7. HISTORICAL FINANCIAL INFORMATION

7.1 HISTORICAL PROFORMA CONSOLIDATED FINANCIAL INFORMATION

Our proforma consolidated financial information was extracted from the audited financial statements of our Group for the Financial Period under Review. The proforma consolidated financial information of our Group is provided for illustrative purposes only, after incorporating such adjustments considered necessary and assuming that the present structure of our Group has been in existence throughout the Financial Period under Review.

There has been no audit qualification on the audited financial statements for the Financial Period under Review. The audited financial statements for the Financial Period under Review were prepared in accordance with FRS and audited by Messrs. Baker Tilly Monteiro Heng, Malaysia. The bases and accounting policies used for the purpose of preparing our proforma consolidated financial information for the Financial Period under Review are consistent with those adopted in the preparation of the audited consolidated financial statements of our Group, which have been adopted as our Group's accounting policies.

You should read the proforma consolidated financial information in conjunction with the management discussion and analysis of financial conditions and results of operations and the Reporting Accountants' Letter on the proforma consolidated financial information as set out in **Section 7.2 and 7.4** of this Prospectus respectively.

Exchange rate

The average and closing exchange rates as outlined in the table below are extracted from published information by Bank Negara Malaysia. The average exchange rate for the Financial Period under Review reflects the average closing exchange rates on the last day of each month during the respective Financial Period under Review. These exchange rates have been presented solely for information only and should not be construed as a representation that those RMB amounts could have been, or could be, or was converted into RM, at any particular rates, the rates stated below, or at all.

	RMB/RM	
	Average	**Closing**
FYE 2006	0.4597	0.4511
FYE 2007	0.4518	0.4534
FYE 2008	0.4819	0.5084
FYE 2009	0.5157	0.5019
1H 2009	0.5252	0.5151
1H 2010	0.4829	0.4772

(Source: Bank Negara Malaysia)

The high and low exchange rates between RMB and RM for each of the past six (6) months prior and up to the LPD were as follows:-

	RMB/RM	
	High	**Low**
May	0.4923	0.4665
June	0.4879	0.4686
July	0.4767	0.4698
August	0.4694	0.4607
September	0.4625	0.4580
October	0.4688	0.4614

(Source: Bank Negara Malaysia)

As at the LPD, the closing exchange rate between RMB and RM was RMB1 to RM0.4725.

7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

The above exchange rates have been calculated with reference to exchange rates quoted from Bank Negara Malaysia and should not be construed as representations that the RMB amounts actually represent such amount or could be or was converted into the RM at the rate indicated, or at any other rate, or at all. Fluctuation in the exchange rates between the RMB and the RM will affect the RMB equivalent of the RM price of our Shares on Bursa Securities and the RM equivalent of any cash dividend paid by us in RMB.

All figures stated in RMB are converted to RM, where applicable. The applied rates of exchange for the Financial Period under Review are outlined above.

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7. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

7.1.1 Proforma Consolidated Income Statements

The following table sets forth a summary of our proforma consolidated income statements for the Financial Period under Review based on the assumption that we have been in existence throughout the Financial Period under Review. The proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter as set forth in **Section 7.2** of this Prospectus:-

	Audited											
	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	**159,971**	73,539	**317,538**	143,464	**452,492**	**218,056**	**583,718**	**301,023**	**282,313**	**148,271**	**307,434**	**148,460**
Cost of sales	(116,532)	(53,570)	(228,619)	(103,290)	(323,356)	(155,825)	(409,406)	(211,130)	(197,584)	(103,771)	(215,993)	(104,303)
GP	**43,439**	**19,969**	**88,919**	**40,174**	**129,136**	**62,231**	**174,312**	89,893	**84,729**	**44,500**	**91,441**	**44,157**
Other operating income	491	226	475	215	1,322	637	523	270	264	139	159	77
Selling and distribution expenses	(796)	(366)	(934)	(422)	(2,946)	(1,420)	(1,811)	(934)	(964)	(506)	(1,104)	(533)
Administrative expenses	(3,652)	(1,679)	(4,572)	(2,066)	(10,100)	(4,867)	(11,779)	(6,075)	(4,585)	(2,408)	(6,538)	(3,157)
Other operating expenses	(1,443)	(663)	(5,972)	(2,698)	(420)	(202)	(922)	(476)	(792)	(418)	(345)	(167)
Profit from operations	**38,039**	**17,487**	**77,916**	**35,203**	**116,992**	**56,379**	**160,323**	82,678	**78,652**	**41,309**	**83,613**	**40,377**
Finance cost	(1,001)	(460)	(1,302)	(588)	(901)	(435)	(788)	(406)	(349)	(184)	(432)	(209)
PBT	**37,038**	**17,027**	**76,614**	**34,614**	**116,091**	**55,944**	**159,535**	82,272	**78,303**	**41,125**	**83,181**	**40,168**
Income tax	(11,132)	(5,118)	(21,044)	(9,508)	(29,622)	(14,275)	(40,801)	(21,041)	(19,734)	(10,364)	(21,218)	(10,246)
PAT	**25,906**	**11,909**	**55,570**	**25,106**	**86,469**	**41,669**	**118,734**	**61,231**	**58,569**	**30,762**	**61,963**	**29,922**
EBITDA	39,419	18,121	79,705	36,011	119,198	57,441	163,008	84,063	80,040	42,037	84,911	41,003
GP margin (%)	27.2	27.2	28.0	28.0	28.5	28.5	29.9	29.9	30.0	30.0	29.7	29.7
PBT margin (%)	23.2	23.2	24.1	24.1	25.7	25.7	27.3	27.3	27.7	27.7	27.1	27.1
PAT margin (%)	16.2	16.2	17.5	17.5	19.1	19.1	20.3	20.3	20.7	20.7	20.2	20.2
Effective tax rate (%)	28.7	28.7	27.5	27.5	25.5	25.5	25.6	25.6	25.2	25.2	25.5	25.5
No. of Shares in issue prior to the IPO ('000)	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250
Gross EPS (RMB/RM)	0.11	0.05	0.23	0.10	0.35	0.17	0.47	0.24	^0.47	^0.24	^0.49	^0.24
Net EPS (RMB/RM)	0.08	0.04	0.17	0.07	0.26	0.12	0.35	0.18	^0.35	^0.18	^0.37	^0.18

Note:
^ Annualised to 12 months for comparison purposes

7.1.2 Proforma Consolidated Balance Sheets

Our proforma consolidated balance sheets as set out below has been prepared for illustration purposes to show the effects on the audited consolidated balance sheet of our Group as at 30 June 2010 had the IPO been effected on that date. The proforma consolidated balance sheets are to be read together with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the Proforma Consolidated Financial Information as set out in **Section 7.2** of this Prospectus.

	Audited consolidated Balance Sheet as at 30 June 2010		Proforma I After the Public Issue		Proforma II After and utilisation of proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
NON CURRENT ASSETS						
Property, plant and equipment	61,254	29,230	61,254	29,230	93,945	44,830
Prepaid lease payments	4,674	2,230	4,674	2,230	4,674	2,230
	65,928	31,460	65,928	31,460	98,619	47,060
CURRENT ASSETS						
Inventories	15,328	7,315	15,328	7,315	15,328	7,315
Trade receivables	269,070	128,400	269,070	128,400	269,070	128,400
Other receivables, deposits and prepayments	740	353	740	353	740	353
Cash and bank balances	151,362	72,230	223,502	106,655	171,637	81,905
	436,500	208,298	508,640	242,723	456,775	217,973
TOTAL ASSETS	**502,428**	**239,758**	**574,568**	**274,183**	**555,394**	**265,033**
EQUITY AND LIABILITIES						
Equity attributable to equity holder of the Company						
Share capital	281,852	134,500	335,289	160,000	335,289	160,000
Share premium	-	-	18,703	8,925	11,683	5,575
Merger reserves	(218,296)	(104,171)	(218,296)	(104,171)	(218,296)	(104,171)
Statutory reserve	37,967	18,118	37,967	18,118	37,967	18,118
Foreign currency translation reserve	(22,472)	(10,725)	(22,472)	(10,725)	(22,472)	(10,725)
Retained profits	283,707	135,385	283,707	135,385	271,553	129,585
TOTAL EQUITY	**362,758**	**173,107**	**434,898**	**207,632**	**415,724**	**198,382**
CURRENT LIABILITIES						
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
Short term loans	10,000	4,772	10,000	4,772	10,000	4,772
Tax payable	13,827	6,599	13,827	6,599	13,827	6,599
	139,670	66,651	139,670	66,651	139,670	66,651
TOTAL LIABILITIES	**139,670**	**66,651**	**139,670**	**66,651**	**139,670**	**86,651**
TOTAL EQUITY AND LIABILITIES	**502,428**	**239,758**	**574,568**	**274,183**	**555,394**	**265,033**
No. of Shares in issue ('000)	336,250	336,250	400,000	400,000	400,000	400,000
Net assets (RM'000/RMB'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net assets per ordinary share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50

7.2 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)

BAKER TILLY
MONTEIRO HENG
Chartered Accountants (AF 0117)

Monteiro & Heng Chambers
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50470 Kuala Lumpur, Malaysia
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email : audit@monteiroheng.com.my
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15 NOV 2010

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

Dear Sirs,

MAXWELL INTERNATIONAL HOLDINGS BERHAD
PROFORMA CONSOLIDATED FINANCIAL INFORMATION

We have reviewed the proforma consolidated financial information of Maxwell International Holdings Berhad ("Maxwell") and its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes") (hereinafter collectively referred to as "Maxwell Group") for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010, together with the accompanying notes thereto, for which the directors of Maxwell are solely responsible, as set out in the accompanying statements, which we have stamped for the purpose of identification.

The proforma consolidated financial information of the Maxwell Group has been prepared for illustrative purposes only for inclusion in the prospectus in connection with the listing and quotation of the entire enlarged issued and paid-up share capital of Maxwell on the Main Market of Bursa Malaysia Securities Berhad ("the Proposed Listing"), after making certain assumptions and such adjustments to show the effects on:-

(a) the financial results of the Maxwell Group for the past four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 on the basis that the group structure as of the date of the Prospectus had been in existence since the beginning of the financial years/periods under review;

(b) the financial position of the Maxwell Group as at 30 June 2010 together with the accompanying notes, after incorporating the effects of the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information;

(c) the cash flows of the Maxwell Group for the financial year ended 30 June 2010, after incorporating the effects of the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and

(d) the financial position of the Maxwell Group as at 30 June 2010 after incorporating the effects of the proposals in relation to the Proposed Listing as mentioned in Note 2 of the proforma consolidated financial information.

MAXWELL INTERNATIONAL HOLDINGS BERHAD
Proforma Consolidated Financial Information

Our responsibility is to form an opinion on the proforma consolidated financial information prepared by the directors in accordance with the requirements of the *Prospectus Guidelines – Equity and Debt* issued by the Securities Commission and report to you based on our work. In providing this opinion, we are not updating or re-issuing any reports or opinions previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept the responsibility for such reports or opinions beyond that is owed to those to whom those letters or opinions were addressed to by us at the date of their issue.

Our work consisted primarily of comparing the proforma consolidated financial information to 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, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010, considering and discussing the necessary adjustments and the proforma consolidated financial information with the responsible officers of the Maxwell Group.

Our work involved no independent examination of any of the underlying financial information other than our audit of the 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 eoded 30 June 2010, and Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 (which have been drawn up by the directors of Maxwell in accordance with the Financial Reporting Standards in Malaysia) and reported to the members of Maxwell and Zhenxing Shoes respectively.

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.

As the proforma consolidated financial information of the Maxwell Group has been prepared for illustrative purposes only, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Maxwell Group; and does not purport to predict the future financial position and results of the Maxwell Group.

In our opinion:-

(i) the proforma consolidated financial information of the Maxwell Group have been properly prepared on the basis set out in the accompanying notes to the proforma consolidated financial information based on 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, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 which have been prepared in accordance with the Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Maxwell Group in the preparation of its audited consolidated financial statements for the six (6) months financial period ended 30 June 2010 ; and

(ii) the adjustments made to the information used in the preparation of the proforma consolidated financial information of the Maxwell Group are appropriate for the purposes of preparing the proforma consolidated financial information.

This letter has been prepared for inclusion in the prospectus of Maxwell in connection with the Proposed Listing and is not to be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without the prior written consent from us. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants

Heng Ji Keng
No. 578/05/12
Partner

PROFORMA CONSOLIOATEO FINANCIAL INFORMATION

1. INTRODUCTION

1.1 The proforma consolidated financial information of Maxwell International Holdings Berhad ("Maxwell") and its subsidiary, Jinjiang Zhenxing Shoes & Plastics Co., Ltd. (晋江振兴鞋塑有限公司) ("Zhenxing Shoes") (hereinafter collectively raferrad to as "Maxwell Group"), for which the diractors of Maxwell are solely responsible, has been prepared for illustrative purposes only, for inclusion in the prospectus of Maxwell ("Prospectus") in connection with the listing and quotation of the entire enlarged issued and paid-up share capital of Maxwell on the Main Markat of Bursa Malaysia Securities Berhad ("Bursa Sacurities"). The proforma consolidated financial information may not, because of its nature, give a true picture of the actual financial position and results of the Maxwell Group; and does not purport to predict the future financial position and results of the Maxwell Group.

1.2 The proforma financial information comprises the following:-

Section 4 : Proforma consolidated statements of comprehensive income for the past four (4) financial years ended 31 Dacember 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 of the Maxwell Group on the basis that the group structure as of the date of the Prospectus had been in existence since the beginning of tha financial years/periods under review;

Section 5 : Proforma consolidated statement of financial position as at 30 June 2010 of the Maxwall Group together with the accompanying notes, adjusted for the Public Issues as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information;

Section 6 : Proforma consolidated statement of cash flow for the six (6) months financial period ended 30 June 2010 of the Maxwell Group, adjusted for tha Public Issua as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and

Section 7 : Proforma consolidated statemants of financial position of the Maxwell Group as at 30 June 2010, after incorporating tha affects of the proposals in relation to the Proposed Listing as mentionad in Note 2 of the proforma consolidatad financial information.

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2. LISTING SCHEME

Maxwell undertakes a listing and quotation of its entire enlarged issued and paid-up share capital on the Main Market of Bursa Securities. The listing scheme comprises the following:-

2.1 Public Issua

In conjunction with the Proposed Listing, Maxwell proposes to undertake a public issue of 63,750,000 new Maxwell shares of RM0.40 each ("Maxwell Share or Share"), representing 15.94% of tha enlarged issued and paid-up share capital of Maxwell, at an Issue Price of RM0.54 per Maxwell Share to be 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

(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 Proposad Listing

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

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3. **BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

3.1 The proforma consolidated financial information has been prepared to illustrate that:-

a) the financial results of the Maxwell Group for the past four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 on the basis that the group structure as of the date of the Prospectus had been in existence since the beginning of the financial years/periods under review;

b) the financial position of the Maxwell Group as at 30 June 2010 together with the accompanying notes, adjusted for the Public Issues as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information;

c) the cash flows of the Maxwell Group for the six (6) months financial period ended 30 June 2010, adjusted for the Public Issues as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 of the proforma consolidated financial information; and

d) the financial position of the Maxwell Group as at 30 June 2010, after incorporating the effects of the proposals in relation to the Proposed Listing as mentioned in Note 2 of the proforma consolidated financial information.

