.

SHARE CAPITAL

8. Save as disclosed in the section *“Share Capital”* of this Prospectus, no shares or debentures were issued or were agreed to be issued by our Company for cash or for a consideration other than cash during the last two years.
9. As at the date of this Prospectus, there is only one class of shares in the capital of our Company. There are no founder, management or deferred shares. The rights and privileges attached to the Shares are as stated in our Bye-laws. The Shares owned by our Directors and Substantial Shareholders are not entitled to any different voting rights from the Invitation Shares. Save as disclosed below and set out in the sections *“Share Capital”* and *“Restructuring Exercise”* of this Prospectus, there were no changes in the issued and paid-up capital of our Company and its subsidiaries within the three years preceding the date of lodgement of this Prospectus.

Our Company

Date	Purpose	Par value (HK\$)	Consideration (HK\$)	Number of Shares	Resultant Issued Share Capital (HK\$)
27 March 2007	Organisation	1.00	nil paid	20,000	20,000 (nil paid)
10 April 2007	Crediting as fully paid the existing 20,000 nil-paid Shares pursuant to the Restructuring Exercise	1.00	20,000	nil	20,000
10 April 2007	Issue of new Shares pursuant to the Restructuring Exercise	1.00	17,980,000	17,980,000	18,000,000
4 June 2007	Issue of new Shares to Pre-IPO Investors pursuant to the Restructuring Exercise	1.00	18,235,560 ⁽¹⁾	948,000	18,948,000

Note:

- (1) Based on the consideration of S\$3,570,000 converted to HK\$ based on the exchange rate of \$1.00 to HK5.108 as at the Latest Practicable Date.

Themeway (HK)

Date	Purpose	Par value (HK\$)	Consideration (HK\$)	Number of Shares	Resultant Issued Share Capital (HK\$)
14 October 2005	Subscriber's shares	1.00	1	1	1
21 March 2007	Subscriber's shares	1.00	1	1	2
21 March 2007	Capitalisation of shareholders' advances of 18,000,000	1.00	18,000,000	1,800	1,802

Hengfa Light Industry

Date	Purpose of Issue	Par value	Consideration (HK\$)	Number of Shares	Amount of capital contributed (HK\$) ⁽¹⁾	Resultant
20 August 1998	Registered capital on registration	N.A.	N.A.	N.A.	7,890,000	7,890,000
5 July 2006	Increase in paid-up capital	N.A.	N.A.	N.A.	10,110,000	18,000,000

Quanzhou YELI

Date	Purpose of Issue	Par value	Consideration (HK\$)	Number of Shares	Amount of capital contributed (HK\$)⁽¹⁾	Resultant
29 March 2007	Registered capital on registration	N.A.	N.A.	N.A.	4,530,000 ⁽²⁾	—

Note:

- (1) The registered capital of Hengfa Light Industry and Quanzhou YELI do not consist of shares but of investment contributions of its shareholders.
- (2) The registered capital is paid up to HK\$4,530,000 as at the Latest Practicable Date with the remaining HK\$9,350,000 to be paid up within 18 months of the incorporation date.

10. There has been no previous issue of Shares by us or offer for sale of our Shares to the public within the two years preceding the Latest Practicable Date.

LITIGATION

11. Our Group was not engaged in any legal or arbitration proceedings in the last 12 months before the date of the lodgement of this Prospectus, as plaintiff or defendant in respect of any claims or amounts which are material in the context of the Invitation and our Directors have no knowledge of any proceedings pending or threatened against our Group or any facts likely to give rise to any litigation, claims or proceedings which might materially affect the financial position or profitability of our Group.

MATERIAL CONTRACTS

12. The following contracts not being contracts entered into in the ordinary course of business have been entered into by our Company and our subsidiaries within the two years preceding the date of lodgment of this Prospectus and are or may be material:
- (a) Share Transfer Agreement dated 4 March 2006 between Themeway (HK) and Nolasco (Philippines) (which is the original sole shareholder of Hengfa Light Industry), pursuant to which Themeway (HK) acquired from Nolasco (Philippines) the entire registered capital of Hengfa Light Industry at an aggregate consideration of HK\$7,980,000) as set out in the section “*Restructuring Exercise*” of this Prospectus;
 - (b) Share Swap Agreement dated 10 April 2007, between our Company and Lin Shaoxiong and Li Tung Kwo, for our Company’s acquisition of the entire issued and paid-up capital of Themeway (HK). The purchase consideration was satisfied by the crediting as fully paid of the 20,000 ordinary shares of HK\$1.00 each in the capital of our Company which had been issued nil paid and the issuance of 17,980,000 ordinary shares of HK\$1.00 each to Lin Shaoxiong and Li Tung Kwo in equal proportion. Please refer to the section “*Restructuring Exercise*” of this Prospectus;
 - (c) Subscription Agreement dated 5 April 2007, pursuant to which the Pre-IPO Investors subscribed for an aggregate of 948,000 new ordinary shares of HK\$1.00 in the capital of our Company for an aggregate subscription consideration of S\$3,570,000, as described in the section “*Restructuring Exercise*” of this Prospectus; and
 - (d) Share Transfer Agreement dated 17 April 2007 pursuant to which we acquired Quanzhou YELI. Please refer to the section “*Restructuring Exercise*” of this Prospectus.

MISCELLANEOUS

13. There has not been any public takeover offer by a third party in respect of our Shares, or by our Company in respect of shares of another corporation or units of another business trust, which has occurred during the period between 31 December 2006 and the Latest Practicable Date.
14. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the Latest Practicable Date or is proposed or intended to be paid or given to any promoter at any time.
15. No expert employed on a contingent basis by our Company or any of our subsidiaries, has a material interest, whether direct or indirect, in the shares of our Company or our subsidiaries, or has a material economic interest, whether direct or indirect, in our Company or our subsidiaries, including an interest in the success of the Invitation.
16. Save as disclosed set out in the sections *"Risk Factors"*, *"Capital Expenditures, Divestment and Commitments"*, *"Trend Information"* and *"Liquidity and Capital Resources"* of this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:
 - (a) known trends or known demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our Group's liquidity increasing or decreasing in any material way;
 - (b) material commitments for capital expenditure;
 - (c) unusual or infrequent events or transactions or any significant economic changes that will materially affect the amount of reported income from operations; and
 - (d) known trends or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on revenues or operating income.
17. Save as disclosed set out in the sections *"Risk Factors"*, *"Liquidity and Capital Resources"*, *"Capital Expenditures, Divestments and Commitments"*, *"Capitalisation and Indebtedness"*, *"Prospects"* and *"Service Agreements"* of this Prospectus, our Directors are not aware of any event which has occurred since 31 December 2006, which may have a material effect on the financial position and results provided in the *"Audited Combined Financial Statements for the Years Ended 31 December 2004, 2005 And 2006"* and the *"Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006"* as set out in Appendix A and B to this Prospectus respectively.
18. We currently have no intention of changing the auditors of the companies in our Group after the listing of our Company on the SGX-ST.

Details including the names, addresses and professional qualifications (including membership in a professional body) of the auditors of our Company for the last three financial years from FY2004 to FY2006 and up to the date of lodgement of this Prospectus are as follows:

Period	Name, Membership and Address	Professional Body	Partner-in-charge/ Professional Qualification
Date of incorporation to Latest Practicable Date	Foo Kon Tan Grant Thornton Certified Public Accountants 47 Hill Street, #05-01 Singapore Chinese Chamber of Commerce & Industry Building Singapore 179365	Institute of Certified Public Accountants of Singapore	Wong Kian Kok CPA

CONSENTS

19. Foo Kon Tan Grant Thornton has given and has not withdrawn its respective written consent to the issue of this Prospectus with the inclusion herein of their reports on the *“Audited Combined Financial Statements for the Years Ended 31 December 2004, 2005 and 2006”* and *“Unaudited Pro Forma Combined Financial Statements for the Year Ended 31 December 2006”* in the form and context in which it is included and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
20. Each of the Manager, the Underwriter and the Placement Agent has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
21. GFE Law Office, the Legal Advisers to our Company on PRC Laws, has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its name and the references to its name and its opinion on page E-6 of this Prospectus in “Appendix E – Summary of Relevant PRC Laws and Regulations” which was prepared for the purposes of this Prospectus in the form and context in which they appear in this Prospectus and to act in such capacity in relation to this Prospectus.
22. Converging Knowledge has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its name and the references to its name and report titled *“Customer Report Sportswear/ China”* dated 15 February 2007 which was prepared for the purposes of this Prospectus in the form and context in which they appear in this Prospectus and to act in such capacity in relation to this Prospectus.
23. Each of the Manager, the Underwriter, the Placement Agent, the Solicitors to the Invitation, the Solicitors to the Manager, Underwriter and Placement Agent, the Legal Advisers to our Company on Bermuda Law, the Bermuda Share Registrar, the Registrar for the Invitation and the Singapore Share Transfer Agent, the Receiving Bank and the Principal Bankers do not make, or purport to make, any statement in this Prospectus or any statement upon which a statement in this Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

24. Copies of the following documents may be inspected at the offices of Messrs Rajah and Tann at 4 Battery Road, #26-01, Bank of China Building, Singapore 049908 during normal business hours for a period of 6 months from the date of registration of this Prospectus:
 - (a) the Memorandum of Association and Bye-laws of our Company;
 - (b) the *“Audited Combined Financial Statements for the Years Ended 31 December 2004, 2005 and 2006”* set out in Appendix A to this Prospectus;
 - (c) the *“Unaudited Pro forma Combined Financial Statements for the Year Ended 31 December 2006”* as set out in Appendix B to this Prospectus;
 - (d) the material contracts referred to in paragraph 12 of the section *“General and Statutory Information”* of this Prospectus;
 - (e) the letters of consent referred to in paragraphs 19, 20, 21 and 22 of the section *“General and Statutory Information”* of this Prospectus;

- (f) the Service Agreements referred to in the section “*Service Agreements*” of this Prospectus; and
- (g) the “*Customer Report Sportswear/ China*” dated 15 February 2007 issued by Converging Knowledge.

STATEMENT BY OUR DIRECTORS

25. This Prospectus has been seen and approved by our Directors and they collectively and individually accept the full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, that the facts stated and the opinions expressed herein are fair and accurate in all material respects as of the date hereof and there are no other facts the omission of which would make any statements herein misleading, and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.

AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006

9 July 2007

The Board of Directors
China Sports International Limited
Clarendon House, 2 Church Street
Hamilton HM 11
Bermuda

Dear Sirs

This report has been prepared for inclusion in the prospectus dated 9 July 2007 ("Prospectus") in connection with the invitation in respect of offer of shares of China Sports International Limited (the "Company").

We have audited the combined financial statements of the Company and its subsidiaries (collectively the "Group"), as set out in Appendix A on pages A-3 to A-27. The combined financial statements comprise the combined income statement, combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") and the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006, and a summary of significant accounting policies and other explanatory notes. (the "Combined Financial Statements"). The Combined Financial Statements, which have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"), are the responsibility of the directors of the Company. Our responsibility is to express an opinion on the Combined Financial Statements based on our audit.

Directors' responsibility for the Combined Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these Combined Financial Statements in accordance with FRS. This responsibility include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Combined Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the Combined Financial Statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Combined Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the Combined Financial Statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the Combined Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Combined Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the Combined Financial Statements.

**AUDITED COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006 (CONTINUED)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Combined Financial Statements, for the purpose of this report and prepared on the basis set out in note 4 of this report, present fairly, in all material respects, of the Group's combined results, combined statement of changes in equities and combined cash flow statements for the Relevant Periods, and of the Group's financial positions as at 31 December 2004, 2005 and 2006 and have been properly prepared in accordance with FRS.

This report has been prepared for inclusion in the prospectus (the "Prospectus") in connection with the initial public offering of the ordinary shares of the Company ("the Offering").

Yours faithfully

Foo Kon Tan Grant Thornton
Certified Public Accountants
Singapore

Wong Kian Kok
Partner

**COMBINED INCOME STATEMENTS
FOR THE THREE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006**

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Revenue	5	344,100	478,569	690,018
Cost of sales		(283,919)	(388,153)	(567,683)
Gross profit		60,181	90,416	122,335
Other income	5	45	79	119
Selling and distribution expenses		(8,884)	(12,080)	(15,978)
Administrative expenses		(2,617)	(3,617)	(5,063)
Profit from operations	6	48,725	74,798	101,413
Finance costs	7	(388)	(689)	(593)
Profit before taxation		48,337	74,109	100,820
Income tax expense	8	(13,051)	(20,009)	(27,232)
Profit attributable to shareholders		35,286	54,100	73,588
Earnings per share for profit attributable to the equity holders of the Company during the year – Basic and diluted (RMB cents) #	9	14.90	22.84	31.07

These combined earnings per share were computed based on the profit attributable to shareholders and the pre-Invitation number of shares of 236,850,000 shares (note 9).

The annexed notes form an integral part of and should be read in conjunction with these audited Combined Financial Statements.

COMBINED BALANCE SHEETS
AS AT 31 DECEMBER 2004, 2005 AND 2006

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	10	18,720	18,639	16,718
Land use rights	11	2,154	2,105	2,755
		20,874	20,744	19,473
Current assets				
Inventories, at cost	12	23,358	26,732	9,909
Trade and other receivables	13	21,941	42,812	90,401
Cash and bank balances	14	3,941	2,680	6,910
		49,240	72,224	107,220
Current liabilities				
Trade and bills payables	15	20,965	39,576	45,070
Accrued liabilities and other payables	16	6,230	7,383	9,401
Interest-bearing bank borrowings	17	6,840	14,690	8,150
Provision for income tax		4,153	4,793	6,946
		38,188	66,442	69,567
Net current assets		11,052	5,782	37,653
Net assets		31,926	26,526	57,126
EQUITY				
Shareholders' equity	18	31,926	26,526	57,126
Total equity		31,926	26,526	57,126

The annexed notes form an integral part of and should be read in conjunction with these audited Combined Financial Statements.

**COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006**

	Equity attributable to the Company's equity holders				Total equity
	Share capital RMB'000 (Note18(a))	Capital reserve RMB'000 (Note18(b))	Statutory reserves RMB'000 (Note 18(c))	Retained earnings RMB'000 (Note 18(d))	RMB'000
Balance at 1 January 2004					
As previously reported	8,462	66	4,129	18,270	30,927
Effect of prior year adjustments	—	—	(129)	(1,158)	(1,287)
As restated	8,462	66	4,000	17,112	29,640
Profit for the year	—	—	—	35,286	35,286
Transfer to statutory reserves	—	—	3,529	(3,529)	—
Dividend of RMB4.18 per share declared and paid	—	—	—	(33,000)	(33,000)
At 31 December 2004 and 1 January 2005	8,462	66	7,529	15,869	31,926
Profit for the year	—	—	—	54,100	54,100
Transfer to statutory reserves	—	—	5,410	(5,410)	—
Dividend of RMB7.54 per share declared and paid	—	—	—	(59,500)	(59,500)
At 31 December 2005 and 1 January 2006	8,462	66	12,939	5,059	26,526
Issue of share capital	10,412	—	—	—	10,412
Profit for the year	—	—	—	73,588	73,588
Transfer to statutory reserves	—	—	7,363	(7,363)	—
Dividend of RMB2.97 per share declared and paid	—	—	—	(53,400)	(53,400)
At 31 December 2006	18,874	66	20,302	17,884	57,126

The annexed notes form an integral part of and should be read in conjunction with these audited Combined Financial Statements.

**COMBINED CASH FLOW STATEMENTS
FOR THE THREE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006**

		Year ended 31 December		
	Notes	2004 RMB'000	2005 RMB'000	2006 RMB'000
Cash flows from operating activities				
Profit before taxation		48,337	74,109	100,820
Adjustments for				
Interest income	5	(45)	(79)	(119)
Depreciation	6	1,755	1,921	1,921
Amortisation of land use rights		49	49	57
Interest expenses	7	388	689	593
Operating profit before working capital changes		50,484	76,689	103,272
(Increase)/ decrease in inventories		(3,137)	(3,374)	16,823
Increase in trade and other receivables		(15,353)	(20,871)	(47,589)
Increase in trade and bills payables		5,903	18,611	5,494
Increase in accrued liabilities and other payables		2,757	1,153	2,018
Cash generated from operations		40,654	72,208	80,018
Interest received		45	79	119
Interest paid		(388)	(689)	(593)
Income tax paid		(10,589)	(19,369)	(25,079)
<i>Net cash generated from operating activities</i>		29,722	52,229	54,465
Cash flows from investing activities				
Acquisition of land use rights		—	—	(707)
Bank deposits pledged		—	—	(1,540)
Purchase of property, plant and equipment		—	(1,840)	—
<i>Net cash used in investing activities</i>		—	(1,840)	(2,247)
Cash flows from financing activities				
Bank loans obtained		6,840	14,900	7,600
Repayment of bank loans		(4,850)	(7,050)	(14,140)
Issue of share capital		—	—	10,412
Payment of dividend		(33,000)	(59,500)	(53,400)
<i>Net cash used in financing activities</i>		(31,010)	(51,650)	(49,528)
Net (decrease) / increase in cash and cash equivalents		(1,288)	(1,261)	2,690
Cash and cash equivalents at 1 January		5,229	3,941	2,680
Cash and cash equivalents at 31 December	14	3,941	2,680	5,370

The annexed notes form an integral part of and should be read in conjunction with these audited Combined Financial Statements.

NOTES TO THE AUDITED COMBINED FINANCIAL STATEMENTS

1. INTRODUCTION

The Combined Financial Statements of the Group have been prepared for inclusion in the Prospectus of the Company issued for the invitation (the “Invitation”) by the Company in respect of the public offering of 100,000,000 new ordinary shares of HK\$0.08 each comprising 3,000,000 offer shares at S\$0.80 each and 97,000,000 placement shares at S\$0.80 each in the Company for cash.

2. THE COMPANY

The Company (Registration No. 39798) was incorporated in Bermuda on 27 March 2007 under the Bermuda Companies Act as an exempt company with limited liability.

At the date of incorporation, the authorised share capital of the Company was HK\$100,000 comprising 100,000 ordinary shares of HK\$1.00 each with 20,000 ordinary shares of HK\$1.00 each were issued nil-paid to Lin Shaoxiong and Li Tung Kwo.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Dingxing Industrial Zone, Yangdai, Jinjiang City, Fujian Province, The People’s Republic of China (“PRC”). The Company does not have a place of business in Singapore as at the date of this report.

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are set out in note 3 to the Combined Financial Statements.

Pursuant to the Restructuring Exercise, further details of which are in the section “*Restructuring Exercise*” of this Prospectus, the following changes were made to the Company’s Share Capital:

- (a) On 10 April 2007, the authorised share capital of the Company was increased from HK\$100,000 comprising 100,000 ordinary shares of HK\$1.00 each to HK\$50,000,000 comprising 50,000,000 ordinary shares of HK\$1.00 each;
- (b) Pursuant to the Share Swap Agreement dated 10 April 2007, in consideration for the acquisition of Theme Way Limited (“Themeway (HK)”) from Lin Shaoxiong and Li Tung Kwo, the Company issued on 10 April 2007 17,980,000 ordinary shares of HK\$1.00 each credited as fully paid to Lin Shaoxiong and Li Tung Kwo and credited as fully paid, the 20,000 ordinary shares of HK\$1.00 each in the capital of the Company held by Lin Shaoxiong and Li Tung Kwo, which had been previously issued nil-paid;
- (c) Pursuant to a sale and purchase agreement dated 23 February 2007, on 12 April 2007 Li Tung Kwo transferred to Ricco Strategic Long Term Holdings Limited and Colinton Investment Limited 758,400 and 189,600 shares of HK\$1.00 each in the Company respectively for an aggregate purchase consideration of HK\$948,000; and
- (d) Pursuant to a subscription agreement dated 5 April 2007, the Pre-IPO Investors subscribed for an aggregate of 948,000 shares of HK\$1.00 in the capital of the Company for an aggregate subscription consideration of S\$3,570,000 (the “Subscription”), whereby such shares were issued on 4 June 2007.

Following the Restructuring Exercise, the Company’s Share Capital was HK\$18,948,000 comprising 18,948,000 ordinary shares of HK\$1.00 each.

2. THE COMPANY (CONTINUED)

Pursuant to written resolutions dated 4 June 2007, the shareholders of the Company, approved, *inter alia*, the following:

- (a) the increase in the authorised share capital of the Company from HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1.00 each to HK\$500,000,000 divided into 500,000,000 ordinary shares of HK\$1.00 each;
- (b) the sub-division of every one ordinary share of HK\$1.00 in the authorised and issued share capital of the Company into twenty-five ordinary shares of HK\$0.04 each in the capital of the Company (the “Subdivision”);
- (c) the consolidation of every two ordinary shares of HK\$0.04 each in the authorised and issued share capital of the Company into one ordinary share of HK\$0.08 (the “Share Consolidation”);
- (d) the adoption of a new set of Bye-laws of the Company;
- (e) the allotment and issue of the New shares which are the subject of the Invitation. The New shares, when issued and fully paid-up, will rank *pari passu* in all respects with the existing issued and fully paid-up shares; and
- (f) the authorisation of the Directors, to
 - (i) issue shares whether by way of rights, bonus or otherwise (including Shares as may be issued pursuant to any Instrument (as defined below) made or granted by the Directors while the resolution is in force notwithstanding that the authority conferred by the resolution may have ceased to be in force at the time of issue of such Shares), and/or
 - (ii) make or grant offers, agreements or options or otherwise convertible securities (collectively, “Instruments”) that might or would require Shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit provided that the aggregate number of Shares issued pursuant to such authority (including Shares issued pursuant to any Instrument and including Shares which may be issued pursuant to any adjustments (“Adjustments”) effected under any relevant Instrument, which Adjustment shall be made in compliance with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws for the time being of the Company), shall not exceed 50% of the issued share capital of the Company immediately after the Invitation, and provided that the aggregate number of such Shares to be issued other than on a pro rata basis in pursuance to such authority (including Shares issued pursuant to any Instrument) to the existing Shareholders shall not exceed 20% of the issued share capital of the Company immediately after the Invitation, and, unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier.

For the purposes of this resolution and pursuant to Rules 806(3) and 806(4) of the Listing Manual, the “post-Invitation share capital” shall mean the enlarged issued and paid-up share capital of the Company after the Invitation, after adjusting for any subsequent consolidation or sub-division of the Company’s Shares.

2. THE COMPANY (CONTINUED)

As at the Latest Practicable Date, the Company has only one class of shares, being ordinary shares of HK\$0.08 each. The rights and privileges of the Company's shares are stated in the Company Bye-laws. There are no founder, management, deferred or unissued shares reserved for the issuance for any purpose. No person has been, or is entitled to be, given an option to subscribe for or purchase any securities of the Company or any of its subsidiaries.

There are no shares that are held by or on behalf of the Company or by the subsidiaries of the Company.

As at the Latest Practicable Date, the issued and paid-up capital of the Company is HK\$18,948,000 comprising 236,850,000 shares at HK\$0.08 each. Upon the allotment of the New shares, the resultant issued and paid-up share capital of the Company will be increased to HK\$26,948,000 comprising 336,850,000 shares at HK\$0.08 each.

3. THE REORGANISATION AND BASIS OF PRESENTATION

A reorganisation exercise was undertaken by the Group to rationalise the corporate structure of the Invitation ("the "Reorganisation"). The following steps were carried out in the Reorganisation:

Acquisition of Hengfa Light Industry

On 4 March 2006, Themeway (HK) and Nolasco (Philippines) (which was the original sole shareholder of Hengfa (Fujian) Light Industry Development Co., Ltd ("Hengfa Light Industry") and wholly-owned by a Non-executive Director Lin Yongjian) entered into a share transfer agreement dated 4 March 2006 pursuant to which Themeway (HK) acquired from Nolasco (Philippines) the entire registered capital of Hengfa Light Industry for an aggregate consideration of HK\$7,980,000 (such amount being the equivalent of the registered capital of Hengfa Light Industry).

Capitalisation of Shareholders' Advances

Each of Lin Shaoxiong and Li Tung Kwo had previously made advances amounting to HK\$9,000,000 to Themeway (HK) for the purposes of the company's acquisition of Hengfa Light Industry. The said advances were unsecured, interest free and had no fixed date of repayment. Subsequently, the said advances were capitalised to equity on 21 March 2007.

Acquisition of Themeway (HK)

The Company, Lin Shaoxiong and Li Tung Kwo entered into a sale and purchase agreement dated 10 April 2007 (the "Share Swap Agreement"), pursuant to which the Company acquired from Lin Shaoxiong and Li Tung Kwo, the entire issued and paid-up capital of Themeway (HK) of HK\$18,000,002. The purchase consideration which was determined based on the paid-up capital of ThemeWay (HK) was satisfied by the crediting as fully paid of the 20,000 ordinary shares of HK\$1.00 each in the capital of the Company which had been issued nil-paid and the issuance of 17,980,000 ordinary shares of HK\$1.00 each to Lin Shaoxiong and Li Tung Kwo in equal proportion.

3. THE REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

Strategic Investment by Ricco Strategic and Colinton Investment Limited

On 23 February 2007, the shareholders of Themeway (HK), Lin Shaoxiong and Li Tung Kwo and Ricco Strategic and Colinton Investment Limited entered into a sale and purchase agreement dated 23 February 2007, whereby Ricco Strategic and Colinton Investment Limited acquired 4.21% and 1.05% in the capital of the Company respectively from Li Tung Kwo for an aggregate purchase consideration of HK\$948,000. Pursuant to the sale and purchase agreement dated 23 February 2007 between Lin Shaoxiong and Li Tung Kwo and Ricco Strategic and Colinton Investment Limited, on 12 April 2007 Li Tung Kwo transferred to Ricco Strategic and Colinton Investment 758,400 and 189,600 shares of HK\$1.00 each in the Company amounting to 4.21% and 1.05% of the issued share capital of the Company respectively for an aggregate purchase consideration of HK\$948,000.

Subscription of Shares by Pre-IPO Investors

Pursuant to a subscription agreement dated 5 April 2007, the Pre-IPO Investors subscribed for an aggregate of 948,000 new ordinary shares of HK\$1.00 in the capital of the Company for an aggregate subscription consideration of S\$3,570,000, which were issued on 4 June 2007. The subscription consideration was injected into the Company on 11 April 2007 and was used to finance the two new production lines added in March and May 2007 and for general working capital purposes. Pursuant to the Restructuring Exercise as stated in the Prospectus, the Company became the holding company of the Group.

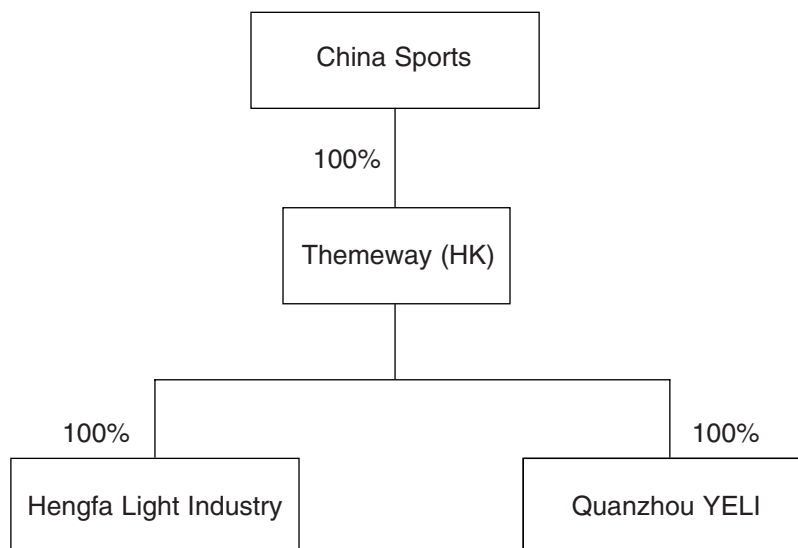
Acquisition of Quanzhou YELI

Pursuant to the share transfer agreement between Themeway (HK) and Su Chun Xu, an unrelated third party, dated 17 April 2007, the Company acquired Quanzhou YELI Sport Things Co., Ltd ("Quanzhou YELI"), a wholly foreign-owned enterprise, on 1 June 2007 to undertake the business of the design, manufacture and sale of the YELI products. As at the Latest Practicable Date, Quanzhou YELI is a dormant company with a registered capital of HK\$13,880,000 (out of which HK\$9,350,000 remains unpaid). The consideration for the acquisition was HK\$4,530,000, such amount being equivalent to the partly paid-up registered capital of Quanzhou YELI.

