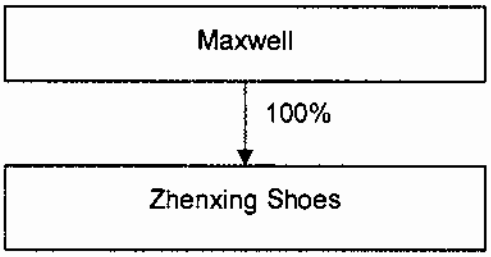
6. INFORMATION ON OUR GROUP

6.1 BUSINESS BACKGROUND

6.1.1 Group Structure

Our group structure is set out below:



6.1.2 History and Background

Our Company was incorporated in Malaysia under the Act on 3 November 2009 as a public company limited by shares under the name of Maxwell International Holdings Berhad (麦斯威国际控股有限公司).

By an equity transfer agreement dated 20 November 2009 and a restructuring agreement dated 18 November 2009, we acquired our subsidiary Zhenxing Shoes from Sports Asia, for a purchase consideration of RM134,499,998 which was fully satisfied through the issuance of 336,249,995 Maxwell Shares issued at par. The consideration was arrived based on the NTA of Zhenxing Shoes as at 30 June 2009 of approximately RM134.5 million.

We specialise in the design and manufacturing of sports shoes for domestic and overseas customers, which comprise mainly trading houses and brand distributors. We manufacture sports shoes on an OEM basis (i.e. we manufacture based on the specifications and designs provided by our customers) and on an ODM basis (i.e. we design and develop sports shoes for our customers' selection and manufacture the selected designs for our customers).

Our business can be traced back to June 1999 when Chun Hing Industrial (Hong Kong) Ltd (振兴实业（香港）有限公司), which is owned by our Chairman, Li Kwai Chun (李桂真) and her husband Li Chun Tak (李进德) set up Zhenxing Shoes in Zhushuxia Industrial Zone, Jinjiang City, Fujian province, PRC (中国福建省晋江市竹树下工业区). However, LI Chun Tak was never involved in Zhenxing Shoes' business since the incorporation. Zhenxing Shoes was established with an initial registered capital of HKD5.8 million and an aggregate investment amount of HKD7.0 million with Li Kwai Chun being the legal representative. The business of Zhenxing Shoes was to engage in the manufacturing and sale of sports shoes to domestic and overseas customers mainly through trading houses and brand distributors in the PRC and abroad. During the initial stage of our business, our Chairman, Li Kwai Chun was the key person securing sports shoe orders due to her well-established relationship with various footwear trading houses and brands distributors. We started with a single production line and an annual production capacity of approximately 1 million pairs of sports shoes.

Since the inception of our business, our founders have recognised the importance of producing quality sports shoes with aesthetically pleasing and unique designs which would appeal to consumers. As such, in the same year that Zhenxing Shoes was incorporated, we engaged South Korean and Taiwanese consultants to help set up our own D&D Department, and to provide training and consultancy services on product innovation and technical improvement to ensure that our product design and quality are able to keep pace with the dynamism of the global sports shoe market.

In 2000, to meet increasing orders, we expanded our annual production capacity from approximately 1 million pairs of shoes to 2 million pairs of shoes by adding a second production line.

From 2001, we began participating in various trade fairs and exhibitions in the PRC and abroad including the "Global Shoes" trade show organised by Dusseldorf GmbH Germany held in Dusseldorf and the WSA Show organised by the World Shoe Association held in Las Vegas, USA, as well as other international trade fairs held in the PRC such as Jinjiang Footwear International Exposition (晋江国际鞋业博览会), China Guangzhou Export and Import Trade Fair (中国广州进出口商品交易会) and East China Fair (华东交易会). As a result, we were able to establish our market presence and expand our customer base.

In 2005, Zhenxing Shoes' aggregate investment amount was increased from HKD7.0 million to HKD 26.2 million and the registered capital from HKD5.8 million HKD25.0 million.

In 2006, we also established business relationships with some new PRC procurement agents through whom we secured orders from various brands in the USA.

As the sales volume of our sports shoes increased, and in anticipation of higher future sales volume, Zhenxing Shoes added a third production line in late 2006. It was also in 2006, that we began to outsource some of our sports shoe orders to external contract manufacturers to cope with increasing orders from our customers.

In 2007, Zhenxing Shoes' aggregate investment amount was further increased from HKD26.2 million to HKD34.1 million and the registered capital from HKD25.0 million to HKD32.9 million.

In 2008, Zhenxing Shoes' aggregate investment amount was increased from HKD34.1 million to HKD61.2 million and the registered capital from HKD32.9 million to HKD60.0 million. On 18 February 2008, Chun Hing transferred its 100% equity interest in Zhenxing Shoes to Sports Asia.

In March 2008, we became a member of SATRA, which is an independent research and technology organisation for footwear and other consumer product industries. Our membership with SATRA gave us access to a global resource exchange platform and enabled us to:

(a) maintain a high level of technical awareness in the areas of production equipment, materials and technological development;

(b) access useful market information to keep abreast with the latest fashion trends and identify new markets for our products;

(c) source for and select new materials and components; and

(d) raise our profile internationally and gives us recognition in terms of production capability. SATRA offers expert guidance on international standards and test methods, as well as develops its own performance guidelines and footwear test methods which are internationally recognised and valued throughout the footwear industry. This helps us to continue improving on the performance and qualify of our products to meet certain standards internationally and maintain high quality levels. It is also via the SATRA membership and access to SATRA's information database that we are able to keep abreast with the latest technological advancements and hence generate sales through continuous D&D activities.

There are no specific prerequisites or written requirements to become a member of SATRA. Members are required to pay a one-off membership joining fee of £1,650 and an annual membership subscription of £1,650 in order to access the database and services provided by SATRA.

In April 2008, as a testament to the stringent internal controls and quality management system adopted in our production process, we were accredited with the ISO9001:2000 certification by GIC.

Subsequently in July 2008, we installed a fourth production line to bring our annual production capacity to approximately 8 million pairs of sports shoes. By then, we had increased our workforce from 1,063 employees in 2006 to 1,440 employees in 2008 with a total production area of approximately 15,944 sq m.

During the second half of 2008, we ventured into manufacture of sports shoes under our own brand name – *SODENG (速登)*. However, given the uncertain market conditions and strong competition from established local brand names, and potential expenditure to be incurred to launch and maintain a new brand, we decided to put the branding initiative on hold to focus on our OEM and ODM business, which is experiencing good growth.

As part of the Listing, Maxwell had on 18 November 2009 entered into a restructuring agreement with Sports Asia for the acquisition of the entire interests in Zhenxing Shoes. The Acquisition was completed on 8 December 2009.

Please refer to the **Section 6.3** and **Section 6.16** of this Prospectus for details on our key milestones and achievements, and the awards, accolades and accreditations which we have received since 1999.

