

8. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AF 0117)

Monteiro & Heng Chambers
22 Jalan Tun Sambanthan 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8988
fax : +603 2260 1708
email : audit@monteiroheng.com.my
www.monteiroheng.com.my

18 OCT 2010

The Board of Directors
Maxwell International Holdings Berhad
24-3, Jalan Tun Sambanthan 3
50470 Kuala Lumpur
Malaysia

STRICTLY CONFIDENTIAL

Dear Sirs,

MAXWELL INTERNATIONAL HOLDINGS BERHAD ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by Baker Tilly Monteiro Heng, an approved company auditor, for inclusion in the Prospectus of Maxwell International Holdings Berhad ("Maxwell") for inclusion in the Prospectus of Maxwell in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of Maxwell of RM160,000,000 comprising 400,000,000 Maxwell ordinary shares of RM0.40 each ("Maxwell Share(s)") on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), and should not be relied upon for any other purposes.

2. DETAILS OF THE LISTING SCHEME

The listing scheme comprises of the following:-

2.1 Public Issue

In conjunction with the Proposed Listing, Maxwell proposes to undertake a public issue of 63,750,000 new Maxwell Shares, representing 15.94% of the enlarged issued and paid-up share capital of Maxwell, allocated in the following manner:-

- (a) 43,750,000 Maxwell Shares, representing 10.94% of the enlarged issued and paid-up share capital of Maxwell made available for private placement to selected investors; and

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**2. LISTING SCHEME (Continued)****2.1 Public Issue (Continued)**

- (b) 20,000,000 Maxwell Shares, representing 5% of the enlarged issued and paid-up share capital of Maxwell made available for application by the Malaysian Public.

(Collectively herein after referred to as "the Public Issue")

2.2 Proposed Listing

Upon the completion of the Public Issue, Maxwell proposes to seek the listing of and quotation for its entire enlarged issued and paid-up share capital of RM160,000,000 comprising 400,000,000 Maxwell Shares on the Main Market of Bursa Securities ("the Proposed Listing").

3. GENERAL INFORMATION**3.1 Background Information**

Maxwell was incorporated in Malaysia under the Companies Act, 1965 as a public limited liability company on 3 November 2009 under its present name. The principal activity of Maxwell is investment holding. Further details on its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes"), are set out in paragraph 3.3 below.

3.2 Share Capital of Maxwell

At the date of incorporation, the authorised share capital of Maxwell was RM500,000,000 comprising 1,250,000,000 ordinary shares of RM0.40 each. At that date, the issued and paid up share capital of Maxwell was RM2.00 comprising five (5) ordinary shares of RM0.40 each.

The movements in the issued and paid-up share capital of Maxwell since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares of RM0.40 each Allotted	Par Value RM	Consideration	Cumulative Issued and Paid-up Share Capital RM
3-11-2009	5	0.40	Subscribers' shares	2
8-12-2009	336,249,995	0.40	Acquisition of Zhenxing Shoes	134,500,000

Upon completion of the Public Issue as detailed in Section 2.1, the issued and paid-up share capital of Maxwell will be enlarged to RM160,000,000 comprising 400,000,000 Maxwell Shares.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**3. GENERAL INFORMATION (Continued)****3.3 Subsidiary of Maxwell**

The details of the subsidiary, Zhenxing Shoes at the date of this report, which was incorporated in Jinjiang City, Fujian Province, the People's Republic of China (中国福建省晋江市竹树下工业区), are as follows:

Date of Incorporation	Registered and Paid-up Capital RMB	Effective Equity Interest %	Principal Activity
23 June 1999	59,655,346	100	An original design manufacturer (ODM) and original equipment manufacturer (OEM) manufacturing company specialising in the design and manufacturing of sport shoes

4. DIVIDENDS

No dividends have been paid or declared by Maxwell since its date of incorporation.

Details of dividends declared by Zhenxing Shoes for the financial years under review are set out in Section 9.3.5(u).

5. AUDITORS AND AUDITED FINANCIAL STATEMENTS

The financial year end of Maxwell and its subsidiary, Zhenxing Shoes is 31 December.

Messrs. Baker Tilly Monteiro Heng was appointed as the auditors of Maxwell since the date of its incorporation.

The financial statements of Zhenxing Shoes prepared for reporting purposes in the People's Republic of China ("PRC") for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were audited by Xiamen Huafeng Associated, Certified Public Accountants of the PRC. The financial statements for the abovementioned four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were reported on by the PRC auditors without any qualifications or modifications.

In connection with the Proposed Listing, Baker Tilly Monteiro Heng was appointed by the directors to conduct a special audit on the financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006 to 31 December 2009 and the six (6) months financial period ended 30 June 2010 in accordance with Malaysian Approved Standards on Auditing. The audited financial statements were prepared by the management and the director of Zhenxing Shoes in accordance with the Financial Reporting Standards in Malaysia, for the purpose of submission to the Securities Commission in relation to the Proposed Listing. The audited financial statements of Zhenxing Shoes used in the preparation of this report for the financial years/periods under review were not subject to any qualifications or modifications.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**5. AUDITORS AND AUDITED FINANCIAL STATEMENTS (Continued)**

The audited financial statements of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, which were used in the preparation of this report, were not subject to any qualifications or modifications.

6. CONVERSION RATE

The financial information of Maxwell and its subsidiary ("Maxwell Group") is measured using the currency of the primary economic environment in which the Maxwell Group operates. The functional currency of the Maxwell Group is Chinese Renminbi. For the preparation of this report, the financial information stated in Chinese Renminbi (RMB) has been converted to Ringgit Malaysia (RM) for information purposes only.

The exchange rates used for the purpose of this report are as follows:-

- (i) Statement of comprehensive income (based on average of the exchange rates on the last day of each month during the financial years/periods under review)

Financial Year Ended ("FYE")/ Financial Period Ended ("FPE")	Exchange Rate
FYE 31 December 2006 ("FYE 2006")	RMB1 : RM0.4597
FYE 31 December 2007 ("FYE 2007")	RMB1 : RM0.4518
FYE 31 December 2008 ("FYE 2008")	RMB1 : RM0.4819
FYE 31 December 2009 ("FYE 2009")	RMB1 : RM0.5157
FPE 30 June 2010 ("1H 2010")	RMB1 : RM0.4829

(Source: Bank Negara Malaysia)

- (ii) Balance sheets (based on the closing rates at the respective reporting dates)

Reporting Date	Exchange Rate
As at 31 December 2006	RMB1 : RM0.4511
As at 31 December 2007	RMB1 : RM0.4534
As at 31 December 2008	RMB1 : RM0.5084
As at 31 December 2009	RMB1 : RM0.5019
As at 30 June 2010	RMB1 : RM0.4772

(Source: Bank Negara Malaysia)

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Unless otherwise stated, the following accounting policies have been adopted by the Maxwell Group and used consistently in dealing with items which are considered material in the preparation of the audited consolidated financial statements for the financial years/periods under review, which have been prepared in accordance with the Financial Reporting Standards ("FRS") in Malaysia. These policies have been consistently applied to all the financial years/periods presented except for the adoption of new and revised FRSs, amendments/improvements to FRSs and IC Interpretations ("IC Int") that are mandatory for the Maxwell Group for the financial period beginning 1 January 2010 as disclosed in Note 7B.

A. BASIS OF PREPARATION

The financial statements of the Maxwell Group have been prepared in accordance with the FRS and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements of the Maxwell Group have been prepared under the historical cost basis, except as disclosed herein.

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires the directors' best knowledge of current events and actions, and therefore actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 8.

B. NEW AND REVISED FRS, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INTERPRETATIONS ("IC Int")**(i) Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int**

On 1 January 2010, the Maxwell Group adopted the following new and revised FRSs, amendments/improvements to FRSs and IC Int mandatory for annual financial period beginning on or after 1 January 2010.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****B. NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)****(i) Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)**New FRSs

FRS 4	Insurance Contracts
FRS 7	Financial Instruments : Disclosures
FRS 139	Financial Instruments : Recognition and Measurement

Revised FRSs

FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs

Amendments/Improvements to FRSs

FRS 1	First time Adoption of Financial Reporting Standards
FRS 2	Share-Based Payment
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 107	Statement of Cash Flows
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Reporting Period
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 123	Borrowing Costs
FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate
FRS 128	Investment In Associates
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Presentation
FRS 134	Interim Financial Reporting
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 139	Financial Instruments : Recognition and Measurement
FRS 140	Investment Property

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report

7. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
- B. **NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)**
- (i) **Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)**

IC Int

IC Int 9	Reassessment of Embedded Derivatives
IC Int 10	Interim Financial Reporting and Impairment
IC Int 11	FRS 2 – Group and Treasury Share Transactions
IC Int 13	Customer Loyalty Programmes
IC Int 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new and revised FRSs, amendments/ improvements to FRSs and IC Int do not have any material impact on the financial performance or position of the Maxwell Group except for those as discussed below:-

FRS 7 Financial Instruments: Disclosure

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Maxwell Group has applied FRS 7 prospectively in accordance with the transitional provisions. Hence the new disclosures have not been applied to the comparatives.

FRS 101 Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. This revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes equity presented as a single line. This standard also introduces the statement of comprehensive income, with all items of income and expense recognised directly in the statement of comprehensive income, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or two linked statements. The Maxwell Group has elected to present the statement of comprehensive income in single statement.

The revised FRS 101 was adopted retrospectively by the Maxwell Group. The change in accounting policy only impacts presentation aspects.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****B. NEW AND REVISED FRSs, AMENDMENTS/IMPROVEMENTS TO FRSs AND IC INT (Continued)****(i) Adoption of New and Revised FRSs, Amendments/Improvements to FRSs and IC Int (Continued)****FRS 139 Financial Instruments: Recognition and Measurement**

The Maxwell Group has adopted FRS 139 prospectively in accordance with the transitional provisions in FRS 139 for recognising and measuring financial assets and financial liabilities as at 1 January 2010.

(ii) New and Revised FRSs, Amendments/Improvements to FRSs and IC Int that are issued, not yet effective and have not been adopted early

The Maxwell Group has not adopted the following new and revised FRSs, amendments/improvements to FRSs and IC Int that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Maxwell Group:-

		Effective for financial periods beginning on or after
<u>Revised FRS</u>		
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 127	Consolidated and Separate Financial Statements	1 July 2010
<u>Amendments/Improvements to FRSs</u>		
FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2011
FRS 2	Share-based Payment	1 July 2010
FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
FRS 7	Financial Instruments: Disclosure	1 January 2011
FRS 132	Financial Instruments: Presentation	1 March 2010
FRS 138	Intangible Assets	1 July 2010
<u>IC Int</u>		
IC Int 4	Determining whether an Arrangement contains a Lease	1 January 2011
IC Int 12	Service Concession Arrangements	1 July 2010
IC Int 15	Agreements for the Construction of Real Estate	1 January 2010
IC Int 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Int 17	Distributions of Non-Cash Assets to Owners	1 July 2010
IC Int 18	Transfers of Assets from Customers	1 January 2011

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****B. NEW AND REVISED FRSS, AMENDMENTS/IMPROVEMENTS TO FRSS AND IC INT (Continued)****(ii) New and Revised FRSS, Amendments/Improvements to FRSS and IC Int that are issued, not yet effective and have not been adopted early (Continued)**

**Effective for
financial periods
beginning on
or after**

Amendment to IC Int

IC Int 9 Reassessment of Embedded Derivatives

1 July 2010

The initial application of the above new and revised FRSS, amendments/improvements to FRSS and IC Int are not expected to have any material impact on the financial statements of the Maxwell Group or any material changes in accounting policy.

C. BASIS OF CONSOLIDATION**(i) Subsidiary**

Subsidiary is the entity in which the Maxwell Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Maxwell Group controls another entity.

In Maxwell's separate financial statements, investment in subsidiary is stated at costs less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 7J. On disposal of such investments, the difference between the net disposal proceeds and their carrying amount is included in the statement of comprehensive income.

(ii) Basis of Consolidation under Common Control Business Combination

The consolidated financial statements include the financial statements of Maxwell and its subsidiary made up to the end of the financial years/periods. The financial statements of the parent and its subsidiary are all drawn up at the same reporting date.

The acquisition of 100% equity in Zhenxing Shoes pursuant to the restructuring under common control has been accounted for using the merger method of consolidation. A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****C. BASIS OF CONSOLIDATION (Continued)****(ii) Basis of Consolidation under Common Control Business Combination (Continued)**

Under the merger method, components of financial statements of the combining entities or businesses for the reporting periods in which the common control combination occurs are included in the consolidated financial statements of the consolidated 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. The cost of the merger should be cancelled against the nominal values of the shares/paid-up capital received. The difference between the cost of the merger and nominal values of the shares/paid-up capital received will remain and continue to be classified as part of equity of the Maxwell Group and will be adjusted against suitable reserve in future, where appropriate. Balances and transaction and resulting unrealised profits between the combining entities are eliminated, if any. Unrealised losses resulting from intra-group transactions are also eliminated unless costs cannot be recovered.

D. CURRENCIES**(i) Functional and Presentation Currency**

The individual financial statements of each entity in the Maxwell Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Maxwell Group is Chinese Renminbi. The financial statements are presented in Ringgit Malaysia, which is the Maxwell Group's presentation currency.

(ii) Foreign Operations

The results and financial position of the subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:-

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- all exchange differences are recognised directly in other comprehensive income.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****E. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 7J.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Maxwell Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income as incurred.

Property, plant and equipment are depreciated on a straight line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets concerned. The estimated useful lives used for this purpose are as follows:-

Plant and machinery	5 – 10 years
Office equipment	5 years
Motor vehicles	5 years
Renovation	5 years
Buildings	50 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. The effects of any revisions of the residual values and useful lives are included in the statement of comprehensive income for the financial years/period in which the changes arise.

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the financial years/period the asset is derecognised.