3.2 The proforma consolidated financial information has been prepared based on the following basis:-

a) 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; and

b) The audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010.

3.3 The proforma consolidated financial information of the Maxwell Group has been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Maxwell; and does not purport to predict the future financial position and results of the Maxwell Group.

3.4 The proforma consolidated financial information of the Maxwell Group have been properly prepared on the basis set out in the accompanying notes to the proforma consolidated financial information based on the audited financial statements of Maxwell for the financial period from its date of incorporation on 3 November 2009 to 31 December 2009 and the six (6) months financial period ended 30 June 2010, and the audited financial statements of Zhenxing Shoes for the four (4) financial years ended 31 December 2006, 31 December 2007, 31 December 2006 and 31 December 2009 and the six (6) months financial periods ended 30 June 2009 and 30 June 2010 which have been prepared in accordance with the Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Maxwell Group in the preparation of its audited consolidated financial statements for the six (6) months financial period ended 30 June 2010.

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3. **BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Continued)**

3.5 Maxwell had on 18 November 2009 entered into a Restructuring Agreement with Sports Asia Limited for the acquisition of the entire equity interests in Zhenxing Shoes for a total consideration of RM134,499,998 ("Acquisition of Zhenxing Shoes"). The Acquisition of Zhenxing Shoes resulted in a business combination involving common control entities. Upon the completion of the Acquisition, the directors of Maxwell are of the opinion that the Maxwell Group is regarded as a continuing entity throughout the financial years/period under review. Therefore, the proforma consolidated financial information has been prepared using the merger method for consolidating Zhenxing Shoes. Under the merger of accounting, the results of Zhenxing Shoes are presented on the basis that the merger would have been effected throughout the financial years/periods under review. The consolidated assets and liabilities are accounted for based on the carrying amounts from the perspective of common control shareholders at the date of transfer. Any differences between the cost of the merger and the values of the shares acquired represent merger reserve or merger deficit, which is classified as a non-distributable reserve.

3.6 The financial information of the 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 the Chinese Renminbi ("RMB").

As at the latest practicable date on 15 November 2010 ("LPD"), the exchange rate between the RMB and the RM was RM0.4725 : RMB1.00. The table below sets out the high and low exchange rates for RMB/RM for each month during the six (6) months prior to the LPD. The table below indicates the equivalent amount of RM for RMB1.00.

	RMB/RM	
	High	Low
May 2010	0.4923	0.4665
June 2010	0.4879	0.4686
July 2010	0.4767	0.4698
August 2010	0.4694	0.4607
September 2010	0.4625	0.4580
October 2010	0.4688	0.4614

(Source: Bank Negara Malaysia)

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 2009 ("1H 2009")	RMB1 : RM0.5252
FPE 30 June 2010 ("1H 2010")	RMB1 : RM0.4829

(Source: Bank Negara Malaysia)

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3. **BASIS OF PREPARATION OF THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Continued)**

3.6 (Continued)

(ii) Statement of financial position (based on the closing rates at the respective reporting detes)

Reporting Date	Exchange Rate
As at 31 December 2006	RMB1 : RM0.4511
As et 31 December 2007	RMB1 : RM0.4534
As et 31 December 2008	RMB1 : RM0.5084
As at 31 December 2009	RMB1 : RM0.5019
As at 30 June 2009	RMB1 : RM0.5151
As at 30 June 2010	RMB1: RM0.4772

(Source: Bank Negara Malaysie)

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

3.8 A speciel eudit has been conducted by Baker Tilly Monteiro Heng on the financial statements for Zhenxing Shoes for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 end 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010 which had been prepared in eccordence with the Financial Reporting Standards in Meleysia for the purpose of submission to the Securities Commission end preparation of the prospectus in relation to the Proposed Listing. The auditors' reports were reported on by the auditors without any quelification or modifications for all the financial years/periods under review.

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4. PRDFORMA CDNSOLIDATED STATEMENTS OF COMPREHENSIVE INCDME DF THE MAXWELL GROUP

4.1 The proforma consolidated statements of comprehensive income of the Maxwell Group for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010 as set out below, for which the directors of Maxwell are solely responsible, have been prepared for illustrative purposes only and have been prepared on the assumption that the Maxwell Group has been in existence throughout the financial years/periods under review and are to be read in conjunction with the notes thereto.

	FYE 2006		FYE 2007		FYE 2008		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue	159,971	73,539	317,538	143,484	452,492	218,056	583,718	301,023	282,313	148,271	307,434	148,460
Cost of sales	(116,532)	(53,570)	(228,619)	(103,290)	(323,356)	(155,825)	(409,406)	(211,130)	(197,584)	(103,771)	(215,993)	(104,303)
Gross profit	43,439	19,969	88,919	40,174	129,136	62,231	174,312	89,893	84,729	44,500	91,441	44,157
Profit before amortisation, depreciation, interests and taxation	39,419	18,121	79,705	36,011	119,198	57,441	163,008	84,063	80,040	42,037	84,911	41,003
Amortisation of prepaid lease payments	(116)	(53)	(116)	(52)	(116)	(56)	(116)	(60)	(58)	(30)	(61)	(29)
Depreciation	(1,563)	(718)	(1,739)	(786)	(2,384)	(1,149)	(2,803)	(1,446)	(1,444)	(758)	(1,380)	(666)
Interest expenses	(959)	(441)	(1,276)	(577)	(890)	(429)	(784)	(404)	(346)	(182)	(431)	(208)
Interest income	257	118	40	18	283	137	230	119	111	58	142	68
Profit before taxation	37,038	17,027	76,614	34,614	116,091	55,944	159,535	82,272	78,303	41,125	83,181	40,168

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4. **PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE MAXWELL GROUP (Continued)**

	FYE 2006		FYE 2007		FYE 2009		FYE 2009		1H 2009		1H 2010	
	RMB'000	RM'000	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	159,535	82,272	78,303	41,125	83,181	40,168
Taxation	(11,132)	(5,118)	(21,044)	(9,508)	(29,622)	(14,275)	(40,801)	(21,041)	(19,734)	(10,363)	(21,218)	(10,246)
Net profit for the financial years / periods	25,906	11,909	55,570	25,106	86,469	41,669	118,734	61,231	58,569	30,760	61,963	29,922
Effective tax rate (%)	28.67	28.67	27.47	27.47	25.52	25.52	25.57	25.57	25.20	25.20	25.51	25.51
Gross profit margin (%)	27.15	27.15	28.00	28.00	28.54	28.54	29.86	29.86	30.01	30.01	29.74	29.74
Pretax margin (%)	23.15	23.15	24.13	24.13	25.66	25.66	27.33	27.33	27.74	27.74	27.06	27.06
Profit after tax margin (%)	16.19	16.19	17.50	17.50	19.11	19.11	20.34	20.34	20.75	20.75	20.15	20.15
Number of ordinary shares assumed to be in issue of RM0.40 each ('000) *	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250	336,250
Gross Earning Per Share ('EPS') (RMB/RM)	0.11	0.06	0.23	0.10	0.35	0.17	0.47	0.24	0.47 ^	0.24 ^	0.49 ^	0.24 ^
Net EPS (RMB/RM)	0.06	0.04	0.17	0.07	0.26	0.12	0.35	0.18	0.35 ^	0.18 ^	0.37 ^	0.18 ^

* *Number of Maxwell's ordinary shares in issue prior to the Public Issue.*
^ *Annualised to twelve (12) months for comparison purposes.*

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4. **PROFORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE MAXWELL GROUP (Contlnuad)**

4.2 Notes to the proforma consolidated statements of comprehensive income are ea follows:-

4.2.1 **Basls of Preparatlon**

The proforma consolidated statements of comprehensive income of the Maxwell Group are prepared for illustrative purposes only and hava been prasentad on the assumption that the Maxwell Group has been in existence since 1 January 2006 and throughout the financial years/periods under review. There is no fair valua adjustmants relating to the net assets acquired based on the assumption that the Maxwell Group existed since 1 January 2006. The resulting merger reserve has no effect on the proforma consolideted statements of comprehensive income in respect of the financial yaars/periods under review. These proforma consolidated statements of comprehensive income are based on the financial statements of the Maxwell Group as follows:-

Maxwell	:	Audited results of Maxwell for the FPE from its incorporation date on 3 November 2009 to 31 December 2009 and the six (6) months FPE 30 June 2010.
Zhenxing Shoes	:	Audited results for the four (4) FYE 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009 and the six (6) months FPE 30 June 2009 and 30 June 2010.

4.2.2 The proforma consolidated statements of comprehensive income for the financial years/periods under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of the Maxwell Group for the six (6) months FPE 30 June 2010.

4.2.3 There were no exceptional items in all the financial years/periods under review.

4.2.4 The issued and paid-up share capital of Maxwell of 336,250,000 ordinary shares of RM0.40 each is prior to the Public Issue.

4.2.5 The gross EPS is computed as profit before taxation over the number of Maxwell's ordinary shares prior to the Public Issue.

4.2.6 Tha net EPS is computed aa net profit for the financial years/periods over the number of Maxwell's ordinary shares prior to the Public Issue.

4.2.7 No diluted earnings per share is shown as there were no potential dilutiva shares in issue during the financial years/periods under review.

4.2.8 All signlficant inter-company transactions ere eliminated on consolidation and the consolidated results reflect external transactions only.

4.2.9 There were no minority interests, share of profits of joint ventures or associates.

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5. PROFORMA CONSOLIOATEO STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP

5.1 The proforma consolidated statement of financial position of the Maxwell Group as set out below, for which the directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of financial position of Maxwell as at 30 June 2010 had the Public Issue as described in Note 2.1 and the utilisation of proceeds as described in Note 7.2.4 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

		Maxwell Group As At 30.6.2010	
	Note	RMB'000	RM'000
Non-current assets			
Property, plant and equipment	5.2.4(a)	93,945	44,830
Prepaid lease payments	5.2.4(b)	4,674	2,230
Totsl non-current assats		98,619	47,060
Current assets			
Inventories	5.2.4(c)	15,328	7,315
Trade receivables	5.2.4(d)	269,070	128,400
Other receivables, deposits and prepayments	5.2.4(e)	740	353
Cash and bank balances	5.2.4(f)	171,637	81,905
Total current assets		456,775	217,973
TOTAL ASSETS		555,394	265,033
EQUITY AND LIABILITIES			
Equity attributabla to equity holdar of Maxwall			
Share capital	5.2.4(g)	335,289	160,000
Share premium		11,683	5,575
Merger deficit	5.2.4(h)	(218,296)	(104,171)
Statutory reserve	5.2.4(i)	37,967	18,118
Currency translation reserve	5.2.4(j)	(22,472)	(10,725)
Retained earnings		271,553	129,585
Totsl aquity		415,724	198,382
Current liabilitias			
Trada payables	5.2.4(k)	103,978	49,617
Othar payables and accruals	5.2.4(l)	11,867	5,663
Short term loans	5.2.4(m)	10,000	4,772
Tax payable		13,827	8,599
Total current liabilities		139,670	66,651
Total liabilities		139,670	66,651
TOTAL EQUITY AND LIABILITIES		555,394	285,033
Proforma net assets per ordinary share attributable to equity holders (RMB/RM)	5.2.4(p)	1.04	0.50

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)**

5.2 Notes to the Proforma Consolidated Statement of Financial Position of the Maxwell Group are as follows:-

5.2.1 Basis of Preparation and Consolidation

The proforma consolidated statement of financial position of the Maxwell Group as at 30 June 2010 is prepared based on the audited consolidated statement of financial position of the Maxwell Group as at 30 June 2010.

5.2.2 The proforma consolidated statement of financial position of the Maxwell Group has been prepared based on the accounting policias consistant with those adoptad in the preparation of the audited consolidated financial statements of the Maxwell Group for the six (6) months FPE 30 June 2010.

5.2.3 The Acquisition of Zhenxing Shoes described in Note 3.5 to the proforma consolidated financial information resulted in a business combination involving common control entities. Therefore, the proforma consolidated financial information has been prepared using the merger method for consolidating Zhenxing Shoes. Under the merger of accounting, tha results of Zhenxing Shoes are presented on the basis that the mergar would have been effected throughout the financial years/periods under review. The consolidated assets and liabilities are accounted for based on the carrying amounts from the perspective of common control shareholders at the date of transfer. Any differences between the cost of the merger and the values of the shares acquired represent merger reserve or merger deficit, which is classified as a non-distributable reserve.

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 The proforma consolidated statement of financial position of the Maxwell Group should be read in conjunction with the notes below:-

(a) **Property, Plant and Equipment**

	Cost		Accumulated Depreciation		Net Book Value	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Maxwell Group						
As at 30 June 2010						
Plant and machinery	43,228	20,629	3,387	1,617	39,841	19,012
Office equipment	2,038	972	856	409	1,182	563
Motor vehicles	1,146	546	378	180	768	366
Renovation	218	104	13	6	205	98
Buildings	81,321	29,263	9,372	4,472	51,949	24,791
Total	107,951	51,514	14,006	6,684	93,945	44,830

All property, plant and equipment of the Maxwell Group are located in the People's Republic of China ("PRC").

Certain motor vehicles with net book value of RM335,297 (RMB702,634) as at 30 June 2010 were held in trust by the employees of Zhenxing Shoes, a wholly-owned subsidiary of Maxwell.

(b) **Prepaid Lease Payments**

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Cost		
At 1 January	5,800	2,911
Exchange differences	-	(143)
	5,800	2,768
Accumulated amortisation		
At 1 January	1,065	535
Amortised during the financial period	61	29
Exchange differences	-	(26)
At 30 June	1,126	538
Net book value		
At 30 June	4,674	2,230

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

As at 30 June 2010, a leasehold land with a net book value of RM507,153 (RMB1,062,769) is pledged as security to secure the short term loans as disclosed in Note 5.2.4(m).

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)

5.2.4 (Continued)

(c) **Invantorlaa**

	Maxwell Group As at 30.6.2010	
	RMB'000	**RM'000**
Raw material	10,238	4,886
Work-in-progress	2,288	1,092
Finished goods	2,802	1,337
	15,328	7,315

The inventories are denominated in Chinesa Renminbi.

(d) **Trade Racalvablaa**

Trade receivables of tha Maxwell Group are non-interest bearing and the Maxwell Group's normal trade credit terms ranga 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 valuea on initial recognition.

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

	Maxwell Group As at 30.6.2010	
	RMB'000	**RM'000**
United State Dollars	6,372	3,040
Chinesa Renminbi	262,698	125,360
	269,070	128,400

Ageing analysis of trade receivables are as follows:-

	Maxwall Group As at 30.6.2010	
	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 not past dua trade receivables. Majority of the balances ara owed by the customers that have good payment records with the Maxwell Group.