6.2 OUR GROUP

6.2.1 Our share capital and changes in share capital

As at the date of this Prospectus, we have an authorised share capital of RM500,000,000 comprising 1,250,000,000 Shares whilst our issued and paid-up share capital is RM134,500,000 comprising 336,250,000 Shares.

The changes in our issued and paid up share capital since our incorporation is as follows:

Date of issue	No. of shares issued	Par value (RM)	Consideration (RM)	Cumulative issued and paid-up share capital (RM)
03.11.2009	5	0.40	Cash	2
08.12.2009	336,249,995	0.40	Shares issued pursuant to the Acquisition of Zhenxing Shoes	134,500,000

As at the LPD, our Company does not have any outstanding warrants, options, convertible securities or uncalled capital.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.2.2 Subsidiary

Zhenxing Shoes

(i) History and business

Zhenxing Shoes was established in Jinjiang City, Fujian Province, PRC on 23 June 1999 under the PRC Law as a limited liability company under the name of 晋江振兴鞋塑有限公司 (Jinjiang Zhenxing Shoes Plastics Co., Ltd.)

Zhenxing Shoes is an OEM and ODM manufacturing company specialising in the design and manufacturing of sports shoes to domestic and overseas customers.

(ii) Share capital

The present registered capital of Zhenxing Shoes is HKD60,000,000 and the total investment amount is HKD61,200,000.

The contributions to the registered capital of Zhenxing Shoes since its incorporation are as follows:

Oate of change	Increese in Reglstered Capital (Cash)[1] HKD	Resultent Increase in Regietered Cepital (Caeh) HKD	Aggregate Inveetment Amount[2] HKO
12.04.2001	5,800,000	5,800,000	7,000,000
18.03.2005	19,200,000	25,000,000	26,200,000
05.06.2007	7,900,000	32,900,000	34,100,000
11.04.2008	27,100,000	60,000,000	61,200,000

Notes:-

(1) Registered capital refers to the total capital contribution of the shareholders of a company that is registered with the relevant government agency.

(2) Aggregate investment amount refers to the combination of registered capital and debt financing (debt financing can include loans from the parent company or from lending institutions) that is required for the planned project as stipulated in the articles of association of the company.

As at the LPD, Zhenxing Shoes does not have any outstanding warrants, options, convertible securities or uncalled capital.

(iii) Substantial shareholder

Zhenxing Shoes is a wholly-owned subsidiary of Maxwell.

(iv) Subsidiary and Associate Company

As at the LPD, Zhenxing Shoes does not have any subsidiary or associate company.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.3 KEY MILESTONES AND ACHIEVEMENTS

Our key milestones and achievements are as follows: -

Year	Milestones / Achievements
1999	• Established Zhenxing Shoes with one production line
2000	• Increased to two production lines with annual production of 2 million pairs of sports shoes (based on one-shift)
2006	• Increased to three production lines with annual production capacity of 6 million pairs of sports shoes (based on two-shift)
2008	• Became a member of SATRA • Obtained ISO9001:2000 status • Installed the fourth production line with annual production capacity of 8 million pairs of sports shoes (based on two-shift)

6.4 COMPETITIVE STRENGTHS AND ADVANTAGES

Our Directors have identified several key factors that enable us to compete effectively to ensure a sustainable growth. We believe our competitive strengths are as follows:

(i) We have strong product D&D capabilities

Our management places strong emphasis on product D&D in ensuring our competitiveness in the sports shoe market. To this end, we have a dedicated team of experienced personnel in our D&D Department to improve and extend our product range in terms of function, variety and design so as to ensure that we keep up with the latest trends and design suitable for customers' selection. Hence, our in-house design capability is a way of providing value-added services to our customers.

Our personnel in the D&D Department are entrusted to conduct in-house research on the latest fashion trends including obtaining information from various market sources such as internet websites, fashion magazines and industry journals regularly. Our D&D personnel also obtain feedback from our Sales and Marketing Department and key customers which can be incorporated into our product design. On average we are able to develop 1,000 new product designs per annum. We also consistently design, develop and introduce various functions and features such as water resistance and shock absorption in our sports shoes. The definition of design is set out in the "technical definitions" page of this Prospectus.

Our D&D Department is headed by Zhang Kun (张坤), who has more than 20 years of D&D experience in the sports shoe industry, including more than 10 years as the manager of the D&D Department of a major PRC sports shoe company. He joined Zhenxing Shoes in August 2009. As at the LPD, Zhang Kun is supported by a team of 30 staff, half of whom have more than 10 years of experience in the D&D field.

(ii) We are able to deliver good quality products

We place great emphasis on the quality of our products, which we believe have contributed significantly to our success. Our Quality Assurance Department conducts quality checks on all the products manufactured and oversees the implementation of the quality controls at every stage of our production process, which is in line with our quality management system. Furthermore, personnel from our Quality Assurance Department conduct on-site factory inspection on our appointed external contract manufacturers as well as inspection of the production processes and finished products that these factories produce. Please refer to **Section 6.9** of this Prospectus for further details of our quality assurance processes.

We joined SATRA in March 2008, as our commitment towards continually improving and maintaining our quality levels. Through the use of SATRA services, such as SATRA Performance Guidelines, we are able to gain practical and advanced guidelines for quality control in the sports shoe industry.

As a testament to our reputation for good quality products, we were awarded Outstanding Enterprise in Regulated Quality Management (规范化管理质量达标先进企业) by Quanzhou Sub-centre of China Merchandise Trading Centre (中国商品交易中心泉州分中心) in 2003 and Excellent Quality Unit （质量胜得过单位） by Technology Supervisory Bureau of Jinjiang (晋江技术监督局) in January 2008. In April 2008, Zhenxing Shoes also obtained ISO9001:2000 certification for our production process, products and services.

(iii) We have developed strong relationships with our customers

We have been involved in the sports shoe manufacturing business since 1999. We have established a good track record and strong relationships with our customers by offering them quality products, reliable service and timely product delivery at competitive prices. For the FYE 2009, approximately 53.2% of our revenue was derived from repeat customers.

We believe that our ability to offer quality products as well as strong D&D capabilities are increasingly recognised by our customers which is evidenced by our ability to increase our sales volume for Zhenxing Shoes from approximately 4 million pairs of sports shoes in FYE 2006 to approximately 11 million in FYE 2009 (inclusive of outsourced production). Between FYE 2006 and FYE 2009, our revenue recorded a CAGR of approximately 54.0%.

(iv) We are located close to our raw material sources

We are located in Jinjiang City, Fujian Province, PRC, a place which is renowned as one of the world's largest sports shoe manufacturing hubs. This has enabled us to establish good contacts with and have access to a large pool of raw material suppliers. This allows us to have better coordination and more direct control in respect of timely delivery, logistics costs, placing orders, quality control and material sourcing.