F. PREPAID LEASE PAYMENTS

Leasehold land that normally has a finite economic life and title is not expected to pass to the lessee by the end of lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments which are amortised to the statement of comprehensive income over the lease term in accordance with the pattern of benefits provided. The prepaid lease payments are amortised over a lease term of 50 years and expiring in year 2049 and 2056 respectively.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****G. INVENTORIES**

Inventories are stated at the lower of cost or net realisable value. Costs comprise direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined using first-in-first out basis.

Net realisable value represents the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

H. FINANCIAL INSTRUMENTS**(i) Financial Assets****Initial Recognition**

Financial assets within the scope of FRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity financial assets, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Maxwell Group determines the classification of its financial assets at initial recognition. Financial assets are recognised on the statement of financial position when, and only when the Maxwell Group becomes a party to the contracted provisions of the financial instruments.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Maxwell Group commits to purchase or sell the asset. The Maxwell Group's financial assets include cash and cash equivalents, trade and other receivables.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:-

(i) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method less impairment.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****H. FINANCIAL INSTRUMENTS (Continued)****(i) Financial Assets (Continued)****Subsequent Measurement (Continued)****(iii) Held-to-Maturity Financial Assets**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Maxwell Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the EIR method less impairment. The losses arising from impairment are recognised in the statement of comprehensive income.

(iv) Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of comprehensive income. Available-for-sale financial assets are measured at cost if the fair value of the unquoted equity instrument cannot be reliably measured.

(ii) Financial Liabilities**Initial Recognition**

Financial liabilities within the scope of FRS 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Maxwell Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Maxwell Group's financial liabilities include trade payables, other payables and short-term loans.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:-

(i) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****H. FINANCIAL INSTRUMENTS (Continued)****(ii) Financial Liabilities****Subsequent Measurement (Continued)****(ii) Loans and Borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR method amortisation process.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Maxwell Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

I. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the reporting date. A dividend proposed or declared after the reporting date, but before the financial statements are authorised for issue, is not recognised as a liability at the reporting date.

J. IMPAIRMENT**(i) Financial Assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Maxwell Group on terms that the Maxwell Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****J. IMPAIRMENT (Continued)****(i) Financial Assets (Continued)**

The Maxwell Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Maxwell Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in statement of comprehensive income and reflected in an allowance account against receivables. When the trade receivables become uncollectible, it is written off against the allowance accounts. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date and the amount of reversal are recognised as profit or loss in the statement of comprehensive income.

(ii) Non-financial Assets

The carrying amounts of the Maxwell Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis.

An impairment loss is recognised in the statement of comprehensive income in the period in which it arises. An impairment loss for an asset is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed its carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the statement of comprehensive income.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****K. EMPLOYEE BENEFITS****(i) Short Term Employee Benefits**

Wages, salaries, bonuses and non-monetary benefits are recognised as an expense in the financial years / period in which the associated services are rendered by the employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave and maternity leave are recognised when absences occur.

(ii) Post-Employment Benefits

The Maxwell Group contributes to Employees' Provident Fund, the national defined contribution plan. The contributions are charged to statement of comprehensive income in the period to which they are related. Once the contributions have been paid, the Maxwell Group has no further payment obligations.

Pursuant to the relevant laws and regulations of the PRC, Zhenxing Shoes, a wholly-owned subsidiary of Maxwell, has joined a basic pension insurance scheme for the employees arranged by local Labour and Social Security Bureau, whereby Zhenxing Shoes makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment on the basic pension benefits to the retired employees.

L. REVENUE RECOGNITION

The Maxwell Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Maxwell Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Maxwell Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Revenue is recognised upon delivery of products and customers' acceptance, net of sales tax, discounts and returns and when the significant risk and rewards of ownership have been passed to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****L. REVENUE RECOGNITION (Continued)****(ii) Interest income**

Interest income is recognised on an accrual basis.

M. BORROWING COSTS

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction and production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowings costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised as an expense in the statement of comprehensive income in the period in which they are incurred. Borrowing costs consist of interest that the Maxwell Group incurred in connection with the borrowing of funds.

N. TAXATION**(i) Current Tax**

The tax expense in the statement of comprehensive income represents the aggregate amount of current tax and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year/period and is measured using the tax rates that have been enacted at the balance sheet date.

(ii) Deferred Tax

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred tax assets, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the assets realised. Deferred tax is charged or credited to the combined statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt in equity.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****N. TAXATION (Continued)****(iii) Other Taxes**

The Maxwell Group's sale of goods in the PRC are subjected to Value-Added-Tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from the output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the balance sheet.

Revenue, expenses and assets are recognised net of amount of VAT except where:-

- (a) The VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) Receivables and payables that are stated with the amount of VAT included.

O. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past event and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Maxwell Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

P. CASH AND CASH EQUIVALENTS

For the purpose of cash flow statements, cash and cash equivalents comprise cash in hand, bank balances, deposits and demand deposits that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value, net of deposits pledged to financial institutions.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated by the director of Maxwell and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(1) Critical judgements in applying accounting policies

In the process of applying the Maxwell Group's accounting policies, the director is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements except for matter discussed below:

Basis of consolidation – business combination involving entities under common control

The Maxwell Group is regarded as a continuing entity resulting from the restructuring exercise, i.e. acquisition of 100% equity interests in Zhenxing Shoes, since the management of all the entities, which took part in the restructuring exercise was ultimately controlled by the same management and under the common controlling parties before and immediately after the restructuring exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decisions, and risk and benefits to the ultimate controlling parties that existed prior to the restructuring exercise, and that control is not transitory. The restructuring exercise has been accounted for as a restructuring under common control in a manner similar to pooling of interest method or merger. Accordingly, consolidated financial statements have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiary, which was under common control of the ultimate controlling parties and management that existed prior to the restructuring exercise during the relevant period or since their respective dates of incorporation.

(2) Key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below:-

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)****(2) Key sources of estimation uncertainty (Continued)****(i) Depreciation of property, plant and equipment**

Management estimates the useful life of the Maxwell Group's property, plant and equipment to be within 5 to 50 years. The Maxwell Group estimates the useful life of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment are reviewed periodically and are updated if expectations differ from the previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful life of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

The estimates for the useful life and related depreciation charges for its property, plant and equipment is based on commercial and production factors which could change significantly as a result of the level of usage, technical innovation and competitor actions in response to severe market conditions. Changes in those commercial and production factors could impact the economic useful life and the residual values of these assets and therefore future depreciation charges could be revised.

(ii) Impairment of non-current assets

The Maxwell Group reviews the carrying amount of its non-current assets, which include property, plant and equipment, prepaid lease payments and investment in a subsidiary, to determine whether there is an indication that those assets have suffered an impairment loss in accordance with relevant accounting policies on the respective category of non-current assets. Independent professional valuations to determine the carrying amount of these assets will be procured when the need arise.

As at the end of the financial period under review, the director is of the view that there is no indication of impairment to these assets and therefore no independent professional valuation was procured by the Maxwell Group during the financial year/period to determine the carrying amount of these assets.

(iii) Allowance for writedown in inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the carrying value of inventories.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)****(2) Key sources of estimation uncertainty (Continued)****(iv) Impairment on loan and receivables**

The Maxwell Group assess at each reporting date whether there is any objective evidence that loan and receivables is impaired. To determine whether there is objective evidence of impairment, the Maxwell Group considers factors such as the profitability of insolvency or significant financial difficulties of the debtors and defaults or significant delays in payments.

Where there is objective evidence of impairment, the amount and timing of the future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(v) Income taxes

The subsidiary of Maxwell, Zhenxing Shoes, has exposure to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The subsidiary recognises liabilities for the expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS****9.1 The Maxwell Group**

The consolidated financial statements of the Maxwell Group for the FYE 2009 have been prepared on the basis of pooling of interest method or merger accounting, where the financial statements of Maxwell and its subsidiary, Zhenxing Shoes, have been included in the consolidated financial statements as if they have been in effect since the beginning of the current financial year, i.e. 1 January 2009.

9.1.1 The audited consolidated statements of comprehensive income of the Maxwell Group for the FYE 2009 and 1H 2010 are as follows:-

	Note	FYE 2009		1H 2010	
		RMB'000	RM'000	RMB'000	RM'000
Revenue	9.1.5(a)	583,718	301,023	307,434	148,460
Cost of sales		(409,406)	(211,130)	(215,993)	(104,303)
Gross profit		174,312	89,893	91,441	44,157
Other income	9.1.5(b)	523	270	159	77
Selling and distribution expenses		(1,811)	(934)	(1,104)	(533)
Administrative expenses		(11,779)	(6,075)	(6,538)	(3,157)
Other expenses		(922)	(476)	(345)	(167)
Finance costs	9.1.5(c)	(788)	(406)	(432)	(209)
Profit before taxation	9.1.5(d)	159,535	82,272	83,181	40,168
Taxation	9.1.5(f)	(40,801)	(21,041)	(21,218)	(10,246)
Net profit for the financial year/ period		118,734	61,231	61,963	29,922
Other comprehensive income					
Foreign currency translation differences for foreign operation		(74)	(955)	(161)	(7,865)
Total comprehensive income for the financial year/period		118,660	60,276	61,802	22,057
Gross profit margin (%)		29.86	29.86	29.74	29.74
Profit before taxation margin (%)		27.33	27.33	27.06	27.06
Effective tax rate (%)		25.57	25.58	25.51	25.51
Number of ordinary shares in issue at the end of the financial year/ period ('000)		336,250	336,250	336,250	336,250
Gross earnings per share (RMB/RM)		0.47	0.24	0.49 ^	0.24 ^
Net earnings per share (RMB/RM)		0.35	0.18	0.37 ^	0.18 ^

^ Annualised to twelve (12) months for comparison purposes.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)**

9.1.2 The audited consolidated statements of financial position of the Maxwell Group as at 31 December 2009 and 30 June 2010 are as follows:-

	Note	As at 31 December 2009		As at 30 June 2010	
		RMB'000	RM'000	RMB'000	RM'000
Non-current assets					
Property, plant and equipment	9.1.5(g)	62,465	31,351	61,254	29,230
Prepaid lease payments	9.1.5(h)	4,735	2,376	4,674	2,230
Total non-current assets		67,200	33,727	65,928	31,460
Current assets					
Inventories	9.1.5(i)	4,088	2,052	15,328	7,315
Trade receivables	9.1.5(j)	207,866	104,328	269,070	128,400
Other receivables and prepayments	9.1.5(k)	947	475	740	353
Cash and bank balances	9.1.5(l)	106,222	53,313	151,362	72,230
Total current assets		319,123	160,168	436,500	208,298
TOTAL ASSETS		386,323	193,895	502,428	239,758
EQUITY AND LIABILITIES					
Equity attributable to equity holder of Maxwell					
Share capital	9.1.5(m)	267,210	134,500	267,210	134,500
Merger deficit	9.1.5(n)	(207,554)	(104,171)	(207,554)	(104,171)
Statutory reserve	9.1.5(o)	29,402	15,037	35,783	18,118
Foreign currency translation reserve	9.1.5(p)	(74)	(2,860)	(235)	(10,725)
Retained earnings		211,972	108,544	267,554	135,385
Total equity		300,956	151,050	362,758	173,107
Current liabilities					
Trade payables	9.1.5(q)	48,524	24,353	103,976	49,617
Other payables and accruals	9.1.5(r)	12,476	6,262	11,867	5,663
Short term loans	9.1.5(s)	15,000	7,529	10,000	4,772
Tax payable		9,367	4,701	13,827	6,599
Total current liabilities		85,367	42,845	139,670	66,651
Total liabilities		85,367	42,845	139,670	66,651
TOTAL EQUITY AND LIABILITIES		386,323	193,895	502,428	239,758

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)**

9.1.3 The audited consolidated statement of changes in equity of the Maxwell Group for the FYE 2009 and 1H 2010 are as follows:-

	Non-Distributable				Distributable			
	Share Capital	Merger Reserve	Statutory Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2009 ^#	59,656	30,329	-	17,264	8,777	-	(1,905)	105,376
								53,573
								182,296
								90,774
Total comprehensive income for the financial year	-	-	-	-	-	(74)	(955)	118,734
Transactions with owner:								61,231
Issue of shares	*	-	-	-	-	-	-	-
Arising from the acquisition of Zhenxing Shoes	207,554	104,171	(207,554)	(104,171)	-	-	-	-
Transfer to statutory reserve	-	-	-	12,138	6,260	-	(12,138)	(6,260)
Total transactions with owners	207,554	104,171	(207,554)	(104,171)	12,138	6,260	-	(12,138)
Balance at 31 December 2009	267,210	134,500	(207,554)	(104,171)	29,402	15,037	(74)	211,972
								108,544
								300,956
								151,050
Total comprehensive income for the financial period	-	-	-	-	-	-	(161)	(7,865)
Transactions with owner:								61,963
Transfer to statutory reserve	-	-	-	6,381	3,081	-	-	(6,381)
Total transactions with owners	-	-	-	6,381	3,081	-	-	(6,381)
Balance at 30 June 2010	267,210	134,500	(207,554)	(104,171)	35,783	18,118	(235)	267,554
								135,385
								362,758
								173,107

^ The share capital balance as at 1 January 2009 represents the fully paid-up capital of Zhenxing Shoes.

For consolidation purposes, balance as at 1 January 2009 have been converted at the closing rate as at 1 January 2009.

* RMB4 (RM2).