3. THE REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

GROUP STRUCTURE

The Group structure is shown as follows:



As at the date of this report, the Company has direct interest in the following subsidiaries, each of which is a limited liability company:

Name of Company	Date and Place of Incorporation/ Establishment	Principal Activities	Paid Up/ Registered Capital	Percentage Interest held beneficially by the Company	Note
Theme Way Limited ("Themeway (HK)")	14 October 2005 Hong Kong	Investment Holding	HK\$18,000,002	100%	a
Hengfa (Fujian) Light Industry Development Co., Ltd 恒发(福建)轻工业发展有限公司 ("Hengfa Light Industry")	20 August 1998 PRC	Production of plastic footwear, footwear-making materials, clothing and plastic products (excluding varieties subject to the management of export quota license)	HK\$18,000,000	100%	b, c
Quanzhou YELI Sport Things Co., Ltd 泉州市野力体育用品有限公司 ("Quanzhou YELI")	9 May 2006 PRC	Production of casual shoes, sports shoes, apparel, footwear-making materials, bags and badminton products	HK\$13,880,000*	100%	d

* The registered capital is paid up to HK\$4,530,000 as at the Latest Practical Date, with the remaining HK\$9,350,000 to be paid out within 18 months of the Incorporation date.

The operations of the Group during the Relevant Periods were carried out by Hengfa Light Industry which was established with limited liability in the PRC. Prior to 4 March 2006, the holding company of Hengfa Light Industry was Nolasco (Philippines), a company incorporated in Philippines. There is no audit required in the Philippines.

3. THE REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

- (a) Themeway (HK) was incorporated in Hong Kong on 14 October 2005 with an authorised share capital of 10,000 ordinary shares of HK\$1.00 each with 1,802 ordinary shares of HK\$1.00 each were issued and fully paid in equal proportion to Lin Shaoxiong and Li Tung Kwo for a total consideration of HK\$18,000,002. The Company acquired the whole business of Hengfa Light Industry on 4 March 2006. The statutory financial statements of the company from 14 October 2005 (date of incorporation) to 31 December 2006 were audited by Lau & Au Yeung CPA Limited, Certified Public Accountants, Hong Kong. The audited financial statements dated 1 March 2007 were unqualified.

The Company, Lin Shaoxiong and Li Tung Kwo entered into a sale and purchase agreement dated 10 April 2007 (the "Share Swap Agreement"), pursuant to which the Company acquired from Lin Shaoxiong and Li Tung Kwo, the entire issued and paid-up capital of Themeway (HK). The purchase consideration was satisfied by the crediting as fully paid of the 20,000 ordinary shares of HK\$1.00 each in the capital of the Company which had been issued nil paid and the issuance of 17,980,000 ordinary shares of HK\$1.00 each to Lin Shaoxiong and Li Tung Kwo in equal proportion.

- (b) Hengfa Light Industry was established in the PRC with a registered capital of HK\$18,000,000.
- (c) The statutory financial statements of Hengfa Light Industry for the years ended 31 December 2004 and 2005 were audited by Anxi Datong Certified Public Accountants Limited (安溪大同有限责任会计师事务所) whereas the statutory financial statements of Hengfa Light Industry for the year ended 31 December 2006 were audited by Fujian Zhonghao Certified Public Accountant Co., Ltd (福建中浩会计师事务所有限公司). The statutory audited financial statements for the years ended 31 December 2004, 2005 and 2006 were unqualified.
- (d) Quanzhou YELI was a dormant company with a registered capital of HK\$13,880,000 (out of which HK\$9,350,000 remains unpaid). The consideration the Company paid amounted to HK\$4,530,000 (such amount being equivalent to the partly paid-up registered capital of Quanzhou YELI). The Group acquired the Company on 1 June 2007. The fair value of the net assets acquired approximated the book value. There were no intangible assets identified. The acquisition is not expected to have any significant impact to the profit of the Group nor materially affect the Group's financial position. No audited account were prepared as Quanzhou YELI was incorporated on 9 May 2006.

The Group is regarded as a continuing entity resulting from the Reorganisation since the management of all of the entities which took part in the Reorganisation were controlled by the same directors and major shareholder before and immediately after the Reorganisation. Consequently, immediately after the Reorganisation, there was a continuation of the control over the entities financial and operating policy decision that existed prior to the Reorganisation. The Reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the Combined Financial Statements for the years ended 31 December 2004, 2005 and 2006 have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries which were under common control of the directors that existed prior to the Reorganisation, However, Quanzhou YELI being acquired on 1 June 2007 will be accounted for using the purchase method of accounting since the date of acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Combined Financial Statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG"), and have been consistently applied throughout the years ended 31 December 2004, 2005 and 2006.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements

The Group has early adopted FRS, which are effective for accounting periods beginning on or after 1 January 2006, issued by the CCDG for the preparation of these Combined Financial Statements of the Group since 1 January 2004. FRS 101, First-time Adoption of Financial Reporting Standards, has been applied in preparing these Combined Financial Statements. These Combined Financial Statements are the first set of financial statements prepared in accordance with FRS by the Group.

The accounting policies set out in note 4 below have been applied consistently to all periods presented in these Combined Financial Statements and in preparing an opening FRS balance sheet at 1 January 2004 for the purpose of the first set of FRS financial statements. The accounting policies have been applied consistently by the Group.

On 1 January 2006, the group adopted the new or revised FRS and INT FRS that are mandatory for application on that date. This includes the following FRS and INT FRS, which are relevant to the Group:

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The effect of changes in Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosure and Presentation
FRS 39 (Amendment)	Financial Guarantee Contracts
INT FRS 104	Determining whether an Arrangement contracts a lease

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies.

At the date of this report, the following FRSs and INT FRSs were issued but not effective:

FRS 1	Presentation of Financial Statements-Amendments relating to capital disclosures
FRS 10	Events after the Balance Sheet Date
FRS 12	Income Taxes
FRS 14	Segment Reporting
FRS 17	Leases
FRS 19	Employee Benefits
FRS 32	Financial Instruments: Presentation
FRS 33	Earnings per Share
FRS 39	Financial Instruments: Recognition and Measurement
FRS 39	Implementation Guidance
FRS 40	Investment Property
FRS 102	Share-based Payment
FRS 103	Business Combinations
FRS 104	Insurance Contracts
FRS 104	Implementation Guidance-Revisions relating to FRS 107 Financial Instruments: Disclosures
FRS 107	Financial Instruments: Disclosures-Implementation Guidance
FRS 108	Operating Segments
INT FRS 105	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 111	FRS 102-Group and Treasury Share Transactions
INT FRS 112	Service Concessions Arrangements

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

At the date of this report, the directors do not anticipate that the adoption of the FRSs and INT FRSs issued but only effective in future financial periods to have a material impact on the Combined Financial Statements of the Group.

The Combined Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with the FRS. The Combined Financial Statements have been prepared under the historical cost convention.

The preparation of Combined Financial Statements in conformity with FRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Combined Financial Statements are disclosed in note 21. The principal accounting policies adopted are as follows:

(a) Basis of consolidation under common control business combination, purchase method and Subsidiaries

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. With the exception of Quanzhou YELI, the reorganisation exercise described in Note 2 to the Combined Financial Statements resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of FRS 103. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the Combined Financial Statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs are included in the Combined Financial Statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the Combined Financial Statements of the controlling party or parties prior to the common control combination. The carrying amounts are included as if such Combined Financial Statements had been prepared by the controlling party, including adjustments required for conforming the combined entity's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the Combined Financial Statements of the combined entity.

A subsidiary is defined as a company in which the investing company has a long-term equity interest of more than 50% or over whose financial and operating policy decisions the Group controls.

Shares in subsidiary are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

For acquisition of subsidiary under common control, the identifiable assets and liabilities were accounted for at their carrying values, in a manner similar to the pooling-of-interest method of consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(a) Basis of consolidation under common control business combination, purchase method and Subsidiaries (Continued)

For acquisition of subsidiary (Quanzhou YELI) accounted for using purchase method, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus cost directly attributable to the acquisition. Identifiable assets, liabilities, contingent liabilities of the subsidiary in an acquisition is measured at their fair values at the acquisition date.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Building	40 years
Plant and machinery	7 to 14 years
Furniture, fixtures and office equipment	4 to 6 years
Computers	5 years

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the cost of land use rights, using the straight-line method, over the period of the grant of 50 years.

(c) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of the Group's property, plant and equipment and land use rights, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the combined income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the combined income statement in the period in which it arises.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(d) Financial assets

Financial assets include cash and financial instruments. Financial assets which are within the scope of FRS 39, other than hedging instruments are classified as either financial assets at fair value through income statement, loans and receivables, held-to-maturity investments, or available-for-sale financial assets as appropriate. Financial assets which are initially recognised at fair value, are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the combined income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

For the purpose of the combined cash flow statements, cash and cash equivalents comprise cash on hand and in banks and fixed deposits which have a short maturity of generally within three months, less bank overdrafts which are repayable in demand.

For the purpose of the balance sheet classification, cash and bank balances comprise cash on hand and fixed deposits repayable on demand with any banks or other financial institutions.

(e) Financial liabilities

The Group's financial liabilities include interest-bearing bank borrowings, trade and bill payables, accrued liabilities and other payables.

Financial liabilities are recognised when the Group become a party to the contractual agreements of the financial instrument. All interest related charges are recognised as an expense in "finance cost" in the income statement.

Trade payables and bill payables

Trade payables and bill payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are recognised as expenses when incurred.

Financial guarantees

The company has issued corporate guarantees to banks for bank borrowings of a third party. The guarantees are financial guarantee contracts as they require the company to reimburse the banks if the third party fail to make principal or interest payments when due in accordance with the terms of their borrowings.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(e) Financial guarantees (Continued)

Financial guarantee contracts which are material are initially recognized at their fair value plus transaction costs and subsequently amortised to the income statement over the period of the borrowings, unless the company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling prices less all further costs of completion and the estimated costs necessary to make the sale.

(g) Provisions

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group which can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material. All provisions are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

In those cases where the possible outflow of economic resources as a result of present obligations is considered impossible or remote, or the amount to be provided for cannot be measured reliably, no contingent liability is recognised in the balance sheet, unless assumed in the course of a business combination.

(h) Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes on the following bases:

- (i) Sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(i) Income tax

Income tax for the year comprises current tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. PRC corporate income tax is provided at rates applicable to an enterprise in the PRC on income for financial reporting purpose, adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements 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 recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the 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. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(j) Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the “Scheme”), whereby the subsidiaries of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

(k) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company and Themeway (HK) is Hong Kong dollars and its subsidiaries is Renminbi. The Group’s principal operations are predominantly conducted in the People’s Republic of China (“PRC”) and thus the Combined Financial Statements are presented in Renminbi, being the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(k) Foreign currencies (Continued)

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as the date when the fair value was determined.

(iii) Group companies

The results and financial positions of the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- (2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- (3) All resulting exchange differences are recognised as a separate component of equity.

(l) Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled, or is under common control with, the Company/Group; has an interest in the Company that gives it significant influence over the Company/Group; or has joint control over the Company/Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv); or
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of Combined Financial Statements (Continued)

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the combined income statements on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the combined income statements as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the combined income statements in the accounting period in which they are incurred.

(n) Financial instruments

Financial instruments carried on the balance sheets include cash and cash equivalents, bank borrowings, all receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management are provided in Note 20.

(o) Segment reporting

No separate analysis of segment information by business or geographical segment is presented as the Group's major business comprises in design, manufacture and sales of sports shoes and sports accessories in the PRC. The Group's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

(p) Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits) to the extent that they are incidental cost directly attributable to the equity transaction.

Retained earnings include all current and prior period results as determined in the combined income statements.

5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of the Group's revenue and other income is as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
<u>Revenue</u>			
Sale of goods	344,100	478,569	690,018
<u>Other income</u>			
Interest income	45	79	119

6. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Depreciation*	1,755	1,921	1,921
Amortisation of land use rights	49	49	57
Minimum lease payments under operating leases for leasehold buildings	—	—	966
Key management personnel (other than directors)			
– salaries and related cost	149	144	181
– retirement scheme contribution	24	17	13
Other than directors and key management personnel			
– salaries and related cost	14,837	16,043	18,324
– retirement scheme contribution	1,697	2,981	4,907
Cost of inventory	259,014	353,709	507,957

* Depreciation expenses have been charged in cost of sales on the face of the combined income statements for the Relevant Periods.

7. FINANCE COSTS

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Interest charges on:			
Bank loans	388	689	593

8. INCOME TAX EXPENSE

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Current year provision:			
PRC income tax	13,051	20,009	27,232

The provision for PRC income tax is calculated based on the national income tax rate of 24% plus a local income tax rate of 3% on the assessable income of Hengfa (Fujian) Light Industry Development Co., Ltd.

No deferred tax has been provided as the Group does not have any significant temporary differences which give rise to a deferred tax asset or liability at 31 December 2004, 2005 and 2006.

Reconciliation between tax expense and accounting profit at the applicable tax rates is as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Profit before taxation	48,337	74,109	100,820
Tax at the applicable tax rate of 27%	13,051	20,009	27,221
Tax effect on non-deductible expenses	—	—	11
	13,051	20,009	27,232

9. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated based on profit attributable to equity holders of the Company for the respective years and the pre-Invitation share capital of the Company. The Company's pre-Invitation share capital of 236,850,000 shares were assumed to be in issue throughout the entire period presented.

10. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Computers RMB'000	Total RMB'000
At 1 January 2004					
Cost	18,186	9,213	2,588	220	30,207
Accumulated depreciation	(4,365)	(4,422)	(747)	(198)	(9,732)
Net book amount	13,821	4,791	1,841	22	20,475
Year ended 31 December 2004					
Opening net book amount	13,821	4,791	1,841	22	20,475
Depreciation charge	(818)	(829)	(108)	–	(1,755)
Closing net book amount	13,003	3,962	1,733	22	18,720
At 31 December 2004 and 1 January 2005					
Cost	18,186	9,213	2,588	220	30,207
Accumulated depreciation	(5,183)	(5,251)	(855)	(198)	(11,487)
Net book amount	13,003	3,962	1,733	22	18,720
Year ended 31 December 2005					
Opening net book amount	13,003	3,962	1,733	22	18,720
Additions	–	1,840	–	–	1,840
Depreciation charge	(818)	(995)	(108)	–	(1,921)
Closing net book amount	12,185	4,807	1,625	22	18,639
At 31 December 2005 and 1 January 2006					
Cost	18,186	11,053	2,588	220	32,047
Accumulated depreciation	(6,001)	(6,246)	(963)	(198)	(13,408)
Net book amount	12,185	4,807	1,625	22	18,639
Year ended 31 December 2006					
Opening net book amount	12,185	4,807	1,625	22	18,639
Depreciation charge	(818)	(995)	(108)	–	(1,921)
Closing net book amount	11,367	3,812	1,517	22	16,718
At 31 December 2006					
Cost	18,186	11,053	2,588	220	32,047
Accumulated depreciation	(6,819)	(7,241)	(1,071)	(198)	(15,329)
Net book amount	11,367	3,812	1,517	22	16,718

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All property, plant and equipment held by the Group are located in the PRC. Certain property, plant and equipment with net book value of 15,179,000 as at 31 December 2006 were pledged to a bank to secure a banking facility granted to a third party. The pledge had been discharged subsequent to the financial year ended 31 December 2006.