(v) We have an experienced management and technical team

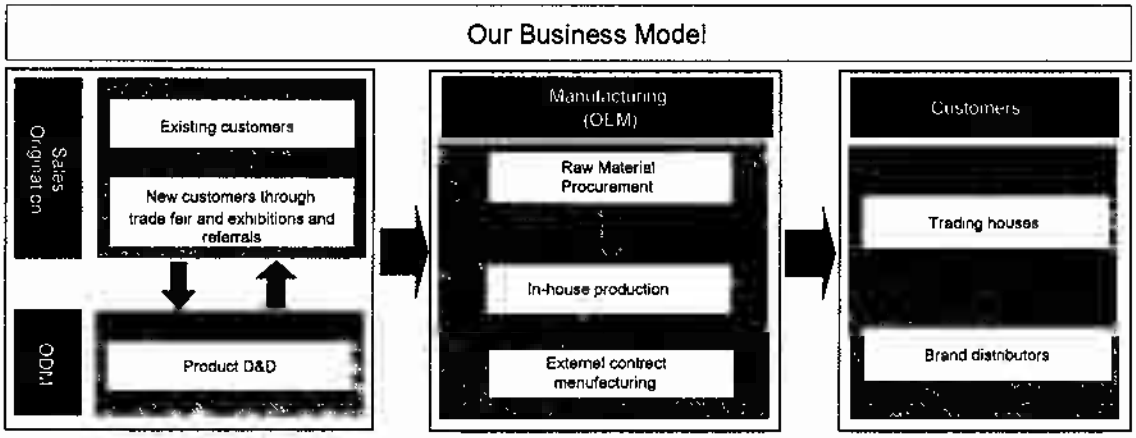
Our Executive Director and Chairman, Li Kwai Chun, who is also the founder of our Group, has had more than 20 years' experience in the trading business and established extensive contacts in the industry. She oversees the overall operations of our Group. She is assisted by Mr. Xie Zhen'an, our Executive Director and CEO, who is responsible for the operations of Zhenxing Shoes, and a dedicated team, most of whom have more than 10 years of experience in their respective fields.

Please refer to **Section 10** of this Prospectus for more information on the profiles of our Directors and key management.

6.5 BUSINESS OVERVIEW

We specialise in the design and manufacturing of sports shoes for domestic and overseas customers, which comprise mainly trading houses and brand distributors. We manufacture sports shoes on an OEM basis (i.e. we manufacture based on the specifications and designs provided by our customers) and on an ODM basis (i.e. we design and develop sports shoes for our customers' selection and manufacture the selected designs for our customers). We have strong D&D capabilities and are able to develop an average of 1,000 shoe designs per annum for our customers' selection. Zhenxing Shoes is an OEM and ODM for various third party brands.

Our Group's business model is summarised below:



Sales Origination and Product D&D (ODM)

The origination of our sales is derived from our existing customer base as well as new customers that are sourced from trade fairs and exhibitions as well as referrals. In addition, our executive directors, namely, Li Kwai Chun and Xie Zhen'an play an important role in maintaining and securing existing and new customers through their well-established relationships with various sports shoes trading houses and brand distributors in PRC.

We focus on product D&D in ensuring our competitiveness in the sports shoe market, as we believe it will enable our Group to maintain and attract existing and new customers. Our sports shoes are designed in a wide variety of styles depending on the seam construction, pattern, raw materials used and other design features.

OEM

As an OEM, we manufacture according to the shoe specifications and designs provided by our customers. Our Purchasing Department is responsible for sourcing and purchasing the necessary raw materials for the manufacture of our sports shoes. All the suppliers of raw materials are mainly located within Fujian Province, PRC at close proximity to our manufacturing facility. Our Purchasing Department will consider factors such as quality, pricing, timely delivery and after-sales service of various suppliers with the aim of obtaining quality raw materials to meet our production requirements and at competitive prices.

Currently, we have the capacity to produce up to 8 million pairs of sports shoes per year at our manufacturing facilities located in Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC, through our subsidiary, Zhenxing Shoes. We also outsource some of our sports shoe orders to external contract manufacturers. Outsourcing allows us to optimize our manpower and financial resources and to focus on other areas of our business, which is design, marketing and quality control of our products as well as to be able to cope during periods of high demand.

Customers

Our sports shoes are mainly sold through trading houses and brand distributors located in the PRC and overseas.

6.6 SALES AND MARKETING

As at the LPD, our Sales and Marketing Department are staffed by 5 sales and marketing personnel. They are responsible for formulating sales and marketing strategies and conducting marketing activities to promote our products.

Our sales and marketing strategies include:

6.6.1 Participation in trade fairs and exhibitions

We participate regularly in trade fairs and exhibitions in the PRC and abroad which include the "Global Shoes" trade show organised by Dusseldorf GmbH held in Dusseldorf and the WSA Show organized by the World Shoe Association held in Las Vegas, USA as well as international trade fairs held in the PRC such as Jinjiang Footwear International Exposition (晋江国际鞋业博览会), China Guangzhou Export and Import Fair (中国广州进出口商品交易会) and East China Fair (华东交易会).

We believe that participation in such trade fairs and exhibitions help us to expand our customer base and generate increased awareness of our Company. It also helps us keep abreast with current market trends and use the information gathered to respond to the evolving needs of consumers in a timely manner.

6.6.2 Sales and marketing activities

Sales and marketing activities involve regular meetings with and visit to our existing customers to increase our understanding of their requirements so as to develop more products and secure more orders, as well as contacting prospective customers to promote our products. We also regularly obtain feedback from customers on our products to better understand market trends and consumer preferences.