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5. **PROFORMA CONSOLIOATEO STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(e) **Othar Receivables, Oeposit and Prepayments**

	Maxwall Group As at 30.6.2010	
	RMB'000	**RM'000**
Advances to suppliers	24	11
Other receivables	604	289
Prepayments	112	53
	740	353

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

	Maxwell Group As at 30.8.2010	
	RMB'000	**RM'000**
Ringgit Malaysia	34	16
Chinese Renminbi	706	337
	740	353

(f) **Cash and Bank Balancaa**

	Maxwall Group As at 30.6.2010	
	RMB'000	**RM'000**
Cash in hand	109	52
Cash at banks	151,253	72,178
Assumed net proceeds from the Public Issue		
- proceeds from the Public Issue	72,140	34,425
- purchase of property, plant and equipment	(32,691)	(15,600)
- payments for development expenses	(5,029)	(2,400)
- defrayment of estimated expenses	(14,145)	(6,750)
	20,275	9,675
	171,637	81,905

The Chinese Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Ragulations 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 at a rate of 0.36% per annum for the financial period under review.

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(f) **Cash and Bank Balances (Continuad)**

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

	Maxwall Group As at 30.6.2010	
	RMB'000	RM'000
Ringgit Malaysia (assumed net proceeds from the Public Issue after defrayment of estimated expenses)	20,284	9,680
Chinese Renminbi	151,352	72,225
United States Dollars	1	#
Singapore Dollars	^	^
	171,637	81,905

\# *RM320.*
^ *RMB38 (equivalent to RM18).*

(g) **Shara Capital**

The details of the changes in the issued and paid-up share capital of Maxwell as at 30 June 2010 are as follows:-

	Maxwell Group		
	Number of Ordinary Shares Unit '000	Amount RMB'000	Amount RM'000
Ordinary shares of RM0.40 each			
Authorised	1,250,000	1,047,779	500,000
Issued and fully paid-up:			
At 1 January	336,250	281,852	134,500
Arising from the Public Issue	63,750	53,437	25,500
	400,000	335,289	160,000

The holders of ordinary shares of Maxwell are entitled to receive dividends as declared from time to tima and are entitled to one vote per share at meetings of Maxwell. All shares rank equally with regards to Maxwell's residual assets.

(h) **Merger Daficit**

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

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(i) **Statutory Resarve**

In accordance with relevant laws and regulations of the PRC, Zhenxing Shoes, a wholly-owned subsidiary of Maxwell, 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 Zhenxing Shoes, subject to the approval from the PRC authority, and are not available for dividend distribution to the shareholders.

(j) **Currency Translation Reserve**

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

(k) **Trade Payabtaa**

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

(l) **Other Payables and Accruala**

	Maxwell Group As at 30.6.2010	
	RMB'000	**RM'000**
Advances from customers	132	63
Accrued operating expenses	761	363
Other payables	10,974	5,237
	11,867	5,663

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

	Maxwall Group Aa at 30.6.2010	
	RMB'000	**RM'000**
United State Dollars	132	63
Chinese Renmimbi	10,801	5,154
Ringgit Malaysia	934	446
	11,667	5,663

Advances from customers represents advances from customers for sales and other sale related reimbursements, which are denominated in United States Dollars.

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(m) **Short Tarm Loana**

The carrying amounts of interest-bearing short term loans are denominated in Chinese Renminbi.

The short term loans of RM3,817,600 (RMB8,000,000) are secured by corporate guarantees from related parties and third parties. As at 30 Juna 2010, the Maxwell Group has short term loan of RM954,000 (RMB2,000,000) which is secured over the prepaid lease payments as disclosed in Note 5.2.4(b). The short term loans bear interest at the rates ranging from 6.42% to 6.64% per annum.

(n) **Financial Instrumants**

(i) **Financial Risk Management and Objectives**

The Maxwell Group does not have written financial risk management guidelines. However, the managament meets periodically to analyse and formulate measures to manage the Maxwell Group's exposure to market risk, including 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 is kept at a minimum level, the Maxwell Group has not used any derivatives financial instruments for trading purposes.

(a) **Cradit 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:-

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Trade receivables	269,070	128,400
Other receivables and advances to suppliers	628	300
Cash and cash equivalents	171,637	81,905
	441,334	210,605

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

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5. **PROFORMA CONSOLIDATED STATEMENT DF FINANCIAL POSITION OF THE MAXWELL GRDUP (Continuad)**

5.2.4 (Continued)

(n) **Financial Inatrumants (Continuad)**

(i) **Financial Risk Managamant and Objectives (Continuad)**

(a) **Credit Riak (Continuad)**

Receivablas

The management of the Maxwell Group 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 risks 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 disclosad in Note 5.2.4(d).

Cash and Cash Equivalants

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

(b) **Liquidity and Caah Flow Risk**

Liquidity risk is the risk that the Maxwell Group will ancounter 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 financa 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 (excluding interest) are as follows:-

	Carrying amount		Contractual cash flows		6 months or less		6 to 12 months	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Non-derivative financial instruments								
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)	-	-
	125,843	60,052	(125,843)	(60,052)	(115,843)	(55,280)	(10,000)	(4,772)

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5. **PROFORMA CONSOLIOATEO STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continuad)**

5.2.4 (Continued)

(n) **Financial Inatrumants (Continuad)**

(i) **Financial Riak Managament and Objectives (Continued)**

(c) **Intaraat rata risk**

Interest risk is the risk that tha fair value or future cash flows of the Maxwell Group's financial instruments will fluctuate because of changes in market interest ratas. 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 a mix of fixed and floating rate debts, which depends on the interest rates market and economic conditions. For interast income from cash deposits, the Maxwell Group managed the intarest 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:-

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Fixed rate financial 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 profit or loss.

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

(d) **Foreign currancy riak**

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

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

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5. PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)

5.2.4 (Continued)

(n) **Financial Instruments (Continuad)**

(i) **Financial Risk Management and Objectives (Continued)**

(d) **Foreign currency risk (Continued)**

The Maxwell Group also hold cash and cash equivalents denominated in foreign currencies as disclosed in Note 5.2.4(f).

The directors of Maxwell 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 Inatruments**

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

(o) **Cash 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 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.

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5. **PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE MAXWELL GROUP (Continued)**

5.2.4 (Continued)

(o) **Cash Management (Continued)**

The debt-to-equity ratio is as follows:-

	Maxwell Group As at 30.6.2010	
	RMB'000	RM'000
Total liabilities	139,670	66,651
Equity attributable to equity holders of Maxwell	415,724	198,382
Debt-to-equity ratio	0.34	0.34

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

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

(p) **Proforma Net Assets**

	Maxwell Group As at 30.6.2010	
Proforma net assets (RMB'000/RM'000)	415,724	198,382
Number of ordinary shares in issue ('000) ^	400,000	400,000
Proforma net assets per ordinary share of RM0.40 each (RMB/RM)	1.04	0.50

^ *Number of ordinary shares in issue efter the Public Issue.*

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6. PROFORMA CONSOLIOATEO STATEMENT OF CASH FLOW OF THE MAXWELL GROUP

6.1 The proforma consolidatad statement of cash flow of the Maxwell Group as set out below, for which tha directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of cash flow of the Maxwall Group for the six (6) months FPE 30 June 2010 had the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Maxwall Group 1H 2010	
	RMB'000	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	78,152	37,768
Adjustments for:		
Amortisation of prepaid lease payments	61	29
Depreciation expenses	1,380	666
Loss on disposal of property, plant and equipment	41	20
Interest expense	431	208
Interest income	(142)	(68)
Property, plant and equipment written off	282	136
Operating profit before working capital changes	80,205	38,759
Changes in Working Capital		
Inventories	(11,239)	(5,427)
Receivables	(60,994)	(29,454)
Payables	54,724	26,426
	62,696	30,304
Interest paid	(431)	(208)
Interest received	142	68
Tax paid	(16,757)	(8,092)
Net Operating Cash Flows	45,650	22,072
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(33,279)	(15,884)
Proceed from disposal of property, plant and equipment	97	47
Net Investing Cash Flows	(33,182)	(15,837)

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6. **PROFORMA CONSOLIDATED CASH FLOW STATEMENT OF THE MAXWELL GROUP (Continuad)**

	Maxwell Group 1H 2010	
	RMB'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Public Issue	72,140	34,425
Payment of estimated listing expenses	(14,145)	(6,750)
Net change in short term loans	(5,000)	(2,415)
Net Financing Cash Flows	52,995	25,260
NET CHANGE IN CASH AND CASH EQUIVALENTS	65,483	31,495
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD	106,222	53,313
EFFECT OF THE EXCHANGE RATE DIFFERENCES	(48)	(2,903)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	171,637	81,905
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	171,637	81,905

6.2 **Notes to tha Proforma Consolidated Statement of Cash Flow of the Maxwall Group**

6.2.1 Basis of Preparation and Consolidation

The proforma consolidated statement of cash flow of the Maxwell Group, for which the directors are solely responsible, are prepared for illustrative purposes only, to show the effects on the audited consolidated statement of cash flow of the Maxwell Group for the 1H 2010 had the Public Issue as described in Note 2.1 and the utilisation of listing proceeds as described in Note 7.2.4 been effected on that date.

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7. PRDFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

7.1 The proforma consolidated statements of financial position of tha Maxwell Group as set out below, for which the directors are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statement of financial position of the Maxwell Group as at 30 June 2010 had the listing scheme described in Note 2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Maxwell Group Audited Consolidated Statement of Financial Position Ae At 30.6.2010		Proforma I After the Public Issue		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Non-current assets						
Property, plant and equipment	61,254	29,230	61,254	29,230	93,945	44,830
Prepaid lease payments	4,674	2,230	4,674	2,230	4,674	2,230
Total non-current assets	65,926	31,460	65,928	31,460	98,619	47,060
Current assets						
Inventories	15,326	7,315	15,328	7,315	15,328	7,315
Trade receivables	269,070	128,400	269,070	126,400	269,070	128,400
Other receivables, deposits and prepayments	740	353	740	353	740	353
Cash and bank balances	151,362	72,230	223,502	106,655	171,637	81,905
Total current assets	436,500	208,298	508,640	242,723	456,775	217,973
TOTAL ASSETS	502,426	239,758	574,568	274,183	555,394	265,033

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7. PRDFORMA CDNSDLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Maxwell Group Audited Consolidated Statement of Financial Position As At 30.8.2010		Proforma I After the Public Issua		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
EQUITY AND LIABILITIES						
Equity attributable to equity holder of Maxwell						
Share capital	281,852	134,500	335,289	160,000	335,289	160,000
Share premium	-	-	18,703	8,925	11,683	5,575
Merger reserve	(218,296)	(104,171)	(218,296)	(104,171)	(218,296)	(104,171)
Statutory reserve	37,967	18,118	37,967	16,116	37,967	18,118
Currency translation reserve	(22,472)	(10,725)	(22,472)	(10,725)	(22,472)	(10,725)
Retained earnings	283,707	135,385	283,707	135,365	271,553	129,585
Total equity	362,758	173,107	434,898	207,532	415,724	198,382
Current liabilities						
Trade payables	103,976	49,617	103,976	49,817	103,976	49,617
Other payables and accruals	11,867	5,663	11,667	5,883	11,867	5,663
Short term loans	10,000	4,772	10,000	4,772	10,000	4,772
Tax payable	13,827	6,599	13,827	8,599	13,627	8,599
Total current liabilities	139,670	66,651	139,870	66,851	139,670	66,651
Total liabilities	139,670	66,651	139,670	66,651	139,670	66,651
TOTAL EQUITY AND LIABILITIES	502,428	239,758	574,568	274,183	555,394	265,033

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7. PRDFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Maxwell Group Audited Consolidated Statement of Financial Position As At 30.6.2010		Proforma I After the Public Issue		Proforma II After Proforma I and the Utilisation of Proceeds	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Number of ordinary shares of RM0.40 each ('000)	336,250	336,250	400,000	400,000	400,000	400,000
Net assets (RMB'000/RM'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net assets per share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50
Net tangible assets (RMB'000/RM'000)	362,758	173,107	434,898	207,532	415,724	198,382
Net tangible assets per share (RMB/RM)	1.08	0.51	1.09	0.52	1.04	0.50

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7. PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

7.2 Notee to the proforma consolidated statemants of financial position are ae follows:-

7.2.1 Basis of Preparation

The proforma consolidatad steterments of financial position of the Maxwell Group, for which the directors ere solely responsible, have been prepared for illuetrative purposes only, to show the effects on tha audited consolidated statament of financial position of the Maxwell Group ae et 30 Juna 2010 had the listing schema described in Section 2 been affectad on that date, end ehould be read in conjunction with tha notes accompanying therato, and are prapared based on the audited consolidatad statamant of financial position of tha Maxwell Group as at 30 June 2010.

7.2.2 The proforma consolidated etatamants of financial position of the Maxwell Group have been prepared in a manner consistent with both tha format of tha financiel statements and the accounting policiee adopted by tha Maxwell Group in tha praparation of its audited consolidated financial statements for the six (6) months FPE 30 June 2010, which hava been prapared in accordance with the Financial Raporting Standards in Maleysie.

7.2.3 For the purpose of preeentation, all the balance sheet itams, which include tha equity instrumenta and reserves, wera translatad using the average exchange rates on the last day of aach month during tha six (6) monthe FPE 30 Juna 2010 as described in Nota 3.6.

7.2.4 The proceeds from the Public Issua would be utilised in the following manner:-

	RMB'000	RM'000
Expansion of the Maxwell Group's production capacity and upgrading of existing production facilities	25,147	12,000
Increase the Maxwell Group's product design and development efforts and expansion of product range	12,573	6,000
The Maxwell Group's working capital purposes	20,275	9,675
Defayment of estimate expenses in relation to the Proposed Listing	14,145	6,750
	72,140	34,425

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7. PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

7.2.5 The proforma consolidated statements of financial position should be read in conjunction with the notes below:-

(a) Proforma I

Proforma I incorporates the effects of the Public Issue of 63,750,000 new Maxwell's ordinary shares of RM0.40 each at an indicative issue price of RM0.54 per ordinary share amounting to RM34.425 million (RMB72.140 million) on the audited consolidated statement of financial position of the Maxwell Group as at 30 June 2010.

The Public Issue has the following impact on the proforma consolidated statements of financial position of the Maxwell Group:-

	← Increase/(Decrease) →			
	Effects on Total Assets		Effects on Total Equity and Liabilities	
	RMB'000	RM'000	RMB'000	RM'000
Cash and bank balances	72,140	34,425	-	-
Share Capital	-	-	53,437	26,820
Share premium	-	-	18,703	8,925
	72,140	34,425	72,140	35,745

(b) Proforma II

Proforma II incorporates the cumulative effects of Proforma I and the utilisation of proceeds from the Public Issue of RM34.425 million (RMB72.140 million).

The proceeds expected from the Public Issue of RM34.425 million (RMB72.140 million) will be utilised in the manner as described in Note 7.2.4 of the proforma consolidated financial information.