11. LAND USE RIGHTS

	At 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
At beginning of the year			
Cost	2,466	2,466	2,466
Accumulated amortisation	(263)	(312)	(361)
Net book amount	2,203	2,154	2,105
For the year			
Opening net book amount	2,203	2,154	2,105
Additions	—	—	707
Amortisation	(49)	(49)	(57)
Closing net book amount	2,154	2,105	2,755
At end of the year			
Cost	2,466	2,466	3,173
Accumulated amortisation	(312)	(361)	(418)
Net book amount	2,154	2,105	2,755

The land use rights of the Group refer to land located at Dingxing Industry Zone, Yangdai, Chendai Town, Jinjiang City, Fujian Province, The People's Republic of China. The land use rights of net book value of RMB2,755,000 were pledged to a bank to secure that banking facility granted to a third party. The pledge had been discharged subsequent to the financial year ended 31 December 2006.

12. INVENTORIES, AT COST

	At 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Raw materials	15,961	15,302	4,136
Work in progress	974	1,443	1,301
Finished goods	6,423	9,987	4,472
	23,358	26,732	9,909

13. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Trade receivables	21,941	42,812	89,601
Prepayments	—	—	800
	21,941	42,812	90,401

Trade receivables generally have credit terms of 30 to 60 days. Prepayments mainly relate to deposits with suppliers.

14. CASH AND BANK BALANCES

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Cash at bank	3,939	2,622	5,305
Bank deposits (pledged)	—	—	1,540
Cash on hand	2	58	65
	3,941	2,680	6,910

The Group's entire bank deposits and cash and bank balances are denominated in RMB in the PRC. The Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

Bank deposits of RMB1,540,000 are held as security against bills payables (Note 15). Cash at bank and bank deposits bear effective interest rates of 0.72%, 0.72% and 0.72% per annum during the year ended 31 December 2004, 2005 and 2006 respectively.

For the purpose of the combined cash flow statements, the year end cash and cash equivalent comprises the following:

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Cash at bank	3,939	2,622	5,305
Cash on hand	2	58	65
	3,941	2,680	5,370

15. TRADE AND BILL PAYABLES

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Trade payables	20,685	39,576	42,870
Bills payables	280	—	2,200
	20,965	39,576	45,070

Trade payables generally have credit terms ranging from 30 days to 60 days.

Bill payables are secured by bank deposits pledged with a bank (Note14).

16. ACCRUED LIABILITIES AND OTHER PAYABLES

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Accrued liabilities	4,071	4,556	5,363
Other payables	927	1,241	1,290
Amount owing to directors	—	—	3
VAT payable	1,232	1,586	2,745
	6,230	7,383	9,401

The amount owing to directors is unsecured and interest free. The amount has been fully settled after year-end.

17. INTEREST-BEARING BANK BORROWINGS

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Bank loans:			
Secured	6,840	14,690	8,150

The bank loans are repayable within one year. There is no repricing of interest rate during the tenure of the bank loans.

The Group's interest-bearing bank loans are guaranteed by:-

- (i) third party; and
- (ii) personal guarantee of certain directors

Short-term bank loans bear effective interest rates of 6.44%, 6.82% and 6.83% per annum during the year ended 31 December 2004, 2005 and 2006 respectively. The fair value of borrowings is not materially different from its the carrying value.

18. SHAREHOLDERS' EQUITY

(a) Share capital

The share capital balances as at 31 December 2004, 2005 and 2006 represented the combined share capital of the Group.

(b) Capital reserve

The capital reserve represented the premium for issue of shares prior to 31 December 2004.

(c) Statutory reserves

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

(d) Retained earnings

Prior period adjustments relate to underprovision of depreciation of certain property, plant and equipment and amortisation of land use rights, net of tax.

Dividend payments have been approved by the Board of Directors for the relevant periods.

19. COMMITMENTS

(a) Operating leases commitments

The total future minimum lease payments of the Group under non-cancellable operating leases for business and assets of Hengfa Light Industry are as follows:

	2004 RMB'000	At 31 December 2005 RMB'000	2006 RMB'000
Within one year	—	—	990
In the second to fifth years	—	—	2,880
After five years	—	—	—
	—	—	3,870

(b) Financial guarantee

The Group acts as a guarantor on behalf of a third party for a banking facility granted to a third party. The amount of guarantee given is as follows:

	RMB
As at 31 December 2006	10,000,000

The guarantee was discharged subsequent to the financial year ended 31 December 2006.

(c) Patent

During the financial year ended 31 December 2006, the Group entered into an agreement to acquire the patent for “Thermal Shoes” amounting to approximately RMB6.0 million.

(d) Capital expenditure

Subsequent to 31 December 2006, the Group entered into various agreements to purchase additional production lines to enhance the existing production facilities. The aggregate consideration for the various agreements amounted to RMB7.7 million.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principal changes in interest rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2004, 2005 and 2006, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables and other receivables, trade and bills payables, accrued liabilities and other payables, and bank borrowings.

(i) Interest rate risk

The Group's interest rate risk arises from bank borrowings and bank deposit placed with the bank. The effective interest rates and terms of repayment of the bank borrowings are disclosed in note 17. The effective interest rate for the bank deposits is described in note 14.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES – POLICIES (CONTINUED)

(ii) Foreign currency risk

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi.

(iii) Credit risk

The carrying amounts of trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. As at 31 December 2004, 2005 and 2006, the three largest trade receivables represent approximately 30%, 32% and 33% of the total Group trade receivables respectively. No other financial assets carry a significant exposure to credit risk.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The provision for impairment loss for doubtful debts is based upon a review of the expected collectibles of all trade and other receivables.

(iv) Fair value

The fair value of the Group's financial assets and liabilities is not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

21. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:-

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their useful lives. Management estimates the useful lives of property, plant and equipment accordingly to the common life expectancies applied in the industry. The carrying amount of the Company's property, plant and equipment as at 31 December 2004, 2005, and 2006 is RMB18,720,000, RMB18,639,000 and RMB16,718,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

22. SEGMENT INFORMATION

(i) Business segment

The Group is engaged in only one business segment which involves the design, manufacture and sales of sports shoes and apparels.

(ii) Geographical segment

The assets and liabilities of the Group are located in the PRC. No geographical segment results are presented.

23. SUBSEQUENT EVENTS

Except for the events disclosed in notes 2, 3 and 19(d), no other item, transaction or event of a material or unusual nature has arisen in the interval between 31 December 2006 and the date of this report.

**UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

9 July 2007

The Board of Directors
China Sports International Limited
Clarendon House, 2 Church Street
Hamilton HM 11
Bermuda

Dear Sirs

We report on the unaudited pro forma combined financial statements of China Sports International Limited (the "Company") and its subsidiaries (collectively, the "Group") as set out on B-3 to B-9 of the prospectus (the "Prospectus"). The unaudited pro forma combined financial statements comprise the pro forma combined income statement, pro forma combined balance sheet, pro forma combined statement of changes in equity and pro forma combined cash flow statement.

The unaudited pro forma financial statements have been prepared on the basis of the assumptions set out on page B-8 and the adjustments described on page B-9 to show:

- (i) the financial results of the Company and its subsidiaries for the financial year ended 31 December 2006 would have been if the capital structure changes had occurred since the beginning of the financial year being reported on;
- (ii) the financial position of the Group at 31 December 2006 would have been if the capital structure changes had occurred on that date;
- (iii) the equity changes and cash flow of the Group for the financial year 31 December 2006 would have been if the capital structure changes had occurred at the beginning of the financial year.

The unaudited pro forma financial statements have been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the Group's actual financial position.

The unaudited pro forma combined financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on the unaudited pro forma financial statements based on our work.

We carried out our procedures in accordance with Statements on Auditing Practice 24: "*Auditors and Public Offering Documents*". Our work, which involved no independent examination of the unaudited pro forma combined financial statements, consisted primarily of comparing the unaudited pro forma combined financial statements to the audited combined financial statements of the Group for the financial year ended 31 December 2006, considering the evidence supporting the adjustments and discussing the unaudited pro forma combined financial statements with the directors of the Company.

**UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

In our opinion:-

- (a) the unaudited pro forma combined financial statements have been properly prepared from the audited combined financial statements of the Group which were prepared in accordance with Singapore Financial Reporting Standards;
- (b) the unaudited pro forma combined financial statements have been properly prepared in a manner consistent with both the format of the audited combined financial statements and the accounting policies of the Group;
- (c) each material adjustment made to the information used in the preparation of the unaudited pro forma combined financial statements are appropriate for the purpose of preparing such financial statements; and
- (d) the unaudited pro forma combined financial statements have been properly prepared on the basis of the assumptions set out on page B-8 after making the adjustments described on page B-9.

This report has been prepared for inclusion in the Prospectus of the Company in connection with the initial public offering of the shares of the Company.

Yours faithfully

FOO KON TAN GRANT THORNTON
Certified Public Accountants
Singapore

Wong Kian Kok
Partner

**UNAUDITED PRO FORMA COMBINED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

The unaudited pro forma combined income statement of the Group for the year ended 31 December 2006, and the pro forma adjustment made, is set out below:-

	Audited combined income statement RMB'000	Pro forma adjustment RMB'000	Unaudited pro forma combined income statement RMB'000
Revenue	690,018		690,018
Cost of sales	(567,683)		(567,683)
Gross profit	122,335		122,335
Other income	119		119
Selling and distribution expenses	(15,978)		(15,978)
Administrative expenses	(5,063)		(5,063)
Profit from operations	101,413		101,413
Finance costs	(593)		(593)
Profit before taxation	100,820		100,820
Income tax expense	(27,232)		(27,232)
Profit attributable to shareholders	73,588		73,588
Earnings per share for profit attributable to the equity holders of the Company during the year – Basic and diluted (RMB cents) #	31.07		31.07

These combined earnings per share were computed based on the profit attributable to shareholders and the pre-Invitation number of shares of 236,850,000 shares.

The annexed notes form an integral part of and should be read in conjunction with these unaudited combined financial statements.

**UNAUDITED PRO FORMA COMBINED BALANCE SHEET
AS AT 31 DECEMBER 2006**

The unaudited pro forma combined balance sheet of the Group as at 31 December 2006, and the pro forma adjustment made, is set out below:-

	Audited combined balance sheet RMB'000	Pro forma adjustment RMB'000	Unaudited pro forma combined balance sheet RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16,718		16,718
Land use right	2,755		2,755
	19,473		19,473
Current assets			
Inventories, at cost	9,909		9,909
Trade and other receivables	90,401		90,401
Cash and bank balances	6,910	18,164	25,074
	107,220		125,384
Current liabilities			
Trade and bill payables	45,070		45,070
Accrued liabilities and other payables	9,401		9,401
Interest-bearing bank borrowings	8,150		8,150
Provision for income tax	6,946		6,946
	69,567		69,567
Net current assets	37,653		55,817
Net assets	57,126		75,290
EQUITY			
Shareholders' equity	57,126	18,164	75,290
Total equity	57,126		75,290

The annexed notes form an integral part of and should be read in conjunction with these unaudited combined financial statements.

UNAUDITED PRO FORMA COMBINED STATEMENT OF CHANGES IN EQUITY

The unaudited pro forma combined statement of changes in equity of the Group and the pro forma adjustment as at 31 December 2006 is set out below:-

	Equity attributable to the Company's equity holders				Total equity
	Share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	RMB'000
At 31 December 2006	18,874	66	20,302	17,884	57,126
Pro forma adjustment	953	17,211	—	—	18,164
	19,827	17,277	20,302	17,884	75,290

The annexed notes form an integral part of and should be read in conjunction with these unaudited combined financial statements.

**UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

The unaudited pro forma combined cash flow statement of the Group for the year ended 31 December 2006 and the pro forma adjustment made, is set out below: -

	Audited combined cash flow statement RMB'000	Pro forma adjustment RMB'000	Unaudited pro forma combined cash flow statement RMB'000
Cash flows from operating activities			
Profit before taxation	100,820		100,820
Adjustments for:			
Interest income	(119)		(119)
Depreciation	1,921		1,921
Amortisation of land use right	57		57
Interest expenses	593		593
Operating profit before working capital changes	103,272		103,272
Decrease in inventories	16,823		16,823
Increase in trade and other receivables	(47,589)		(47,589)
Increase in trade and bills payables	5,494		5,494
Increase in accrued liabilities and other payables	2,018		2,018
Cash generated from operations	80,018		80,018
Interest received	119		119
Interest paid	(593)		(593)
Income tax paid	(25,079)		(25,079)
<i>Net cash generated from operating activities</i>	54,465		54,465

The annexed notes form an integral part of and should be read in conjunction with these unaudited combined financial statements.

**UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Audited combined cash flow statement RMB'000	Pro forma adjustment RMB'000	Unaudited pro forma combined cash flow statement RMB'000
Cash flows from investing activities			
Acquisition of land use right			
Bank deposits pledged	(707)		(707)
Purchase of property, plant and equipment	(1,540)		(1,540)
<i>Net cash used in investing activities</i>	(2,247)		(2,247)
Cash flows from financing activities			
Bank loans obtained	7,600		7,600
Repayment of bank loans	(14,140)		(14,140)
Issue of share capital	10,412	18,164	28,576
Payment of dividend	(53,400)		(53,400)
<i>Net cash used in financing activities</i>	(49,528)		(31,364)
Net increase in cash and cash equivalents	2,690		20,854
Cash and cash equivalents at 1 January	2,680		2,680
Cash and cash equivalents at 31 December	5,370		23,534

For the purpose of the unaudited pro forma combined cash flow statement, the year end cash and cash equivalents comprise the following:

	31 December 2006 RMB'000
Cash at bank	23,469
Cash on hand	65
	<u>23,534</u>

The annexed notes form an integral part of and should be read in conjunction with these unaudited combined financial statements.

NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. INTRODUCTION

The unaudited pro forma combined financial statements for the financial year ended 31 December 2006 has been prepared for inclusion in the Prospectus in connection with the Invitation by China Sports International Limited ("the Company") and should be read in conjunction with the audited combined financial statements of the Group for the year ended 31 December 2006.

Pursuant to Section 23 of Part IX of the Fifth Schedule of the Securities Futures Regulations, the unaudited pro forma combined financial statements for the financial year ended 31 December 2006 were based on the audited combined financial statements of China Sports International Limited and its subsidiaries ("the Group") for the year ended 31 December 2006, audited by Foo Kon Tan Grant Thornton, Singapore. The auditors' report on the financial statements was not qualified.

The unaudited pro forma combined financial statements of the Group for the financial year ended 31 December 2006 is expressed in Renminbi ("RMB"), being the reporting currency of the Group, and have been prepared in accordance with the historical cost convention. The unaudited pro forma combined financial statements of the Group for the financial year ended 31 December 2006 are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

2. BASIS OF PRESENTATION OF UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma combined financial statements, which comprise the pro forma combined income statement, pro forma combined balance sheet, pro forma combined statements of changes in equity and pro forma combined cash flow statement, set up herein have been prepared for illustrative purposes only to show what the financial positions of the Group as at 31 December 2006, the financial results, changes in equity and cash flows for the financial year ended 31 December 2006 would have been based in certain assumptions and after making certain adjustment as described in Note 3.

The unaudited pro forma financial statements are prepared for illustrative purposes only, these are prepared to show the effect on: -

- (a) the financial results of the Group for the financial year ended 31 December 2006 if the capital structure changes as described in Notes 3 had occurred since 1 January 2006;
- (b) the financial position of the Group at 31 December 2006 would have been if the capital structure changes as described in Notes 3 had occurred on 31 December 2006;
- (c) the equity changes and cash flow of the Group for the financial year ended 31 December 2006 if the capital structure changes as described in Notes 3 had occurred since 1 January 2006.

The unaudited pro forma financial statements have been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the Group's actual financial position, results, changes in equity and cash flows. For the purpose of preparing this set of unaudited pro forma combined financial statements, the directors have not considered the effects of other events other than those discussed in Note 3 below.

NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT CAPITAL STRUCTURE CHANGES

Saved for the following changes to capital structure of the Company, the directors of the Company, as at date of this report, are not aware of any significant acquisition/disposal of assets, entity or business by the Group after 31 December 2006 and significant changes to the capital structure of the Company after 31 December 2006:-

- On 5 April 2007, the Company entered into a subscription agreement with the Pre-IPO Investors, the Pre-IPO Investors agreed to subscribe for an aggregate of 948,000 new ordinary shares of HK\$1.00 in the capital of the Company for an aggregate subscription consideration of S\$3,570,000.

Based on the above capital structure changes above, the following material adjustment has been made to the combined financial statements of the Group in arriving at the unaudited pro forma combined financial statements included herein:

<u>Adjustment</u>	<u>RMB '000</u>
Debit Cash and bank balances	18,164
Credit Share capital	953
Credit Capital reserve	17,211

The pro forma adjustment is raised to recognise the pro forma effect of issuing New shares to Pre-IPO Investors. This has no material impact to the pro forma income statements as the proceeds from the issuances of New shares has no impact on the combined income statements, and any impact of recognising the pro forma interest income arising from deposits earned from financial institution is not expected to be material.

SUMMARY OF MEMORANDUM OF ASSOCIATION AND SELECTED BYE-LAWS OF THE COMPANY

This Appendix provides information about certain provisions of our Memorandum of Association and Bye-laws and Bermuda company law. The description below is only a summary and is qualified in its entirety by reference to our Memorandum of Association and Bye-laws and the Companies Act 1981 of Bermuda (the “Bermuda Companies Act”).

1. Registration number and Memorandum of Association

The registration number with which the Company was incorporated is 39798.

Our Memorandum of Association states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that our Company is an exempted company as defined in the Bermuda Companies Act. Paragraph 6 of the Memorandum of Association states that the objects for which our Company was formed are unrestricted. Paragraph 7 of the Memorandum of Association provides that the Company may do all such things as are incidental or conducive to the attainment of its objects and shall have the capacity, rights, powers and privileges of natural person.

In accordance with and subject to section 42A of the Bermuda Companies Act, the Memorandum of Association of our Company empowers it to purchase its own shares and this power is exercisable by the Board of Directors upon such terms and subject to such conditions as it thinks fit in accordance with the Bye-laws.

2. Directors

(a) *Ability of interested directors to vote (Bye-laws 101 and 102)*

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 considered, 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 on any resolution of the Board in respect of any contract or arrangement or proposed contract or arrangement in which he has directly or indirectly a personal material interest. However, the interested Director need not be excluded from being counted in the quorum for the meeting at which such contract or arrangement or proposed contract or arrangement is considered. Certain matters in which a Director will not be considered to have a personal material interest are set out in the Bye-laws.

A Director, whose remuneration (including pension or other benefits) for himself is the subject of a resolution tabled at a meeting of the Board, shall not be entitled to vote on the resolution as he shall be taken to have a personal material interest in the matter. Other Directors of the Company will not be prohibited by the Bye-laws from voting on that resolution so long as they do not have any direct or indirect personal material interest in the subject matter of the said resolution.

(b) *Remuneration (Bye-laws 90, 95, 97(1) and 98)*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the general meeting, and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office.

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, 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 determine, and either in addition to or in lieu of his remuneration as a Director, but he shall not in any circumstances be remunerated by a commission on or a percentage of turnover.

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.

(c) *Borrowing powers (Bye-law 109)*

The Board may exercise all the powers of the Company to raise or borrow money and 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 Bermuda Companies Act, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

These powers conferred on the Board may be varied by amending the relevant Bye-laws of the Company.

(d) *Retirement age limit*

There are no provisions relating to retirement of Directors upon reaching any age limit.

(e) *Shareholding qualification (Bye-law 85(3))*

Neither a Director nor an alternate Director is required to hold any shares of the Company by way of qualification.

3. Share rights and restrictions

The Company currently has only one class of shares, namely ordinary shares.

(a) *Dividends and distribution (Bye-laws 136, 137, 138, 139, 140 and 143)*

Holders of shares shall be entitled to share in the Company's profits by way of dividends declared or distribution approved by the Board or the Company in general meeting in accordance with the Bye-laws and the Bermuda Companies Act.

Subject to the Bermuda Companies Act, the Board may from time to time declare a dividend or other distribution in any currency to be paid to the members and such dividend or distribution may be in cash or wholly or partly in specie. Subject to the Bermuda Companies Act, the Company in general meeting may also from time to time declare dividend or other distribution to be paid to the members but no dividend or distribution shall be declared in excess of the amount recommended by the Board.

If at any time the share capital of the Company is divided into different classes, the Board may pay such dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend.

No dividend shall be paid or distribution made if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other moneys 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.

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. Any dividend or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited and shall revert to the Company.

(b) Voting rights (Bye-laws 65 and 77(1))

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 (i) on a show of hands every member present in person (or being a corporation, is present by a representative duly authorised under section 78 of the Bermuda Companies Act) or by proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a member (other than CDP) is represented by two proxies, and (ii) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Company have been paid, but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. If the member is CDP, CDP may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of CDP as CDP could exercise, including the right to vote individually on a show of hands.

The Bye-laws do not provide for cumulative voting in relation to election or re-election of Directors.

(c) *Share in surplus upon liquidation (Bye-law 163)*

Shareholders are entitled to the surplus assets of the Company in the event that it is wound up. 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 Bermuda Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property 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 the members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(d) *Redemption provisions*

The shares do not have redemption rights.

(e) *Sinking fund*

The Bye-laws do not contain sinking fund provisions.

(f) *Calls on shares (Bye-laws 25, 26, 28 and 33)*

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make calls upon the members in respect of any moneys unpaid on their shares (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 instalments. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion 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, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide.

The Memorandum of Association states 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.

(g) *Discriminatory provisions against substantial shareholder (Bye-law 167)*

The Bye-laws do not contain any provisions discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares save that for so long as the shares of the Company are listed on the Designated Stock Exchange (which includes the SGX-ST), substantial shareholders (having the meaning ascribed to it in the Companies Act) have to disclose particulars of their interest in the Company and of any change in the percentage level of such interest. Such requirement to disclose does not apply to CDP.

4. Variation of rights of existing shares or classes of shares (Bye-law 10)

Subject to the Bermuda Companies Act, the special rights attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so repaid, varied or abrogated either whilst the Company is a going concern or during or in

contemplation of a winding-up. To every such separate general meeting and all adjournments thereof all the provisions of the Bye-laws relating to general meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum (other than at an adjourned meeting) shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class and at any adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

The Memorandum of Association and Bye-laws do not impose more significant conditions than the Bermuda Companies Act in this regard.

5. General meetings (Bye-laws 55, 56, 57, 79 and 126)

Under Bermuda law, an annual general meeting of members must be convened every calendar year. All general meetings other than the annual general meeting shall be called special general meetings.

Bye-law 55 provides that an annual general meeting of the Company shall be held in each year (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules or regulations of the Designated Stock Exchange, if any). In addition, for so long as the shares of the Company are listed on the Designated Stock Exchange(which includes the SGX-ST), the interval between the close of the Company's financial year and the date of the Company's annual general meeting shall not exceed such period as may be prescribed or permitted by the Designated Stock Exchange.

The Directors may, whenever they think fit, convene a general meeting. In addition, subject to section 74 of the Bermuda Companies Act, in certain circumstances, members of the Company may requisition a special general meeting. Under that section, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the rights of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may do so but any meeting so convened shall not be held after the expiration of three months from the said date.

All registered shareholders of the Company are entitled to attend general meetings of the Company. Further, Bye-law 126 (in accordance with the Bermuda Companies Act) provides that the resident representative is also entitled to attend and be heard at all general meetings of the Company. The Bermuda Companies Act does not contain provisions as to any documentary evidence to be produced by proxies and corporate representatives. However, such provisions may be contained in the Bye-laws. Where, for example, it is stated that the instrument of proxies must be deposited a specified number of hours before the meeting (see Bye-law 79), proxies deposited after that time cannot be admitted.

Corporate representatives are different from proxies and unless specifically required by the Bye-laws, a letter of appointment does not need to be lodged before the meeting. There are currently no such provisions in the Bye-laws.

6. Limitations on non-Bermuda shareholders

There are no limitations, either under Bermuda law or the Bye-laws, on the rights of non-Bermuda owners of the Company's shares to hold or vote their shares.

7. Changes in control

Issue of shares (Bye-law 12(1)(a))

No shares shall be issued to transfer a controlling interest in the Company without the prior approval of the members in general meeting.

8. Shareholding disclosure requirement (Bye-law 167)

The Bermuda Companies Act does not require disclosure of shareholder ownership beyond a certain threshold. However, Bye-law 167 contains provisions to the effect that for so long as the shares of the Company are listed on the Designated Stock Exchange (which includes the SGX-ST), Directors and members who are substantial shareholders (having the meaning ascribed to it in the Companies Act) of the Company will have to disclose particulars of their interest in the Company and any change in the percentage level of such interest. Bye-law 167 will not apply to CDP.

9. Changes in capital (Bye-laws 2, 4 and 6)

Under the Bermuda Companies Act, changes in the capital structure of the Company require shareholder approval at general meetings.

The Bye-laws contain a distinction between a “special resolution” and an “ordinary resolution”, a distinction which is not made in the Bermuda Companies Act. Under Bye-law 4, an ordinary resolution is required for certain changes to the Company’s share capital such as an increase, consolidation or sub-division. An ordinary resolution is passed by a simple majority of votes cast by members at general meetings.

With regard to a reduction of share capital or share premium account, Bye-law 6 requires a special resolution. A special resolution is one which has been passed by a majority of not less than 75 per cent (75%) of votes cast by members present and voting at a general meeting.

SUMMARY OF BERMUDA COMPANY LAW

Our Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. We have been designated by the Bermuda Monetary Authority as non-resident for Bermuda exchange control purposes. 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 1981 of Bermuda (the “Bermuda 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 must be transferred to an account, to be called the “share premium account”, to which the provisions of the Bermuda 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 Bermuda 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 Bermuda 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 of a company authorising 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. The holders of not less in the aggregate than ten percent of the issued shares of that class may apply to a Bermuda court to have the variation cancelled, and where such application is made, the variation shall not have effect unless and until it is confirmed by the court. 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 rights attached to any class of shares may, unless otherwise provided by the terms of issue of that class, may be varied with 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.

(b) Membership

Under the Bermuda Companies Act, only those persons who agree to become members of a Bermuda company and whose names are entered on the register of members of such a company are considered members. A Bermuda company is also not bound to see to the execution of any trust, whether express, implied or constructive, to which any of its shares are subject and whether or not the company had notice of such trust. Accordingly, persons holding shares through a trustee, nominee or depository will not be recognised as members of a Bermuda company under Bermuda law and may only have the benefit of rights attaching to the shares or remedies conferred by law on members through or with the assistance of the trustee, nominee or depository.

(c) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance directly or indirectly 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 of the company or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Bermuda Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Shares repurchased may be cancelled or held as treasury 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 authorised 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 cancelled (in which event, the company's issued, but not its authorised, capital will be diminished accordingly) or, may be held as treasury shares. Under the laws of Bermuda, if a company holds shares as treasury shares, the company shall be entered in the register of members as the member holding the shares but the company is not permitted to exercise any rights in respect of those shares and no dividend or other distribution (whether in cash or otherwise) shall be paid or made to the company in respect of such shares.

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 and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

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 Bermuda Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or byelaws pursuant to section 42A of the Bermuda Companies Act.

(e) 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 realisable 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 Bermuda 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.

(f) 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 Bermuda 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 Bermuda 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 Bermuda 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 loss or 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.

The Bermuda Companies Act also provides that the Minister of Finance of Bermuda may at any time appoint one or more inspectors to investigate the affairs of an exempted company and to report on them in such manner as the Minister may direct. The inspector shall on the completion of his investigation report to the Minister and shall send copies of such reports to the company. However, no other person shall be informed of the nature or contents of the report save at the

request of the company or on the direction of the Minister. Upon receiving the inspector's report, the Minister may require the company to take such measures as he may consider necessary in relation to its affairs or direct the Registrar of Companies in Bermuda to petition the Bermuda court for the winding up of the company.