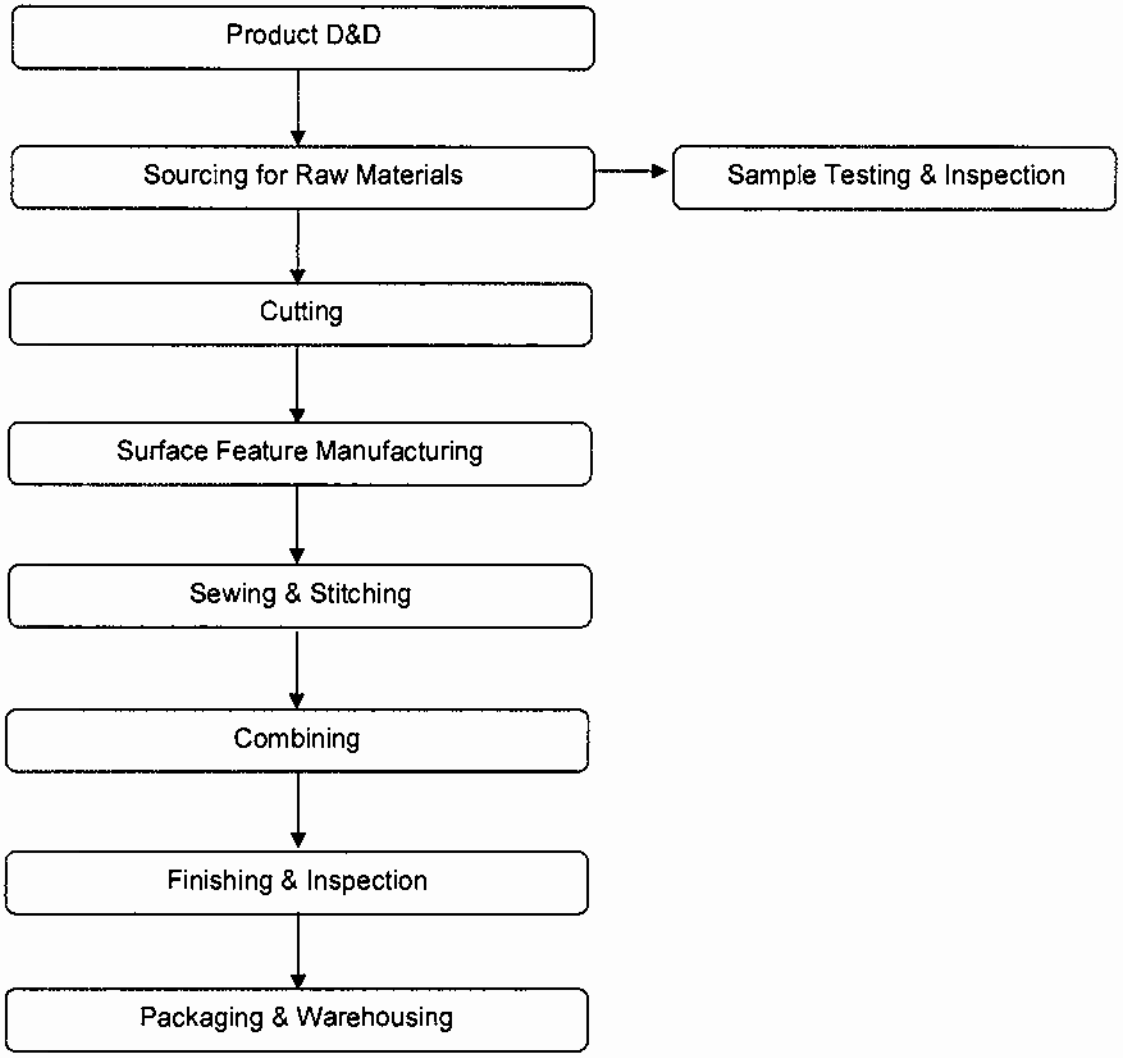
In addition to the above, due to our active pursuit of high product quality, innovative product designs as well as our good sales service, we have been able to attract new customers through referrals from our existing customers.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.7 PRODUCTION PROCESS

6.7.1(i) Zhenxing Shoes' Production Process

Our entire shoe production process is illustrated in the flowchart below:



(a) Product D&D

For the products which we produce for our customers, the design and specifications are either provided by our customers or developed by our D&D Department. Based on such designs and specifications, we will manufacture prototypes for our customers' confirmation and negotiate on the prices of such products. Upon finalisation of the prices and confirmation of orders by our customers, we will source for various raw materials and commence commercial production accordingly.

6. INFORMATION ON OUR GROUP *(Cont'd)*

(b) Sourcing for raw materials

Our raw materials include leather, fabrics, PU, PVC and sole units, which comprise the midsole and outsole. All the suppliers of raw materials are located within Fujian Province, PRC, at close proximity to our manufacturing facility.

Our Purchasing Department undertakes the sourcing and purchasing of the required raw materials for the manufacture of our products. In the process of sourcing for raw materials, our purchasing personnel will consider factors such as quality, pricing, timely delivery and after-sales service of various suppliers with the aim of obtaining good quality raw materials to meet our production requirements at competitive prices.

After receiving raw materials from our suppliers, personnel from our Quality Assurance Department will carry out inspection and testing on samples from our incoming raw materials on a random basis to ensure that the quality of the raw materials meet our specifications and quality standards. Raw materials that do not meet our specifications and requirements are returned to our suppliers for replacement.

(c) A brief description of our production process is set out below:

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

Surface Feature Manufacturing and Assembly: The intricate design features such as the logos and other decorative patterns are made in advance before being sewn onto or imprinted onto the different parts of the upper shoe at our surface feature assembly workshops.

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

Combining: The combining process is where the upper shoe and the sole unit are combined to form the finished sports shoe. At the combining stage, the last and the upper shoe are placed together and then placed onto a combining machine to ensure a good fit of the upper shoe to the shape of the last. The insole board is glued onto the sole unit and the lasted upper shoe is then attached to the insole board together with the sole unit. The completed but unfinished sports shoes is then pressed around the last using sole pressing machines to ensure that the sole unit is attached to the upper shoe properly, after which, the last is removed.

Finishing & Inspection: After the combining process, final finishing touches to the sports shoes such as the insertion of insoles and laces are carried out. Each pair of sports shoe is also cleaned or polished. At this stage, our Quality Assurance Department will conduct final quality checks on the finished products.

Packaging and Warehousing: The finished products which pass our quality control inspection are then packed and separated into boxes according to colours and sizes. The boxes are then packed into cartons and stored in our warehouses for delivery to our customers.

6.7.1 (ii) Outsourced production process

As some of our sports shoes are outsourced to our external contract manufacturers, we place emphasis on the quality of products produced by such contract manufacturers. We have stringent selection criteria for our external contract manufacturers and constantly evaluate each external contract manufacturer based on overall track record, experience, timely delivery, reputation and ability to produce quality products.

We typically engage the services of an external contract manufacturer on a short-term contract basis after obtaining sales orders from customers, which sets out the terms regarding, amongst others, the processing fee, purchase quantity, delivery terms and design specifications of our products. More importantly, the external contract manufacturers shall produce products that adhere strictly to a specified production process and quality standard required by us.

To ensure the production quality of our external contract manufacturers, we have 8 quality control staff members to conduct daily on-site inspections when such external contract manufacturers operate and produce products for us. We also provide the relevant raw materials and parts including packaging material to our external contract manufacturers.

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6. INFORMATION ON OUR GROUP *(Cont'd)*

6.8 PRODUCTION FACILITIES AND CAPACITY

We carry out our manufacturing activities at the premises of Zhenxing Shoes, which is located at Zhushuxia Industrial Zone, Jinjiang City, Fujian Province, PRC (中国福建省晋江市竹树下工业区). The total production area is approximately 15,944 sq m. We currently have four (4) production lines with an average annual capacity of approximately 8 million pairs of sports shoes per annum.