The estimated expenses for the issuance of new shares of RM3.35 million (RMB7.02 million) will be written off against the share premium account pursuant to Section 80(3) of the Companies Act, 1965. The remaining estimated expenses for the Proposed Listing of RM3.4 million (RMB7.125 million) will be debited to the Retained Earnings Account.

The proceeds arising from the Public Issue earmarked for the expansion of the Maxwell Group's production capacity and upgrading of its existing production facilities of RM12.0 million (RMB25.147 million) will be debited to Property, Plant and Equipment Account.

The proceeds arising from the Public Issue earmarked to increase the Maxwell Group's product design and development efforts and expansion of product range of RM3.6 million (RMB7.544) and RM2.4 million (RMB5.029 million) will be debited to Property, Plant and Equipment Account and Retained Earnings Account respectively.

The proceeds arising from the Public Issue earmarked for the Maxwell Group's working capital purposes of RM9.675 million (RMB20.275 million) will be included in the Cash and Bank Balances Account.

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7. PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

(b) Proforma ii (Continued)

The Utilisation of Proceeds has the following impact on the proforma consolidated statements of financial position of the Maxwell Group:-

	← Increase/(Decrease) →			
	Effects on Total Assets		Effects on Total Equity and Liabilities	
	RMB'000	RM'000	RMB'000	RM'000
Property, plant and equipment	32,691	15,600	-	-
Cash and bank balances	(51,865)	(24,750)	-	-
Share premium	-	-	(7,020)	(3,350)
Retained earnings	-	-	(12,154)	(5,800)
	(19,174)	(9,150)	(19,174)	(9,150)

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7. PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

7.2.6 Movements are share capital, share premium, merger reserve, statutory reserve and retained earnings are as follows:-

	Shere Capital		Share premium		Merger Reserve		Statutory Reserve		Retained Earnings	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Audited consolidated statement of financial position as at 30 June 2010	281,852	134,500	-	-	(218,296)	(104,171)	37,967	18,118	283,707	135,385
Arising from the Public Issue	53,437	25,500	18,703	8,925	-	-	-	-	-	-
Per Proforma I	335,289	160,000	18,703	8,925	(218,296)	(104,171)	37,967	18,118	283,707	135,385
Arising from the Utilisation of Proceeds										
- defrayment of estimated listing expenses	-	-	(7,020)	(3,350)	-	-	-	-	(7,125)	(3,400)
- payments of development expenses	-	-	-	-	-	-	-	-	(5,029)	(2,400)
Per Proforma II	335,289	160,000	11,683	5,575	(218,296)	(104,171)	37,967	18,118	271,553	129,585

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7. PROFORMA CONSOLIOATEO STATEMENTS OF FINANCIAL POSITION (Continued)

7.2.5 Movements in cash and bank balances are as follows:-

	RMB'000	RM'000
Audited consolideted statement of financial position as at 30 June 2010	151,362	72,230
Arising from the Public Issue	72,140	34,425
Per Proforma I	223,502	106,655
Arising from tha Utilisation of Proceeds		
- defrayment of estimated listing expenses	(14,145)	(6,750)
- purchase of property, plant and equipment	(32,691)	(15,600)
- payments for development expenses	(5,029)	(2,400)
Per Proforme II *	171,638	61,905

* *Included in the cash end benk belences es per Proforme II ere emounts of RM9.675 million (RMB20.275 million) from tha Public Issue aarmarked for the Maxwell Group's working capitel purposes.*

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7.3 CAPITALISATION AND INDEBTEDNESS

The following table summarises the cash and cash equivalents, capitalisation and indebtedness of our Group:-

(i) based on our audited consolidated financial statements as at 30 June 2010; and

(ii) as adjusted for the net proceeds arising from the Public Issue and the utilisation of proceeds as set out in **Section 3.7** of this Prospectus.

	Audited as at 30 June 2010		After the Public Issue and utilisation of proceeds	
	RMB'000	RM'000	RMB'000	RM'000
Cash and cash equivalents	**151,362**	**72,230**	**171,637**	**81,905**
INDEBTEDNESS				
Short Term (*Due within 12 months*)				
Borrowings	10,000	4,772	10,000	4,772
Total indebtedness	**10,000**	**4,772**	**10,000**	**4,772**
CAPITALISATION				
Total shareholders' equity	362,758	173,107	415,724	198,382
Total capitalisation	**362,758**	**173,107**	**415,724**	**198,382**
Total capitalisation and indebtedness	**372,758**	**177,879**	**425,724**	**203,154**

The contingent liabilities of our Group are as set out in **Section 7.5** of this Prospectus.

7.4 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS

The following management's discussion and analysis of our Group's financial conditions and results of operations should be read in conjunction with the proforma consolidated financial statements and the accompanying notes for the Financial Period under Review included in Section 7.1 and 7.2 of this Prospectus.

The discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involves risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in **Section 4** of this Prospectus.

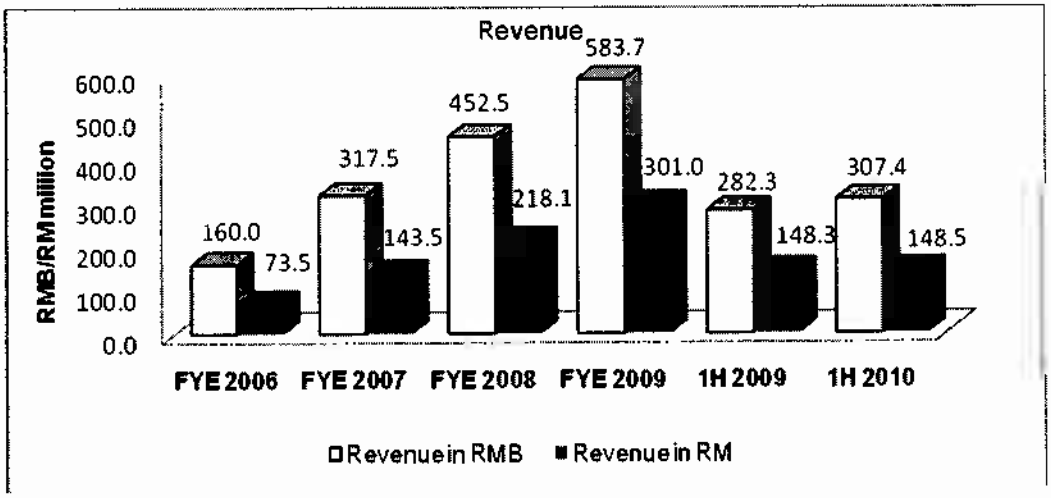
7.4.1 Overview of operations

Our Company's principal activity is investment holding whilst our wholly-owned subsidiary, Zhenxing Shoes is an OEM and ODM manufacturing company specializing in the design, manufacture and sale of sports shoes for various third party brand names. Our sports shoes comprise athletic footwear designed for specific sporting activities such as running, tennis, hiking, badminton, basketball and football as well as casual sports shoes. Our sports shoe products can be broadly categorized into three (3) segments, namely court sports shoes, casual / leisure sports shoes and running shoes.

Our principal production facilities are located at Jinjiang city, Fujian Province, PRC with an average annual production capacity of approximately 8 million pairs of sports shoes. We outsource some of our sports shoe orders to external contract manufacturers to meet the increasing number of orders from our customers. Our customers comprise trading houses and brand distributors based in the PRC and overseas. These trading houses and brand distributors in turn sell our sports shoes to both the local and overseas markets such as Spain, US, France, Japan, Korea, Singapore, Saudi Arabia, South Africa and Australia.

Revenue

Our principal revenue is derived from the sale of sports shoes. The following chart depicts our Group's revenue trend for the Financial Period under Review:-



Our revenues for the FYE 2006, FYE 2007, FYE 2008 and FYE 2009 were approximately RMB160.0 million, RMB317.5 million, RMB452.5 million and RMB583.7 million respectively, representing a CAGR over the past four (4) FYE up to 2009 of approximately 54.0%. In the 1H 2010, we recorded revenue of RMB307.4 million an increase of 8.9% compared to 1H 2009 revenue of RMB282.3 million.

Our revenue growth was mainly due to a significant increase in the sales volume of our sports shoe products. The increase in our sales volume over the Financial Period under Review was primarily driven by:-

(i) the increased orders from our existing customers who were/are satisfied with the quality, competitive pricing and timely delivery of our sports shoes;

(ii) the increase in our sales and marketing activities such as, our active participation in trade fairs and exhibitions in both PRC and overseas; and

(iii) our ability to secure new customers by leveraging on our established track record and business contacts of our Promoter.

In order to satisfy the increasing demand for our products, we expanded our production capacity from two (2) production lines in FYE 2006 to four (4) production lines in FYE 2008. We also outsource some of our sports shoe orders to external contract manufacturers to cope with the increasing number of sales orders from our customers.

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 30.2%, from RMB40.10 per pair of shoes in FYE 2006 to RMB52.20 per pair of shoes in FYE 2009. The overall ASP increased further to RMB62.81 per pair of shoes in 1H 2010. Our selling prices are negotiated with our customers taking into account, amongst other factors, different types of raw material used, raw material costs and the complexity of the shoe design.

Our Board believes that the prospects of our Group will be dependent on and driven by the following factors:-

(i) the economic conditions of the PRC and overseas countries that we sell our products to, including the disposable income level of consumers;

(ii) rising awareness of the importance of sports to one's well-being coupled with the positive influence brought about by international sporting events, such as the Olympic Games and the World Cup; and

(iii) the PRC being able to maintain its cost competitiveness and leading position as the production hub for the sports shoe industry.

Segmental analysis – Revenue by product categories

The breakdown of our revenue by product categories for the respective Financial Period under Review is set out below:-

Product Categories	FYE 2006			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	155,513	71,489	97.2	310,563	140,312	97.8
- Casual/leisure [2]	4,458	2,050	2.8	6,975	3,152	2.2
- Running shoes	-	-	-	-	-	-
Total	**159,971**	**73,539**	**100.0**	**317,538**	**143,464**	**100.0**

Product Categories	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	382,738	184,441	84.6	519,533	267,923	89.0
- Casual/leisure [2]	64,937	31,293	14.3	56,657	29,218	9.7
- Running shoes	4,817	2,322	1.1	7,528	3,882	1.3
Total	**452,492**	**218,056**	**100.0**	**583,718**	**301,023**	**100.0**

Product Categories	1H 2009			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Sports shoes						
- Court sports [1]	242,145	127,174	85.8	263,854	127,415	85.8
- Casual/leisure [2]	34,656	18,201	12.3	39,978	19,305	13.0
- Running shoes	5,512	2,896	1.9	3,602	1,740	1.2
Total	**282,313**	**148,271**	**100.0**	**307,434**	**148,460**	**100.0**

Notes:-

[1] Court sports shoes mainly comprise of soccer shoes, tennis shoes, skateboarding shoes, basketball shoes, badminton shoes and baseball shoes.

[2] Casual/leisure sports shoes mainly comprises of boots, kids' shoes, hiking shoes, retro shoes and leather shoes.

Revenue contribution from our court sports shoe products represented approximately 97.2%, 97.8%, 84.6%, 89.0% and 85.8% of our total revenue for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively, while revenue contribution from casual / leisure sports shoe products represented approximately 2.8%, 2.2%, 14.3%, 9.7% and 13.0% of our total revenue in the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

The overall increase in the revenue for court sports shoes and casual / leisure sports shoes for the Financial Period under Review was mainly attributed to the increase in the sales orders from our customers in line with the increase in the design of sports shoes developed by our D&D Department and the increase effort from the sales and marketing personnel to promote our sports shoes.

Our Board believes that the increase in demand for casual/leisure sports shoes may be due to the changing taste of consumers. Sports shoes are now no longer regarded as just functional/practical apparel, but have also increased in popularity as fashionable leisure wear.

In addition, through our strong D&D capabilities and growing demand for different varieties of sports shoes from our customers, we started producing running shoes which contributed 1.1%, 1.3% and 1.2% of our total revenue in FYE 2008, FYE 2009 and 1H 2010 respectively.

Segmental analysis – Revenue by geographical regions

The breakdown of our revenue by geographical regions for the respective Financial Period under Review is set out below:

	FYE 2006			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Domestic (PRC) [1]	**128,410**	**59,030**	**80.3**	**280,101**	**126,550**	**88.2**
Exports						
Asia [2]	5,777	2,656	3.6	15,257	6,893	4.8
America [3]	23,615	10,856	14.8	3,493	1,578	1.1
Europe [4]	2,169	997	1.3	18,687	8,443	5.9
Africa [5]	-	-	-	-	-	-
Total exports	**31,561**	**14,509**	**19.7**	**37,437**	**16,914**	**11.8**
Total revenue	**159,971**	**73,539**	**100.0**	**317,538**	**143,464**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Domestic (PRC) [1]	**416,114**	**200,525**	**92.0**	**565,529**	**291,643**	**96.9**
Exports						
Asia[2]	13,675	6,590	3.0	3,699	1,908	0.6
America[3]	1,733	835	0.4	1,568	808	0.3
Europe[4]	20,431	9,846	4.5	12,507	6,450	2.1
Africa[5]	539	260	0.1	415	214	0.1
Total exports	**36,378**	**17,531**	**8.0**	**18,189**	**9,380**	**3.1**
Total revenue	**452,492**	**218,056**	**100.0**	**583,718**	**301,023**	**100.0**

	1H 2009			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Domestic (PRC) [1]	**272,709**	**143,227**	**96.6**	**293,450**	**141,707**	**95.5**
Exports						
Asia[2]	2,115	1,111	0.7	933	451	0.3
America[3]	-	-	-	4,183	2,020	1.4
Europe[4]	7,074	3,715	2.5	8,868	4,282	2.8
Africa[5]	415	218	0.2	-	-	-
Total exports	**9,604**	**5,044**	**3.4**	**13,984**	**6,753**	**4.5**
Total revenue	**282,313**	**148,271**	**100.0**	**307,434**	**148,460**	**100.0**

Notes:-

(1) Our domestic customers for this business segment are mainly trading houses and brand distributors, who distribute our sports shoes to both domestic and overseas markets. Although we do not have specific information on where our sports shoes are eventually distributed/sold to, we believe the trading houses and brand distributors sell close to 80% of our sports shoes to Europe, South America and the Middle East.

(2) Asia comprises mainly of Japan, South Korea, Singapore, Hong Kong and Saudi Arabia.

(3) America comprises mainly of USA, Brazil, Chile, Argentina and Panama.

(4) Europe comprises mainly of Spain, France, Germany, Italy and Russia.

(5) Africa comprises only South Africa.

Our sports shoe products are sold through trading houses and brand distributors based in the PRC and overseas. For the Financial Period under Review, sales for the domestic market accounted for 80.3%, 88.2%, 92.0%, 96.9% and 95.5% of total revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively, while our exports market sales accounted for 19.7%, 11.8%, 8.0%, 3.1% and 4.5% of total revenue derived in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

The increased sales in the domestic market were due to more foreign shoe related companies setting up offices in the PRC in recent years. We started to establish business relationships with these companies rather than going directly overseas. As a result of the above, our overall direct sales exports decreased from 19.7% of our total revenue in FYE 2006 to 4.5% in 1H 2010. Despite the decrease in direct sales exports, our Group had in 1H 2010 procured new direct sales export orders for America region as a result of our participation in WSA Show organised by the World Shoe Association held in Las Vegas, USA.