(g) Management

The Bermuda Companies Act contains no specific restriction 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 act 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 Bermuda Companies Act requires that every officer should comply with the Bermuda Companies Act, regulations passed pursuant to the Bermuda Companies Act and the byelaws of the company.

The Bermuda Companies Act contains no specific provision in respect of the establishment or composition of audit committees or similar committees of the board of directors of a company.

(h) Accounting and auditing requirements

The Bermuda Companies Act requires a company to cause proper records of account 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 must 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 must 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 (as defined in the Bermuda Companies Act), there must 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 Bermuda 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 signed on the balance sheet page by two directors of the company ; however, this requirement may be waived if all of the members and all of the directors, either in writing or at a general meeting, agree that in respect of a particular interval no financial statements or auditor's report thereon need be laid before a general meeting. 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 Bermuda Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor must identify the generally accepted auditing standards used. Subject to certain exceptions provided in the Bermuda Companies Act, the company must send to every member a copy of financial statements, prepared in accordance with generally accepted accounting principles and containing all such information and documents as required by the Bermuda Companies Act ("Financial Statements"), at least five days before the general meeting of the company at which the Financial Statements are to be tabled.

A company listed on an appointed stock exchange may send to its members summarised financial statements derived from the Financial Statements for the relevant period instead of the Financial Statements. The summarised financial statements must include a summarised report of the Financial Statements and be accompanied by the auditor's report. The summarised financial statements must be sent to members not less than 21 days before the general meeting at which the Financial Statements are to be tabled, and a copy of the summarised financial statements shall be made available for inspection by the public at the Company's registered office in Bermuda. The company must also make a copy of the full Financial Statements available for inspection by the public at the company's registered office. Summarised financial statements must be accompanied by a notice informing members how they may elect to receive the company's Financial Statements.

(i) 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 members and all of the directors, either in writing or at the general meeting, agree that no auditor shall be appointed to the close of the next annual general meeting.

A person, other than an incumbent auditor, is not 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 seven days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the foregoing requirements.

An auditor appointed to replace another auditor must, before accepting the appointment or consenting to be appointed, seek from the former auditor a written statement as to the circumstances of the latter's replacement. If the former 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 former auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned or 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.

(j) Exchange control

Exchange control is operated under the Exchange Control Act 1972 of Bermuda (and the regulations made thereunder) and is administered by the Bermuda Monetary Authority. Generally, any payment by a person resident in Bermuda to or for the credit of a person resident outside Bermuda will require prior approval from the Bermuda Monetary Authority.

Exempted companies are normally designated non-resident for exchange control purposes and are able to conduct their day-to-day operations free of exchange control formalities. Such companies are able to pay dividends, distribute capital, open and maintain bank accounts in any foreign currency and to acquire assets and meet all liabilities without reference to the Bermuda Monetary Authority.

Issues and transfers of securities in exempted companies involving non-residents for exchange control purposes must receive prior approval from the Bermuda Monetary Authority. However, the Bermuda Monetary Authority has granted to all Bermuda companies with voting shares listed on an appointed stock exchange (as defined in the Bermuda Companies Act) a general permission for the issue and subsequent transfer of any securities of such companies from and/or to a non-resident of Bermuda for so long as any voting shares of the company remain so listed.

(k) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, or 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, and there is no 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 to it or any of its operations until 28 March 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.

(l) 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.

(m) Loans to directors

Bermuda law prohibits a company from (i) making loans to any of its directors (or any directors of its holding company) or to their spouse or children or to companies (other than a company which is a holding company or a subsidiary of the company making the loan) in which they own or control directly or indirectly more than a twenty per cent (20%) interest, or (ii) entering into any guarantee or providing any security in connection with a loan made to such persons as aforesaid by any other person, 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 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, guarantee or security is made or given on condition that it will be repaid or discharged, as the case may be, within six months from the conclusion of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for the loan, guarantee or security as aforesaid, the directors who authorised it will be jointly and severally liable to indemnify the company for any loss arising therefrom.

(n) 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.

Except when the register of members is closed under the provisions of the Bermuda Companies Act, the register of members of a company shall during business hours (subject to such reasonable restrictions as the company may impose so that not less than two hours in each day be allowed for inspection) be open for inspection by members of the general public without charge. A company may on giving notice by advertisement in an appointed newspaper close the register of members for any time or times not exceeding in the whole thirty days in a year. A company is required to maintain its register of members in Bermuda but may, subject to the provisions of the Bermuda 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 member of the public may require a copy of the register of members or any part thereof which must be provided within 14 days of a request on payment of the appropriate fee prescribed in the Bermuda Companies Act. 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 in Bermuda and such register must during business hours (subject to such reasonable restrictions as the company may impose, so that not less than two hours in each day be allowed for inspection) be open for inspection by members of the public without charge. Any member of the public may require a copy of the register of directors and officers, or any part of it, on payment of the appropriate fee prescribed in the Bermuda Companies Act.

Where a company, the shares of which are listed on a appointed stock exchange, sends its summarised financial statements its members pursuant to section 87A of the Bermuda Companies Act, a copy of the full financial statements (as well as the summarised financial statements) must be made available for inspection by the public at the company's registered office in Bermuda.

(o) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributories. The Bermuda court 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 to do so.

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 Bermuda 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 in the period stated in the directors' declaration of solvency, he is obliged to summon a meeting of creditors and lay before the meeting a statement of the assets and liabilities of the company.

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 for the day, or the next day following the day, on which the meeting of the members at which the resolution for voluntary 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 and the members nominate different persons, the person nominated by the creditors shall be the liquidator. If no person is nominated by the creditors, the person (if any) nominated by the company shall be 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 and must 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 purpose of laying the account before such meetings and giving an explanation thereof. This meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

Within one week after the date of the meetings, or if the meetings are not held on the same date, after the date of the later meeting, the liquidator is required to send to the Bermuda Registrar of Companies a copy of the account and make a return in accordance with the Bermuda Companies Act. The company will be deemed to be dissolved on the expiration of three months from the registration by the Bermuda Registrar of Companies of the account and the return. However, a Bermuda court may, on the application of the liquidator or of some other person who appears to the court to be interested, make an order deferring the date at which the dissolution of the company is to take effect for such time as the court thinks fit.

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil affairs and criminal offences and other matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations enacted by the State Council and the State Council has the power to annul such directives, orders and regulations issued by its ministries and commissions.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local rules and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organization of the People's Courts of the People's Republic of China, the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other

special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, a retrial of the case may be conducted according to the judicial supervision procedures. Or if the president of a people's court at any level finds a definite error in a legally effective judgment or written order of his court and deems it necessary to have the case retried, he shall refer it to the judicial committee for discussion and decision.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (the "Civil Procedure Law") adopted on 9 April 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial –law related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (“New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. Taxation

The applicable income tax laws, regulations, notices and decisions (collectively referred to as the “Applicable Foreign Enterprises Tax Law”) related to foreign investment enterprises and their investors include the follows:

- (1) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises adopted by the NPC on 9 April 1991.
- (2) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises promulgated by the State Council, which came into effect on 1 July 1991.
- (3) Notice Relating to taxes Applicable to Foreign Investment Enterprises / Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares promulgated by State Tax Bureau on 2 July 1993.
- (4) Notice on Some Policy Questions Concerning Individual Income Tax issued by Ministry of Finance and the State Tax Bureau on 13 May 1994.
- (5) Notice on Relevant Policies Concerning the Reduction of Income Tax on Interest and Other Income of Foreign Enterprises Derived from Sources in China issued by the State Council, which came into effect on 1 January 2000.
- (6) The third amendments to the Income Tax Law Applicable to Individuals of the PRC promulgated by Standing Committee of NPC on 27 October 2005.
- (7) The NPC promulgated the PRC Corporate Income Tax Law (企业所得税法) on 16 March 2007, which stipulates that corporate income tax will be standardised to 25% for all PRC resident enterprises, such law coming into effect on 1 January 2008.

(a) Income tax on foreign investment enterprises

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) are required to pay a national income tax at a rate of 30% of their taxable income and a local income tax at a rate of 3% of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15% may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(b) Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on 1 January 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13 or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) Business tax

With effect from 1 January 1994, businesses that provide services (except entertainment businesses), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3% to 5% of the charges for the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) Tax on dividends from PRC enterprise with foreign investment

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 10% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

5. Wholly foreign-owned enterprise

Wholly foreign-owned enterprises are governed by the Law of the People's Republic of China on Foreign-Capital Enterprises and its amendment, which were promulgated on 12 April 1986 and 31 October 2000 respectively, and its Implementation Regulations promulgated on 12 December 1990 and 12 April 2001 (together the "Foreign Enterprises Law").

(a) Procedures for establishment of a wholly foreign-owned enterprise

The establishment of a wholly foreign-owned enterprise will have to be approved by Ministry of Commerce of the PRC (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to Ministry of Commerce of the PRC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from the Administration for Industry and Commerce Authority before it can commence business.

(b) Nature

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by Ministry of Commerce of the PRC (or its delegated authorities) in accordance with relevant regulations.

(c) Profit distribution

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10% of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

6. Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The people's governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection, adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution.

7. Mergers and Acquisitions

On 8 August 2006, the Provisions on Acquisition of Domestic Enterprises by Foreign Investors (the "New M&A Provisions") was promulgated and the provisions therein became effective on 8 September 2006. The New M&A Provisions requires, *inter alia*, that an application shall be made to the Ministry of Commerce of the PRC for the examination and approval of the acquisition of any company in the PRC which is affiliated to a domestic company, enterprise or natural person, which is made in the name of an overseas company lawfully established or controlled by such domestic company, enterprise or natural person. GFE Law Office, our legal advisers as to PRC laws, has advised us that as Hengfa Light Industry and Quanzhou YELI were already foreign investment enterprises (and not PRC domestic enterprises) prior to the implementation of the New M&A Provisions, (i) our Company's acquisition of Themeway (HK), the sole shareholder of Hengfa Light Industry as described in the section "Restructuring Exercise" of this Prospectus, (ii) Themeway (HK)'s acquisition of Quanzhou YELI as described in the section "Restructuring Exercise" of this Prospectus and (iii) the listing of our Group on the SGX-ST, does not require any approvals under the New M&A Provisions from any PRC authority, including the Ministry of Commerce and the China Securities Regulatory Commission.

TAXATION

SINGAPORE

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. The discussion is based on laws, regulations and interpretations now in effect and available as of the date of this Prospectus. These laws and regulations are subject to changes, which may be retrospective to the date of issuance of our Shares. These laws and regulations are also subject to various interpretations of and the relevant tax authorities or the courts of Singapore could later disagree with the explanations or conclusions set out below.

The discussion is limited to a general description of certain tax consequences in Singapore with respect to purchase, ownership and disposal of our Shares, and does not purport to be a comprehensive nor exhaustive description of all tax considerations that may be relevant to a decision to subscribe for, purchase, hold or dispose of our Shares. Prospective investors should consult their own tax advisors concerning the tax consequences of owning and disposing our Shares. Neither our Company, our Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.

INCOME TAX

General

Singapore resident and non-resident corporate taxpayers are subject to Singapore income tax on:

- (i) income accruing in or derived from Singapore; and
- (ii) foreign income received or deemed received in Singapore.

However, foreign income in the form of branch profits, dividends and service income received or deemed received in Singapore by a resident corporate taxpayer shall be tax exempt provided the following conditions are met:

- (i) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received;
- (ii) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax in the jurisdiction from which the income is received is at least 15%; and
- (iii) the Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the recipient of the foreign income.

In addition, foreign-sourced personal income received or deemed received in Singapore by a Singapore tax resident individual (except where such income is received through a partnership) on or after 1 January 2004 will be exempt from tax in Singapore. Certain investment income derived from Singapore sources by individuals will also be exempt from tax.

Non-Singapore resident corporate taxpayers, subject to certain exceptions, are subject to Singapore income tax on:

- (i) income that is accrued in or derived from Singapore; and
- (ii) foreign income received or deemed received in Singapore.

Non-Singapore resident individuals, subject to certain exceptions, are subject to Singapore income tax only on income accruing in or derived from Singapore.

A company is regarded as a tax resident in Singapore if the control and management of its business is exercised in Singapore. An individual is a tax resident in Singapore if, in the calendar year preceding the year of assessment, he was physically present in Singapore or exercised employment in Singapore (other than as a director of a company) for 183 days or more, or if he ordinarily resides in Singapore.

As announced in the 2007 Budget, the corporate tax rate in Singapore will be 18% from the Year of Assessment 2008 (i.e. calendar year 2007). In addition, three-quarters of up to the first \$10,000 of a company's normal chargeable income, and one-half of up to the next \$290,000 of the company's normal chargeable income are exempt from tax. The remaining chargeable income (after the partial tax exemption) will be taxed at the applicable corporate tax rate of 18%. The partial tax exemption does not apply to Singapore dividends received by companies.

A tax exemption scheme for qualifying newly incorporated Singapore companies is applicable for Years of Assessment 2005 – 2009. Under this exemption scheme, the first \$100,000 of their normal chargeable income (excluding Singapore dividends) for each of their first three consecutive years of assessment that falls within Years of Assessment 2005 to 2009 would be exempt from tax.

Singapore tax resident individuals are subject to tax based on a progressive scale. The top marginal rate is 21% for the Year of Assessment 2006 (i.e. calendar year 2005). The top individual marginal tax rate will be reduced to 20% with effect from Year of Assessment 2007 (21% from Year of Assessment 2007).

Non-Singapore resident individuals are generally subject to tax at a rate equivalent to the prevailing corporate tax rate.

Dividend Distributions

As our Company is incorporated in Bermuda and will be a non-Singapore tax resident, dividends paid by our Company would be considered as sourced outside Singapore.

The dividends on our Shares will be paid through the CDP. Foreign-sourced dividends received or deemed received in Singapore by an individual not resident in Singapore is exempt from Singapore income tax. This exemption will also apply in the case of a Singapore tax resident individual who has received or deemed received his foreign-sourced personal income in Singapore on or after 1 January 2004.

Dividends on our Shares received or deemed received by Singapore tax resident corporate taxpayers in Singapore will be subject to Singapore income tax as they are received through the CDP and the conditions for the exemption of foreign income received on or after 1 June 2005 (as stated above) are unlikely to be met.

Dividends on our Shares received or deemed received in Singapore through the CDP by non-Singapore tax resident corporate taxpayers will generally not be subject to tax in Singapore. However, where such foreign companies have activities in Singapore, dividends received in Singapore through the CDP by such companies may be subject to tax in Singapore if the dividends are in respect of investments made through their Singapore-based activities or the dividends are otherwise connected with their Singapore based activities.