The following table illustrates our production capacity and our approximate utilisation rate for our production lines for the Financial Period under Review respectively:

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
Production Capacity ('000 pairs) [1]	4,000	6,000	#7,000	8,000	4,000
No. of fully operational production lines	^2	^3	#4	4	4
Output ('000 pairs)	2,997	5,971	5,723	6,180	2,883
Utilisation Rate (%) [2]	*74.93	99.52	81.76	77.25	72.08

Notes:-

^ *We added a third production line in late 2006, which became fully operational in FYE 2007.*

* *The production capacity up to February 2006 is based on the production capacity of two operational production lines on a one-shift basis. For the remaining ten (10) months of the year, we operated on a two-shift basis.*

\# *We added a fourth production line in July 2008. The production capacity for the FYE 2008 is calculated based on three production lines employed by us and the production capacity for the fourth production line from the month of July onwards (i.e. half a year).*

Assumptions:

(1) *The production capacity of our production facilities is measured in terms of the number of pairs of sports shoes manufactured based on: (i) the time interval between the placement of each sports shoe in the combining machines on the production line; (ii) the number of production lines employed by us during the financial year being operational for 16 hours per day, 340 days a year; and (iii) the level of productivity of our production line which was determined by the machinery design, set-up speed and experience of our production staff which is assumed to be constant throughout the Financial Period under Review. The production capacity for each production line is approximately 2 million pairs of sports shoes per annum.*

(2) *The utilisation rate of our production facilities in each financial year is calculated by dividing the total number of sports shoes produced for the whole of that financial year by the production capacity. The utilisation rate will vary depending on, inter-alia, the design specification of each sports shoe of which the more complex shoe designs will require longer time to produce as compared to the simpler designs and the size of each sports shoe order.*

6. INFORMATION ON OUR GROUP *(Cont'd)*

For reference and information only, we have set out below, the production statistics of the Local Companies. Please note however, that the Local Companies may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, the experience and expertise of production staff, type of equipment used, type of shoes produced and equipment set-up speed.

	Maxwell	K-Star[1]	Xingquan[2]	XiDeLang[3]
Principal activities	Design and manufacturing of sport shoes on an OEM and ODM basis.	Design, manufacture and distribution of sports footwear under its own brand as well as OEM and ODM for international sports brands.	Manufacturing of shoe soles and sport shoes, and sales of shoe soles, sports shoes, apparels and accessories.	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment.
Production capacity for sport shoe (as at)	31.12.2009	31.12.2009	30.06.2009	30.06.2009
Assumptions	Operational for 16 hours per day/340 days a year (2 shifts)	Operational for 10 hours per day/310 days a year (1 shift)	Operational for 16 hours per day/330 days a year (2 shifts)	Not available
Number of production lines	4	4	6	Not available
Production capacity ('000 pairs)	8,000	3,968	5,940	2,400[4]
Production output ('000 pairs)	6,180	3,805	5,478	2,200[4]
Utilisation rate (%)	77.3	95.9	92.2	91.6
Production output per production line per hour (pairs)[5]	284	307	173	Not available

Notes:-

(1) Extracted from K-Star's prospectus dated 11 May 2010.
(2) Extracted from Xingquan's annual report 2009 and prospactus dated 23 Juna 2009.
(3) Extracted from XiDeLeng's prospectus dated 23 October 2009.
(4) The production cepecity end production output for six (6) months.
(5) The computation is based on production output divided by the number of production lines end the essumed number of days and hours in operation per ennum.

Based on the above, management wishes to highlight the following:-

(i) Based on the assumptions used for the production capacity, we are able to achieve a production capacity of 8 million pairs of sports shoes per annum. Accordingly, for the FYE 2009 we achieved a production output of approximately 6.18 million pairs of sports shoes.

(ii) Our production output per hour for each production line is 284 pairs of sports shoes which is within the range of the production output of the Local Companies which range from 173 pairs to 307 pairs per line; and

(iii) Our utilisation rate of 77.3% is lower than the utilisation rates of the Local Companies which ranged from 91.6% to 95.9%. Our lower utilisation rate was due mainly to the different assumptions used for our production capacity compared to the Local Companies as well as the difference in the composition of the business, scale of operations, the experience and expertise of production staff, type of equipment used, type of shoes produced and equipment set-up speed.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.9 QUALITY ASSURANCE

We recognise that our ability to produce and procure consistently good quality products is critical to the success of our business. As such, we have implemented stringent quality control procedures in respect of Zhenxing Shoes' production activities. Furthermore, by joining SATRA, we are able to maintain our quality levels by using SATRA services such as SATRA Performance Guidelines which furnish us with practical and advanced guidelines for quality control in the sports shoe industry.

As at the LPD, we have 33 quality assurance personnel in our Quality Assurance Department. Our Quality Assurance Department conducts quality checks on all the products manufactured by Zhenxing Shoes and oversees the implementation of the quality controls at every stage of our production process in line with our quality management system. Personnel from our Quality Assurance Department will also conduct on-site factory inspection on our external contract manufacturers as well as inspection of the production processes and finished products at these factories. As at the LPD, we have not encountered any rejection from our customers.

In April 2008, as a testament to the stringent internal controls and high quality management system adopted during our production process, Zhenxing Shoes was accredited with the ISO9001:2000 certification for our production process, products and services by GIC.

Details of our quality control procedures are highlighted below.

6.9.1 Our In-house Quality Control

(a) Supplier selection

Raw materials are purchased only from suppliers after evaluation by our Quality Assurance Department based on stringent selection criteria such as pricing, the quality of their raw materials and services, their past track record, credibility, timely delivery and market reputation.

(b) In-coming quality assurance

In-coming raw materials are subject to random sample inspections and tests, such as tests on durability of the sole units and tensile strength of the fabrics, to ensure the quality, grade and quantity of such raw materials conform to our customers' and our order specifications as well as our internal quality standards. Raw materials which fail to comply with these specifications are returned to suppliers for replacement.

(c) In-process quality assurance

We implement in-process quality assurance measures throughout the entire production process. Before production, our Quality Assurance Department and Production Department will conduct quality checks and assessment of production feasibility on all the molds to be used in the production and carry out trial-production for evaluation. This will allow us to rectity any defects at an early stage of production.

During production, quality assurance measures are taken at each stage of the production process to ensure that defective semi-completed products do not proceed to the next stage of the production process. The production section leader at each stage of production is responsible for quality control at each stage of the production process whereas our Quality Assurance Department conducts random checks on the semi-completed and completed products in order to ensure compliance with quality control standards.

Our customers may from time to time send their quality control personnel to our production facilities to monitor our production process.

(d) Final quality assurance

Prior to being packed into boxes, completed products undergo final quality inspection to ensure compliance with our quality control standards and customers' design and specifications. Any item which fails the final quality assurance check and test will not be sent to our customers.