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)**

9.1.4 The audited consolidated cash flow statement of the Maxwell Group for the FYE 2009 and 1H 2010 are as follows:-

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cash Flows from Operating Activities				
Profit before taxation	159,535	82,272	83,181	40,168
Adjustments for:				
Amortisation of prepaid lease payments	116	60	61	29
Depreciation expenses	2,803	1,446	1,380	666
Loss on disposal of property, plant and equipment	85	44	41	20
Interest expense	784	404	431	208
Foreign exchange gain				
- Unrealised	(69)	(36)	-	-
Interest income	(230)	(119)	(142)	(68)
Property, plant and equipment written off	-	-	282	136
Operating profit before working capital changes	163,024	84,071	85,234	41,159
Changes in Working Capital				
Inventories	1,644	848	(11,239)	(5,427)
Receivables	(62,956)	(32,466)	(60,994)	(29,454)
Payables	13,812	7,123	54,724	26,426
	115,524	59,576	67,725	32,704
Interest paid	(784)	(404)	(431)	(208)
Interest received	230	119	142	68
Tax paid	(38,895)	(20,058)	(16,757)	(8,092)
Net Operating Cash Flows	76,075	39,233	50,679	24,472
Cash Flows from Investing Activities				
Purchase of property, plant and equipment	(733)	(378)	(588)	(284)
Proceed from disposal of property, plant and equipment	278	143	97	47
Net Investing Cash Flows	(455)	(235)	(491)	(237)

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.4 (Continued)**

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cash Flows from Financing Activities				
Net change in amount due to former holding company	(9,497)	(4,898)	-	-
Net change in amount due to a former related company	(42,815)	(22,080)	-	-
Net change in short term loans	13,000	6,704	(5,000)	(2,415)
Net Financing Cash Flows	(39,312)	(20,274)	(5,000)	(2,415)
Net change in cash and cash equivalents	36,308	18,724	45,188	21,820
Effect of the exchange rate changes	-	(955)	(48)	(2,903)
Cash and cash equivalents at the beginning of the financial year/period	69,914	35,544	106,222	53,313
Cash and cash equivalents at the end of the financial year/period	106,222	53,313	151,362	72,230
Analysis of Cash and Cash Equivalents				
Cash and bank balances	106,222	53,313	151,362	72,230

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group****(a) Revenue**

Revenue represents sales of goods and services net of discounts and value-added-tax.

(b) Other income

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Interest income	230	119	142	68
Other incentives	152	79	14	8
Unrealised foreign exchange gain	69	36	-	-
Others	72	36	3	1
	<u>523</u>	<u>270</u>	<u>159</u>	<u>77</u>

(c) Finance Costs

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Interest expenses	784	404	431	208
Bank charges	4	2	1	1
	<u>788</u>	<u>406</u>	<u>432</u>	<u>209</u>

(d) Profit before Taxation

Profit before taxation is arrived at after charging/(crediting):-

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Audit fee				
Statutory				
- current year	48	25	-	-
- underaccrual in prior year	-	-	35	17
Non-statutory	-	-	435	210
- current year				
Amortisation of prepaid lease payments	116	60	61	29

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group****(d) Profit before Taxation (Continued)**

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Depreciation	2,803	1,446	1,380	666
Directors' remuneration				
- fees	33	17	124	60
- salaries paid by Zhenxing Shoes	120	62	60	29
Foreign exchange (gain)/loss				
- realised	836	431	25	12
- unrealised	(69)	(36)	-	-
Incorporation fee	128	66	-	-
Listing expenses	2,319	1,196	1,174	567
Loss on disposal of Property, plant and equipment	85	44	41	20
Property, plant and equipment written off	-	-	282	136
Staff costs (Note 9.1.5(e))	56,903	29,345	31,632	15,275
Rental of office	448	231	6	3

(e) Staff Costs

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Wages and salaries	52,668	27,161	29,354	14,175
Defined contribution	4,035	2,081	2,220	1,072
Other staff related expenses	200	103	58	28
	56,903	29,345	31,632	15,275
Included in personnel expenses were remunerations paid to key management personnel	335	173	330	159

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group****(f) Taxation**

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
PRC subsidiary's income tax				
- current year	40,801	21,041	21,218	10,246

A reconciliation of income tax expense applicable to profit before taxation at the PRC statutory income tax rate to income tax expense at the effective income tax rate of the Maxwell Group is as follows:

	FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000
Profit before taxation	159,535	82,272	83,181	40,168
Taxation at applicable statutory tax rate of 25%	39,884	20,568	20,795	10,042
Tax effect of:				
- non-taxable income	(76)	(39)	(39)	(19)
- non-deductible expenditure	993	512	462	223
Tax expense for the financial year/period	40,801	21,041	21,218	10,246

As at the end of 31 December 2009 and 30 June 2010, no deferred tax has been provided as the Maxwell Group does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts, which give rise to a deferred tax asset or liability in the financial statements.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(g) Property, Plant and Equipment**

	Plant and Machinery		Office Equipment		Motor Vehicles		Renovation		Buildings		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cost												
At 1 January 2009	11,168	5,678	2,107	1,071	930	473	384	195	61,297	31,163	75,886	38,580
Additions	662	342	47	24	-	-	-	-	24	12	733	378
Disposals	(1,369)	(707)	-	-	-	-	-	-	-	-	(1,369)	(707)
Exchange differences	-	(62)	-	(14)	-	(6)	-	(2)	-	(399)	-	(484)
At 31 December 2009	10,461	5,250	2,154	1,081	930	467	384	193	61,321	30,776	75,250	37,767
Additions	76	37	78	38	216	104	218	105	-	-	588	284
Write off	-	-	-	-	-	-	(384)	(185)	-	-	(384)	(185)
Disposals	-	-	(194)	(94)	-	-	-	-	-	-	(194)	(94)
Exchange differences	-	(258)	-	(53)	-	(25)	-	(9)	-	(1,513)	-	(1,858)
At 30 June 2010	10,537	5,029	2,038	972	1,146	546	218	104	61,321	29,263	75,260	35,914



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(g) Property, Plant and Equipment (Continued)**

	Plant and Machinery	Office Equipment	Motor Vehicles	Renovation	Buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated Depreciation						
At 1 January 2009	3,089	1,571	120	26	7,360	10,988
Charge for the financial year	896	461	168	38	1,347	2,803
Disposals	(1,006)	(520)	-	-	-	(1,006)
Exchange differences	-	(17)	-	-	(67)	(96)
At 31 December 2009	2,979	1,495	288	64	8,707	12,785
Charge for the financial period	408	196	90	51	665	666
Write off	-	-	-	(102)	-	(102)
Disposals	-	-	-	-	-	(56)
Exchange differences	-	(74)	-	-	(219)	(320)
At 30 June 2010	3,387	1,617	378	113	9,372	14,007
						6,584



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(g) Property, Plant and Equipment (Continued)**

	Plant and Machinery	Office Equipment	Motor Vehicles	Renovation	Buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net Book Value						
At 31 December 2009	7,482	3,755	706	323	52,614	62,465
			642	320	26,406	31,351
At 30 June 2010	7,150	3,412	563	205	51,949	61,254
			768	205	24,791	29,230

All property, plant and equipment held by Zhenxing Shoes are located in the PRC and denominated in Chinese Renminbi.

Certain motor vehicles with net book value of RM355,297 or RMB702,634 (2009: RM283,887 or RMB565,624) were held in trust by the employees of Zhenxing Shoes.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(h) Prepaid Lease Payments**

	As at		As at	
	31 December 2009		30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cost				
At 1 January	5,800	2,949	5,800	2,911
Exchange differences	-	(38)	-	(143)
At 31 December/30 June	5,800	2,911	5,800	2,768
Accumulated amortisation				
At 1 January	949	483	1,065	535
Amortisation for the financial year/period	116	60	61	29
Exchange differences	-	(8)	-	(26)
At 31 December /30 June	1,065	535	1,126	538
Net Book Value				
At 31 December /30 June	4,735	2,376	4,674	2,230

The prepaid lease payments of the Maxwell Group refer to leasehold land located at Zhushuxia Industrial Zone, Jinjiang City Fujian Province, PRC (中国福建省晋江市竹树下工业区).

At 30 June 2010, a leasehold land with a net book value of RM507,153 is pledged as security to secure short-term loans as disclosed in Note 9.1.5(s).

(i) Inventories

	As at		As at	
	31 December 2009		30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cost				
Raw material	1,162	583	10,238	4,886
Work-in-progress	2,300	1,155	2,288	1,092
Finished goods	626	314	2,802	1,337
	4,088	2,052	15,328	7,315

The inventories of the Maxwell Group are denominated in Chinese Renminbi.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(j) Trade Receivables**

Trade receivables are non-interest bearing and the Maxwell Group's normal trade credit terms ranges from 30 days to 120 days. Other credit terms are assessed and approved on a case-by-case basis. The credit period varies from customers to customers after taking into consideration their payment track record, financial background, length of business relationship and size of transactions. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The currency exposure profile of trade receivables are as follows:-

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
United State Dollars	3,675	1,844	6,372	3,040
Chinese Renminbi	204,191	102,484	262,698	125,360
	207,866	104,328	269,070	128,400

The ageing analysis of the trade receivables as at 30 June 2010 were as follows:-

	As at 30 June 2010	
	RMB'000	RM'000
Neither past due nor impaired	269,070	128,400

The Maxwell Group believes that, no impairment loss is necessary in respect of these non past due trade receivables. Majority of the balances are owed by the customers that have a good payment record with the Maxwell Group.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(k) Other Receivables, Deposits and Prepayments**

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cost				
Advance to suppliers	99	50	24	11
Other receivables	803	403	604	289
Prepayments	45	22	112	53
	947	475	740	353

The currency exposure profile of other receivables and prepayments are as follows:-

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Ringgit Malaysia	-	-	34	16
Chinese Renminbi	947	475	706	337
	947	475	740	353

(l) Cash and Bank Balances

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Cash in hand	88	44	109	52
Cash at banks	106,134	53,269	151,253	72,178
	106,222	53,313	151,362	72,230

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(i) Cash and Bank Balances (Continued)**

The currency exposure profile of cash and bank balances are as follows:-

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
United State Dollars	1	^	1	#
Chinese Renminbi	106,212	53,308	151,352	72,225
Singapore Dollars	*	+	>	<
Ringgit Malaysia	9	5	9	5
	106,222	53,313	151,362	72,230

^ RM 334

RM 320

* RMB 40

+ RM 19

> RMB 38

< RM 18

The Chinese Renminbi is not freely convertible into foreign currencies under PRC Foreign Exchange Regulations and Administration of Settlement Sales and Payment of Foreign Exchange Regulations, Zhenxing Shoes is only permitted to exchange Chinese Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances of the Maxwell Group generally have an effective interest rate of 0.36% per annum for the financial year/period under review.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(m) Share Capital**

	Maxwell	
	Number of	
	Ordinary Shares	
	Unit '000	RM'000
Ordinary shares of RM0.40 each		
Authorised:		
At date of incorporation / 31 December 2009		
30 June 2010	1,250,000	500,000
Issued and fully paid-up:		
At date of incorporation	#	^
Issued pursuant to the acquisition of Zhenxing Shoes	336,250	134,500
At 31 December 2009 / 30 June 2010	336,250	134,500

Represent five (5) ordinary shares.

^ Represent RM2 (equivalent to RMB4).

During the FYE 2009, the issued and paid up share capital of Maxwell was increased from RM2 to RM134,500,000 from the issuance of 336,249,995 ordinary shares of RM0.40 each pursuant to the acquisition of the entire equity interests of Zhenxing Shoes. The new shares rank pari-passu with the existing shares of Maxwell.

(n) Merger Deficit

The merger deficit arises from the difference between the nominal value of shares issued by Maxwell as purchase consideration and the paid-up share capital Zhenxing Shoes consolidated under the merger method of accounting pursuant to the acquisition of Zhenxing Shoes.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(o) Statutory Reserve**

In accordance with relevant laws and regulations of the PRC, Zhenxing Shoes is required to transfer 10% of its net profit for the financial year prepared in accordance with the accounting regulation of the PRC to the statutory reserve. The transfer will continue until the reserve balance reaches 50% of its registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of this subsidiary, subject to the approval from the PRC authority, and are not available for dividend distribution to the shareholders of Zhenxing Shoes.

(p) Currency Translation Reserve

Currency translation reserve represents translation differences arising from translation of foreign subsidiary into the Maxwell Group's presentation currency.

(q) Trade Payables

Trade payables are non-interest bearing and the normal trade credit term granted to Zhenxing Shoes ranges from 30 to 90 days. Trade payables are denominated in Chinese Renminbi.

(r) Other Payables and Accruals

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
Advances from customers	133	67	132	63
Accrued operating expenses	472	237	761	363
Other payables	11,871	5,958	10,974	5,237
	<u>12,476</u>	<u>6,262</u>	<u>11,867</u>	<u>5,663</u>

Advances from customers represents advances from customers for sales and other sales related reimbursements. The advance from customers is denominated in United States Dollars.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(r) Other Payables and Accruals (Continued)**

The currency exposure profile of other payables and accruals are as follows:-

	As at 31 December 2009		As at 30 June 2010	
	RMB'000	RM'000	RMB'000	RM'000
United State Dollars	133	67	132	63
Chinese Renminbi	9,611	4,824	10,801	5,154
Ringgit Malaysia	2,732	1,371	934	446
	<u>12,476</u>	<u>6,262</u>	<u>11,867</u>	<u>5,663</u>

(s) Short Term Loans

The carrying amounts of interest-bearing short-term loans of the Maxwell Group are denominated in Renminbi.

The short-term loan of RM3,817,600 or RMB8,000,000 (2009: RM7,528,500 or RMB15,000,000) is secured by corporate guarantees from related parties and third parties. As at 30 June 2010, the Group has a short-term loan of RM954,000 or RMB2,000,000 (2009: Nil) which is secured over the prepaid lease payments as disclosed in Note 9.1.5(h). The interest rates of the short term loans are range from 6.42% to 6.64% (2009: 5.11% to 6.46%) per annum.