Gains on Disposal of our Shares

Singapore does not impose tax on capital gains. However, gains arising from the disposal of our Shares may be construed to be of an income nature and subject to tax if they arise from activities which the Inland Revenue Authority of Singapore regards as the carrying on of a trade or business in Singapore.

Any profits from the disposal of our Shares are not taxable in Singapore unless the seller is regarded as carrying on a trade or business of dealing in shares in Singapore. In which case, such gains would be taxable as trading profits.

STAMP DUTY

No stamp duty is payable on the allotment or holding of our Shares.

Stamp duty is payable on an instrument of transfer of shares at the rate of \$0.20 for every \$100 or any part thereof of the higher of the consideration paid for the relevant shares or the net asset value attributable to the relevant shares. The purchaser is liable for stamp duty, unless otherwise agreed. However, no stamp duty is payable if no instrument of transfer is executed (such as in the case of scripless shares, the transfer of which does not require instruments of transfer to be executed) or if the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is subsequently received in Singapore.

ESTATE DUTY

Singapore estate duty is imposed on the value of immovable property situated in Singapore and on movable property, wherever it may be, owned by individuals who are domiciled in Singapore, subject to specific exemption limits.

Singapore estate duty is imposed on the value of immovable property situated in Singapore and owned by individuals who are not domiciled in Singapore, subject to specific exemption limits.

Our Shares are considered movable property situated outside Singapore as our Company is incorporated in Bermuda and the register of members is kept in Bermuda. Accordingly, our Shares held by an individual are subject to Singapore estate duty upon the individual's death, if the individual is domiciled in Singapore. Singapore estate duty is payable to the extent that the value of the shares aggregated with any other assets subject to Singapore estate duty exceeds \$600,000. Any excess beyond \$600,000 will be taxed at 5% on the first \$12,000,000 of the individual's Singapore dutiable assets and any excess over \$12,000,000 will be taxed at 10%. It should be noted that certain assets, although dutiable, are not included in this aggregation. For example, dwelling houses are assessed separately and subject to a different exemption limit.

Individuals, whether or not domicile in Singapore, should consult their own tax advisors regarding the Singapore estate duty consequences of their ownership of our Shares.

GOODS AND SERVICES TAX ("GST")

The sale of our Shares by an investor belonging in Singapore through a SGX-ST member or to another person belonging in Singapore is an exempt supply not subject to GST. Where our Shares are sold by the investor to a person belonging outside Singapore, the sale is generally a taxable supply subject to GST at zero-rate. Any GST incurred by a GST-registered investor in the making of this supply in the course of furtherance of a business may be recovered from the Comptroller of GST. Services such as brokerage, handling and clearing services rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor's purchase, sale or holding of our Shares will be subject to GST at the current rate of five per cent. (5%) prior to 1 July 2007 or seven per cent. (7%) on or after 1 July 2007. Similar services rendered to an investor belonging outside Singapore would generally be zero-rated i.e. subject to GST at zero percent.

BERMUDA

TAXATION

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, or 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 28 March 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.

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.

PRC

Please refer to the section “*Summary of Relevant PRC Laws and Regulations*” as set out in Appendix E to this Prospectus.

TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

You are invited to apply and subscribe for the 100,000,000 New Shares at the Issue Price for each Offer Share or each Placement Share subject to the following terms and conditions:

1. Your application must be made in lots of 1,000 New Shares and integral multiples thereof. Your application for any other number of New Shares will be rejected.
2. **Your application for Offer Shares may be made by way of printed Offer Shares Application Forms or by way of Electronic Applications through ATMs of the Participating Banks (“ATM Electronic Applications”) or through Internet Banking (“IB”) websites of the relevant Participating Banks (“Internet Electronic Applications” which, together with ATM Electronic Applications, shall be referred to as “Electronic Applications”). Your application for the Placement Shares may only be made by way of Placement Shares Application Forms. YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE INVITATION SHARES.**
3. You are allowed to submit only one application in your own name for the Offer Shares or the Placement Shares. If you submit an application for Offer Shares by way of an Offer Shares Application Form, you MAY NOT submit another application for Offer Shares by way of an Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

If you submit an application for Offer Shares by way of an Internet Electronic Application, you MAY NOT submit another application for Offer Shares by way of an ATM Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

If you (being other than an approved nominee company) have submitted an application for Offer Shares in your own name, you should not submit any other application for Offer Shares, whether by way of an Offer Shares Application Form or by way of an Electronic Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

If you have made an application for Placement Shares, you should not make any application for Offer Shares either by way of an Offer Shares Application Form or by way of an Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

Conversely, if you have made an application for Offer Shares either by way of an Electronic Application or by way of an Offer Shares Application Form, you may not make any application for Placement Shares. Such separate applications shall be deemed to be multiple applications and shall be rejected.

Joint applications shall be rejected. Multiple applications for New Shares shall be rejected. If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities and Futures Act, and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications will be liable to be rejected at our discretion.

4. We will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, chops or non-corporate bodies, or joint Securities Account holders of CDP or from applicants whose addresses (furnished in their Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks) bear post office box numbers.
5. We will not recognise the existence of a trust. Any application by a trustee or trustees must be made in his/their own name(s) and without qualification or, where the application is made by way of an Application Form, in the name(s) of an approved nominee company or approved nominee companies after complying with paragraph 7 below.
6. WE WILL NOT ACCEPT APPLICATIONS FROM NOMINEES EXCEPT THOSE MADE BY APPROVED NOMINEE COMPANIES ONLY. Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, or licensed securities dealers in Singapore or nominee companies controlled by them. Applications made by persons acting as nominees other than approved nominee companies shall be rejected.
7. IF YOU ARE NOT A NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION. If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application Form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 9 below, your application shall be rejected if your particulars, such as name, identity card/passport number, nationality or permanent residence status provided in your Application Form or in the records of the relevant Participating Bank at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained with CDP. If you possess more than one individual direct Securities Account with CDP, your application shall be rejected.
8. If your address as stated in the Application Form or, in the case of an Electronic Application, in the records of the relevant Participating Bank, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.
9. We reserve the right to reject any application which does not conform strictly to the instructions set out in the Application Form or in this Prospectus or which does not comply with the instructions for Electronic Applications or with the terms and conditions of this Prospectus or, in the case of an application by way of an Application Form, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn remittance. We further reserve the right to treat as valid any application not completed or submitted or effected in all respects in accordance with the terms and conditions of this Prospectus and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.
10. We reserve the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefor, and we will not entertain any enquiry and/or correspondence on our decision. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment, we will give due consideration to the desirability of allotting the New Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.
11. Share certificates will be registered in the name of CDP and will be forwarded only to CDP. It is expected that CDP will send to you, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with

the number of New Shares allotted to you. This will be the only acknowledgement of application monies received and is not an acknowledgement by us. You irrevocably authorise CDP to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of the New Shares allotted to you. This authorisation applies to applications made by way of Application Forms and by way of Electronic Applications.

12. In the event of an under-subscription for Offer Shares as at the close of the Application List, we will make available that number of Offer Shares under-subscribed to satisfy applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.

In the event of an under-subscription for Placement Shares as at the close of the Application List, we will make available that number of Placement Shares under-subscribed to satisfy applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

13. You irrevocably authorise CDP to disclose the outcome of your application, including the number of New Shares allotted to you pursuant to your application, to authorised operators.
14. Any reference to the term “you” in Appendix section shall include an individual, a corporation, an approved nominee or trustee applying for the Offer Shares by way of an Application Form or by way of an Electronic Application and a person applying for the Placement Shares through the Placement Agent.
15. By completing and delivering an Application Form or by making and completing an Electronic Application by (in the case of an ATM Electronic Application) pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM (as the case may be) or by (in the case of an Internet Electronic Application) clicking “Submit” or “Continue” or “Yes” or “Confirm” on the IB website screen (as the case may be) in accordance with the provisions of this Prospectus, you:
 - (a) irrevocably offer to subscribe for the number of New Shares specified in your application (or such smaller number for which the application is accepted) at the Issue Price and agree that you will accept such New Shares as may be allotted to you, in each case on the terms of this Prospectus and on the terms of the conditions set out in, this Prospectus and the Memorandum of Association and Bye-laws of our Company; and
 - (b) warrant the truth and accuracy of the information provided in your application.
16. Our acceptance of applications will be conditional upon, inter alia, we being satisfied that:
 - (a) permission has been granted by the SGX-ST to deal in and for quotation for all our existing Shares and the New Shares on the Official List of the SGX-ST;
 - (b) no stop order has been issued by the Authority under the Securities and Futures Act; and
 - (c) the Management and Underwriting Agreement and the Placement Agreement referred to in the section “Management and Underwriting and Placement Arrangements” of this Prospectus have become unconditional and have not been terminated or cancelled prior to such date as our Company may determine.
17. We will not hold any application in reserve.
18. We will not allot Shares on the basis of this Prospectus later than six months after the date of registration of this Prospectus.

19. All payments in respect of any application for Offer Shares, and all refunds in respect of any unsuccessful application thereto, shall be made in Singapore currency.
20. Additional terms and conditions for applications by way of Application Forms are set out in the section “Additional Terms and Conditions for Applications Using Application Forms” in this APPENDIX G.
21. Additional terms and conditions for applications by way of Electronic Applications are set in the section “Additional Terms and Conditions for Electronic Applications” in this APPENDIX G.

ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING APPLICATION FORMS

You shall make an application by way of Application Forms made on and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out in the section on “Terms and Conditions and Procedures for Application and Acceptance” in this APPENDIX G, as well as the Memorandum of Association and Bye-laws of our Company.

1. Your application must be made using the WHITE Application Forms for Offer Shares and the BLUE Application Forms for Placement Shares accompanying and forming part of this Prospectus. We draw your attention to the detailed instructions contained in the respective Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. We reserve the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, or incorrectly completed or which are accompanied by improperly drawn remittances.
2. Your Application Forms must be completed in English. Please type or write clearly in ink using BLOCK LETTERS.
3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space that is not applicable.
4. Individuals, corporations, approved nominee companies and trustees must give their names in full. You must make your application, in the case of individuals, in your full names appearing in your identity cards (if applicants have such identification documents) or in your passports and, in the case of corporations, in your full names as registered with a competent authority. If you are a non-individual completing the Application Form under the hand of an official, you must state the name and capacity in which that official signs. If you are a corporation completing the Application Form, you are required to affix your common seal (if any) in accordance with your Memorandum and Articles of Association or equivalent constitutive documents. If you are a corporate applicant and your application is successful, a copy of your Memorandum and Articles of Association or equivalent constitutive documents must be lodged with our Share Registrar and Share Transfer Agent. We reserve the right to require you to produce documentary proof of identification for verification purposes.
5.
 - (a) You must complete page 1 and Sections A and B of the Application Forms.
 - (b) You are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Forms. Where paragraph 7(a) is deleted, you must also complete Section C of the Application Forms with particulars of the beneficial owner(s).
 - (c) If you fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Forms, your application is liable to be rejected.

6. You (whether you are an individual or corporate applicant, whether incorporated or unincorporated and wherever incorporated or constituted) will be required to declare whether you are a citizen or permanent resident of Singapore or a corporation in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporations. If you are an approved nominee company, you are required to declare whether the beneficial owner of the New Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporation.
7. You may apply for the New Shares using cash only. Each application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of Offer Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of "CSI SHARE ISSUE ACCOUNT" crossed "A/C PAYEE ONLY", and with the name and address of the applicant written clearly on the reverse side. Applications not accompanied by any payment or accompanied by ANY OTHER FORM OF PAYMENT WILL NOT BE ACCEPTED. Remittances bearing the "Not Transferable" or "Non Transferable" crossings will be rejected. No acknowledgement of receipt will be issued by us or the Manager for applications and application monies received.
8. Unsuccessful applications are expected to be returned (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post within 24 hours after balloting at your own risk. Where your application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post at your own risk within 14 days after the close of the Application List.
9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
10. By completing and delivering the Application Form, you agree that:
 - (a) in consideration of us having distributed the Application Form to you and agreeing to close the Application List at 12.00 noon on 16 July 2007 or such other time or date as our Directors may, in consultation with the Manager, decide, and by completing and delivering the Application Form, you agree that:
 - (i) your application is irrevocable; and
 - (ii) your remittance will be honoured on first presentation and that any monies returnable may be held pending clearance of your payment without interest or any share of revenue or other benefit arising therefrom;
 - (b) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (c) in respect of the New Shares for which your application has been received and not rejected, acceptance of your application shall be constituted by written notification and not otherwise, notwithstanding any remittance being presented for payment by or on our behalf; and
 - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application.

Applications For Offer Shares

1. Your applications for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **WHITE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. You must:
 - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with your remittance in the **WHITE** envelope "A" provided;
 - (b) in the appropriate spaces on **WHITE** envelope "A":
 - (i) write your name and address;
 - (ii) state the number of Offer Shares applied for;
 - (iii) tick the relevant box to indicate the form of payment; and
 - (iv) affix adequate Singapore postage;
 - (c) **SEAL WHITE ENVELOPE "A"**;
 - (d) write, in the special box provided on the larger **WHITE** envelope "B" addressed to B.A.C.S. Private Limited, 63 Cantonment Road, Singapore 089758, the number of Offer Shares you have applied for; and insert **WHITE** envelope "A" into **WHITE** envelope "B", seal **WHITE** envelope "B" and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND** at your own risk to B.A.C.S. Private Limited, 63 Cantonment Road, Singapore 089758, to arrive by 12.00 noon on 16 July 2007 or such other time as we may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must **NOT** be used. No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances are liable to be rejected.

Applications For Placement Shares

1. Your application for Placement Shares **MUST** be made using the **BLUE** Placement Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed **BLUE** Placement Shares Application Form and your remittance with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at your own risk to Stirling Coleman Capital Limited, 4 Shenton Way #07-03, SGX Centre 2, Singapore 068807, to arrive by 12.00 noon on 16 July 2007 or such other time as we may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must **NOT** be used. No acknowledgement of receipt will be issued for any application or remittance received.

ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications at ATMs are set out on the ATM screens (in the case of ATM Electronic Applications) and the IB website screens (in the case of Internet Electronic Applications) of the relevant Participating Banks. Currently, DBS Bank and the UOB are the only Participating Banks through which Internet Electronic Applications can be made. For illustration purposes, the procedures for Electronic Applications through ATMs of DBS Bank and the IB website of DBS Bank are set out respectively in the “Steps for Electronic Applications for Offer Shares through ATMs of DBS Bank” and “Steps for an Internet Electronic Application through the IB website of DBS Bank” (the “Steps”) appearing on pages G-11 to G-13 of this Prospectus.