(e) Outgoing quality assurance

Prior to delivery of our products to our customers, our quality control personnel and in some cases, our customers may carry out random quality checks to ensure that the products to be delivered to them meet their quality requirements.

6.9.2 Quality Control on External Contract Manufacturers

As we outsource some of our sports shoe orders to our external contract manufacturers, we also carry out quality control on the products produced by such manufacturers.

In this regard, our quality control personnel and in cases of large orders, our Executive Directors, will attend personally to these external contract manufacturers to ensure that these manufacturers will be able to meet our orders, and that their products are of consistently good quality. Personnel from our Quality Assurance Department will monitor our external contract manufacturers' entire production process by requiring each external contract manufacturer to submit regular reports on production progress and quality assurance at each stage of its production process. In addition, our quality control personnel also conduct random checks on the products. We can monitor their production progress constantly to ensure that our delivery deadlines, which range from 30 to 35 days for urgent orders and 45 to 60 days for normal orders are met. We conduct quality control inspection on the finished products.

Further, the quality of the raw materials used to manufacture sports shoes are also monitored because we supply all of the raw materials to our external contract manufacturers, where these external contract manufacturers primarily provide labour service to us to manufacture the sports shoes.

As at the LPD, there has been no significant rejection on products manufactured by our external contract manufacturers.

6.10 PRODUCT D&D

6.10.1 Our D&D objectives

Our Directors believe that D&D is crucial in providing us with a competitive edge. As such, we are committed to and place great emphasis on our D&D which keeps us ahead of our competitors. Our D&D objectives are to develop and introduce new designs to cater to changing consumer preferences and market trends, and to expand our product range.

6.10.2 Our D&D team and facilities

Our D&D Department is headed by Zhang Kun (张坤), who has more than 20 years of D&D experience in the sports shoe industry, including more than 10 years as the manager of the D&D Department of a major PRC sports shoe company. Our D&D staff headcounts were 14, 14, 35, 27 and 30 for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. As at the LPD, our D&D Department is staffed with 30 personnel, half of whom have more than 10 years of experience in the D&D field.

The length of service of our D&D staff with Zhenxing Shoes is as follows:-

	Number of staff				Total
Years with Zhenxing Shoes	**<1**	**1-3**	**3-5**	**>5**	
Head	1	-	-	-	1
Designers	1	3	1	-	5
Production staff	15	5	3	1	24
Total	**17**	**8**	**4**	**1**	**30**

As at the LPD, our Group utilises some of the following machinery and equipment for our D&D facilities:-

Facilities	Purposes
Shoe design software (CAD system)	To create two and three dimension computer generated solid state prototypes to facilitate the functional tests and dimensioning, scaling, and colour and material combinations and modifications, as well as analyzing the movement, position and impact on certain parts of the sports shoe.
Digitizer	A graphics input device that allows the designer to hand-draw the graphics on the tablet and transmit the graphics to the computer.

6.10.3 Our D&D initiatives and activities

Development of new products

Our designs are either created in-house by our D&D Department or in accordance with the specifications and designs provided by our customers.

Our D&D Department gathers market information by attending trade fairs and exhibitions to keep ourselves abreast with the latest trends to continually improve and extend our product range. We also receive samples from our customers and work closely with them to improve on their designs. In some instances, we also engage external design firms to assist in the design of our products, particularly for the purposes of attending certain sports shoe trade fairs in the USA or Europe so as to have designs suited to the target markets.

New designs are developed through computer design software and experimentation with various sports shoe material and the use of soles. Commercial production of a particular product for our customers will commence upon confirmation of the product design and price.

6. INFORMATION ON OUR GROUP *(Cont'd)*

Apart from designs, we also look into the functionality of our products in order to serve the different sporting functions and features, such as water resistance and shock absorption.

D&D process

The D&D process undertaken by our D&D staff are as follows:-

Stage 1 – Product design

Our D&D personnel typically commence with the preparation of a design plan, which sets out various items for consideration such as the product type, target market, budgeted production quantity, profit margin, raw materials and resources deployment. Sports shoes usually consist of two major components, namely, upper shoe and sole unit. Our D&D staff generally originates the design of sports shoes from the sole unit. Sometimes, the origination of sports shoe designs may also be based on sample designs provided by customers.

Such design plans will then be submitted for evaluation and approval by the relevant personnel comprising the heads of the Sales and Marketing Department, D&D Department, Production Department, our Executive Directors and in certain cases, our customers.

Upon approval, our D&D personnel will use various computer design software to make technical adjustments and modifications to the draft design plan and work out different colour schemes for the new product before the new design is sent for trial production run, which also involve the production of prototypes.

Stage 2 – Product prototype

The prototypes of such designs are produced for various tests such as durability and functionality tests, colour tests and raw materials matching.

Stage 3 – Market introduction

Our Sales and Marketing Department will then present the tested prototypes to our customers for their evaluation. Based on the feedback from our customers, we will modify the prototypes to meet customers' needs. Upon confirmation of the design, our customers will place their orders, and we will commence production.

Some of the sports shoe designs that we have created are depicted below:-



Soccer Shoe



Basketball Shoe



Casual Sports Shoe



Casual Sports Shoe



Running Shoe



Running Shoe

6.10.4 Our D&D expenses

Our D&D expenses for the Financial Period under Review have not been material as our product D&D expenditure relates mainly to cost of consumables for product prototypes and remuneration costs of our D&D staff.

Summarised below is the D&D expenses and the number of sports shoe designs created during the Financial Period under Review:-

	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
D&D expenses (RMB/RM)	354,031/ 162,748	398,686/ 180,166	1,401,696/ 675,477	1,003,562/ 517,536	511,626/ 247,064
Percentage of revenue (%)	0.2	0.1	0.3	0.2	0.2
Number of D&D staff	14	14	35	27	30
Number of designers	3	3	5	5	5
Number of designs created by product categories					
- Court sports shoes	873	896	839	1,005	471
- Casual/leisure sports shoes	45	38	152	143	76
- Running Shoes	-	-	11	23	7
	918	**934**	**1,002**	**1,171**	**554**
Number of designs commercially produced by product categories					
- Court sports shoes	532	662	735	825	394
- Casual/leisure sports shoes	16	20	142	105	61
- Running Shoes	-	-	9	12	4
	548	**682**	**886**	**942**	**459**
Commercialisation rate	60%	73%	89%	80%	83%

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.11 MAJOR CUSTOMERS

As we do not sell our products directly to end-consumers, our customers are mostly trading houses and brand distributors based in the PRC and to a lesser extent overseas. These distributors and trading houses in turn sell our sports shoes to both the local and overseas markets such as Europe, South America, Japan, Korea, Singapore, the Middle East, Saudi Arabia and South Africa. Our customers who accounted for 10% or more of our Group's sales for the Financial Period under Review are as follows:

