

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



波司登國際控股有限公司
BOSIDENG INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

| | | |
|--|---|---|
| Number of Offer Shares under the Global Offering | : | 1,988,000,000 Shares (subject to the Over-allotment Option) |
| Number of International Placing Shares | : | 1,789,200,000 Shares (subject to adjustment and the Over-allotment Option) of which 1,671,200,000 Shares are to be issued by us and 118,000,000 Shares are to be offered for sale by the Selling Shareholder |
| Number of Hong Kong Offer Shares | : | 198,800,000 Shares (subject to adjustment) |
| Maximum Offer Price | : | HK\$3.28 per Hong Kong Offer Share, plus 1% brokerage, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) |
| Nominal value | : | US\$0.00001 each |
| Stock code | : | 3998 |

**Joint Global Coordinators, Joint Bookrunners,
Joint Sponsors and Joint Lead Managers**
(in alphabetical order)

**Goldman
Sachs**

Morgan Stanley

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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered and Available for Inspection" in Appendix IX to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholder, and us on the Price Determination Date. The Price Determination Date is expected to be on or around October 4, 2007 and, in any event, not later than October 8, 2007. The Offer Price will be not more than HK\$3.28 and is currently expected to be not less than HK\$2.56. If, for any reason, the Offer Price is not agreed by October 8, 2007 between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholder, and us, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with the consent of the Company and the Selling Shareholder, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. See the section headed "Structure of the Global Offering".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Hong Kong Stock Exchange. See the section headed "Underwriting — Grounds for Termination".

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of US persons, except that the Offer Shares may be offered, sold or delivered to QIBs in reliance on Rule 144A or outside the United States in reliance on Regulation S under the US Securities Act.

September 27, 2007

EXPECTED TIMETABLE⁽¹⁾

Application lists open⁽²⁾ 11:45 a.m. on Wednesday, October 3, 2007

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

Application Forms 12:00 noon on Wednesday, October 3, 2007

Latest time to give **electronic application**

instructions to HKSCC. 12:00 noon on Wednesday, October 3, 2007

Application lists close 12:00 noon on Wednesday, October 3, 2007

Expected Price Determination Date Thursday, October 4, 2007

Announcement of:

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

to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times

(in Chinese) on or before⁽²⁾ Wednesday, October 10, 2007

Announcement of results of allotment in Hong Kong Public

Offering (with successful applicants' identification document numbers, where applicable) be available through a variety of channels, including the websites of the Hong Kong Stock Exchange and the Company, as described in the section headed "How to Apply for Hong Kong Offer Shares — VIII. Publication of Results; Despatch/Collection of Share Certificates and Refunds of

Application Monies" from Wednesday, October 10, 2007

Despatch of share certificates and refund cheques

(if applicable) on or before⁽³⁾ Wednesday, October 10, 2007

Dealings in Shares on the Hong Kong Stock Exchange to

commence on Thursday, October 11, 2007

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, October 3, 2007, the application lists will not open on that day. See the section headed "How to Apply for Hong Kong Offer Shares — IV. When May Applications Be Made — Effect of bad weather on the opening of the application lists".

EXPECTED TIMETABLE⁽¹⁾

- (3) **Share certificates are expected to be issued on Wednesday, October 10, 2007 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Thursday, October 11, 2007.**

You should read carefully the sections headed “Underwriting”, “How to Apply for Hong Kong Offer Shares”, and “Structure of the Global Offering”, for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the despatch of refund cheques and share certificates.

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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

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

OVERVIEW

Our Business and our Brand Portfolio

We are the leading down apparel company in the PRC, with a significant lead over our closest competitor in terms of market share. We primarily focus on developing and managing the portfolio of our down apparel brands, which includes research, design and development, raw materials procurement, outsourced manufacturing, and marketing and distribution of our branded down apparel products. Our core brands are “Bosideng”, “Snow Flying” and “Kangbo”, and our other brands comprise “Bingjie”, “Shuangyu” and “Shangyu”. “Bosideng” was the leading down apparel brand in the PRC for 12 consecutive years from 1995 to 2006, according to the CIIC and National Bureau of Statistics of China. In 2006, “Bosideng”, “Snow Flying” and “Kangbo” down apparel products achieved a combined market share of 36.1% among the 30 largest down apparel brands in the PRC based on sales, according to the CIIC. We also engage in the OEM management business through which we procure raw materials and manage the outsourced manufacturing process on behalf of our OEM customers, as well as coordinate the export of down and non-down apparel to our OEM customers.