Our Board is of the view that the increasing presence of foreign shoe related companies operating in the PRC has contributed positively to our revenue and reduced our Group's risk exposure to foreign currency fluctuations.

Segmental analysis – Revenue by production method / number of sports shoes:

The breakdown of our revenue by production method / number of sports shoes for the respective Financial Period under Review is set out below:-

	FYE 2006			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	121,994	56,081	76.3	3,005,861
Outsourced production	37,977	17,458	23.7	983,318
Total	**159,971**	**73,539**	**100.0**	**3,989,179**

	FYE 2007			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	242,392	109,513	76.3	6,052,631
Outsourced production	75,146	33,951	23.7	1,935,405
Total	**317,538**	**143,464**	**100.0**	**7,988,036**

	FYE 2008			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	257,406	124,044	56.9	5,706,989
Outsourced production	195,086	94,012	43.1	4,412,951
Total	**452,492**	**218,056**	**100.0**	**10,119,940**

	FYE 2009			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	321,241	185,664	55.0	6,194,769
Outsourced production	262,477	135,359	45.0	4,987,193
Total	**583,718**	**301,023**	**100.0**	**11,181,962**

	1H 2009			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	136,087	71,473	48.2	2,881,151
Outsourced production	146,226	76,798	51.8	2,838,701
Total	**282,313**	**148,271**	**100.0**	5,719,852

	1H 2010			
	RMB'000	RM'000	%	Pairs of sports shoes
In-house production	178,599	86,245	58.1	2,861,433
Outsourced production	128,835	62,215	41.9	2,032,969
Total	**307,434**	**148,460**	**100.0**	4,894,402

We started to outsource some of our sports shoe orders to external contract manufacturers in the FYE 2006. During the Financial Period under Review, revenue contribution from outsourced production *vis-a-vis* in-house production increased from 23.7% in the FYE 2006 to 41.9% in the 1H 2010, reflecting:

a) our growing use of external contract manufacturers to cope with the increasing demand for our sports shoes; and

b) management's strategy to focus more on D&D and sales and marketing activities through participation in trade fairs and exhibitions in the PRC and abroad.

Moving forward, the proportion / production volume to be outsourced to external contract manufacturers would depend on the availability and ability of the external contract manufacturer, the speed of delivery, the type of sales order received from our customer (i.e. the design, quantity and price) and whether or not it would be cost effective. The decision to outsource sales orders are reviewed periodically on a case-by-case basis by our management team. We do not outsource our sports shoe orders which are exported directly to the overseas market as the overseas customers are generally stricter with product design specifications and product quality requirements.

We added a third production line in late 2006, which enabled us to boost in-house production volume to approximately 6 million pairs of sports shoes in FYE 2007. During the same period we also increased outsourced production volume from approximately 0.9 million pairs of sports shoes to approximately 1.9 million pairs of sports shoes.

We subsequently added a fourth production line in the second half of 2008 to increase our annual production capacity from approximately 6 million pairs of sports shoes to 8 million pairs of sports shoes. However, we did not achieve full capacity in FYE 2008 as our Group needed to recruit more workers for the new production line, conduct trial runs on the new production line and provide training for the new workers to familiarise themselves with the production process.

In addition, our utilisation rate for in-house production varied during the Financial Period under Review depending on the complexity of the shoe design and the size of each sales order. As a result, we only produced approximately 5.7 million pairs of sports shoes in FYE 2008, and outsourced another 4.4 million pairs of sports shoes to external contract manufacturers. For the FYE 2009, we increased our in-house production from approximately 5.7 million pairs of sports shoes in FYE 2008 to approximately 6.2 million pairs of sports shoes. For the 1H 2010, we produced approximately 2.9 million pairs of sports shoes for our in-house production and outsourced the remaining 2.0 million sports shoe orders to our external contract manufacturers.

Please refer to **Section 6.8** of this Prospectus for further details on the production capacity and utilisation rate.

ASP analysis

The analysis of the ASP for our sports shoe products is set out below:-

	FYE 2006			FYE 2007			FYE 2008		
	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes
Court Sports	40.30	18.53	3,858,491	40.21	18.17	7,724,684	45.18	21.77	8,485,687
Casual/ leisure	34.11	15.68	130,688	26.49	11.97	263,352	42.02	20.25	1,529,365
Running shoes	-	-	-	-	-	-	45.93	22.13	104,888
Total	**40.10**	**18.43**	**3,989,179**	**39.75**	**17.96**	**7,988,036**	**44.72**	**21.55**	**10,119,940**

	FYE 2009			1H 2009			1H 2010		
	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes	RMB	RM	No. of pair of shoes
Court Sports	53.05	27.36	9,792,604	49.99	26.25	4,843,908	63.71	30.77	4,141,187
Casual/ leisure	45.65	23.54	1,241,156	45.09	23.68	788,534	57.84	27.93	691,209
Running shoes	50.80	26.20	148,202	51.28	28.93	107,410	58.10	28.06	62,006
Total	**52.20**	**26.92**	**11,181,962**	**49.36**	**25.92**	**5,719,852**	**62.81**	**30.33**	**4,894,402**

The overall ASP of our products increased by approximately 30.2%, from RMB40.10 per pair of shoes in FYE 2006 to RMB52.20 per pair of shoes in FYE 2009. Although total production volume in 1H 2009 was higher than 1H 2010, we recorded higher revenue in 1H 2010 due to the increase in overall ASP from RMB49.36 to RMB62.81 per pair of sports shoes.

The overall ASP depends on the sales mix from year-to-year as we have a wide range of product offerings (i.e. soccer shoes, tennis shoes, skateboarding shoes, basketball shoes, boots, kids' shoes, hiking shoes, retro shoes, etc.) carrying different prices. Furthermore, the ASP is largely dependent on the type and combination of materials used (canvas, PU, 2-Layer leather, suede leather, type of cloth, etc), as well as the functions, designs and features of the shoe (use of breathable material, water resistance material etc.)

We use a "cost-up" method for pricing. In most instances, we will quote based on an internal cost structure and apply a mark-up. In addition, the selling price for each sales order has to be agreed by our customer before signing the order contract. If customers do not agree with the quotation, we will seek for new or alternative materials that can be used for the same product design, and revise the selling price accordingly, in order to maintain the profit margin for each sales order.

The price range for each category of sports shoe can vary significantly due to the many types and designs of sports shoes sold by us as set out below:-

	Price range			
	FYE2006		FYE2007	
	RMB	RM	RMB	RM
Court Sports	18.80 – 63.87	8.64 – 29.36	18.80 – 64.69	8.49 – 29.23
Casual/leisure	14.53 – 87.36	6.68 – 40.18	14.53 – 68.38	6.56 – 30.89
Running Shoes	–	-	–	–

	Price range			
	FYE 2008		FYE 2009	
	RMB	RM	RMB	RM
Court Sports	24.77 – 104.27	11.94 – 50.25	25.68 – 94.14	13.24 – 48.55
Casual/ leisure	14.53 – 111.11	7.00 – 53.54	19.85 – 106.61	10.24 – 54.98
Running shoes	35.99 – 55.56	17.34 – 26.77	38.46 – 64.10	19.83 – 33.06

	Price range			
	1H 2009		1H 2010	
	RMB	RM	RMB	RM
Court Sports	28.21 – 94.14	14.82 – 49.44	35.08 – 110.37	16.94 – 53.30
Casual/ leisure	22.65 – 106.61	11.90 – 55.99	28.47 – 109.49	13.75 – 52.87
Running shoes	38.46 – 64.10	20.20– 33.67	45.09 – 69.15	21.78 – 33.39

Cost of sales

The table below sets out the breakdown of our cost of sales for the respective Financial Period under Review:-

	FYE 2008			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials [1]	[3]72,911	33,517	62.6	[3]166,874	75,394	73.0
Direct Labour	21,834	10,037	18.7	32,123	14,513	14.1
Manufacturing overheads	[4]13,629	6,265	11.7	[4]13,983	6,317	6.1
Subcontracting costs[2]	8,158	3,751	7.0	15,639	7,066	6.8
Total	**116,532**	**53,570**	**100.0**	**228,619**	**103,290**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials[1]	228,592	110,158	70.7	291,016	150,077	71.1
Direct Labour	38,868	18,634	12.0	48,013	24,760	11.7
Manufacturing overheads	18,208	8,774	5.6	17,888	9,225	4.4
Subcontracting costs[2]	37,888	18,259	11.7	52,489	27,068	12.8
Total	**323,356**	**155,825**	**100.0**	**409,406**	**211,130**	**100.0**

	1H 2009			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
Raw Materials[1]	144,434	75,858	73.1	156,811	75,627	72.5
Direct Labour	20,331	10,678	10.3	26,937	13,008	12.5
Manufacturing overheads	8,396	4,410	4.3	9,454	4,565	4.4
Subcontracting costs[2]	24,423	12,827	12.3	22,991	11,103	10.6
Total	**197,584**	**103,771**	**100.0**	**215,993**	**104,303**	**100.0**

* *We do not track the allocation of our cost of sales by product catagories or gaogrephical regions, as the information does not serve any specific purpose for our business operetions.*

Notes:-

(1) *Including cost of rew meteriels supplied to our external contract menufecturers.*

(2) *External contract manufacturers' costs including processing fee for workmanship and manufacturing overhead costs.*

(3) *There were reclassificetion of the consumable expenses in relation to purchase of glue, polyester thread, shoe boxes and packaging boxes ("Non-Core Materials") amounting to RMB9.840 million and RMB18.594 million from menufacturing overheads to rew material costs for the FYE 2006 end FYE 2007 respectively, in order to be consistent with the clessification adopted in the FYE 2008 and FYE 2009. The amounts reclassified fo raw material were computed based on the averege cost of the Non-Core Materials per pair of shoes for the FYE 2008 multiplied by the number of sports shoes sold in FYE 2006 and FYE 2007 es we did not maintein the inventory movements for the Non-Core Materials prior to the FYE 2008.*

(4) *Prior to the said reclassification, the manufacturing overheads for the FYE 2006 and FYE 2007 were approximately RMB23.469 million end RMB32.576 million respectively, reflecting the increase in the manufacturing overheads resulting from the introduction of the new production line and the increase in production.*

The core raw materials that we use in the manufacture of our sports shoes are leather, fabrics, PU, PVC and sole units comprising the midsole and outsole. Raw materials constituted approximately 62.6%, 73.0%, 70.7%, 71.1% and 72.5% of our total cost of sales for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

We source all of our raw material supplies from local suppliers within the Fujian Province as there is a good concentration of suppliers in the Fujian Province. Owing to keen competition among the suppliers, we have been able to obtain raw materials at competitive prices. The prices of our raw materials, however, generally move in tandem with oil prices and labour costs, and are also affected by the general economic conditions in the PRC.

Direct labour costs comprise mainly salaries and wages and compulsory statutory contribution of workers who are directly involved in the production of our sports shoes. These costs are affected by the number of production workers, production volume, and the industry level of wages and labour market conditions. Direct labour costs accounted for approximately 18.7%, 14.1%, 12.0%, 11.7% and 12.5% of our cost of sales in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Manufacturing overheads comprised mainly salaries and compulsory statutory contributions of indirect labour, depreciation of plant and equipment used for production purposes, utilities and repair and maintenance expenses. These expenses are dependent on the capital expenditure in connection with plant and equipment used for production and the level of production activity.

The subcontracting costs are the costs incurred for the engagement of external contract manufacturers. We supply raw materials to these external contract manufacturers, who in turn charge us a processing fee for workmanship and manufacturing overheads. The increase in subcontracting costs during the past four (4) FYE up to 2009 was in line with the increase in outsourced production volume.

Cost of sales by production methods

	FYE 2006			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	92,463	42,505	79.4	180,132	81,383	78.8
Outsourced production	24,069	11,065	20.6	48,487	21,907	21.2
Total	**116,532**	**53,570**	**100.0**	**228,619**	**103,290**	**100.0**

	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	186,079	89,672	57.5	225,594	116,339	55.1
Outsourced production	137,277	66,153	42.5	183,812	94,791	44.9
Total	**323,356**	**155,825**	**100.0**	**409,406**	**211,130**	**100.0**

	1H 2008			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	100,095	52,569	50.7	126,113	60,900	58.4
Outsourced production	97,489	51,202	49.3	89,880	43,403	41.8
Total	**197,584**	**103,771**	**100.0**	**215,993**	**104,303**	**100.0**

Our in-house produced sports shoes represent 79.4%, 78.8%, 57.5%, 55.1% and 58.4% of our total cost of sales in the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. The general decrease in the cost of in-house production as a proportion of total cost of sales is in line with our growing use of external contract manufacturers to cope with the increasing demand from our customers.

GP and GP margin

GP	FYE 2008			FYE 2007		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	29,531	13,576	68.0	62,260	28,130	70.0
Outsourced production	13,908	6,393	32.0	26,659	12,044	30.0
Total	**43,439**	**19,969**	**100.0**	**88,919**	**40,174**	**100.0**

GP	FYE 2008			FYE 2009		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	71,327	34,372	55.2	95,647	49,325	54.9
Outsourced production	57,809	27,859	44.8	78,665	40,568	45.1
Total	**129,136**	**62,231**	**100.0**	**174,312**	**89,893**	**100.0**

GP	1H 2008			1H 2010		
	RMB'000	RM'000	%	RMB'000	RM'000	%
In-house production	35,992	18,904	42.5	52,486	25,346	57.4
Outsourced production	48,737	25,596	57.5	38,955	18,811	42.6
Total	**84,729**	**44,500**	**100.0**	**91,441**	**44,157**	**100.0**

GP margin	FYE 2006	FYE 2007	FYE 2008	FYE 2009	1H 2008	1H 2010
In-house production	24.2%	25.7%	27.7%	29.8%	26.5%	29.4%
Outsourced production	36.6%	35.5%	29.6%	30.0%	33.3%	30.2%
Overall GP margin	**27.2%**	**28.0%**	**28.5%**	**28.8%**	**30.0%**	**29.7%**

Our overall GP margin grew gradually from 27.2% in FYE 2006 to 29.9% in FYE 2009. This was mainly due to the improvement in the ASP for our sports shoes and a well managed cost structure. Between 1H 2009 and 1H 2010, the overall GP margin decreased marginally from 30.0% to 29.7%.

During the Financial Period under Review, we adopted a "cost-up" method for pricing. In most instances, we will quote our customers based on an internal cost structure after taking into consideration the budgeted production costs and the budgeted GP margin which will vary in accordance with the type of sports shoe to be manufactured, the volume of orders, the complexity of the designs, the types of raw materials used and the features of the sports shoe.

The GP margin for our in-house production increased from 24.2% to 29.4% during the Financial Period under Review. This was mainly due to the fact that we were able to increase ASP at a faster pace than the average cost of sales per pair of sports shoe. In particular, our ASP for in-house production increased from RMB40.59 to RMB62.42 representing an increase of approximately 53.8%, whereas our average cost of sales over the same Financial Period under Review increased from RMB30.76 to RMB44.07 representing an increase of approximately 43.3%.