(t) Significant Related Parties Transactions

A related party is an entity or person that directly or indirectly through one or more intermediary controls, is controlled by, or is under common or joint control with the Maxwell Group or that have an interest in the Maxwell Group that give it significant influence over the Maxwell Group's financial operating policies. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence for which significant voting power in the Maxwell Group resides with, directly or indirectly.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(t) Significant Related Parties Transactions (Continued)**

The natures of the relationship with the related parties are as follows:-

Related Parties	Nature of Relationship
Jiayi (Fujian) Imp. & Exp. Trade Co., Ltd. (福建省晋江市加怡进出口贸易有限公司)	It is a company incorporated in the PRC and is a wholly-owned subsidiary of Sports Asia Limited. It is a company in which a director and also a shareholder of Maxwell namely Li Kwai Chun (李桂真) has interest.
Sports Asia Limited	It is a company incorporated in the Republic of Singapore. Li Kwai Chun (李桂真), is the shareholder and director of Sports Asia

During the financial year/period under review, the significant related party transactions were as follows:-

	FYE 2009		IH 2010	
	RMB'000	RM'000	RMB'000	RM'000
Sales to Jiayi Trading	1,066	550	-	-
Purchases from Jiayi Trading	80	41	-	-

The director of Maxwell is of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group****(u) Financial Instruments****(i) Financial Risk Management and Objectives**

The Maxwell Group does not have written risk management and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Maxwell Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Maxwell Group employs a conservative strategy regarding risk management. As the Maxwell Group's exposure to market risk kept at a minimum level, the Maxwell Group has not used any derivatives financial instruments for trading purposes.

(a) Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Maxwell Group.

The maximum exposure to credit risk for each of the financial assets was as follows:-

	Carrying amount As at 30 June 2010	
	RMB'000	RM'000
Trade receivables	269,070	128,400
Other receivables	628	300
Cash and cash equivalents	151,362	72,230
	<u>421,060</u>	<u>200,930</u>

The Maxwell Group does not hold any collateral as security and other credit enhancements for the above financial assets.

Receivables

The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Maxwell Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis.

Information regarding trade receivables that are neither past due nor impaired is disclosed in Note 9.1.5(j).

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(u) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(a) Credit Risk (Continued)****Cash and Cash Equivalents**

The management adopts policy of dealing only with reputable financial institutions.

(b) Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Maxwell Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Maxwell Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities.

The Maxwell Group adopts prudent liquidity risk management by maintaining sufficient cash, and available funding through an adequate amount of committed credit facilities. Due to dynamic nature of the underlying businesses, the Maxwell Group aims at maintaining flexibility in funding by keeping committed credit lines available.

The analysis of financial instruments by remaining contractual maturities is as follows:-

	Carrying amount		Contractual cash flows		6 months or less		6-12 months	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
30 June 2010								
Non-derivative financial liabilities								
Secured short-term loans	10,000	4,772	(10,000)	(4,772)	.	.	(10,000)	(4,772)
Trade payables	103,976	49,617	(103,976)	(49,617)	(103,976)	(49,617)	.	.
Other payables and accruals	11,867	5,663	(11,867)	(5,663)	(11,867)	(5,663)	.	.
	<u>125,843</u>	<u>60,052</u>	<u>(125,843)</u>	<u>(60,052)</u>	<u>(115,843)</u>	<u>(55,280)</u>	<u>(10,000)</u>	<u>(4,772)</u>

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(u) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(c) Interest rate risk**

Interest risk is the risk that the fair value or future cash flows of the Maxwell Group's financial instruments will fluctuate because of changes in market interest rates. The Maxwell Group's exposure to interest rate risk arises primarily from short term loans.

The Maxwell Group's policy is to manage interest cost using mix of fixed and floating rate debts, which depends on the interest rates market and economic conditions. For interest income from cash deposits, the Maxwell Group managed the interest rate risks by placing cash deposits with reputable financial institutions on varying maturities and interest rate terms.

The interest rate profile of the interest-bearing financial instruments was as follows:-

	Carrying amount	
	As at	
	30 June 2010	
	RMB'000	RM'000
Fixed rate instrument		
Short term loans	10,000	4,772

The short-term loans are fixed rate instruments and therefore a change in interest rates at the reporting date would not affect the statement of comprehensive income.

The carrying amounts of short-term loans with a maturity of less than one year are assumed to approximate their fair values because of the short period to maturity

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(u) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(d) Foreign currency risk**

The Maxwell Group is exposed to transactional currency risk primarily through sales that are denominated in United States Dollars other than the functional currency of the operations to which they relate. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

As at 30 June 2010, 2.4% of our trade receivables were denominated in United States Dollars whilst the remaining trade receivables are denominated in Chinese Renminbi, which is the functional currency of Zhenxing Shoes, the wholly-owned subsidiary.

The Maxwell Group also hold cash and cash equivalents denominated in foreign currencies as disclosed in Note 9.1.5(1).

The directors believe that the impact of foreign exchange fluctuations will not significantly affect our profitability.

(ii) Fair Values**(a) Recognised Financial Instruments**

The fair values of financial assets and financial liabilities of the Maxwell Group approximate their carrying values on the statement of financial position of the Maxwell Group.

(b) Unrecognised Financial Instruments

There were no unrecognised financial instruments as at 30 June 2010.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.1 The Maxwell Group (Continued)****9.1.5 Notes to the audited consolidated financial statements of the Maxwell Group (Continued)****(v) Capital Management**

The primary objective of the Maxwell Group's capital management is to build and maintain a strong capital base so as to maintain healthy capital ratios and at the same time be able to leverage on the capital to provide the Maxwell Group with the funds to fund its expansion and growth.

The Maxwell Group manages its capital structure, and makes adjustment to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, Maxwell may adjust dividend payment to shareholders, return capital to shareholders or issue new shares, raise new debts, reduce existing debts.

Maxwell monitors the level of dividends to be paid to shareholders. Maxwell's objective is also to pay out regular dividends to the shareholders based on the level of its profitability and cash flows.

The capital structure of the Maxwell Group consists of equity attributable to equity holders of Maxwell, comprising share capital, statutory reserve and retained earnings, and total liabilities which represents current liabilities.

The debt-to-equity ratio is as follows:

	As at 30 June 2010	
	RMB'000	RM'000
Total liabilities	139,670	66,651
Equity attributable to equity holders of Maxwell	362,758	173,107
Debt-to-equity ratio	38.5%	38.5%

There were no changes in the Maxwell Group's approach to capital management during the financial year/period under review.

The Maxwell Group is not subject to externally imposed capital requirements.

(w) Comparative Figures

The consolidated financial statements of the Maxwell Group for FYE 2009 were presented on a full year basis as if the Maxwell Group was in existence throughout the reported financial year notwithstanding the fact that Maxwell was incorporated on 3 November 2009 and acquired the subsidiary on 18 November 2009 as in substance, the combined entities continue to trade as before but with a new legal parent.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell**

9.2.1 The audited statements of comprehensive income of Maxwell for the financial period from its incorporation date on 3 November 2009 to 31 December 2009 and 1H 2010 are as follows:-

	Note	FPE from 3.II.2009 to 31.I2.2009 RM'000	1H 2010 RM'000
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other income		-	-
Selling and distribution expenses		-	-
Administrative expenses		(1,366)	(879)
Other expenses		-	-
Finance costs		-	-
Loss before taxation	9.2.5(a)	(1,366)	(879)
Taxation	9.2.5(c)	-	-
Net loss for the financial periods		(1,366)	(879)
Other comprehensive income		-	-
Total comprehensive income for the financial periods		(1,366)	(879)
Gross profit margin (%)		N/A	N/A
Profit before taxation margin (%)		N/A	N/A
Effective tax rate (%)		N/A	N/A
Weighted average number of ordinary shares in issue at the end of the financial period ('000)		30,453	336,250
Gross earnings per share (sen)		(4.49)	(0.52) ^
Net earnings per share (sen)		(4.49)	(0.52) ^

^ Annualised to twelve (12) for comparison purposes.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)**

9.2.2 The audited statements of financial position of Maxwell as at 31 December 2009 and 30 June 2010 are as follows:-

	Note	As at 31 December 2009 RM'000	As at 30 June 2010 RM'000
Non-current assets			
Investment in a subsidiary	9.2.5(d)	134,500	134,500
Total non-current assets		134,500	134,500
Current assets			
Other receivables		-	16
Cash and bank balances		5	5
Total current assets		5	21
TOTAL ASSETS		134,505	134,521
EQUITY AND LIABILITIES			
Equity attributable to equity holder of Maxwell			
Share capital	9.2.5(e)	134,500	134,500
Accumulated losses		(1,366)	(2,245)
Total equity		133,134	132,255
Current liabilities			
Other payables and accruals	9.2.5(f)	1,371	446
Amount due to a subsidiary company	9.2.5(g)	-	1,820
Total current liabilities		1,371	2,266
Total liabilities		1,371	2,266
TOTAL EQUITY AND LIABILITIES		134,505	134,521

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)**

9.2.3 The audited statements of changes in equity of Maxwell for the financial period from its incorporation date on 3 November 2009 31 December 2009 and 1H 2010 are as follows:-

	Distributable		
	Share Capital RM'000	Accumulated Losses RM'000	Total Equity RM'000
At date of incorporation	*	-	*
Total comprehensive income for the financial period	-	(1,366)	(1,366)
Transaction with owner:			
Arising from acquisition of Zhenxing Shoes	134,500	-	134,500
Total transaction with owner	134,500	-	134,500
Balance at 31 December 2009	134,500	(1,366)	133,134
Total comprehensive income for the financial period	-	(879)	(879)
Balance at 30 June 2010	134,500	(2,245)	132,255

* RM2.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)**

- 9.2.4 The audited statements of cash flow of Maxwell for the financial period from its incorporation date on 3 November 2009 31 December 2009 and 1H 2010:-

	FPE from 3.11.2009 to 31.12.2009 RM'000	1H 2010 RM'000
Cash Flow from Operating Activities		
Loss before taxation / Operating loss before working capital changes	(1,366)	(879)
Changes in Working Capital		
Receivables	-	(16)
Payables	1,371	(925)
Net Operating Cash Flows	<u>5</u>	<u>(1,820)</u>
Cash Flows from Investing Activities	-	-
Cash Flows from Financing Activity		
Net change in amount due to a subsidiary company	-	1,820
Net Financing Cash Flows	<u>-</u>	<u>1,820</u>
Net change in cash and cash equivalents	<u>5</u>	<u>-</u>
Cash and cash equivalents at date of incorporation / 1 January 2010	*	5
Cash and cash equivalents at the end of the financial periods	<u>5</u>	<u>5</u>
Analysis of Cash and Cash Equivalents		
Cash and bank balances	<u>5</u>	<u>5</u>

* RM2.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)****9.2.5 Notes to the audited financial statements of Maxwell****(a) Loss before Taxation**

Loss before taxation is arrived after charging:-

	FPE from 3.11.2009 to 31.12.2009 RM'000	1H 2010 RM'000
Audit fee		
Statutory		
- current year	20	-
- unceraccrual in prior year	-	17
Non-statutory		
- current year	-	210
Directors' fees	17	60
Incorporation fee	66	-
Listing expenses	1,196	567
Staff costs (Note 9.2.5(b))	45	69
	<hr/>	<hr/>

(b) Staff Costs

	FPE from 3.11.2009 to 31.12.2009 RM'000	1H 2010 RM'000
Salaries	42	60
Defined contribution	2	7
Other staff related expenses	1	2
	<hr/>	<hr/>
	45	69
	<hr/>	<hr/>

Staff costs comprise mainly the remunerations paid to the key management personnel.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)****9.2.5 Notes to the audited financial statements of Maxwell (Continued)****(c) Taxation**

Maxwell does not derive any income during the current financial periods under review.

A reconciliation of income tax expense applicable to loss before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of Maxwell is as follows:

	FPE from 3.11.2009 to 31.12.2009 RM'000	1H 2010 RM'000
Loss before taxation	(1,366)	(879)
Taxation at applicable statutory tax rate of 25%	(342)	(220)
Tax effect of:		
- non-deductible expenditure	342	220
Tax expense for the financial period	-	-

(d) Investment in a Subsidiary

	As at 31 December 2009 RM'000	As at 30 June 2010 RM'000
Unquoted shares, at cost	134,500	134,500

Maxwell's equity interest in the subsidiary, country of incorporation and its principal activities are disclosed in Note 3.3.

On 18 November 2009, Maxwell and Sports Asia Limited ("Sport Asia"), a company incorporated in Singapore, entered into an Agreement to acquire from Sports Asia the entire interests in the registered capital of Zhenxing Shoes for a purchase consideration of RM134,499,998. The purchase consideration was satisfied via the issuance of 336,249,995 new ordinary shares of RM0.40 each of Maxwell. Upon the completion of the said acquisition, Sports Asia ceased to be the holding company of Zhenxing Shoes and Maxwell became the new holding company of Zhenxing Shoes.

The acquisition of Zhenxing Shoes by Maxwell resulted in a business combination involving common control entities as disclosed in Note 7C(ii).

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.2 Maxwell (Continued)****9.2.5 Notes to the audited financial statements of Maxwell (Continued)****(e) Share Capital**

	Maxwell	
	Number of	
	Ordinary Shares	
	Unit '000	RM'000
Ordinary shares of RM0.40 each		
Authorised:		
At date of incorporation / 31 December 2009		
30 June 2010	<u>1,250,000</u>	<u>500,000</u>
Issued and fully paid-up:		
At date of incorporation	#	^
Issued pursuant to the acquisition		
of Zhenxing Shoes	<u>336,250</u>	<u>134,500</u>
At 31 December 2009 / 30 June 2010	<u>336,250</u>	<u>134,500</u>

Represent five (5) ordinary shares.

^ Represent RM2 (equivalent to RMB4).

During the financial period, the issued and paid up share capital of Maxwell was increased from RM2 to RM134,500,000 from the issuance of 336,249,995 ordinary shares of RM0.40 each pursuant to the acquisition of the entire equity interests of Zhenxing Shoes. The new shares rank pari-passu with the existing shares of Maxwell.

(f) Other Payables and Accruals

	As at	As at
	31 December 2009	30 June 2010
	RM'000	RM'000
Accrued operating expenses	35	279
Other payables	<u>1,336</u>	<u>167</u>
	<u>1,371</u>	<u>446</u>

8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)

9.2 Maxwell (Continued)

9.2.5 Notes to the audited financial statements of Maxwell (Continued)

(g) Amount Due to a Subsidiary

Amount due to a subsidiary represent payments made on behalf which are unsecured, interest free and repayable on demand.