Our “Bosideng” brand was named as one of China’s top ten brands in the world by the World Confederation of Productivity Science, Chinese Association of Productivity Science and World Productivity Congress in 2006. In 2007, “Bosideng” was named as one of “China’s Top 25 Brands (2006–2007)” by the Brand Union Association⁽¹⁾, and was the only apparel brand amongst different industries which was awarded this prize for two consecutive years. In the same year, “Bosideng” was the only apparel brand named as one of China’s three famous brands in the world by the PRC General Administration of Quality Supervision, Inspection and Quarantine. In addition to “Bosideng”, our other brands have also achieved significant success. “Snow Flying” and “Kangbo” were ranked as the second and seventh PRC down apparel brands respectively, in terms of sales in 2006, according to the CIIC. Our “Bosideng”, “Snow Flying” and “Kangbo” brands were also each named as one of the most competitive brands by the Ministry of Commerce in 2007.

We currently focus our business activities in the PRC market. We seek to distinguish ourselves in the PRC down apparel industry through our established leading market position and the ability to effectively manage each stage of our supply chain and remain cost-competitive by leveraging our established relationships with our major suppliers and contract manufacturers. This in turn enables us to respond quickly to supplemental production orders and ensure timely delivery of our products to customers through the use of the extensive retail distribution network through which our branded down apparel products are distributed.

Note:

(1) According to its website, Brand Union Association is one of the influential forums in the PRC for brand development and was established in December 2005 by mass media and branding research institutions, such as IT Time Weekly, Fortune Owner and the Peking University Guanghua Management School.

SUMMARY

As part of the Reorganization and in line with our strategy to focus on developing and managing the portfolio of our down apparel brands, we have, since the financial year ended March 31, 2007, outsourced all the manufacturing operations of our branded down apparel and OEM products to 331 contract manufacturers in the PRC, of which five are affiliates of the Bosideng Group, while the remaining 326 contract manufacturers as at March 31, 2007 are independent third parties. We believe that our outsourced manufacturing arrangements enable us to focus on our core strengths to achieve higher profit margins and be more cost-efficient as we do not directly undertake the operational and financial risks and expenses relating to the operation of production facilities and management of labor. Furthermore, our outsourced manufacturing arrangements enable us to focus on research, design and development, raw materials procurement, and marketing and distribution of our branded down apparel products. Our Directors believe that our outsourced manufacturing arrangements are consistent with the practice of certain established apparel companies which also choose to outsource part or all of the manufacturing operations.

Distribution Network for Our Branded Down Apparel Products

Our down apparel products primarily comprise down jackets, down vests, and down pants. These products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets, hypermarkets and branded down apparel sales halls. As at March 31, 2007, our branded down apparel products were sold at our three specialty stores, 1,018 concessionary retail outlets under the supervision of our 74 regional sales companies in approximately 67 cities across the PRC, and 4,956 specialty stores and 867 concessionary retail outlets operated or supervised by third party distributors. The total number of retail outlets increased from 2,817 as at March 31, 2005 to 3,494 as at March 31, 2006 and 6,844 as at March 31, 2007. We terminated brand licensing arrangements relating to “Kangbo” and “Bingjie” with independent third parties in the first half of 2006, and commenced selling the down apparel products under these two brands directly. We also acquired “Shangyu” and “Shuangyu” brands in the first half of 2006. The significant increase in the total number of retail outlets from March 31, 2006 to March 31, 2007 was primarily attributable to the newly added retail outlets selling our “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” branded products.