The GP margin from outsourced production was much higher than our in-house production in FYE 2006 and FYE 2007 as we subcontracted simpler design shoes using cheaper and more basic raw materials. However, the GP margin for outsourced production subsequently narrowed to record similar GP margins as our in-house production in FYE 2008, FYE 2009 and 1H 2010. This was mainly due to the increase in processing fees charged by the external contract manufacturers and more expensive raw material used by the external contract manufacturers. In order to cope with the increasing sales volume we also subcontracted some of our more complex sports shoe designs to our external contract manufacturers resulting in the narrowing GP margin between in-house and outsourced production. However, in order to ensure that the quality of the sports shoes is maintained, we station our quality control personnel at the contract manufacturers' premises.

Other operating income

Other operating income mainly comprises of export incentives, foreign exchange gain and interest income on bank deposits. For the Financial Period under Review, we enjoyed certain export incentives awarded by the People's Government of Jinjiang city based on our export amount.

Foreign exchange gain accounted for 12.0%, 68.2%, 65.2% and 13.1% of total other operating income for FYE 2006, FYE 2007, FYE 2008 and FYE 2009 respectively. Interest income on bank deposits accounted for 52.2%, 8.4%, 21.4%, 44.0% and 88.4% of total other operating income for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Selling and distribution expenses

Selling and distribution expenses comprises mainly advertising and promotion expenses, freight and delivery charges, salaries and compulsory statutory contribution of our sales and marketing staff, entertainment and travelling expenses, as well as D&D expenses. The D&D expenses were classified under selling and distribution expenses as we generate/secure sales orders through our D&D capabilities.

Our overall distribution and selling expenses increased by approximately RMB2.0 million or 215.5% from RMB0.9 million in FYE 2007 to RMB2.9 million in FYE 2008. This was mainly due to D&D expenses amounting to RMB1.4 million in FYE 2008. The D&D expenses mainly relate to salaries of our D&D staff and raw materials cost used in D&D.

The increase in development expenses in the FYE 2008 was mainly due to the expansion of our D&D Department which was staffed with 35 personnel as at end of FYE 2008 as compared to 14 personnel in FYE 2006 and FYE 2007 and the raw material costs and other incidental costs incurred by the D&D staff to increase the number of designs of our products.

Our overall distribution and selling expenses decreased by approximately RMB1.1 million or 38.5% from RMB2.9 million in FYE 2008 to RMB1.8 million in FYE 2009. This was mainly due to material costs and advertising expenses incurred for the preparation of the launch of SODENG brand amounting to RMB0.9 million in FYE 2008. Please refer to **Section 6.14** of this Prospectus for details on SODENG brand.

Between 1H 2009 and 1H 2010, the overall distribution and selling expenses increased by approximately RMB0.1 million from RMB1.0 million in 1H 2009 to RMB1.1 million in 1H 2010. The selling and distribution expenses mainly relate to salaries of our D&D staff and raw materials cost used in D&D.

General administrative expenses

General and administrative expenses represented 2.3%, 1.4%, 2.2%, 2.0% and 2.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. General and administrative expenses comprises mainly salaries and staff-related expenses of general administrative staff, depreciation charges for buildings and office equipment, telecommunication expenses, rental expenses and other general office overheads. The staff-related expenses relate to subscription fees to workers' association, social insurance contribution, staff income taxes and welfare benefit.

General and administrative expenses increased by RMB0.9 million or 25.2% from RMB3.7 million in FYE 2006 to RMB4.6 million in FYE 2007. The increase was mainly due to the increase in salaries and related expenses of our administrative and finance employees by RMB0.7 million.

General and administrative expenses increased by RMB5.5 million or 120.9% from RMB4.6 million in FYE 2007 to RMB10.1 million in FYE 2008. The increase was mainly due to the increase in salaries and related expenses of our administrative and finance employees amounting to RMB6.9 million in FYE 2008, of which RMB3.4 million related to social insurance as the China government enforced the social insurance contributions in FYE 2008 onwards. The increase in our salaries by 64.19% from RMB1.7 million in FYE 2007 to RMB2.8 million in FYE 2008 was mainly due to our hiring of more D&D staff for our SODENG brand initiative. Please refer to **Section 6.14** of this Prospectus for details on SODENG brand.

General and administrative expenses increased by RMB1.7 million or 16.6% from RMB10.1 million in FYE 2008 to RMB11.8 million in FYE 2009. The increase was mainly due to the partial payment of listing expenses amounting to RMB2.6 million. The increase was partially offset by the decrease in SODENG brand related expenses from RMB1.5 million in FYE 2008 to RMB0.6 million in FYE 2009. For the FYE 2008 and FYE 2009, SODENG brand expenses related mainly to salaries for SODENG's D&D staff, office rental, depreciation charge and office maintenance.

Between 1H 2009 and 1H 2010, the overall general and administrative expenses increased by approximately RMB1.9 million from RMB4.6 million in 1H 2009 to RMB6.5 million in 1H 2010. The increase was mainly due to the partial payment of listing expenses and non-statutory audit fees amounting to RMB1.6 million in 1H 2010.

Other operating expenses

Other operating expenses relate mainly to foreign exchange losses, bad debts written off, loss on disposal of property, plant and equipment and property, plant and equipment written off. Other operating expenses amounted to RMB1.4 million, RMB5.9 million, RMB0.4 million and RMB0.9 million and RMB0.3 million for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively and represented 0.9%, 1.9%, 0.1%, 0.2% and 0.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

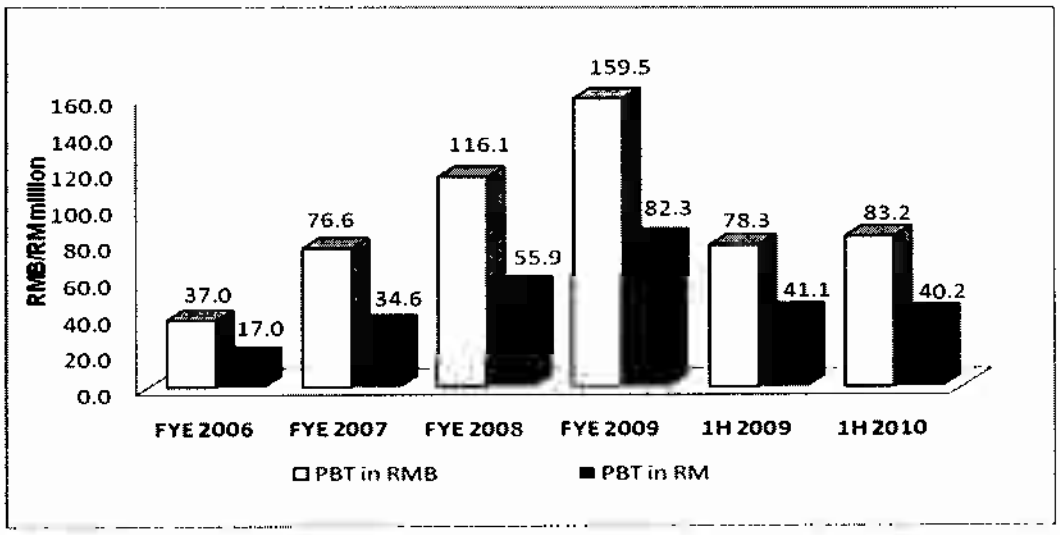
During the FYE 2009, foreign exchange losses accounted for 90.7% of other operating expenses, which was mainly due to the full settlement of amount due to former holding company.

In 1H 2010, other operating expenses totalling approximately RMB0.3 million mainly comprise of loss on disposal of property, plant and equipment and property, plant and equipment written off.

Finance costs

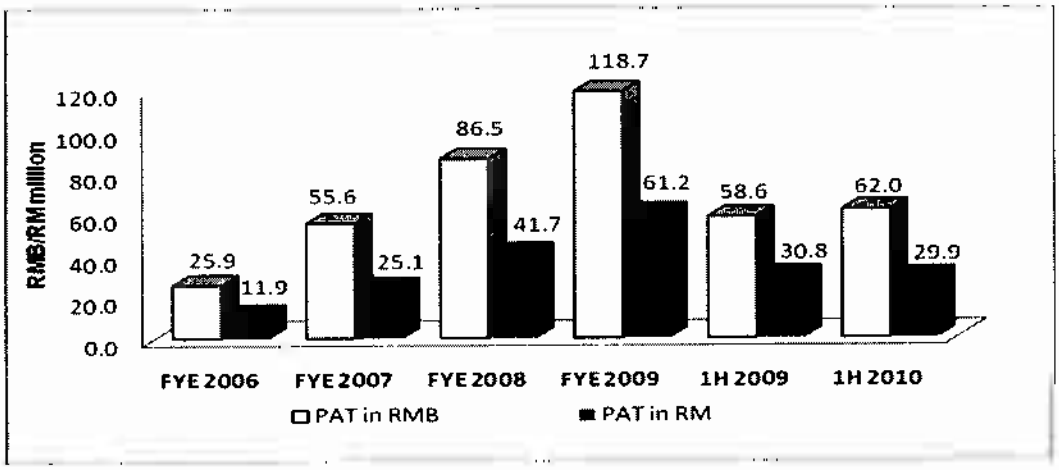
Finance costs represented 0.6%, 0.4%, 0.2%, 0.1% and 0.1% of our revenue for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. Finance costs comprise mainly interest charges on bank borrowings and bank charges. Bank borrowings were used mainly for working capital purposes.

PBT



Our Group recorded a significant growth in PBT of 331.1% between the FYE 2006 and FYE 2009 mainly due to strong customer demand for our products and increase in average GP margins. In addition, the PBT margin also increased steadily from 23.2% in FYE 2006 to 27.3% in FYE 2009 as our Group, being an OEM and ODM company, is not involved in the activities of brand development, distribution and retail management. In 1H 2010, our Group recorded a growth in PBT of 6.3% compared to 1H 2009 (in RMB terms). However, the PBT margin in 1H 2010 decreased marginally to 27.1% mainly due to the increase in general and administrative expenses.

PAT



Our Group also reported a significant increase in PAT of 358.3% between the FYE 2006 and FYE 2009. In 1H 2010, our Group recorded an increase of 5.8% compared to 1H 2009 (in RMB terms). The Group's effective tax rates were 28.7%, 27.5%, 25.5%, 25.6% and 25.5% in FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Commentary on financial performance

FYE 2006 to FYE 2007

Revenue

Our revenue increased by RMB157.5 million or 98.4% from RMB160.0 million in FYE 2006 to RMB317.5 million in FYE 2007. This increase was mainly due to an increase in sales volume of our products which doubled from approximately 4.0 million pairs of sports shoes in FYE 2006 to approximately 8.0 million pairs of sports shoes in FYE 2007. Our new production line set up in late FYE 2006 also contributed to the growth in revenue. In FYE 2007, repeat orders from our existing customers accounted for 94.1% of revenue. Our Directors believe that this is because we have established good relationships with our customers by producing quality products at competitive prices, and delivering our products in a timely manner. Our customer base increased from 16 in FYE 2006 to 49 in FYE 2007.

Cost of sales

Our cost of sales increased by RMB112.1 million or 96.2% from RMB116.5 million in FYE 2006 to RMB228.6 million in FYE 2007 as a result of:-

(i) an increase of RMB94.0 million or 128.9% in direct material costs from RMB72.9 million in FYE 2006 to RMB166.9 million in FYE 2007 which was in line with the 98.4% increase in our revenue from FYE 2006 to FYE 2007. The increase was also due to an increase in raw material prices;

(ii) an increase of RMB10.3 million or 47.2% in direct labour costs from RMB21.8 million in FYE 2006 to RMB32.1 million in FYE 2007 as we hired more production staff to meet the increasing demand for our sports shoe products. The number of production staff increased from 953 staff in FYE 2006 to 1,267 staff in FYE 2007; and

(iii) subcontracting costs increased by approximately RMB7.4 million or 91.7% from RMB8.2 million in FYE 2006 to RMB15.6 million in FYE 2007, which was due to the increase of outsourced production volume from 0.9 million pairs of sports shoes in FYE 2006 to 1.9 million pairs of sports shoes in FYE 2007.

GP, GP margin* and *PBT

Our GP increased by RMB45.5 million or 104.8% from RMB43.4 million in FYE 2006 to RMB88.9 million in FYE 2007 while our GP margin increased marginally from 27.2% in FYE 2006 to 28.0% in FYE 2007.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 94.8% from RMB5.9 million in FYE 2006 to RMB11.5 million in FYE 2007 and represented 3.6% of our revenue for the FYE 2008.

Despite the increase in our expenses as highlighted above, we recorded an increase in PBT from RMB37.0 million to RMB76.6 million as a result of our improving GP.

PAT* and *PAT margin

In FYE 2007, our Group posted a PAT of RMB55.6 million after deducting income tax expense of RMB21.0 million. The effective tax rate of 27.5% was marginally higher than the statutory tax rate of 27% due to certain expenses not deductible for tax purposes.

Our PAT margin increased marginally from 16.2% in FYE 2006 to 17.5% in FYE 2007 as a result of the improvement in PBT and lower effective tax rate in FYE 2007 as compared to FYE 2006.

FYE 2007 to FYE 2008

Revenue

Our revenue increased by RMB135.0 million or 42.5% from RMB317.5 million in FYE 2007 to RMB452.5 million in FYE 2008. The increase was primarily driven by the increase in sales volume due to the following factors:-

(i) Increased sales from repeat customers, which accounted for approximately 84.7% of our Group's total revenue. Our management believes that this is because of our Group's ability to offer quality products coupled with our strong D&D capabilities which are becoming increasingly recognised by our customers;

(ii) Most of the trading houses in PRC have also diversified their risk by expanding their own customer bases and also increasing their product range to encompass hiking shoes, casual shoes, running shoes, retro shoes, skateboarding shoes, and boots. For the FYE 2008, the revenue contribution from casual/leisure sports shoes increased from 2.2% of the total revenue in 2007 to 14.3% of the total revenue in 2008; and

(iii) We had 48 customers in FYE 2008 compared to 49 customers in the previous year. In particular, we secured two (2) new customers, namely Jinjiang Qingfeng Trading Co., Ltd. and Jinjiang YuanYang Trading Co., Ltd. in June and July 2008 respectively, which in aggregate contributed approximately RMB33.4 million or 7.4% of total revenue in FYE 2008.

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 12.5%, from RMB39.75 per pair of shoes in FYE 2007, to RMB44.72 per pair of shoes in FYE 2008. The overall ASP has been on a general upward trend in line with the increasing complexity of shoe designs and higher raw materials cost. We were able to pass on such cost increases to our customers in the form of higher selling prices.