(h) Financial Instruments

(i) Financial Risk Management and Objectives

Maxwell does not have written risk management and guidelines. Maxwell has limited number of transactions and does not have significant exposure to financial risks. Financial support from Zhenxing Shoes, the subsidiary, is available as and when required.

(ii) Fair Values

(a) Recognised Financial Instruments

The fair values of financial assets and financial liabilities of Maxwell approximate their carrying values on the statement of financial position of Maxwell.

(b) Unrecognised Financial Instruments

There were no unrecognised financial instruments as at 30 June 2010.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes**

9.3.1 The audited statement of comprehensive income of Zhenxing Shoes based on the four (4) FYE 2006, FYE 2007, FYE 2008 and FYE 2009 and the six (6) month FPE 30 June 2010 are as follows:-

	Note	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
		RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	9.3.5(a)	159,971	73,539	317,538	143,464	452,492	218,056	583,718	301,023	307,434	148,460
Cost of sales		(116,532)	(53,570)	(228,619)	(103,290)	(323,356)	(155,825)	(409,406)	(211,131)	(215,993)	(104,303)
Gross profit		43,439	19,969	88,919	40,174	129,136	62,231	174,312	89,893	91,441	44,157
Other income	9.3.5(b)	491	226	475	214	1,322	637	523	270	159	77
Selling and distribution expenses		(796)	(366)	(934)	(422)	(2,946)	(1,420)	(1,811)	(934)	(1,104)	(533)
Administrative expenses		(3,652)	(1,679)	(4,572)	(2,066)	(10,099)	(4,867)	(9,131)	(4,709)	(4,694)	(2,267)
Other expenses		(1,443)	(663)	(5,972)	(2,698)	(421)	(203)	(922)	(476)	(345)	(167)
Finance costs	9.3.5(c)	(1,001)	(460)	(1,302)	(588)	(901)	(434)	(788)	(406)	(432)	(209)
Profit before taxation	9.3.5(d)	37,038	17,027	76,614	34,614	116,091	55,944	162,183	83,638	85,024	41,058



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.1 (Continued)**

	Note	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
		RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit before taxation		37,038	17,027	76,614	34,614	116,091	55,944	162,183	83,638	85,024	41,058
Taxation	9.3.5(f)	(11,132)	(5,118)	(21,044)	(9,508)	(29,622)	(14,275)	(40,801)	(21,041)	(21,218)	(10,246)
Net profit for the financial years/period		25,906	11,909	55,570	25,106	86,469	41,669	121,382	62,597	63,806	30,812
Gross profit margin (%)		27.15	27.15	28.00	28.00	28.54	28.54	29.86	29.86	29.74	29.74
Profit before taxation margin (%)		23.15	23.15	24.13	24.13	25.66	25.66	27.78	27.78	27.66	27.66
Effective tax rate (%)		30.06	30.05	27.47	27.47	25.52	25.52	25.16	25.16	24.96	24.96
Gross earning per paid-up capital (times)		1.39	1.42	2.20	2.20	1.95	2.02	2.72	3.02	2.85	2.97
Net earning per paid-up capital (times)		0.98	0.99	1.60	1.60	1.45	1.51	2.03	2.26	2.14	2.23

^ Annualised to twelve (12) months for comparison purposes.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**

Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)**

9.3.2 The audited statement of financial positions of Zhenxing Shoes as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 are as follows:-

Note	31.12.2006		31.12.2007		31.12.2008		31.12.2009		30.6.2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
← As at →										
Non-current assets										
Property, plant and equipment	46,415	20,938	58,208	26,391	64,898	32,994	62,465	31,351	61,254	29,230
Prepaid lease payments	5,083	2,293	4,967	2,252	4,851	2,466	4,735	2,376	4,674	2,230
Total non-current assets	51,498	23,231	63,175	28,643	69,749	35,460	67,200	33,727	65,928	31,460
Current assets										
Inventories	32,921	14,850	16,370	7,422	5,732	2,914	4,088	2,052	15,328	7,315
Trade receivables	53,506	24,136	67,101	30,423	106,538	54,164	207,866	104,328	269,070	128,400
Other receivables and prepayments	5,444	2,456	7,704	3,493	39,250	19,955	947	475	706	337
Amount due from related parties	31,108	14,034	39,054	17,707	-	-	-	-	-	-
Amount due from directors	-	-	27,997	12,695	-	-	-	-	-	-
Amount due from holding company	-	-	-	-	-	-	-	-	3,837	1,831
Cash and bank balances	2,390	1,078	3,461	1,569	69,914	35,544	106,212	53,308	151,353	72,225
Total current assets	125,369	56,554	161,687	73,309	221,434	112,577	319,113	160,163	440,294	210,108
TOTAL ASSETS	176,867	79,785	224,862	101,952	291,183	148,037	386,313	193,890	506,222	241,568



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.2 (Continued)**

	Note	31.12.2006		31.12.2007		31.12.2008		31.12.2009		30.6.2010	
		RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
As at											
EQUITY AND LIABILITIES											
Equity attributable to equity holder of Zhenxing											
Share capital	9.3.5(p)	26,559	11,981	34,809	15,708	59,655	27,681	59,655	27,681	59,655	27,681
Statutory reserve	9.3.5(q)	3,060	1,407	8,617	3,918	17,264	8,084	29,402	14,344	35,783	17,425
Foreign translation reserve	9.3.5(r)	-	(97)	-	44	-	6,898	-	4,037	-	(3,829)
Retained earnings		8,243	3,789	27,556	12,514	105,378	50,017	214,622	106,354	272,047	134,085
Total equity		37,862	17,080	70,982	32,184	182,297	92,680	303,679	152,416	367,485	175,362
Current liabilities											
Trade payables	9.3.5(s)	30,036	13,549	28,070	12,727	36,082	18,344	48,524	24,353	103,976	49,617
Other payables and accruals	9.3.5(t)	31,362	14,148	8,540	3,872	11,033	5,609	9,743	4,891	10,934	5,218
Dividends payable	9.3.5(u)	19,300	8,706	50,000	22,670	-	-	-	-	-	-
Bills payable	9.3.5(v)	2,600	1,173	4,400	1,995	-	-	-	-	-	-
Short term loans	9.3.5(w)	14,000	6,315	13,550	6,144	2,000	1,017	15,000	7,529	10,000	4,772
Amount due to directors	9.3.5(m)	864	390	-	-	-	-	-	-	-	-
Amount due to related company	9.3.5(n)	29,700	13,398	44,362	20,113	42,815	21,767	-	-	-	-
Amount due to related parties	9.3.5(l)	750	338	750	340	-	-	-	-	-	-
Amount due to holding company	9.3.5(o)	-	-	-	-	9,496	4,828	-	-	-	-
Tax payable		10,393	4,688	4,208	1,907	7,460	3,792	9,367	4,701	13,827	6,599
Total current liabilities		139,005	62,705	153,880	69,768	108,886	55,357	82,634	41,474	138,737	66,206
Total liabilities		139,005	62,705	153,880	69,768	108,886	55,357	82,634	41,474	138,737	66,206
TOTAL EQUITY AND LIABILITIES											
		176,867	79,785	224,862	101,952	291,183	148,037	386,313	193,890	506,222	241,568

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)**

9.3.3 The audited statements of changes in equity of Zhenxing Shoes based on the four (4) FYE 2006, FYE 2007, FYE 2008 and FYE 2009 and the six (6) months FPE 30 June 2010 are as follows:-

	Share Capital	Translation Reserve	Statutory Reserve	Retained Earnings	Total Equity
	RM'B'000	RM'B'000	RM'B'000	RM'B'000	RM'B'000
Balance at 1 January 2006 #	26,559	11,981	-	469	216
Net profit for the financial year	-	-	-	25,906	11,909
Transfer to statutory reserve	-	-	2,591	(2,591)	(1,191)
Dividend payable	-	-	-	(19,300)	(8,872)
Currency translation differences	-	-	(97)	-	(97)
Balance at 31 December 2007	26,559	11,981	3,060	8,243	37,862
Increase in paid-up capital	8,250	3,727	-	-	8,250
Net profit for the financial year	-	-	-	55,570	25,106
Transfer to statutory reserve	-	-	5,557	(5,557)	(2,511)
Currency translation differences	-	-	141	-	141
Dividend payable	-	-	-	(30,700)	(13,870)
Balance at 31 December 2008	34,809	15,708	8,617	27,556	70,982
Increase in paid-up capital	24,846	11,973	-	-	24,846
Net profit for the financial year	-	-	-	86,469	41,669
Transfer to statutory reserve	-	-	8,647	(8,647)	(4,166)
Currency translation differences	-	-	6,854	-	6,854
Balance at 31 December 2009	59,655	27,681	17,264	105,378	182,297

For the purpose of the preparation of this report, total equity has been converted to Ringgit Malaysia at the closing rate as at 1 January 2006.



MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)

9.3 Zhenxing Shoes (Continued)

9.3.3.3 (Continued)



BAKER TILLY
MONTEIRO HENG

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**

Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)**

9.3.4 The audited cash flow statements of Zhenxing Shoes based on the four (4) FYE 2006, FYE 2007, FYE 2008 and FYE 2009 and the six (6) months FPE 30 June 2010 are as follows:-

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash Flows from Operating Activities										
Profit before taxation	37,038	17,027	76,614	34,614	116,091	55,944	162,183	83,638	85,024	41,058
Adjustments for:										
Amortisation of land use rights										
Bad debts written off										
- trade	63	29	4,863	2,197	262	126	-	-	-	-
Depreciation expenses	1,563	718	1,739	786	2,384	1,149	2,803	1,446	1,380	666
Loss on disposal of property, plant and equipment	-	-	484	219	-	-	85	44	41	20
Property, plant and equipment written off	-	-	9	4	-	-	-	-	282	136
Interest expense	959	441	1,276	577	890	429	784	404	431	208
Foreign exchange gain										
- Unrealised	(59)	(27)	(325)	(147)	(852)	(411)	(69)	(36)	-	-
Interest income	(257)	(118)	(40)	(18)	(283)	(136)	(230)	(119)	(142)	(68)
Operating profit before working capital changes	39,423	18,123	84,736	38,284	118,608	57,157	165,672	85,437	87,077	42,049



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**

Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.4 (Continued)**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Changes in Working Capital										
Inventories	(1,898)	(873)	16,550	7,477	10,638	5,127	1,644	848	(11,240)	(5,427)
Receivables	(35,912)	(16,509)	(20,394)	(9,214)	(71,102)	(34,264)	(62,956)	(32,467)	(60,962)	(29,439)
Payables	3,803	1,748	(24,789)	(11,200)	10,506	5,063	11,153	5,752	56,641	27,352
	5,416	2,490	56,103	25,347	68,650	33,082	115,513	59,570	71,516	34,535
Interest paid	(959)	(441)	(1,276)	(577)	(890)	(429)	(784)	(404)	(431)	(208)
Interest received	257	118	40	18	283	136	230	119	142	68
Tax paid	(1,637)	(752)	(27,229)	(12,302)	(26,370)	(12,708)	(38,895)	(20,059)	(16,757)	(8,092)
Net Operating Cash Flows	3,077	1,415	27,638	12,486	41,673	20,081	76,064	39,226	54,470	26,303
Cash Flows from Investing Activities										
Purchase of property, plant and equipment	(2,532)	(1,164)	(14,235)	(6,431)	(9,074)	(4,373)	(733)	(378)	(588)	(284)
Proceed from disposal of property, plant and equipment	-	-	211	95	-	-	277	143	97	47
Net Investing Cash Flows	(2,532)	(1,164)	(14,024)	(6,336)	(9,074)	(4,373)	(456)	(235)	(491)	(237)



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.4 (Continued)**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Cash Flows from Financing Activity										
Cash deposit released / (held) as security values	8,300	3,816	(1,400)	(633)	2,600	1,253	-	-	-	-
Net change in amount due to holding company	-	-	-	-	10,204	4,917	(9,496)	(4,897)	(3,838)	(1,852)
Net change in amount due to a related company	5,589	2,569	14,662	6,624	(1,548)	(746)	(42,814)	(22,080)	-	-
Net change in amount due to related parties	(13,646)	(6,273)	(7,946)	(3,590)	38,304	18,459	-	-	-	-
Net change in amount due from/to directors	10,334	4,750	(28,859)	(13,039)	27,997	13,492	-	-	-	-
Net change in short term loans	(1,460)	(671)	(450)	(203)	(11,550)	(5,566)	13,000	6,704	(5,000)	(2,415)
Net change in bills payable	(9,790)	(4,500)	1,800	813	(4,400)	(2,120)	-	-	-	-
Proceeds from issuance of shares	-	-	8,250	3,727	24,847	11,974	-	-	-	-
Dividends paid	-	-	-	-	(50,000)	(24,095)	-	-	-	-
Net Financing Cash Flows	(673)	(309)	(13,943)	(6,300)	36,454	17,568	(39,310)	(20,273)	(8,838)	(4,267)



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.4 (Continued)**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Net change in cash and cash equivalents	(128)	(58)	(329)	(148)	69,053	33,276	36,298	18,718	45,141	21,799
Effect of the exchange rate changes	-	(23)	-	2	-	1,878	-	(954)	-	(2,882)
Cash and cash equivalents at the beginning of the financial year/period	1,318	618	1,190	537	861	390	69,914	35,544	106,212	53,308
Cash and cash equivalents at the end of the financial years/period	1,190	537	861	390	69,914	35,544	106,212	53,308	151,353	72,225
ANALYSIS OF CASH AND CASH EQUIVALENTS										
Analysis of Cash and Cash Equivalents	2,390	1,078	3,461	1,569	69,914	35,544	106,212	53,308	151,353	72,225
Cash and bank balances	(1,200)	(541)	(2,600)	(1,179)	-	-	-	-	-	-
Less: Cash deposits held as security value	1,190	537	861	390	69,914	35,544	106,212	53,308	151,353	72,225



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes****(a) Revenue**

Revenue represents sales of goods and services net of discounts and value-added-tax.