Our sales are either made on a consignment or an outright basis. For the financial year ended March 31, 2007, the revenue generated by consignment sales and outright sales was RMB1,431.9 million and RMB3,487.1 million respectively. Consignment sales are conducted through our 74 regional sales companies at department stores, supermarkets, hypermarkets and branded down apparel sales halls, under which we pay the retail channel operators concessionaire fees calculated as a percentage of our monthly sales receipts. We retain title to products delivered to the concessionary retail outlets under our direct supervision until goods are sold to end-customers. Outright sales are primarily conducted with third party distributors under our direct supervision, who further distribute our products directly or indirectly through specialty stores and concessionary retail outlets located within department stores, supermarkets, hypermarkets and branded down apparel sales halls. In outright sales to these third party distributors, we offer rebates to third party distributors who have fulfilled their sales revenue target within a stipulated term. Third party distributors under our direct supervision are provided with a contractual annual sales target. These distributors generally make a prepayment of approximately 20% to 30% of the annual sales targets at the beginning of the contractual term before the first delivery of our products and an additional deposit payment as security. Subsequent batches of delivered goods are paid for in installments by these distributors, who will be typically granted credit terms (ranging from 30 to 90 days) in respect of the total amount of purchases which has exceeded the value of the deposits paid. We generally allow our third party

SUMMARY

distributors to return a percentage of unsold goods to us by March 31 of each financial year. For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, returned goods amounted to approximately 16.6%, 13.1% and 19.9% (or 1.7 million, 2.0 million and 4.5 million pieces of down apparel products), respectively of the Group's total outright sales volume to third party distributors (prior to deducting the volume of outright sales returns). We also conduct outright sales of our products to end-customers through three specialty stores in Changshu, Jiangsu Province, which are operated by us.

Under our agreements with distributors under our direct supervision, we have the contractual right to monitor the sales performance of our distributors. We manage our distributors, their respective second-tier distributors, and the retail outlets operated or supervised by these distributors through various measures, including:

- (a) *Retail pricing.* The price range of our products within each sales region is formulated by our headquarters, which also take into account the living standards in the respective regions. Price ranges are uniform within each sales region and only our headquarters can approve any price reductions.
- (b) *Brand image at retail outlets.* We aim to create a unique image for retail outlets through the use of standardized and modern décor and designs distinctive to our products and brand portfolio. Our headquarters set out design, layout and store area guidelines for the retail outlets, and third party distributors under our direct supervision are contractually bound to follow (and to procure the adherence by the second-tier distributors of) these guidelines.
- (c) *Retail outlet location.* We seek to ensure that the retail outlets operated or supervised by our distributors and their respective second-tier distributors do not face any material competition from the concessionary retail outlets under the supervision of our regional sales companies, and that there is no over-concentration of retail outlets within any given area which may cause material competition among these outlets. Any expansion plan in retail outlets operated or supervised by our distributors must be approved by us before such expansion plan is implemented.
- (d) *Inventory level and sales flow.* Third party distributors under our direct supervision are contractually bound to provide accurate and complete sales and operational data in such form and format as may be required by us from time to time. In practice, third party distributors under our direct supervision generally report to us their weekly sales and inventory data, most of them by submitting to us the bar codes of goods sold at retail outlets under their supervision, and are required to submit to us the sales and inventory data of their second-tier distributors on a weekly basis. We also conduct random inspections of the inventory of retail outlets operated by both our third party distributors and their respective second-tier distributors to assess the level of slow-moving inventories and their sales performance. In addition, our distributors are not permitted to transfer inventories among their respective retail outlets or second-tier distributors without our approval.

Notwithstanding the above measures, we are subject to certain risks relating to our sales to our distributors. See "Risk Factors — Risks Relating to Our Business" under the headings "Our reputation, brand image and sales could be adversely affected if third party operators of retail outlets and third party distributors do not manage the retail outlets in accordance with our standards, or if disputes occur between certain of the individual regional distributors and their customers", "Our business may be affected if our third party distributors fail to perform the distribution agreements

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entered into with us or if they do not comply with applicable PRC business and tax registration requirements”, “We may not be able to monitor and evaluate the sales performance of our distributors accurately if the collection of sales and inventory data from these distributors are not timely or accurate which may affect our results of operations and financial condition”, and “Our financial performance may not be fully indicative of the sales performance of our distributors or their respective distribution network”.