Cost of sales

Our cost of sales increased by RMB94.8 million or 41.5% from RMB228.6 million in FYE 2007 to RMB323.4 million in FYE 2008 as a result of:-

(i) an increase of RMB61.7 million or 37.0% in direct material costs from RMB166.9 million in FYE 2007 to RMB228.6 million in FYE 2008 which was in line with the 42.5% increase in our revenue from FYE 2007 to FYE 2008. The increase was also due to an increase in raw material prices partly as a result of the increase in oil prices;

(ii) an increase of RMB6.6 million or 20.6% in direct labour costs from RMB32.1 million in FYE 2007 to RMB38.7 million in FYE 2008 due to an increase in number of production staff from 1,267 staff in FYE 2007 to 1,291 staff in FYE 2008;

(iii) an increase of RMB4.2 million or 30.0% in manufacturing overheads from RMB14.0 million in FYE 2007 to RMB18.2 million in FYE 2008 due to the increase in depreciation charge, consumable materials and electricity as a result of the addition of the fourth production line; and

(iv) subcontracting costs increased by approximately RMB22.3 million or 142.9% from RMB15.6 million in FYE 2007 to RMB37.9 million in FYE 2008, which was due to the increase of outsourced production volume from 1.9 million pairs of sports shoes in FYE 2007 to 4.4 million pairs of sports shoes in FYE 2008 and an increase in the average processing rate charged by our external contract manufacturers.

GP, GP margin and PBT

Our GP increased by RMB40.2 million or 45.2% from RMB88.9 million in FYE 2007 to RMB129.1 million in FYE 2008. At the same time, we manage to increase our GP margin from 28.0% in FYE 2007 to 28.5% in FYE 2008.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 17.3% from RMB11.5 million in FYE 2007 to RMB13.5 million in FYE 2008 and represented 3.0% of our revenue for the FYE 2008.

In FYE 2008, our Group recorded an increase in PBT by 51.6%, from RMB76.6 million to RMB116.1 million. The increase was primarily due to our revenue growth and no bad debts were written off during the year (bad debts totalling RMB4.9 million was written off in FYE 2007).

PAT and PAT margin

In FYE 2008, our Group posted a net profit of RMB86.5 million after deducting income tax expense of RMB29.6 million. The effective tax rate of 25.5% was marginally higher than the statutory tax rate of 25% due to certain expenses not deductible for tax purposes.

Our PAT margin increased from 17.5% in FYE 2007 to 19.1% in FYE 2008 mainly due to the decrease in effective tax rate from 27.5% in FYE 2007 to 25.5% in FYE 2008.

FYE 2008 to FYE 2009

Revenue

Our Group's revenue increased from RMB452.5 million to RMB583.7 million in FYE 2009, representing an increase of approximately 29.0%. This increase was mainly due to our Group securing three (3) new customers in FYE 2009, namely Fujian Hua Yi Trading Co., Ltd, Fujian Jinjiang JinHe Shoes & Garments Co., Ltd. and Fujian Lian Ming Sheng Industry & Trading Co., Ltd, which accounted for 24.7% of the total revenue as well as the increase in sales orders from two (2) existing customers, namely Jinjiang Qingfeng Trading Co., Ltd. and Jinjiang YuanYang Trading Co., Ltd., which accounted for approximately 15.2% of the total revenue in FYE 2009. Notwithstanding the above, our customer base decreased from 48 customers to 34 customers in the current year, while revenue contribution from repeat customers decreased to 74.7% % (compared to 84.7% in FYE 2008).

Another reason for our revenue growth was the increase in the overall ASP. Our overall ASP increased by approximately 16.7%, from RMB44.72 per pair of shoes in FYE 2008, to RMB52.20 per pair of shoes in FYE 2009. The overall ASP has been on a general upward trend in line with the increased complexity of shoe designs and raw materials cost. We were able to pass on such cost increases to our customers in the form of higher selling prices.

Cost of sales

Our cost of sales increased by RMB86.0 million or 26.6% from RMB323.4 million in FYE 2008 to RMB409.4 million in FYE 2009 as a result of:-

(i) an increase of RMB62.4 million or 27.3% in direct material costs from RMB228.6 million in FYE 2008 to RMB291.0 million in FYE 2009 in line with the increase in revenue;

(ii) an increase of RMB9.3 million or 24.0% in direct labour costs from RMB38.7 million in FYE 2008 to RMB48.0 million in FYE 2009 as we hired more production staff to meet the increasing demand for our sports shoe products. The number of production staff increased from 1,291 staff in FYE 2008 to 1,412 staff in FYE 2009; and

(iii) subcontracting costs increased by approximately RMB14.6 million or 38.5% from RMB37.9 million in FYE 2008 to RMB52.5 million in FYE 2009 due to an increase of outsourced production volume from 4.4 million pairs of sports shoes in FYE 2008 to 4.9 million pairs of sports shoes in FYE 2009, and an increase in the average processing rate charged by our external contract manufacturers.

GP, GP margin and PBT

Our GP increased by RMB45.2 million or 35.0% from RMB129.1 million in FYE 2008 to RMB174.3 million in FYE 2009. Our overall GP margin increased from 28.5% in FYE 2008 to 29.9% in FYE 2009. This was mainly due to the improvement in overall ASP.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 7.8% from RMB13.5 million in FYE 2008 to RMB14.5 million in FYE 2009 and represented 2.5% of our revenue for the FYE 2009.

In FYE 2009, our Group recorded an increase in PBT by 37.4%, from RMB116.1 million to RMB159.5 million. The increase was primarily due to our sales growth and GP margin during the financial year under review.

PAT and PAT margin

In FYE 2009, our Group posted a PAT of RMB118.7 million after deducting income tax expense of RMB40.8 million. The effective tax rate of 25.6% was marginally higher than the statutory tax rate of 25% due to certain expenses not deductible for tax purposes.

Our PAT margin increased from 19.1% in FYE 2008 to 20.3% in FYE 2009 as a result of the increase in our PBT in FYE 2009.

1H 2009 to 1H 2010

Revenue

Our Group's revenue increased from RMB282.3 million in 1H 2009 to RMB307.4 million in 1H 2010, representing an increase of approximately 8.9%. This was mainly due to increase in the overall ASP. Our overall ASP increased by approximately 27.2%, from RMB49.36 per pair of shoes in 1H 2009, to RMB62.81 per pair of shoes in 1H 2010. The overall ASP has been on a general upward trend in line with the increased complexity of shoe designs and raw materials cost.

Cost of sales

Our cost of sales increased by RMB18.4 million or 9.3% from RMB197.6 million in 1H 2009 to RMB216.0 million in 1H 2010 as a result of:-

(i) an increase of RMB12.2 million or 8.4% in direct material costs from RMB144.4 million in 1H 2009 to RMB156.6 million in 1H 2010 in line with the increase in revenue; and

(ii) an increase of RMB6.6 million or 32.5% in direct labour costs from RMB20.3 million in 1H 2009 to RMB26.9 million in 1H 2010 as we hired more production staff to meet the demand for more complex shoe designs and general wage increase in the industry. In addition, the number of production staff increased from 1,300 staff in 1H 2009 to 1,528 production staff in 1H 2010.

GP, GP margin and PBT

Our GP increased by RMB6.7 million or 7.9% from RMB84.7 million in 1H 2009 to RMB91.4 million in 1H 2010. Our overall GP margin decreased marginally from 30.0% in 1H 2009 to 29.7% in 1H 2010.

Our selling and distribution expenses, administrative expenses and other operating expenses in aggregate increased by 25.4% from RMB6.3 million in 1H 2009 to RMB7.9 million in 1H 2010 and represented 2.6% of our revenue for 1H 2010. The increase was mainly due to partial payment of listing expenses and non-statutory audit fees amounting to RMB1.6 million in 1H 2010.

In 1H 2010, our Group recorded an increase in PBT by 6.3%, from RMB78.3 million in 1H 2009 to RMB83.2 million in 1H 2010. The increase was primarily due to our improved GP and ASP.

PAT and PAT margin

In 1H 2010, our Group posted a PAT of RMB62.0 million after deducting income tax expense of RMB21.2 million. The effective tax rate of 25.5% was marginally higher than the statutory tax rate of 25%. As a result, our PAT margin decreased marginally from 20.7% in 1H 2009 to 20.2% in 1H 2010.

7.4.2 Factors affecting the financial condition of our Group

(i) Ability to maintain existing customers and expand our customer base

Our success depends largely on our ability to keep abreast of fashion trends as well as our ability to anticipate and react to the fast changing fashion trends in a timely manner, particularly when we develop designs for customer selection. Hence, it is important that we continue to react promptly to changing fashion trends and produce designs that would appeal to our target customers.

We are also dependent on the relationship with our customers and external contract manufacturers, and the quality of our products for the continued growth of our business. Failure to consistently deliver quality products may materially and adversely affect our ability to retain our existing customers, secure new customers or develop new market segments, thereby hampering our future business growth.

However, we have put in place stringent quality control measures throughout our production process to ensure that our products are of high quality.

(ii) Demand and supply conditions

Our Group's revenue and profits are dependent on the demand and supply conditions of the sports shoe industry as set out in **Section 5** of this Prospectus.

(iii) Fluctuations in the prices of raw materials

Our Group sources all of our raw materials and components locally in PRC. The raw materials used by our Group include shoe soles, upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials. The costs of our raw materials are subject to fluctuations in oil prices as well as our relationship and bargaining power with suppliers in the PRC. Any increase in the cost of raw materials would have on impact on the profitability of our Group. However, our Group is able to obtain the raw materials from our suppliers at competitive prices due to the availability of a large pool of suppliers based in Fujian province, PRC.

We have thus far been able to pass on such raw material costs increase to our customers to avoid reductions in our profit margins. Nonetheless, we may absorb part of the price increases to remain competitive.

(iv) D&D capabilities

Our Group places great emphasis on D&D in order to stay competitive in the sports shoe market. The objectives of our D&D initiatives are to develop and introduce new designs to cater to the ever-changing consumer tastes and market trends and to expand our product range for customer selection.

As at the end of 1H 2010, our D&D Department is staffed with 30 personnel, half of whom have more than 10 years of experience in the D&D field.

(v) Tax consideration

Income tax expense represented 28.7%, 27.5%, 25.5%, 25.6% and 25.5% of our profit before tax for FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively.

Our Company and subsidiary are incorporated in Malaysia and the PRC respectively and are taxed in accordance with the respective prevailing tax regulations of the jurisdiction in which they are incorporated.

Our Company is subjected to corporate income tax rate in Malaysia. However, since the date of incorporation, we have no chargeable profit and thus is not subject to any taxation.

Presently, our subsidiary, Zhenxing Shoes is subject to an income tax rate of 25% and 15% tax rebate in the PRC. Moreover, according to "Certain Opinions for Encouragement to Expand Export (晋政文(2004)131 号) issued by People's Government of Jinjiang City, a company engaging in normal trade business shall enjoy reward based on its actual annual export amount. Accordingly, Zhenxing Shoes who exports sports shoes is entitled to enjoy such reward yearly for its self-support exportation from the Finance Bureau of Jinjiang City.

However, there is no assurance that the current income tax rate, the tax rebate rate and reward policy for exportation, their application or their interpretation will remain in effect or will not be subject to change. In the event that we are required to pay higher income tax rate, or we are unsuccessful in our application for the tax rebate and tax reward, our profit margin may be affected.

(vi) Foreign exchange exposure

Our Group carries out its business operations in the PRC and purchases raw materials from local suppliers, as such our cost of goods sold and operating expenses are mainly denominated in RMB. However, we have business transactions in foreign currencies, which are primarily our products sold directly to overseas customers and denominated in USD.

To the extent that our revenue is not naturally matched in the same currency and to the extent that there are timing differences between invoicing and collection, as the case may be, we will be exposed to any adverse fluctuation of the RMB and USD.

We set out below the net foreign exchange losses/gain over the Financial Period under Review:-

	FYE 2006 RMB	FYE 2007 RMB	FYE 2008 RMB	FYE 2009 RMB	1H 2010 RMB
Net foreign exchange (Loss) / Gain	(159,116)	(266,025)	703,328	(767,870)	(23,893)
As a percentage of PBT (%)	0.4	0.3	0.6	0.5	0.03

	FYE 2006 RM	FYE 2007 RM	FYE 2008 RM	FYE 2009 RM	1H 2010 RM
Net foreign exchange (Loss) / Gain	(73,146)	(120,190)	338,934	(395,990)	(11,538)
As a percentage of PBT (%)	0.4	0.3	0.6	0.5	0.03

In 1H 2010, approximately 5% of our revenue was denominated in USD whilst the remaining revenue is denominated in RMB. Hence, our Broad believes that the impact of foreign exchange fluctuations will not significantly affect our profitability.

As at the LPD, we do not have a formal foreign currency hedging policy with respect to our foreign exchange exposure as our revenue denominated in USD is minimal. However, we will continue to monitor our foreign exchange exposure in the future and will consider formalising a hedging policy to manage our foreign exchange exposure should the need arise.

(vii) Impact of inflation / interest rates / commodity prices

For the fluctuation in prices of key raw materials, we believe that we are able to pass on any prolonged price increase of raw materials to our customers as our supply orders are based on purchase orders and not long term supply contracts.

There were no material impact of inflation, interest rates and commodity prices on our historical profits for the Financial Period under Review.

(viii) Exceptional and extraordinary items

There were no exceptional and extraordinary items for the Financial Period under Review.

(ix) Government / economic / fiscal / monetary policies

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in **Section 4** of this Prospectus.

There is no government, economic, fiscal or monetary policies or factors that have materially impacted our profits for the Financial Period under Review.

7.5 LIQUIDITY AND CAPITAL RESOURCES

7.5.1 Working Capital

Our operations are funded by a combination of internally generated funds and external bank borrowings. As at 30 June 2010, we have a healthy cash and cash equivalent balance of RMB151.4 million and an outstanding short term loan facility of RMB10.0 million. The principal uses of these funds and credit facility are for our daily working capital purposes such as purchases of raw materials and consumables, financing of trade receivables and payment of operating expenses.

As at 30 June 2010, we have total current assets of RMB436.5 million and current liabilities of RMB139.7 million, amounting to RMB296.8 million of net working capital and a current ratio of 3.1 times. The current assets comprise mainly of inventories, cash and bank balances and trade receivables. Please refer to **Section 7.5.10** of this Prospectus for the key financial ratios of our trade receivables, trade payables and inventories.

Our Directors are of the opinion that we have sufficient working capital for a period of twelve (12) months from the date of this Prospectus after taking into account our internal and external sources of funds, and the gross proceeds from the Public Issue.

7.5.2 Cash flow

We set out below a summary of our Group's cash flow for the 1H 2010:

	1H 2010	
	RMB'000	**RM'000**
Net cash from operating activities	50,679	24,472
Net cash used in investing activities	(491)	(237)
Net cash used in financing activities	(5,000)	(2,415)
Net increase in cash and cash equivalents	**45,188**	**21,820**
Effect of foreign exchange translation	(48)	(2,903)
Cash and cash equivalents at the beginning of period	106,222	53,313
Cash and cash equivalents at the end of the period	**151,362**	**72,230**

Our cash and bank balances are mainly held in RMB. For further information on the financial and legal restriction on the ability of our subsidiary to transfer funds to Maxwell in the form of cash dividends, loans or advances, please refer to **Appendix** B of this Prospectus for the opinion in relation to foreign investment policies, taxation, foreign exchange control and repatriation of profits out of PRC. In particular, you should note that in the PRC, foreign investment enterprises are not allowed to transfer funds abroad in foreign exchange to its investors in the form of loans and advances.