(b) Other Income

	FYE 2006 RMB'000	FYE 2006 RM'000	FYE 2007 RMB'000	FYE 2007 RM'000	FYE 2008 RMB'000	FYE 2008 RM'000	FYE 2009 RMB'000	FYE 2009 RM'000	IH 2010 RMB'000	IH 2010 RM'000
Interest income	257	118	40	18	283	136	230	119	142	68
Other incentives	175	81	110	50	125	60	152	79	14	8
Unrealised foreign exchange gain	59	27	325	147	862	415	69	36	-	-
Others	-	-	-	-	52	26	72	36	3	1
	491	226	475	214	1,322	637	523	270	159	77

(c) Finance Costs

	FYE 2006 RMB'000	FYE 2006 RM'000	FYE 2007 RMB'000	FYE 2007 RM'000	FYE 2008 RMB'000	FYE 2008 RM'000	FYE 2009 RMB'000	FYE 2009 RM'000	IH 2010 RMB'000	IH 2010 RM'000
Interest expenses	959	441	1,276	577	890	429	784	404	431	208
Bank charges	42	19	26	11	11	5	4	2	1	1
	1,001	460	1,302	588	901	434	788	406	432	209



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes****(d) Profit before Taxation**

Profit before taxation is arrived at after charging/(crediting):-

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Amortisation of prepaid lease payments	116	53	116	52	116	56	116	60	61	29
Bad debts written off - trade	63	29	4,863	2,197	262	126	-	-	-	-
Depreciation	1,563	718	1,739	786	2,384	1,149	2,803	1,446	1,380	666
Foreign exchange loss - realised	218	100	590	267	159	76	836	431	25	12
Loss on disposal of Property, plant and equipment	-	-	484	219	-	-	85	44	41	20
Staff costs (Note 9.3.5(e))	26,545	12,203	37,753	17,057	48,760	23,498	56,937	29,362	31,481	15,202
Property, plant and equipment written off	-	-	8	3	-	-	-	-	282	136
Rental of office	-	-	-	-	262	126	448	231	6	3



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes****(e) Staff Costs**

Included in personnel expenses are the following:-

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Wages and salaries	26,237	12,061	37,409	16,901	45,176	21,770	52,709	27,182	29,230	14,115
Defined contribution	111	51	108	49	3,371	1,625	4,028	2,077	2,205	1,065
Other staff related expenses	197	91	236	107	213	103	200	103	46	22
	26,545	12,203	37,753	17,057	48,760	23,498	56,937	29,362	31,481	15,202

Included in personnel expenses
comprised amounts paid to
- executive directors
- key management personnel

	132	61	223	101	-	-	-	-	-	-
	70	32	80	36	296	143	368	190	186	90
	202	93	303	137	296	143	368	190	186	90



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**

Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes****(f) Taxation**

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
PRC income tax	10,620	4,882	21,044	9,508	29,622	14,275	40,801	21,041	21,218	10,246
- current year	512	236	-	-	-	-	-	-	-	-
- prior year										
	11,132	5,118	21,044	9,508	29,622	14,275	40,801	21,041	21,218	10,246

A reconciliation of income tax expense applicable to profit before taxation at the PRC corporate income tax rate to income tax expense at the effective income tax rate of Zhenxing Shoes is as follows:

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Profit before taxation	37,038	17,027	76,614	34,614	116,091	55,944	162,183	83,638	85,024	41,058
Taxation at applicable statutory tax rate of 27%/25%	10,000	4,597	20,686	9,346	29,023	13,986	40,546	20,909	21,256	10,266
Tax effect of:										
- non-taxable income	(9)	(4)	(10)	(4)	(184)	(88)	(75)	(39)	(38)	(20)
- non-deductible expenditure	629	289	368	166	783	377	330	171	-	-
- Under accrual in prior year	512	236	-	-	-	-	-	-	-	-
Tax expense for the financial years/period	11,132	5,118	21,044	9,508	29,622	14,275	40,801	21,041	21,218	10,246



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes****(f) Taxation (Continued)**

The provision for PRC income tax was calculated based on the applicable income tax rate of 27% (for FYE 2006 and FYE 2007) on the assessable income, which include 24% enterprise income tax and 3% local income tax.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the new tax rate for domestic enterprises and foreign investment enterprises are unified at 25% and was effective from 1 January 2008.

As at the end of 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, there are no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(g) Property, Plant and Equipment**

Cost	Plant and Machinery		Office Equipment		Motor Vehicles		Renovation		Buildings		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
At 1 January 2006	5,511	2,486	200	90	27	12	-	-	45,989	20,746	51,727	23,334
Additions	459	211	148	68	5	2	-	-	1,920	883	2,532	1,164
Exchange differences	-	(4)	-	(1)	-	-	-	-	-	(17)	-	(22)
At 31 December 2006	5,970	2,693	348	157	32	14	-	-	47,909	21,612	54,259	24,476
Additions	696	316	18	8	133	60	-	-	13,388	6,070	14,235	6,454
Write-offs	-	-	(10)	(4)	-	-	-	-	-	-	(10)	(4)
Disposals	(1,672)	(758)	-	-	-	-	-	-	-	-	(1,672)	(758)
Exchange differences	-	14	-	1	-	-	-	-	-	110	-	124
At 31 December 2007	4,994	2,265	356	162	165	74	-	-	61,297	27,792	66,812	30,292
Additions	6,174	3,139	1,751	890	765	389	384	195	-	-	9,074	4,613
Exchange differences	-	274	-	19	-	10	-	-	-	3,371	-	3,674
At 31 December 2008	11,168	5,678	2,107	1,071	930	473	384	195	61,297	31,163	75,886	38,580
Additions	662	342	47	24	-	-	-	-	24	12	733	378
Disposals	(1,369)	(707)	-	-	-	-	-	-	-	-	(1,369)	(707)
Exchange differences	-	(62)	-	(14)	-	(6)	-	(2)	-	(399)	-	(484)
At 31 December 2009	10,461	5,250	2,154	1,081	930	467	384	193	61,321	30,776	75,250	37,767
Additions	76	37	78	38	216	104	218	105	-	-	588	284
Write-off	-	-	-	-	-	-	(384)	(185)	-	-	(384)	(185)
Disposals	-	-	(194)	(94)	-	-	-	-	-	-	(194)	(94)
Exchange differences	-	(238)	-	(53)	-	(25)	-	(9)	-	(1,513)	-	(1,858)
At 30 June 2010	10,537	5,029	2,038	972	1,146	546	218	104	61,321	29,263	75,260	35,914

RM74.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(g) Property, Plant and Equipment (Continued)**

	Plant and Machinery	Office Equipment	Motor Vehicles	Renovation	Buildings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated Depreciation						
At 1 January 2006	2,275	96	1	-	1,763	2,833
Charge for the financial year	507	52	5	-	999	718
Exchange differences	-	(4)	-	-	(9)	(13)
At 31 December 2006	2,782	148	6	-	2,213	3,538
Charge for the financial year						
Write-offs	570	47	16	-	1,106	786
Disposals	(978)	(1)	-	-	-	(1)
Exchange differences	-	-	-	-	-	(978)
At 31 December 2007	2,374	194	22	-	2,727	3,901
Charge for the financial year						
Exchange differences	715	199	98	26	1,346	1,149
At 31 December 2008	3,089	393	120	26	3,742	5,586

^ RM443.
 ¥ RM43.
 + RM340
 # RM51.

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(g) Property, Plant and Equipment (Continued)**

	Plant and Machinery		Office Equipment		Motor Vehicles		Renovation		Buildings		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Accumulated Depreciation												
At 1 January 2009	3,089	1,571	393	200	120	61	26	12	7,360	3,742	10,988	5,586
Charge for the financial year	896	461	354	183	168	86	38	20	1,347	695	2,803	1,446
Disposals	(1,006)	(520)	-	-	-	-	-	-	-	-	(1,006)	(520)
Exchange differences	-	(17)	-	(8)	-	(3)	-	(1)	-	(67)	-	(96)
At 31 December 2009	2,979	1,495	747	375	288	144	64	31	8,707	4,370	12,785	6,416
Charge for the financial period	408	196	165	81	90	43	51	25	665	321	1,380	666
Write-off	-	-	-	-	-	-	(102)	(49)	-	-	(102)	(49)
Disposals	-	-	(56)	(27)	-	-	-	-	-	-	(56)	(27)
Exchange differences	-	(74)	-	(19)	-	(7)	-	(1)	-	(219)	-	(320)
At 30 June 2010	3,387	1,617	856	409	378	180	13	6	9,372	4,472	14,007	6,684



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(g) Property, Plant and Equipment (Continued)**

	Plant and Machinery RMB'000	Office Equipment RMB'000	Motor Vehicles RMB'000	Renovation RMB'000	Buildings RMB'000	Total RMB'000
Net Book Value						
At 31 December 2006	3,188	1,438	26	-	43,001	46,415
At 31 December 2007	2,620	1,188	143	-	55,283	58,208
At 31 December 2008	8,079	4,107	810	358	53,937	64,898
At 31 December 2009	7,482	3,755	642	320	52,614	62,465
At 30 June 2010	7,150	3,412	768	205	51,949	61,254

All property, plant and equipment held by Zhenxing Shoes are located in the PRC.

Certain motor vehicles with net book value of approximately RM10,820 (RMB23,985), RM8,451 (RMB18,640), RM360,501 (RMB709,090), RM283,887 (RMB565,624) and RM335,297 (RMB702,634) as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 respectively were held in trust by the employees of Zhenxing Shoes.



MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)

9.3 Zhenxing Shoes (Continued)

9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)

(h) **Prepaid Lease Payments**

	As at							
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010			
	RMB'000	RMB'000	RM'000	RMB'000	RMB'000	RMB'000	RMB'000	RM'000
Cost								
At 1 January	5,800	2,616	5,800	2,616	5,800	2,629	5,800	2,911
Exchange differences	-	-	13	-	320	(38)	-	(143)
At 31 December/ 30 June	5,800	2,616	5,800	2,629	5,800	2,949	5,800	2,768
Accumulated amortisation								
At 1 January	601	271	717	323	833	377	949	535
Amortisation for the financial year	116	53	116	52	116	56	116	29
Exchange differences	-	(1)	-	2	-	50	(8)	(26)
At 31 December / 30 June	717	323	833	377	949	483	1,065	538
Net Book Value								
At 31 December / 30 June	5,083	2,293	4,967	2,252	4,851	2,466	4,735	2,230

The prepaid lease payments refer to land located at Zhushuxia Industrial Zone, Jinjiang City Fujian Province, PRC (中国福建省晋江市竹树下工业区).

At 30 June 2010, a leasehold land with a net book value of RM507,153 (RMB1,062,769) is pledged as security to secure short-term loans as disclosed in Note 9.3.5(w).

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(i) Inventories**

	As at									
	31.12.2006		31.12.2007		31.12.2008		31.12.2009		30.6.2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Raw material	23,510	10,606	15,628	7,086	1,718	874	1,162	583	10,238	4,886
Work-in-progress	5,773	2,604	499	226	3,097	1,574	2,300	1,155	2,288	1,092
Finished goods	3,638	1,640	243	110	917	466	626	314	2,802	1,337
	32,921	14,850	16,370	7,422	5,732	2,914	4,088	2,052	15,328	7,315

(j) Trade Receivables

Trade receivables are non-interest bearing and Zhenxing Shoes's normal trade credit terms range from 30 days to 120 days. Other credit terms are assessed and approved on a case-by-case basis after taking into consideration their payment track record, financial background, length of business relationship and size of transactions. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The currency exposure profile of trade receivables are as follows:-

	As at									
	31.12.2006		31.12.2007		31.12.2008		31.12.2009		30.6.2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
United State Dollars	4,207	1,898	576	261	1,001	509	3,675	1,844	6,372	3,040
Chinese Renminbi	49,299	22,238	66,525	30,162	105,537	53,655	204,191	102,484	262,698	125,360
	53,506	24,136	67,101	30,423	106,538	54,164	207,866	104,328	269,070	128,400

8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(i) Trade Receivables (Continued)**

The ageing analysis of the trade receivables as at 30 June 2010 were as follows:-

	Gross As at 30.6.2010 RMB	RM
Neither past due nor impaired	269,070	128,400

Zhenxing Shoes believes that, no impairment loss is necessary in respect of these non past due trade receivables. Majority of the balances are owed by the customers that have a good payment record with Zhenxing Shoes.

(k) Other Receivables, Deposit and Prepayments

	As at					
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RM'000
Advances to suppliers	3,572	1,611	2,755	584	297	99
Other receivables	1,669	753	588	503	256	803
Deposit	-	-	-	38,000	19,319	-
Prepayments	136	62	150	163	83	45
Tax claimable	67	30	-	-	-	-
	5,444	2,456	7,704	3,493	19,955	947
					475	706
						337

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(k) Other Receivables, Deposit and Prepayments (Continued)**Deposit

On 5 April 2008, Zhenxing Shoes entered into a memorandum of understanding for the acquisition of assets (资产收购意向书) with Shuhui Complex Shoes Material Co., Ltd. (福建省晋江市树辉鞋材有限公司) ("Shuhui") to acquire Shuhui's non-moveable assets (which includes plant and machinery, office equipment, motor vehicles, office building, factory building, land and other non-moveable assets) located at the PRC for a total purchase consideration of RMB80,000,000 ("Acquisition of Assets"). Pursuant to the said memorandum of understanding, a deposit of RMB38,000,000 was paid to Shuhui during the FYE 2008. The balance of the purchase consideration is disclosed as capital commitments in Note 9.3.5(y).

On 8 November 2009, Zhenxing Shoes and Shuhui had entered into a termination agreement (资产收购终止协议), under which the parties mutually agreed to terminate the Acquisition of Assets under the memorandum of understanding dated 5 June 2008 and the deposit paid by Zhenxing Shoes had been subsequently fully refunded on 11 December 2009.