The Steps set out the actions that you must take at an ATM or IB website of DBS Bank to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application. Any reference to “you” in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for Offer Shares through an ATM or the IB website of a relevant Participating Bank.

You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. For an Internet Electronic Application, you must have an existing bank account with and an IB User Identification (“User ID”) and a personal identification number/Password given by a relevant Participating Bank. The Steps set out the actions that you must take at ATMs of DBS Bank or the IB website of DBS Bank to complete an Electronic Application. The actions that you must take at ATMs or the IB websites of other Participating Banks are set out on the ATM screens or the IB website screens of the relevant Participating Banks. Upon the completion of your Electronic Application transaction, you will receive an ATM transaction slip (“Transaction Record”), confirming the details of your Electronic Application. Upon completion of your Internet Electronic Application, there will be an on-screen confirmation (“Confirmation Screen”) of the application which you can print out for your record. The Transaction Record or your printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your Electronic Application liable to be rejected.

For an Internet Electronic Application, you must have a bank account with and a user identification ID (“User ID”) and a personal identification number (“PIN”) given by the relevant Participating Banks. Upon completion of your Internet Electronic Application through the IB website of DBS Bank, there will be an on-screen confirmation (“Confirmation Screen”) of the application which can be printed out by you for your record. This printed record of the Confirmation Screen is for your retention and should not be submitted with any printed Application Form.

You must ensure, when making an Internet Electronic Application, that your mailing address is in Singapore and the application is being made in Singapore and you will be asked to declare accordingly. Otherwise, your application is liable to be rejected. You shall make an Electronic Application on the terms and subject to the conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out in the section on “Terms and Conditions and Procedures for Application and Acceptance” above in this APPENDIX G as well as the Memorandum of Association and Bye-laws of our Company.

1. In connection with your Electronic Application for Offer Shares, you are required to confirm statements to the following effect in the course of activating the ATM for your Electronic Application:
 - (a) that you have received a copy of this Prospectus and has read, understood and agreed to all the terms and conditions of application for Offer Shares and this Prospectus prior to effecting the Electronic Application and agree to be bound by the same;
 - (b) that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number and share application amount (the “Relevant Particulars”) from your account with that Participating Bank to the Share Registrar, CDP, SCCS, our Company and the Manager (the “Relevant Parties”); and
 - (c) that this is your only application and it is made in your own name and at your own risk.

Your application will not be successfully completed and cannot be recorded as a completed transaction in the ATM unless you press the “Enter” or “OK” or “Confirm” or “Yes” key. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, your confirmation, by pressing the “Enter” or “OK” or “Confirm” or “Yes” key, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(4) of the Banking Act (Chapter 19) of Singapore to the disclosure by that Participating Bank of the Relevant Particulars to the Relevant Parties.

2. BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR OFFER SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS BENEFICIAL OWNER.

YOU SHOULD MAKE ONLY ONE ELECTRONIC APPLICATION FOR OFFER SHARES AND SHOULD NOT MAKE ANY OTHER APPLICATION FOR OFFER SHARES, WHETHER AT THE ATM OR THE IB WEBSITE OF ANY PARTICIPATING BANK OR ON THE APPLICATION FORMS. IF YOU HAVE MADE AN APPLICATION FOR OFFER SHARES ON AN APPLICATION FORM, YOU SHALL NOT MAKE AN ELECTRONIC APPLICATION FOR OFFER SHARES AND VICE VERSA.

3. You must have sufficient funds in your bank account with your Participating Bank at the time you make your Electronic Application, failing which your Electronic Application will not be completed. Any Electronic Application which does not conform strictly to the instructions set out on the screens of the ATM or IB website through which your Electronic Application is being made shall be rejected.
4. You irrevocably agree and undertake to subscribe for and to accept the number of Offer Shares applied for as stated on the Transaction Record or any lesser number of Offer Shares that may be allotted to you in respect of your Electronic Application. In the event that we decide to allot any lesser number of such Offer Shares or not to allot any Offer Share to you, you agree to accept such decision as final. If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM or clicking “Confirm” or “OK” on the IB website screen) of the number of Offer Shares applied for shall signify and shall be treated as your acceptance of the number of Offer Shares that may be allotted to you and your agreement to be bound by the Memorandum of Association and Bye-laws of our Company.
5. We will not keep any applications in reserve. Where your Electronic Application is unsuccessful, the full amount of the application monies will be refunded in Singapore dollars (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within three Market Days after the close of the Application List. Trading of our Shares is expected to commence after such refund has been made.

Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded in Singapore dollars (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 14 days after the close of the Application List.

Responsibility for timely refund of application monies arising from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks. Therefore, you are strongly advised to consult your Participating Bank as to the status of your Electronic Application and/or the refund of any monies to you from unsuccessful or partially successful Electronic Application, to determine the exact number of Offer Shares allotted to you before trading the Offer Shares on the SGX-ST. Neither the SGX-ST, the CDP, the SCCS, the Participating Banks, ourselves or the Manager assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

6. If your Electronic Application is unsuccessful, no notification will be sent by the relevant Participating Banks.

If your Internet Electronic Application made through the IB websites of DBS Bank or UOB is unsuccessful, no notification will be sent by such Participating Bank.

If you make an Electronic Application through the ATMs of the following Participating Banks, you may check the results of your Electronic Application as follows:

Bank	Telephone	Available at	Operating Hours	Service expected from
DBS Bank	1800 339 6666 (for POSB account holders) 1800 111 1111 (for DBS account holders)	Internet Banking http://www.dbs.com ⁽¹⁾	24 hours	Evening of the balloting day
OCBC	1800 363 3333	ATM / Internet Banking / Phone Banking ⁽²⁾	24 hours	Evening of the balloting day
UOB Group	1800 222 2121	ATM (Other Transactions – “IPO Enquiry”) http://www.uobgroup.com ⁽¹⁾⁽³⁾	ATM / Phone Banking 24 hours Internet Banking 24 hours	Evening of the balloting day

(1) If you make your Internet Electronic Application through the IB website of DBS Bank or UOB, you may check the result of your application through the same channels listed in the table above in relation to ATM Electronic Applications made at ATMs of DBS Bank or UOB Group.

(2) If you make your Electronic Application through the ATMs of OCBC, you may check the result of your application through the same channels listed in the table above.

(3) If you make your Electronic Application through the ATMs or IB website of the UOB Group, you may check the results of your application through UOB Personal Internet Banking, UOB Group ATMs or UOB PhoneBanking Services.

7. Electronic Applications shall close at 12.00 noon on 16 July 2007 or such other time as we may, in consultation with the Manager, decide. All Internet Electronic Applications must be received by 12.00 noon on 16 July 2007. An Internet Electronic Application is deemed to be received when it enters the designated information system of the relevant Participating Bank.

8. You are deemed to have requested and authorised us to:
 - (a) register the Offer Shares allotted to you in the name of CDP for deposit into your Securities Account;
 - (b) send the relevant Share certificate(s) to CDP;
 - (c) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application monies, should your Electronic Application be rejected, by automatically crediting your bank account with your Participating Bank with the relevant amount within three Market Days after the close of the Application List; and
 - (d) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application monies, should your Electronic Application be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within 14 days after the close of the Application List.
9. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks and if, in any such event, we, the Manager and/or the relevant Participating Bank do not receive your Electronic Application, or data relating to your Electronic Application is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against us, the Manager and/or the relevant Participating Bank for Offer Shares applied for or for any compensation, loss or damage.
10. We do not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. We will reject any application by any person acting as nominee.
11. All your particulars in the records of your Participating Bank at the time you make your Electronic Application shall be deemed to be true and correct and your Participating Bank and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after making your Electronic Application, you shall promptly notify your Participating Bank.
12. You should ensure that your personal particulars as recorded by both CDP and the relevant Participating Bank are correct and identical, otherwise, your Electronic Application is liable to be rejected. You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.
13. By making and completing an Electronic Application, you are deemed to have agreed that:
 - (a) in consideration of us making available the Electronic Application facility, through the Participating Banks acting as our agents, at the ATMs and the IB websites (if any):
 - (i) your Electronic Application is irrevocable; and
 - (ii) your Electronic Application, our acceptance and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (b) none of us, the Manager or the Participating Banks shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery to us or CDP of data relating to your Electronic Application due to breakdowns or failures of transmission, delivery or communication facilities or any risks referred to in paragraph 9 above or to any cause beyond our or their respective controls;

- (c) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on our behalf and not otherwise, notwithstanding any payment received by or on our behalf;
- (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
- (e) reliance is placed solely on information contained in this Prospectus and that none of our Company, the Manager, the Underwriter, the Placement Agent nor any other person involved in the Invitation shall have any liability for any information not so contained.

The instructions for Electronic Applications will appear on the ATM screens and the IB website screens. For illustration purposes, the steps for making an Electronic Application through an ATM belonging to DBS Bank or through the IB website of DBS Bank are shown below. Instructions for Electronic Applications on the ATM screens and the IB websites screens (if any) of the Participating Banks, other than DBS Bank, may differ from those represented below.

Steps For An Electronic Application for Offer Shares through ATMs of DBS Bank

Instructions for ATM Electronic Applications will appear on the ATM screens of the Participating Bank. For illustration purposes, the steps for making an ATM Electronic Application through a DBS Bank or POSB ATM are shown below. Certain words appearing on the screen are in abbreviated form (“A/c”, “amt”, “appln”, “&”, “I/C”, and “No.” refer to “Account”, “amount”, “application”, “and”, “NRIC”, and “Number” respectively). Instructions for ATM Electronic Applications on the ATM screens of Participating Banks (other than DBS Bank (including POSB)), may differ slightly from those represented below.

- Step 1 : Insert your personal DBS or POSB ATM Card.
- 2 : Enter your Personal Identification Number.
- 3 : Select “CASHCARD & MORE SERVICES”.
- 4 : Select “ESA-IPO SHARE/INVESTMENTS”.
- 5 : Select “ELECTRONIC SECURITY APPLN (IPOS/BONDS/ST-NOTES)” to “CSI”.
- 6 : Read and understand the following statements which will appear on the screen:
- THE OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT) WHICH CAN BE OBTAINED FROM ANY DBS/POSB BRANCH IN SINGAPORE AND, WHERE APPLICABLE, THE VARIOUS PARTICIPATING BANKS DURING BANKING HOURS, SUBJECT TO AVAILABILITY.
 - ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) SHOULD READ THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE) BEFORE SUBMITTING HIS APPLICATION WHICH WILL NEED TO BE MADE IN THE MANNER SET OUT IN THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE). A COPY

OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT, AND IF APPLICABLE. A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR ITS OR THEIR CONTENTS.

- Press the “Enter” key to confirm that you have read and understood.

7 : Press the “ENTER” key to acknowledge:-

- YOU HAVE READ, UNDERSTOOD AND AGREED TO ALL TERMS OF THE APPLICATION AND PROSPECTUS/DOCUMENT OR PROFILE STATEMENT, AND IF APPLICABLE, THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT.
- YOU CONSENT TO DISCLOSE YOUR NAME, NRIC/PASSPORT NO., ADDRESS, NATIONALITY, CDP SECURITIES A/C NO., CPF INVESTMENT A/C NO. AND SECURITIES APPLICATION AMOUNT FROM YOUR BANK ACCOUNT(S) TO SHARE REGISTRARS, SGX, SCCS, CDP, CPF AND THE ISSUER(S).
- FOR FIXED AND MAX PRICE SECURITY APPLICATION, THIS IS YOUR ONLY APPLICATION AND IT IS MADE IN YOUR OWN NAME AND AT YOUR OWN RISK.
- THE MAXIMUM PRICE FOR EACH SHARE IS PAYABLE IN FULL ON APPLICATION AND SUBJECT TO REFUND IF THE FINAL PRICE IS LOWER.
- FOR TENDER SECURITIES APPLICATIONS, THIS IS YOUR ONLY APPLICATION AT THE SELECTED TENDER PRICE AND IT IS MADE IN YOUR OWN NAME AND AT YOUR OWN RISK.
- YOU ARE NOT A US PERSON AS REFERRED TO IN THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT AND IF APPLICABLE, THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT.

8 : Select your nationality.

9 : Select the DBS account (Autosave/Current/Savings/Savings Plus) or the POSB account (current/savings) from which to debit your application moneys.

10 : Enter the number of securities you wish to apply for using cash.

11 : Enter your own 12-digit CDP Securities Account number. (Note: This step will be omitted automatically if your CDP Securities Account number has already been stored in the Bank's records).

12 : Check the details of your securities application, your I/C/Passport number and CDP Securities Account number and number of securities on the screen and press the “ENTER” key to confirm your application.

13 : Remove the Transaction Record for your reference and retention only.

Steps For An Internet Electronic Application Through The IB website Of DBS Bank

For illustrative purposes, the steps for making an Internet Electronic Application through the DBS Bank IB website is shown below. Certain words appearing on the screen are in abbreviated form ("A/C", "&", "I/C" and "No." refer to "Account", "NRIC", "and" and "Number" respectively).

- Step 1 : Click on to DBS website (www.dbs.com).
- 2 : Login to Internet Banking.
- 3 : Enter your User ID and PIN.
- 4 : Select "Electronic Security Application".
- 5 : Click "Yes" to proceed and to warrant that you have observed and complied with all applicable laws and regulations.
- 6 : Select your country of residence.
- 7 : Click on "CSI" and click the "Submit" button.
- 8 : Click "Confirm" to confirm:-
- (a) **You have read, understood and agreed to all terms of this application and the Prospectus/Document or Profile Statement and if applicable, the Supplementary or Replacement Prospectus/Document or Profile Statement.**
 - (b) **You consent to disclose your name, NRIC or Passport number, address, nationality, permanent resident status, CDP Securities Account number, CPF Investment Account number (if applicable) and securities application amount from your DBS/POSBank Account(s) to registrars of securities, SGX-ST, SCCS, CDP, CPF Board, issuer and the Manager.**
 - (c) **You are not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1993, as amended).**
 - (d) **This application is made in your name and at your own risk.**
 - (e) **For FIXED/MAX price securities application, this is your only application. For TENDER price securities application, this is your only application at the selected tender price.**
- 9 : Fill in details for share application and click "Submit".
- 10 : Check the details of your share application, your NRIC or passport number and click "OK" to confirm your application.
- 11 : Print Confirmation Screen (optional) for your reference & retention only.



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