Subject to the above, and the summary of PRC laws and regulations as set out in **Appendix A** of this Prospectus, our directors are of the opinion that there are no economic restrictions on the ability of our subsidiary to transfer funds to our Company in the form of cash dividend and therefore do not foresee any difficulties in meeting our cash obligations.

Net cash from operating activities

In 1H 2010, we recorded a net cash inflow before working capital changes of approximately RMB85.2 million. After accounting for amongst others, the increase in inventories of approximately RMB11.2 million, the increase in receivables of approximately RMB61.0 million, the increase in payables of approximately RMB54.7 million and the payment for corporate income tax of approximately RMB16.8 million, our net cash generated from operating activities was approximately RMB50.7 million.

Net cash used in investing activities

In 1H 2010, our cash flows used in investing activities amounted to approximately RMB0.5 million, which arose from purchase of property, plant and equipment of RMB0.6 million after offsetting the proceeds from the disposal of property, plant and equipment amounting to RMB0.1 million. Our Group's investment activities in the immediate future will primarily consist of investment into new production lines to cater for the demand of our sports shoes and upgrading works on our existing facilities. This will be funded by proceeds from our IPO and internally generated funds. Please refer to **Section 3.7** and **Section 5.12** of this Prospectus for more details.

Net cash used in financing activities

In 1H 2010, our net cash outflow from financing activities amounted to approximately RMB5.0 million due to repayment of short term loans for working capital purpose.

7.5.3 Borrowings

As at 30 June 2010, the total outstanding bank borrowings are as follows:-

	RMB'000	RM'000
Short Term (*Due within 12 months*)		
Term loan	10,000	4,772
Long Term (*Due after 12 months*)		
Term loan	-	-
Total interest-bearing borrowings	10,000	4,772
Gearing ratio of Maxwell Group (prior to the IPO)[1]	0.03	0.03
Gearing ratio after the IPO and utilisation of proceeds[2]	0.02	0.02

Notes:-

(1) Computed based on total borrowings as at 30 June 2010 divided by our Group's shareholders' funds of RMB362.8 million (equivalent to RM173.1 million).

(2) Computed based on total borrowings as at 30 June 2010 divided by our Group's proforma shareholders' funds of RMB415.7 million (equivalent to RM198.4 million) upon completion of the IPO.

Our Group's borrowings comprise short-term credit facility denominated in RMB, with an interest rate of 6.42% to 6.64% per annum as at 30 June 2010. We do not have any foreign borrowings.

We have not defaulted on any payments on either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year immediately preceding the date of this Prospectus and the subsequent financial period up to the LPD.

We are not in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loans which could materially affect our financial position and results of business operations or the investment by our shareholders.

7.5.4 Type of financial instruments used

As at LPD, we do not have nor are we using any financial instruments.

7.5.5 Capital Expenditures

The material expenditures for capital investment made by our Group for the Financial Period under Review were as follows:

	FYE 2008		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
Plant and machinery	(1)459	207	(2)696	316	(3)6,174	3,139	(4)662	341	78	38
Furniture, fittings and office equipment	148	67	18	8	(5)1,751	890	47	24	77	37
Motor vehicles	5	2	133	60	765	389	-	-	216	104
Renovation	-	-	-	-	(5)384	195	-	-	(7)218	105
Leasehold Buildings(6)	1,920	866	13,388	6,070	-	-	24	12	-	-
Total	**2,532**	**1,142**	**14,235**	**6,454**	**9,074**	**4,613**	**733**	**377**	**589**	**284**

Notes:-

(1) *The capital expenditures on plant and machinery in FYE 2006 mainly related to the ecquisition of the third production line (which was a used production line) and replacement of some of the older machineries.*

(2) *The capital expenditures in FYE 2007 meinly releted to the acquisition of additional sewing machineries in line with the increase in production capacity from the third production line and further enhancement to the existing plant and machineries.*

(3) *The capital expenditures for the FYE 2008 mainly related to the (i) ecquisition of the fourth production line amounting to approximately RMB2.0 million (RM1.0 million); (ii) major overhaul works involving the upgrade of the first production line to infrared technology amounting to approximately RMB2.0 million (RM1.0 million); and (iii) acquisition of e small D&D production line for purposes of producing shoe samples amounting to approximately of RMB1.1 million (RM0.55 million).*

(4) *The capital expenditures on plant and machinery in FYE 2009 mainly related to the replacement of some of the older machineries.*

(5) *The cepital expenditure on the furniture, fittings end office equipment, and renovation in FYE 2008 mainly relate to the upgrading/ expansion works in the factory and renovation costs in the leased office/ showroom.*

(6) *For the FYE 2007, we built a new block of dormitory building for our employees.*

(7) *For the 1H 2010, the renovation costs mainly related to renovation of existing dormitory buildings for our employees.*

For the abovementioned period, our Group's capital expenditure was focused primarily on plant and machinery in line with our continuous effort to expand, upgrade and improve our production capacity.

7.5.6 Divestments

We did not make any material divestment of assets for the Financial Period under Review.

7.5.7 Material Commitments

As at the date of this Prospectus, our Directors are not aware of any other capital commitments for capital expenditures that may have a material and adverse impact on our financial position.

7.5.8 Contingent Liabilities

As at the LPD, there are no material contingent liabilities incurred by our Group, which may have a substantial impact on the financial position of our Group.

7.5.9 Material Litigation

As at the LPD, neither we nor our subsidiary company are engaged in any material litigation or arbitration either as plaintiff or defendant that has a material effect on the financial position of our Group. Our Directors are not aware of any proceedings pending or threatened against us or our subsidiary company or of any facts likely to give rise to any proceedings that may materially affect our Group's position and business.

7.5.10 Other key financial ratios

The key financial ratios of our Group are as follows:-

	<--------- FYE --------->				1H*	
	2006	2007	2008	2009	2009	2010
Trade receivables turnover period (days)	79	69	70	98	110	140
Trade payables turnover period (days)	68	46	36	38	66	64
Inventories turnover period (days)	100	39	12	4	7	8

* *Turnover period computed based on 181 days*

Trade receivables

Our normal credit terms granted to customers is 30 days to 120 days. Other credit terms are assessed and approved on a case-by-case basis. However, in respect of new customers, depending on our assessment of their creditworthiness, we may require an initial payment on their purchases before delivery of our products to them. For the 1H 2010, we recorded trade receivables turnover period of 140 days as the bulk of our sales was secured during the second quarter of 2010. Accordingly, the bulk of the trade receivables are within the normal credit period and has yet to be settled as at 30 June 2010.

As at 1H 2010, the trade receivables of our Group amounted to approximately RMB269.1 million which can be analysed as follows:-

As at 30 June 2010	<--------- Within credit period --------->				Exceed credit period		
	30 days	31-60 days	61-90 days	91-120 days	121-150 days	Over 150 days	Total
Trade receivables (RMB'000)	84,199	79,667	63,838	41,366	-	-	**269,070**
Trade receivables (RM'000)	40,180	38,017	30,464	19,739	-	-	**128,400**
% of total trade receivables	31.3	29.6	23.7	15.4	-	-	**100.0**

As at the LPD, all of the trade receivables as at 1H 2010 have been fully collected. We monitor all outstanding debts closely to ensure that adequate provision may be made in the event that the recovery of any debt appears doubtful. The quantum of such provision is dependent on the duration for which the debt is overdue as well as our assessment of the likelihood that such debt may be unrecoverable.

Trade payables

Credit terms granted to us by our suppliers vary from supplier to supplier and are dependent, amongst others, on our relationship with the particular supplier and the size of our purchases. The usual credit terms extended to us by our trade suppliers generally range between 30 to 90 days. We typically pay within the given credit period.

Our trade payables turnover period is within the normal credit period and has been gradually improving over the past four (4) financial years up to 2009. This improvement was mainly due to early payments made to suppliers in order to enjoy better discounts. The faster payment was also in line with our strengthening cash flow position.

As at 30 June 2010, the trade payables of our Group amounted to approximately RMB104.0 million which can be analysed as follows:-

As at 30 June 2010	Within the credit period			Exceed credit period	Total
	30 days	31-60 days	61-90 days		
Trade payables (RMB'000)	46,473	57,503	-	-	**103,976**
Trade payables (RM'000)	22,177	27,440	-	-	**49,617**
% of total trade payables	44.7	55.3	-	-	**100.0**

Inventories

Our inventory comprises mainly of raw materials, semi-finished products and finished products. Our raw materials mainly consist of leather, fabrics, PU, PVC and sole units comprising the midsole and outsole.

Prior to January 2008, we had purchased our raw materials based on forecasted production volumes. Consequently, we recorded relatively high inventory levels and high inventory turnover as at 31 December 2006 and 2007 due to the over-estimation of our raw material requirements and purchases.

We had with effect from January 2008 implemented a new inventory management policy wherein we maintain a production schedule, and purchase raw materials based on confirmed customer orders to keep the inventory levels low. We do not maintain any inventory ageing report due to our low inventory turnover. However, as an additional control measure, our Production Department, Purchasing Department and Sales and Marketing Department will meet weekly to ensure that the raw materials are delivered on time and our customers' expectations on delivery of the completed product is met.

Our low inventory turnover period is also supported by the fact that we obtain all of our raw material supplies from suppliers within the Fujian Province, a place which is renowned as one of the world's largest sports shoe manufacturing hubs. At the same time as almost all of our sales are to customers located at close proximity, we are able to deliver our finished products almost immediately upon completion.

For reference and information only, we have set out below, the inventory turnover period of some of the overseas public listed companies principally engaged in manufacturing of sports shoes for third party brand names. Please note however, that the overseas companies (which may not be exhaustive) may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. As such comparisons made in respect of the selected companies serve only as a reference, and may not be exhaustive.

	Listed Exchange	FYE	Inventory turnover period (days)[2]
Maxwell	-	31.12.09	4
Feng Tay Enterprise Co Ltd	TWSE	31.12.09	49
KTP Holdings Limited	HKSE	31.3.10	76
Pegasus International Holdings Ltd	HKSE	31.12.09	192
Symphony Holdings Limited	HKSE	31.12.09	56
Yue Yuan Industrial (Holdings) Ltd	HKSE	30.9.09	68

TWSE = Taiwan Stock Exchange; HKSE = Hong Kong Stock Exchange

Notes:
1) Source: Companies' annual report.
2) Inventory turnover period = (Average year-end inventory balances / cost of sales) x 365 days.

Management believes that the difference in inventory turnover period is due to the following:

a) the above companies may have different inventory management policies;
b) Maxwell has low inventory balances as at 31 December 2008 and 31 December 2009; and
c) some of the above companies have manufacturing operations in multiple locations across different countries, different raw material procurement practices as well as different logistical and delivery arrangements with their suppliers and customers.

7.6 TREND INFORMATION

Based on our track record for the Financial Period under Review, including our segmental analysis of revenue and profitability, our Board observes and anticipates the following trend:-

(a) We anticipate revenue and demand for our sports shoes to remain favourable as a result of our continued efforts to increase our sales and marketing activities, our active participation in domestic and overseas trade fairs and efforts taken to enhance our product D&D. In the longer term, we expect our revenue to be driven by an increase in production volume as we step-up our capacity utilisation rate and add new production lines to complement our existing production facilities.

(b) Our cost of raw materials for sports shoes generally fluctuates in tandem with the movement of oil prices and labour costs. We do not foresee a significant fluctuation in the cost of raw materials in the near term.

(c) We expect labour costs to rise in tandem with the strength and growth of the PRC economy. However, as our sales volume increases, we expect to leverage on our economies of scale whilst at the same time consider outsourcing production of certain shoe designs to better manage overall costs.

(d) The ASP has generally been on an increasing trend for the Financial Period under Review. We believe ASP will rise in tandem with increasing production costs as we have generally been able to pass on cost increases to our customers in the past. The increase in ASP is also underpinned by the growing affluence and wealth of the local population.

(e) We have recorded fairly consistent overall GP margins of 27.2%, 28.0%, 28.5%, 29.9% and 29.7% for the FYE 2006, FYE 2007, FYE 2008, FYE 2009 and 1H 2010 respectively. Our Board believes that the aforementioned GP margin range is maintainable and is not aware of any circumstances which would result in a significant decline in our overall GP margin, save as disclosed in **Section 7.4.2** of this Prospectus,

(f) Our main components of administrative, selling and distribution expenses and other operating expenses include employee salaries, depreciation charges, sales and marketing expenses, and provision of doubtful debts. We have not witnessed any significant fluctuation in the abovementioned expenses in the past and believe that such expenses will not materially affect our profitability in the future. Such expenses are generally expected to move in tandem with the growth of our business, as we increase our expenditure on recruitment and/or incur further cost in D&D to improve our product range.

(g) In the near term and similar to FYE 2009, we expect to maintain our current level of outsourced shoe production at between 40% to 45% based on total number of sports shoes sold per annum. However, the longer term trend for outsourced production would depend on the level of demand we envisage for our products, our ability to cope with the sales orders with different specifications and designs, efforts taken to step-up capacity utilisation rate and the decision to acquire new production lines in the next two (2) years.

Save as disclosed above, including our Management's Discussion and Analysis of Financial Conditions and Results of Operations, **Section 4**, **Section 5** and **Section 6** of this Prospectus, our Board believes that barring any unforeseen circumstances, there are no other significant known trends, uncertainties, demand, commitments or events that are reasonably likely to have a material favourable or unfavourable impact on our financial performance, position and operations of our Group, or that would cause financial information disclosed in this Prospectus to be not indicative of our future operating results and financial condition.

7.7 DIVIDEND POLICY

We currently do not have a formal dividend policy and have not declared or paid any dividends on our Shares since our incorporation. There can be no assurance that dividends will be paid in the future or as to the timing of any dividends that are to be paid in the future. The declaration and payment of future dividends will depend upon our operating results, financial conditions, other cash requirements including capital expenditure, the terms of borrowing arrangements (if any), dividend yield of comparable companies (if any) listed in Malaysia and other factors deemed relevant by our Directors.

Subject to the above, our Directors intend to recommend and distribute dividends of not less than 20% of our net profits attributable to our Shareholders for FYE 2010 and FYE 2011 (the "Proposed Dividend"). Our Company will declare dividends, if any, in RMB and make payment of the dividend in RM. However, investors should note that all the foregoing statements, including the statements on the Proposed Dividend, are merely statements of our present intention and shall not constitute legally binding statements in respect of our future dividends which may be subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion. Investors should not treat the Proposed Dividend as an indication of our Group's future dividend policy. No inference should or can be made from any of the foregoing statements as to our actual future profitability or ability to pay dividends in any of the periods discussed.

Information relating to taxes payable on our dividends is set out in **Appendix B** of this Prospectus. Please refer to **Section 4.2.4** of this Prospectus for risks relating to payment of dividends.