(l) Amount Due from/(to) Related Parties

	As at				
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from related parties					
Fujian Jinjiang Sodeng Shoe Co., Ltd. (福建晋江速登鞋业有限公司)	31,099	14,029	38,845	17,612	-
Li Jinrong (李锦容)	9	4	209	95	-
	31,108	14,033	39,054	17,707	-

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(i) Amount Due from/(to) Related Parties (Continued)**

	As at				
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to related parties					
Fujian Jinjiang Fynex Shoe Industries Development Co., Ltd					
(福建晋江凤竹鞋业发展有限公司)	750	338	750	340	-

The amounts due from/(to) related parties represent advances and payments made on behalf of Zhenxing Shoes, which are unsecured, interest free and have no fixed terms of repayment.

The nature of the relationships with the above related parties is disclosed in Note 9.3.5(z).

(m) Amount Due from/(to) Directors

Amount due from/(to) directors represent payments made on behalf which are unsecured, interest free and have no fixed terms of repayment.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(n) Holding Company and Related Company Transactions**

Zhenxing Shoes and Jiayi (Fujian) Imp. & Exp. Trade Co., Ltd. (福建省晋江市 加怡进出口贸易有限公司) ("Jiayi Trading") became wholly-owned subsidiaries of Sports Asia Limited ("Sports Asia") during the FYE 2008 following the completion of the Equity Transfer Agreements entered into between Chun Hing Industry (Hong Kong) Ltd., the former holding company of Zhenxing Shoes, and Sports Asia Pte. Ltd. on 2 January 2008. Sports Asia is a company incorporated and domiciled in Singapore.

On 18 November 2009, Maxwell and Sports Asia entered into a Restructuring Agreement to acquire from Sports Asia the entire interests in the registered capital of Zhenxing Shoes for a purchase consideration of RM134,499,998. The purchase consideration was satisfied via the issuance of 336,249,995 new Maxwell ordinary shares of RM0.40 each. Upon the completion of the said acquisition, Sports Asia ceased to be the holding company of Zhenxing Shoes and Maxwell becomes the new holding company of Zhenxing Shoes.

The amount due from holding company represents advances which are unsecured, interest free and has no fixed term of repayment.

The amount due to former holding company represents advances which are unsecured, interest free and has no fixed term of repayment. The carrying amount of the amount owing to former holding company is denominated in Singapore Dollars.

Jiayi Trading became a related company of Zhenxing Shoes during the 2008 financial year following the completion of the abovementioned Equity Transfer Agreements. As disclosed in Note 9.3.5(ac), the comparative figures for the amount due to Jiayi Trading for the 2006 and 2007 financial year were reclassified to conform with the presentation for the 2008, 2009 and 2010 financial years/period. Following the completion of the acquisition of the entire interests in Zhenxing Shoes by Maxwell, Jiayi Trading ceased to be the related company of Zhenxing Shoes.

The amount due to a former related company represents advances which are unsecured, interest free and has no fixed term of repayment.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(n) Holding Company and Related Company Transactions (Continued)**

Significant transactions between Zhenxing Shoes and its former related company during the financial years/period under review were as follows:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Purchases from Jiayi Trading	1,316	605	830	375	564
Sales to Jiayi Trading	6,868	3,157	2,000	904	4,142
				272	80
				1,066	550
					-
					-

The director of Zhenxing Shoes is of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

(o) Cash and Bank Balances

	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	886	400	721	327	156
Cash at bank	304	137	140	63	69,758
Fixed deposits	1,200	541	2,600	1,179	-
	2,390	1,078	3,461	1,569	69,914
				35,544	106,212
				53,308	151,353
					72,225



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(o) Cash and Bank Balances (Continued)**

The Chinese Renminbi is not freely convertible into foreign currencies under PRC Foreign Exchange Regulations and Administration of Settlement Sales and Payment of Foreign Exchange Regulations, Zhenxing Shoes is only permitted to exchange Chinese Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances generally have an effective interest at a rate of 0.36% per annum for the financial years/period under review.

Fixed deposits with a licensed bank have varying maturity dates of between one (1) to twelve (12) months. Fixed deposits bear effective interest rates of 2.07% and 2.43% per annum for FYE 2006 and FYE 2007 respectively. The fixed deposits have been pledged to a licensed bank to secure the credit facilities granted to Zhenxing Shoes during the FYE 2006 and FYE 2007 respectively.

The currency exposure profile of cash and bank balances are as follows:-

	As at					
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RM'000
Chinese Renminbi	2,390	1,078	3,461	1,569	69,914	35,544
US Dollars	*	*	#	#	^	^
Singapore Dollars	-	-	-	-	∞	∞
	2,390	1,078	3,461	1,569	69,914	35,544
					106,212	53,308
					151,352	151,353
					72,224	72,225

* RMB159 (equivalent to RM72).

RMB272 (equivalent to RM123).

^ RMB975 (equivalent to RM496).

∞ RMB38 (equivalent to RM19).

8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(p) Share Capital**

Zhenxing Shoes is a foreign invested enterprise incorporated in PRC with the registered capital stated in Hong Kong Dollars ("HKD"). The registered capital of Zhenxing Shoes during the end of the financial years under review we summarised below:-

Financial Years/Period Ended Registered Capital (HKD)

31 December 2006	25,000,000
31 December 2007	32,900,000
31 December 2008	60,000,000
31 December 2009	60,000,000
30 June 2010	60,000,000

The movements in the registered and fully paid-up capital of Zhenxing Shoes during the financial years/period under review are as follows:-

	As at					
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RM'000
Registered and fully paid-up						
At 1 January	26,559	11,981	26,559	11,981	34,809	15,708
Increased during the financial years	-	-	8,250	3,727	24,846	11,973
At 31 December	26,559	11,981	34,809	15,708	59,655	27,681
					59,655	27,681
					59,655	27,681



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(q) Statutory Reserve**

In accordance with relevant laws and regulations of the PRC, Zhenxing Shoes is required to transfer 10% of its net profit for the financial years/period prepared in accordance with the accounting regulation of the PRC to the statutory reserve. The transfer will continue until the reserve balance reaches 50% of its registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of Zhenxing Shoes, subject to the approval from the PRC authority, and are not available for dividend distribution to the shareholders of Zhenxing Shoes.

(r) Foreign Currency Translation Reserve

Foreign currency translation reserve represents translation differences arising from translation of Zhenxing Shoes into the Maxwell Group's presentation currency.

(s) Trade Payables

Trade payables are non-interest bearing and the normal trade credit term granted to Zhenxing Shoes ranges from 30 to 90 days.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(i) Other Payables and Accruals**

	As at									
	31.12.2006	31.12.2007	31.12.2008	31.12.2009	30.6.2010					
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Advances from customers	109	49	334	151	1,984	1,009	132	67	133	63
Accrued operating expenses	2,770	1,250	75	34	220	112	402	202	176	85
Other payables	28,483	12,849	8,131	3,687	8,829	4,488	9,209	4,622	10,625	5,070
	31,362	14,148	8,540	3,872	11,033	5,609	9,743	4,891	10,934	5,218

Advances from customers represents advanced payments from customers for sales and other sales related reimbursements. The advances from customers as at 31 December 2009 and 30 June 2010 are denominated in United States Dollars.

Included in other payables as at 31 December 2006 were amounts totalling RM9,070,432 (RMB20,107,364) which represents amounts payable to contractors for the construction of factory buildings.

(u) Dividends Payable

During the FYE 2006 and FYE 2007, Zhenxing Shoes declared dividends of RM8,872,210 (RMB19,300,000) and RM13,870,260 (RMB30,700,000) respectively to its shareholders. These dividends payable were fully settled on 25 June 2008.

(v) Bills Payable

Bill payables as at 31 December 2006 and 31 December 2007 were secured by fixed deposits of RM541,320 (RMB1,200,000) and RM1,178,840 (RMB2,600,000) respectively.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(w) Short Term Loans**

The short-term loan of RMB8,000,000 or RM3,817,600 (2009: RMB15,000,000 or RM7,528,500) is secured by corporate guarantees from related parties and third parties. As at 30 June 2010, Zhenxing Shoes has a short-term loan of RM954,400 (RMB2,000,000) which is secured over the prepaid lease payments as disclosed in Note 9.3.5(h). The interest rates range of the short term loans are as follows:-

Financial Years / Period	Interest Rate Range
31 December 2007	7.34% to 9.20%
31 December 2008	9.20% to 9.71%
31 December 2009	5.11% to 6.46%
30 June 2010	6.42% to 6.64%

The carrying amounts of interest-bearing bank borrowings are denominated in Chinese Renminbi.

(x) Contingent Liabilities

As at 31 December 2006, Zhenxing Shoes had given a corporate guarantee to a licensed bank to secure credit facilities granted to Jiayi Trading. The said corporate guarantee was fully discharged 30 June 2007.



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(y) Capital Commitments**

	← 31.12.2006 RMB'000	31.12.2007 RMB'000	As At 31.12.2008 RMB'000	31.12.2009 RMB'000	30.6.2010 RMB'000
Capital expenditure approved and contracted for but not provided for in the financial statements	-	-	42,000	-	-
- at balance sheet date	-	-	21,353	-	-
- further capital commitments subsequent to the balance sheet date	-	-	662	337	-

(z) Significant Related Parties Transactions

A related party is an entity or person that directly or indirectly through one or more intermediary controls, is controlled by, or is under common or joint control with Zhenxing Shoes or that has an interest in Zhenxing Shoes that gives it significant influence over Zhenxing Shoes's financial operating policies. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence for which significant voting power in Zhenxing Shoes resides with, directly or indirectly.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(z) Significant Related Parties Transactions (Continued)**

The natures of the relationship with the related parties are as follows:

Related Parties	Nature of Relationship
Fujian Jinjiang Sodeng Shoe Co., Ltd. (福建晋江速登鞋业有限公司)	It is a company incorporated as a wholly foreign owned entity in the PRC, and is wholly-owned by Li Yin Chung Hughes (李延松), the son of the Managing Director of Zhenxing Shoes, Li Kwai Chun (李桂真).
Fujian Jinjiang Fynex Shoe Industries Development Co., Ltd. (福建晋江凤竹鞋业发展有限公司)	It is a company incorporated in the PRC, and is wholly-owned by Li Huoming (李火明), the brother of the Managing Director of Zhenxing Shoes, Li Kwai Chun (李桂真).
Li Jinrong (李锦容)	The sister-in-law of the Managing Director of Zhenxing Shoes, Li Kwai Chun (李桂真).
Sports Asia	It is a company incorporated in the Republic of Singapore. Li Kwai Chun (李桂真), is the shareholder and also director of Sports Asia.
Jiayi Trading	It is a company incorporated in the PRC and is a wholly-owned subsidiary of Sports Asia Limited. It is a company in which a director and also a shareholder of Maxwell namely Li Kwai Chun (李桂真) has interest.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(z) Significant Related Parties Transactions (Continued)**

During the financial years/period under review, the significant related party transactions are as follows:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Purchases from					
- Fujian Jinjiang Fynex Shoe Industries Development Co., Ltd. (福建晋江凤竹鞋业发展有限公司)	900	414	-	-	-
- Jiayi Trading	1,316	595	830	375	564
Sales to Jiayi Trading	6,868	3,157	2,000	904	4,142
				272	80
				1,996	41
				1,066	550
				-	-

The director of Zhenxing Shoes is of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments****(i) Financial Risk Management and Objectives**

Zhenxing Shoes does not have written risk management and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, Zhenxing Shoes employs a conservative strategy regarding risk management. As Zhenxing Shoes's exposure to market risk kept at a minimum level, Zhenxing Shoes has not used any derivatives financial instruments for trading purposes.

(a) Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to Zhenxing Shoes.

The maximum exposure to credit risk for each class of assets as at 30 June 2010 was as follows:-

	As at	
	30.6.2010	
	RMB'000	RM'000
Trade receivables	269,070	128,400
Other receivables	594	284
Cash and cash equivalents	151,353	72,225
	421,017	200,909



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments****(i) Financial Risk Management and Objectives (Continued)****(a) Credit Risk (Continued)**

Zhenxing Shoes does not hold any collateral as security and other credit enhancements for the above financial assets.

Receivables

The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Zhenxing Shoes determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis.

Information regarding trade receivables that are neither past due nor impaired is disclosed in Note 9.3.5(j).

Cash and Cash Equivalents

The management adopts the policy of dealing only with reputable financial institutions.

(b) Liquidity and Cash Flow Risk

Liquidity risk is the risk that Zhenxing Shoes will encounter difficulty in meeting financial obligations due to shortage of funds. Zhenxing Shoes maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities.

Zhenxing Shoes adopts prudent liquidity risk management by maintaining sufficient cash, and available funding through an adequate amount of committed credit facilities. Due to dynamic nature of the underlying businesses, Zhenxing Shoes aims at maintaining flexibility in funding by keeping committed credit lines available.



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(b) Liquidity and Cash Flow Risk (Continued)**

The analysis of financial instruments by remaining contractual maturities (excluding interest) is as follows:-

	Carrying amount		Contractual cash flows		6 months or less		6-12 months	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
30 June 2010								
Non-derivative financial liabilities								
Secured short-term loans	10,000	4,772	(10,000)	(4,772)	-	-	(10,000)	(4,772)
Trade payables	103,976	49,616	(103,976)	(49,616)	(103,976)	(49,616)	-	-
Other payables and accruals	10,934	5,218	(10,934)	(5,218)	(10,934)	(5,218)	-	-
	124,910	59,606	(124,910)	(59,606)	(114,910)	(54,834)	(10,000)	(4,772)

(c) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of Zhenxing Shoes's financial instruments will fluctuate because of changes in market interest rates. Zhenxing Shoes's exposure to interest rate risk arises primarily from their loans and borrowings and cash deposits placed with the financial institutes.



8. ACCOUNTANTS' REPORT (Cont'd)**MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY**
Accountants' Report**9. AUDITED FINANCIAL STATEMENTS (Continued)****9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(c) Interest rate risk (Continued)**

Zhenxing Shoes's policy is to manage interest cost using mix of fixed and floating rate debts, which depends on the interest rates market and economic conditions. For interest income from cash deposits, Zhenxing Shoes managed the interest rate risks by placing cash deposits with reputable financial institutions on varying maturities and interest rate terms.