Our Financial Track Record

We experienced a significant growth in revenue and profit for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Our revenue from continuing operations during these periods was RMB2,509.3 million, RMB3,698.6 million and RMB5,633.0 million, respectively, and profit from continuing operations was RMB290.3 million, RMB523.5 million and RMB614.1 million, respectively. Revenue increased in the year ended March 31, 2006 compared to the ten months ended March 31, 2005, primarily due to the cold winter in the PRC in the year ended March 31, 2006 and the effect of a sales incentive scheme initially introduced in 2004. Despite the unusually warm weather in the PRC during the 2006/2007 winter, our revenue grew significantly in the financial year ended March 31, 2007 compared to the financial year ended March 31, 2006, in part as a result of the sales contribution from our “Kangbo” and “Bingjie” brands after we terminated the brand licensing arrangements with independent third parties in the first half of 2006, and the commencement of selling the down apparel products under these two brands directly. The revenue increase in this period was also attributable to expansion of our sales force, enhancement of the efficiency of our distribution network and increased advertising and promotion efforts. The net profit attributable to equity holders of the Group during the same periods was RMB252.6 million, RMB500.8 million and RMB617.6 million respectively. Our branded down apparel business and OEM management business accounted for RMB4,980.6 million and RMB652.4 million, or 88.4% and 11.6%, respectively, of our revenue for the financial year ended March 31, 2007. Our inventories totaled RMB414.5 million, RMB528.9 million and RMB1,243.9 million as at March 31, 2005, 2006 and 2007, respectively. Our write-down/(reversal of write-down) of inventories to net realizable value totaled RMB(40.8) million for the ten months ended March 31, 2005, RMB(23.5) million for the financial year ended March 31, 2006 and RMB256.6 million for the year ended March 31, 2007. The increase in our inventories and write-down of inventories to net realizable value as of and for the financial year ended March 31, 2007 were significantly affected by the unusually warm winter in the PRC during that period. We estimate the net realizable value of our inventories based on current market conditions and historical experience of distributing and selling products of similar nature. The factors we consider in estimating the net realizable value of inventories include the estimated timing of inventories to be used or sold and estimated selling price of inventories in accordance to our sales and marketing strategies formulated with reference to the market and weather conditions as well as consumer taste and purchasing power. Our Directors are of the view that our current write-down of inventories to net realizable value reflects the Company’s best estimate and is sufficient.

See the section headed “Financial Information” for further details.

HSBC Private Equity Investment

On July 30, 2006, Olympics Investment (an investment vehicle of HSBC Private Equity) entered into an Investment Agreement, pursuant to which it subscribed for a convertible bond issued by the Company at the price of US\$20 million and extended a loan to one of our Controlling Shareholders (Kong Bo Investment) in the amount of US\$50 million. Kong Bo Investment further extended this loan to the Company on July 30, 2006. On September 22, 2006, the convertible bond was converted into 2,135 Series A Shares, and 5,336 Series B Shares were transferred to Olympics Investment from

SUMMARY

Kong Bo Investment as consideration for Olympics Investment waiving the repayment of the US\$50 million loan. Subsequent to this investment, we obtained US\$70 million (comprising of US\$20 million proceeds from the convertible bond and US\$50 million proceeds from the loan extended by Kong Bo Investment) which has been mainly used for acquisitions and capital contributions to the increased registered capital of several Group members in the PRC pursuant to the Reorganization, working capital needs and general corporate purposes. All the Series A Shares and Series B Shares will be mandatorily converted to Shares immediately prior to the Global Offering in accordance with the terms of the Investment Agreement. The preferential rights of Olympics Investment will cease upon the completion of the Global Offering. In addition, Olympics Investment has agreed not to dispose of any Shares (save for the Sale Shares) during the six-month period after the Listing Date.

Our Share Scheme

On June 14, 2007, we adopted the Share Scheme (which is not subject to the provisions of Chapter 17 of the Listing Rules) in order to attract and retain skilled and experienced personnel and motivate them to strive for the future development and expansion of the Group's business. Under the Share Scheme, on September 14, 2007, Kong Bo Investment and Olympics Investment contributed and transferred 574 ordinary shares of US\$1.00 each of the Company (prior to the sub-division of the Company's share capital) and 87 Series A Shares respectively to an appointed trustee, which will hold and deal with the shares under the Share Scheme in accordance with the instructions of the Award Committee (comprising of two members, of which each of Kong Bo Investment and Olympics Investment has a right to appoint a member). This Award Committee will determine the number of these Shares to be awarded to each selected employee, consultant, management member and Director. The Share Scheme will have a life of three years from the Listing Date.