Name of Major Customer	Approximate length of business relationship	As a percentage of our Group's revenue (%)				
		FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
晋江市青阳爱快贸易有限公司 (Jinjiang City Qingyang Aikuai Trading Co., Ltd) (PRC)	4 years	14.2	16.2	13.7	6.1	2.3
晋江宗盛工贸有限公司 (Jinjiang Zong Sheng Industry & Trading Co., Ltd) (PRC)	4 years	8.2	10.2	9.8	7.9	5.6
隆鑫国际贸易有限公司 (Lu Xin International Trading Co., Ltd) (PRC)	4 years	8.3	10.4	9.4	8.0	2.2
欧亚明通贸易有限公司 (Ouya Mingtong Trading Co., Ltd) (PRC)	4 years	14.8	18.0	16.1	10.1	13.0
泉州泛多贸易有限公司 (Quanzhou Fandou Trading Co., Ltd) (PRC)	4 years	13.4	14.6	15.4	9.1	6.0
协昌振宜鞋服有限公司 (Xie Chang Zhen Xuan Shoes Co., Ltd.) (PRC)	4 years	7.1	9.8	10.0	5.3	3.2
福建华翌贸易实业有限公司 (Fujian Hua Yi Trading Co., Ltd) (PRC)	1 year	-	-	-	8.1	11.5
Total		**66.0**	**79.2**	**74.4**	**54.6**	**43.8**
Number of other customers		**10**	**43**	**42**	**27**	**22**
Total number of customers		**16**	**49**	**48**	**34**	**29**

We enjoy a close business relationship with our customers and place significant emphasis on developing and maintaining customer satisfaction, goodwill and rapport.

We do not consider ourselves as highly dependent on any major customer. None of our Directors or substantial shareholders has any interest, direct or indirect, in any of the above companies.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.12 MAJOR SUPPLIERS

Our suppliers mainly consist of suppliers of raw materials, such as leather, fabrics, PU, PVC and sole units, used in the production of our sports shoes.

Our suppliers are primarily located in Quanzhou City and Jinjiang City, Fujian Province and within close proximity to our manufacturing facility.

We select our raw material suppliers based on their product quality, reliability, price, range of designs (if applicable), availability, speed of delivery and reputation. We have not experienced any difficulties in sourcing for raw material suppliers nor do we envisage facing any such difficulties in the future due to our established relationships with them and also the availability of alternative suppliers.

The following are our suppliers of raw materials who account for 10% or more of our purchases for the Financial Period under Review:

Name of Supplier	Approximate length of business relationship	Materials Supplied	Percentage of total purchases (%)				
			FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
福建省晋江市青阳振兴皮革厂 Fujian Jinjiang Qingyang Zhenxing Leather Factory (PRC)	10 years	Leather	6.2	3.1	12.5	6.5	5.1
闽发（福建）鞋材有限公司 Minfa (Fujian) Shoe Material Co., Ltd. (PRC)	10 years	Sole	4.7	4.5	22.0	8.9	15.4
泉州信德皮革有限公司 Quanzhou Xinde Leather Co., Ltd. (PRC)	10 years	Leather	4.7	4.8	13.4	5.2	1.2
晋江风华鞋材有限公司 Jinjiang Fenghua Shoes Material Co., Ltd. (PRC)	4 years	Sole	0.3	0.3	3.2	5.4	16.4
晋江市宇顺鞋塑有限公司 Jinjiang Yu Shun Shoes & Plstic Co., Ltd. (PRC)	5 years	Sole	5.6	6.9	9.9	4.5	10.3
Total			**21.5**	**19.6**	**61.0**	**30.5**	**48.4**

As there are many raw material suppliers based in Fujian Province, PRC, we are not reliant on any particular supplier for our business. To the best of our Directors' knowledge, we are not aware of any information or arrangements which would lead to a cessation or termination of our current relationship with any of our major suppliers.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.13 EXTERNAL CONTRACT MANUFACTURERS

The following table sets out our external contract manufacturers for the Financial Period under Review:

Name of external contract manufacturer	Location	Approximate length of business relationship (years)	Percentage of Group's total subcontracting costs (%)				
			FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2010
世通鞋业有限公司 Fujian Jinjiang Shitong Footwear Co., Ltd.	Jinjiang	4 years	12.2	13.2	8.9	29.2	32.7
国榕鞋业有限公司 GuoRong Shoes Co., Ltd.	Jinjiang	4 years	11.5	20.0	4.9	29.8	21.8
爱思奇鞋业有限公司 Aisiqi Shoe Co., Limited	Jinjiang	4 years	30.1	23.1	46.8	12.1	-
足尔鞋塑有限公司 ZuEr Shoes Plastic Co., Ltd.	Jinjiang	4 years	13.9	14.3	10.1	28.9	22.4
克力鞋业有限公司 KeLi Shoes Co., Ltd.	Jinjiang	3 years	7.1	11.2	7.5	-	-
江圣鞋业有限公司 Jiang San Shoes Co., Ltd.	Jinjiang	3 years	5.4	5.6	13.5	-	-
威士登鞋业有限公司 WeiShi Deng Shoes Co., Ltd.	Jinjiang	3 years	19.8	12.6	8.3	-	-
福建省晋江市池店华信鞋业有限公司 Fujian Jinjiang Chidian Huaxin Shoes Co., Ltd.	Jinjiang	<1 year	-	-	-	-	23.1
Total			100.0	100.0	100.0	100.0	100.0

As there are many external contract manufacturers based in Jinjiang city, we are not reliant on any particular external contract manufacturer for our business. To the best of our Directors' knowledge, we are not aware of any information or arrangements which would lead to a cessation or termination of our current relationship with any of our external contract manufacturers.

6.14 INTELLECTUAL PROPERTY

Save as disclosed below, we do not own nor are we dependent on any registered trademark, patent or license or any other intellectual property rights.

Trademark

As at the LPD, our Group owns the following trademarks:

Trademark	Country of Registration	Class	Registration Number	Registration Date	Term
速登	PRC	25	3033383	21 March 2003	10 years (expiring on 20 March 2013)
	PRC	25	3024815	7 February 2004	10 years (expiring on 6 February 2014)
SODENG	PRC	25	3033382	21 March 2003	10 years (expiring on 20 March 2013)

6. INFORMATION ON OUR GROUP *(Cont'd)*

All the above trademarks were registered for our previous SODENG brand initiative. These trademarks are not presently in use.

We initially intended to develop our own "SODENG" (速登) brand of sports shoe and apparel in the PRC market. However, given strong competition from established local brand names, and potential expenditure to be incurred to launch and maintain a new brand, we have decided to put the branding initiative on hold to focus on our current business, which is enjoying good growth.

The Board has yet to decide on whether or not they intend to launch SODENG brand and will only re-evaluate its position on the launch after the Listing.