The interest rate profile of the interest-bearing financial instruments as at 30 June 2010 was as follows:-

Carrying Amount	
30.6.2010	
RMB'000	RM'000
10,000	4,772

Fixed rated instrument
Short term loans

The short-term loans are fixed rate instruments, therefore a change in interest rates at the reporting date would not affect profit or loss.

The carrying amounts of short-term loans with a maturity of less than one year are assumed to approximate their fair values because of the short period to maturity.



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments (Continued)****(i) Financial Risk Management and Objectives (Continued)****(d) Foreign currency risk**

Zhenxing Shoes is exposed to transactional currency risk primarily through sales that are denominated in United States Dollars other than the functional currency of the operations to which they relate. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

As at 30 June 2010, 2.4% of our trade receivables were denominated in United States Dollars whilst the remaining trade receivables are denominated in Chinese Renminbi.

Zhenxing Shoes also holds cash and cash equivalents denominated in foreign currencies as disclosed in Note 9.3.5(o).

The director believes that the impact of foreign exchange fluctuations will not significantly affect our profitability.

(ii) Fair Values**(a) Recognised Financial Instruments**

The fair values of financial assets and financial liabilities of Zhenxing Shoes approximate their carrying values on the statement of financial positions of Zhenxing Shoes.



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(aa) Financial Instruments (Continued)****(ii) Fair Values (Continued)****(b) Unrecognised Financial Instruments**

The nominal/notional amount and net fair value of contingent liabilities (as disclosed in Section 9.3.5(x)) are not recognised in the statement of financial position as at 31 December 2006 and 31 December 2007 respectively as it was not practicable to make a reliable estimate due to the uncertainties of timing, costs and eventual outcome.

There were no other unrecognised financial instruments as at 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010.

(ab) Capital Management

The primary objective of Zhenxing Shoes's capital management is to build and maintain a strong capital base so as to maintain healthy capital ratios and at the same time be able to leverage on the capital to provide Zhenxing Shoes with the funds to fund its expansion and growth.

Zhenxing Shoes manages its capital structure, and makes adjustment to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, Zhenxing Shoes may adjust dividend payment to shareholders, return capital to shareholders or issue new shares, raise new debts, reduce existing debts.

Zhenxing Shoes monitors the level of dividends to be paid to shareholders. Zhenxing Shoes's objective is also to pay out regular dividends to the shareholders based on the level of its profitability and cash flows.

The capital structure of Zhenxing Shoes consists of equity attributable to equity holders of Zhenxing Shoes, comprising share capital, statutory reserve and retained earnings, and total liabilities which represents current liabilities.

8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(ab) Capital Management (Continued)**

The debt-to-equity ratio is as follows:

	As at 30.6.2010
	RMB'000 RM'000
Total liabilities	138,737 66,206
Equity attributable to equity holders of Zhenxing Shoes	367,485 175,362
Debt-to-equity ratio	37.8% 37.8%

There were no changes in Zhenxing Shoes's approach to capital management during the financial period.

Zhenxing Shoes is not subject to externally imposed capital requirements.



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

9. AUDITED FINANCIAL STATEMENTS (Continued)**9.3 Zhenxing Shoes (Continued)****9.3.5 Notes to the audited financial statements of Zhenxing Shoes (Continued)****(ac) Comparative Figures**

As mentioned in Note 9.3.5(n), the following comparative figures have been reclassified to conform with the presentation for the FYE 2008 and FYE 2009:-

	← 31.12.2006		As at 31.12.2007		→	
	As Original Reported RMB'000	As Reclassified RMB'000	As Original Reported RMB'000	As Reclassified RMB'000	As Reclassified RMB'000	As Reclassified RMB'000
Balance Sheets						
Other payables and accruals	61,062	27,545	31,362	14,148	52,901	23,985
Amount owing to a related company	-	-	29,700	13,398	-	44,362
						20,113



8. ACCOUNTANTS' REPORT (Cont'd)

MAXWELL INTERNATIONAL HOLDINGS BERHAD AND ITS SUBSIDIARY
Accountants' Report

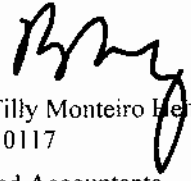
10. EVENTS AFTER BALANCE SHEET DATE

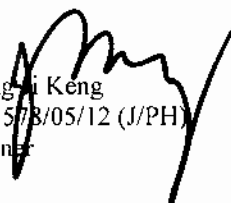
There were no significant events between the date of the last audited financial statements used in the preparation of this Report and the date of this Report which will affect materially content of this Report.

11. AUTHORISATION OF AUDITED FINANCIAL STATEMENTS

As at the date of this Report, no audited financial statements have been prepared in respect of any period subsequent to 30 June 2010 for the Maxwell Group and Zhenxing Shoes.

Yours faithfully,


Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants


Heng Si Keng
No. 578/05/12 (J/PH)
Partner

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 877480-X


**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AP 9117)

MAXWELL INTERNATIONAL HOLDINGS BERHAD
(Incorporated in Malaysia)

 Monteiro & Heng Chambers
32 Jalan Tan Seng Guan 3
50470 Kuala Lumpur, Malaysia
phone : +603 3274 8888
fax : +603 3260 1788
email : eedit@monteiroheng.com.my
www.monteiroheng.com.my
Report on the financial statements

We have audited the accompanying financial statements of **MAXWELL INTERNATIONAL HOLDINGS BERHAD** ("the Company"), which comprise the balance sheets as at 31 December 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial period ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 38.

Director's responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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

It is our responsibility to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and of their financial performance and cash flows for the financial period ended 31 December 2009.

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 877480-X

Report on other legal and regulatory requirements

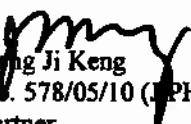
In accordance with the requirements of the Act in Malaysia, we also report the following:-

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.
- (b) We have not considered the auditor's report of the subsidiary company for the audit of the financial statements prepared for the purpose of reporting in People's Republic of China ("PRC Reporting") as it is not available, which we have not acted as auditors, which is indicated in Note 6 to the financial statements. However, we have considered the financial statements of the subsidiary company for consolidation purpose.
- (c) We are satisfied that the financial statements of the subsidiary company that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidation financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' report for PRC Reporting on the financial statements of the subsidiary company was not available for our comment as to whether it was subject to any material qualification or any adverse comment made under Section 174(3) of the Act.

Other matters

This report is made solely to the members of the Company, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.


Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants


Hong Ji Keng
No. 578/05/10 (JPH)
Partner

Kuala Lumpur

Date: 30 APR 2010

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 877480-X



**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AF 0117)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MAXWELL INTERNATIONAL HOLDINGS BERHAD**
(Incorporated in Malaysia)

Monteiro & Heng Chambers
22 Jalan Tun Sambanthan 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8988
fax : +603 2260 1768
email : audit@monteiroheng.com.my
www.monteiroheng.com.my

Report on the financial statements

We have audited the accompanying financial statements of **MAXWELL INTERNATIONAL HOLDINGS BERHAD** ("the Company"), which comprise the statements of financial position as at 30 June 2010 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flow of the Group and of the Company for the financial period from 1 January 2010 to 30 June 2010, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 41.

Director's responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 ("the Act") in Malaysia. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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 these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 877480-X

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards and the provisions of the Act in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and of their financial performance and cash flows for the financial period from 1 January 2010 to 30 June 2010.


Report on other legal and regulatory requirements

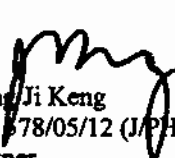
In accordance with the requirements of the Act in Malaysia, we also report the following:-

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.
- (b) We have not considered the auditors' report of the subsidiary company for the audit of the financial statements prepared for the purpose of reporting in People's Republic of China ("PRC Reporting") as it is not available, which we have not acted as auditors, which is indicated in Note 6 to the financial statements. However, we have considered the financial statements of the subsidiary company for consolidation purpose.
- (c) We are satisfied that the financial statements of the subsidiary company that have been consolidated with the Company's financial statements are in the form and content appropriate and proper for the purposes of the preparation of the consolidation financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' report for PRC Reporting on the financial statements of the subsidiary company was not available for our comments as to whether it was subject to any material qualification or any adverse comment made under Section 174(3) of the Act.

Other matters

This report has been prepared solely in connection with the proposed listing and quotation of the entire enlarged issued and paid-up share capital of the Company on the Main Market of Bursa Malaysia Securities Berhad. This report is made solely to the members of the Company, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.


Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants


Heng Ji Keng
No. 578/05/12 (JPH)
Partner

Kuala Lumpur

Date: 13 SEP 2010

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 350500400009750


**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AF 0117)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
JINJIANG ZHENXING SHOES PLASTICS CO., LTD.**

(晋江振兴鞋塑有限公司)

(Incorporated in People's Republic of China)

Monteiro & Heng Chambers
22 Jalan Tua Sambaatha 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8888
fax : +603 2260 1708
email : audit@monteiroheng.com.my
www.monteiroheng.com.my

Report on the financial statements

We have audited the accompanying financial statements of **JINJIANG ZHENXING SHOES PLASTICS CO., LTD.** (晋江振兴鞋塑有限公司), which comprise the balance sheets as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 of the Company, and the income statements, statements of changes in equity and cash flow statements of the Company for the three financial years ended 31 December 2006, 31 December 2007 and 31 December 2008 and the six months financial period ended 30 June 2009, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 44.

The financial statements of the Company prepared for the People's Republic of China ("PRC") reporting purposes for the financial years ended 31 December 2006, 31 December 2007 and 31 December 2008 were audited by Xiamen Huafeng Associated, Certified Public Accountants of PRC, and were reported on by the PRC auditors without any qualification.

Director's responsibility for the financial statements

The director of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in Malaysia. This responsibility include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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

It is our responsibility to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 350500400009750

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 and of their financial performance and cash flows for the three financial years ended 31 December 2006, 31 December 2007 and 31 December 2008 and the six months financial period ended 30 June 2009.

Other matters

This report has been prepared solely in connection with the proposed listing and quotation of the entire enlarged issued and paid-up share capital of Maxwell International Holdings Berhad on the Main Market of Bursa Malaysia Securities Berhad. This report is made solely to the members of the Company, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.


Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants


Heng Ji Keng
No. 578/05/10 (J/PH)
Partner

Kuala Lumpur

Date: 09 DEC 2009

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 350500400009750

**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AF 0112)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
JINJIANG ZHENXING SHOES PLASTICS CO., LTD.**

(晋江振兴鞋塑有限公司)

(Incorporated in People's Republic of China)

Monteiro & Heng Chambers
22 Jalan Tun Sambanthan 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8988
fax : +603 2260 1708
email : audit@monteiroheng.com.my
www.monteiroheng.com.my

Report on the financial statements

We have audited the accompanying financial statements of **JINJIANG ZHENXING SHOES PLASTICS CO., LTD.** (晋江振兴鞋塑有限公司), which comprise the balance sheet as at 31 December 2009 of the Company, and the income statement, statement of changes in equity and cash flow statement of the Company for the financial year ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 44.

The financial statements of the Company prepared for the People's Republic of China ("PRC") reporting purposes for the financial years ended 31 December 2006, 31 December 2007 and 31 December 2008 were audited by Xiamen Huafeng Associated, Certified Public Accountants of PRC, and were reported on by the PRC auditors without any qualification.

Director's responsibility for the financial statements

The director of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in Malaysia. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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

It is our responsibility to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

8. ACCOUNTANTS' REPORT (Cont'd)

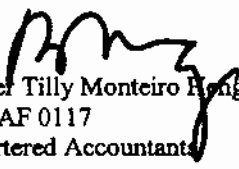
Company No. 350500400009750

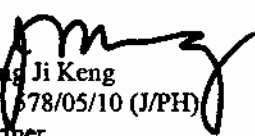
Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of its financial performance and cash flows for the financial year ended 31 December 2009.

Other matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.


Baker Tilly Monteiro Hong
No. AF 0117
Chartered Accountant


Heng Ji Keng
No. 578/05/10 (J/PH)
Partner

Kuala Lumpur

Date: 28 APR 2010

8. ACCOUNTANTS' REPORT (Cont'd)

Company No. 350500400009750



**BAKER TILLY
MONTEIRO HENG**

Chartered Accountants (AF 0117)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
JINJIANG ZHENXING SHOES & PLASTICS CO., LTD.**

(晋江振兴鞋塑有限公司)

(Incorporated in People's Republic of China)

Monteiro & Heng Chambers
22 Jalan Tan Seng Guan 3
50470 Kuala Lumpur, Malaysia
phone : +603 2274 8988
fax : +603 2260 1708
email : audit@monteiroheng.com.my
www.monteiroheng.com.my

Report on the financial statements

We have audited the accompanying financial statements of **JINJIANG ZHENXING SHOES & PLASTICS CO., LTD.** (晋江振兴鞋塑有限公司), which comprise the statement of financial position as at 30 June 2010 of the Company, and the statement of comprehensive income, statement of changes in equity and statement of cash flow of the Company for the financial period from 1 January 2010 to 30 June 2010, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 41.

The financial statements of the Company prepared for the People's Republic of China ("PRC") reporting purposes for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 were audited by Xiamen Huafeng Associated, Certified Public Accountants of PRC, and were reported on by the PRC auditors without any qualification.

Director's responsibility for the financial statements

The director of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in Malaysia. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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 these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

8. ACCOUNTANTS' REPORT (Cont'd)


Company No. 350500400009750

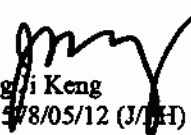
Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2010 and of its financial performance and cash flows for the financial period from 1 January 2010 to 30 June 2010.

Other matters

This report has been prepared solely in connection with the proposed listing and quotation of the entire enlarged issued and paid-up share capital of the holding company of the Company, Maxwell International Holdings Berhad on the Main Market of Bursa Malaysia Securities Berhad. This report is made solely to the member of the Company, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.


Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants


Heng Ji Keng
No. 478/05/12 (J/H)
Partner

Kuala Lumpur

Date: 13 SEP 2010