Our Group had incurred expenses of approximately RMB2.4 million (or RM1.2 million) and RMB0.6 million (or RM0.3 million) in FYE 2008 and FYE 2009 respectively for the SODENG brand initiative. These expenses mainly relate to advertising expenses, material costs, office rental and salaries for SODENG's D&D staff.

Third Party Licenses

As at the LPD, for the purpose of our OEM and ODM operations, we have been licensed to use the following trademarks in our manufacturing operations: -

(i) By a letter dated 4 April 2008, KAPPA Deutschland GmbH confirmed that Zhenxing Shoes is authorised to produce shoes with "Kappa" trademark;

(ii) By a letter dated 21 April 2008, Road Easy Inc. (路益股份有限公司) confirmed that Zhenxing Shoes is authorised to produce, manufacture and export shoes with "Diadora" trademark;

(iii) By a letter dated 22 April 2008, Arnor (Taiwan) Co. Ltd. (伯诺股份有限公司) confirmed that Zhenxing Shoes is authorised to produce, manufacture and export shoes with "Brooks" trademark; and

(iv) By a letter dated 27 September 2010, Fila Sport (HongKong) Ltd confirmed that Zhenxing Shoes is authorised to produce the shoes with "F" and "FILA" trademarks. The trademarks validity is within the fourth quarter of 2010.

Save as disclosed above, there are no other salient terms stated in the above authorization letters.

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.15 MAJOR LICENSES, PERMITS, REGULATIONS AND CERTIFICATIONS

The major licenses, permits, regulations and certifications awarded to Zhenxing Shoes are as follows:

Type of license or certificate/Name of issuing authority	Date of approval	Expiry date	Purpose	Major conditions imposed	Status of compliance/Remarks
Business License (Registration No. 350500400009750) / AICQZ	2/12/2009	23/06/2029	To certify the official establishment of a company.	Subject to annual review	Complied
Foreign Investment Certificate (商外资闽泉外资字 [1999]C0186) / Fujian Province People's Government	15/06/1999	None	To certify the official approval for the establishment of a foreign investment company	Subject to annual review	Complied
Organization Code Certificate (61160746-9) / Quanzhou Qualify & Technology Supervision Bureau	07/06/2007	07/06/2011	To certify the identify code of a company	Subject to annual review	Complied
Tax Registration Certificate (350582611607469) / Jinjiang National Tax Bureau, Jinjiang Local Tax Bureau	20/10/2006	None	For tax registration and management of tax filing of a company	Subject to annual review	Complied
Certificate of Foreign Exchange Registration (350582010080) / SAFE Jinjiang Branch	21/05/2001	None	For foreign exchange registration in the event of any change in a company's registered capital, investment amount, name or business scope	Subject to annual review	Complied
Registration certificate of customs declaration / Shishi Customs Registration No. 3505944336	03/09/2001	21/04/2011	For import and export registration of a company's products	None	Complied

6. INFORMATION ON OUR GROUP *(Cont'd)*

6.16 AWARDS, ACCOLADES AND ACCREDITATIONS

Our commitment to excellence is evidenced by the numerous awards and certifications which we have received to-date, details of which are as follows:

Award/Certification	Awarding Body	Awarded in	Purpose of certification
Outstanding Enterprise for Safe Production (安全生产先进单位)	The Government of Qingyang County (青阳镇人民政府)	August 2001	Appreciation for the Group's safe production
Outstanding Enterprise ("双爱双评"先进企业)	The Committee of China Communism Party in Qingyang County and the Government of Qingyang County (中共青阳镇委员会及青阳镇人民政府)	October 2002	Appreciation for the Group's excellent comprehensive performance
Outstanding Enterprise in Regulated Quality Management (规范化管理质量达标先进企业)	Quanzhou Sub-centre of China Merchandise Trading Centre (中国商品交易中心泉州分中心)	2003	Appreciation for the Group's excellent management of products quality
AA Rating Enterprise of Fujian Province (福建 AA 级诚信企业)	Fujian Enterprise Credit Evaluation Center & Fujian Enterprise Credit Evaluation Association (福建企业信用评价中心、福建企业信用评价协会)	August 2004	Appreciation for the excellent credibility and reputation of the Company with banks
Excellent Quality Unit (质量胜得过单位)	Technology Supervisory Bureau of Jinjiang (晋江技术监督局)	January 2008	Appreciation for the Group's high quality products
Outstanding Enterprise (先进单位)	The Working Committee of China Communism Party and Office of Meiling Street(中共梅岭街道工作委员会, 梅岭街道办事处)	April 2006, May 2007, January 2008 and February 2008	Appreciation for the Company's excellent comprehensive performance by overall evaluation based on factors such as sales, tax creditability, operation etc

6. INFORMATION ON OUR GROUP *(Cont'd)*

In addition, we have also received the following accreditation in recognition of the stringent internal controls and high quality management system adopted in our production process:-

Award/Certification	Awarding Body	Awarded in
ISO9001:2000	GIC	April 2008

6.17 INSURANCE COVERAGE

We maintain insurance for our full-time employees which provides coverage for work-related accidents, unemployment, maternity benefits and medical expenses.

As at the LPD, we also maintained assets insurance policy with an insurance coverage amount of approximately RMB93.63 million. The validity term is from 12 June 2010 to 11 June 2011. All the above insurance policies are in force and the premiums have been paid thereon. The total insurance expense incurred in 1H 2010 was approximately RMB0.052 million. Our Directors believe that the coverage from these insurance policies is adequate for our present operations.

Currently, we have not taken up any product liability insurance for the products manufactured by us as it is neither an industry requirement nor practice within our industry to do so. As at the LPD, we have not suffered any losses or damages or incurred any liabilities that have a material effect on our business.

6.18 DEPENDENCY ON CONTRACTS OR ARRANGEMENTS

Save for our reliance on our external contract manufacturers as disclosed in **Section 4.1.5**, as at the LPD, there is no single contract or arrangement that our Group depends highly on that could materially affect our business or profitability.

6.19 INTERRUPTION IN BUSINESS

There has been no interruption to our Group's business which had a significant effect on our operations during the past 12 months preceding the LPD.

6.20 SEASONALITY

We may experience lower level of production activities due to fewer working days resulting from the Chinese New Year holidays in the first quarter of the year. Apart of the above, we generally do not experience any significant seasonality in our business operations.

6.21 ORDER BOOK

Our order book consists of contracts which we have managed to secure from our customers but which have yet to be fulfilled. These orders are scheduled for delivery ranging from 30 days to 60 days of the orders being made and are subject to cancellation, deferral or rescheduling by our customers. Accordingly, our order book as at any particular date may not be indicative of our revenue for any succeeding period. We do not, however, enter into any long term supply agreements with our customers.

As at the LPD, we have approximately RMB92.9 million or RM43.9 million of secured contracts which are expected to be fulfilled in FYE 2010.