OUR STRENGTHS

We believe that our success in the PRC down apparel industry and potential for future growth are attributable to the following principal factors:

- **Leading market position in the PRC down apparel industry** — We are the leading down apparel company in China, with a significant lead over our closest competitor in terms of market share. We believe our leading market position has enhanced our ability to:
 - obtain more favorable prices from our long-term major suppliers and contract manufacturers, thereby maintaining a competitive cost structure;
 - secure prime locations for retail outlets for relatively lower concessionaire fees compared with our competitors; and
 - further enhance brand reputation and customer loyalty.
- **Diverse brand and product portfolio based on a focused branding strategy** — We offer a wide range of down apparel products targeting various consumer segments through our core brands ("Bosideng", "Snow Flying" and "Kangbo") and our other brands ("Bingjie", "Shuangyu" and "Shangyu"). Our brand portfolio targets a wide range of consumer segments in terms of age, gender and affluence within the PRC market, which we believe enhances our ability to establish a strong foothold in the different consumer segments for down apparel products in the PRC.

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- **Extensive retail distribution network in the PRC** — Our products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. The retail distribution network is supported by an efficient delivery system.
- **Strong capability in product research, design and development** — We actively conduct research from trade exhibitions, sales performance, customer feedback, fashion-related media and have collaborated with international fashion research institutes in France and Korea to obtain first-hand information on the latest international fashion trends. Our design team is headed by Ms. Huang Qiaolian, who has approximately 20 years' experience in the industry and has received numerous awards in recognition of her design expertise.
- **Comprehensive, market-oriented and responsive supply chain management capabilities** — We believe our supply management chain, which comprises product research, design and development, procurement of raw materials, outsourced manufacturing, marketing and distribution, enables us to respond quickly to supplemental production orders and efficiently deliver products to our customers.
- **Commitment to quality control** — Our quality control team carries out inspections at each stage of the production management process in accordance with our quality control procedures. We impose stringent standards on the selection of our suppliers and contract manufacturers. In addition, we believe our OEM management business with international apparel companies has enabled us to enhance our quality control capabilities.
- **Experienced management team in the PRC down apparel industry** — We have an experienced and capable senior management team. Our Chairman and Chief Executive Officer, Mr. Gao Dekang, has over 20 years' experience in the down apparel industry, and each of our other key management personnel has on average over ten years' experience in the down apparel industry in the PRC.

OUR STRATEGY

Our principal goals are to further strengthen and expand our leading market position in the PRC down apparel industry while selectively diversifying into new products and new markets. We aim to achieve these goals through a business strategy with the following key aspects:

- **Strengthen brand differentiation, brand loyalty and reputation through targeted marketing efforts** — We intend to continue tailoring our marketing efforts to different consumer segments. We will also seek to further improve our brand image and may introduce new brands to the market in the future to fully capture growth opportunities in the increasingly affluent PRC market. We will leverage our enhanced brand equity to further strengthen the business relationships with our major suppliers, contract manufacturers and third party distributors.
- **Strengthen, expand and evaluate the retail distribution network for our branded down apparel products** — We plan to expand the number of retail outlets which are operated or supervised by ourselves and by our third party distributors and their respective second-tier distributors in the PRC. We intend to strengthen the retail distribution network

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for our branded down apparel products in the PRC through targeted expansion, selective acquisitions, alliances or joint ventures. We also intend to enhance our cost control measures by consolidating any under-performing retail outlets in the PRC and re-allocating resources to other retail outlets with better sales performance.

- **Enhance our product research, design and development capability** — We intend to expand the size and quality of our research, design and development team and to continue collaborating with international fashion design institutes. We also intend to collaborate with domestic and international renowned nanotechnology research bodies or acquire suitable companies with the relevant research capabilities and expertise.
- **Enhance supply chain management** — We plan to upgrade our management information system and establish an ERP system. We also intend to establish a quality inspection center to ensure our adherence to quality control standards at every stage of the supply chain.
- **Explore overseas expansion opportunities** — We intend to continue exploring growth opportunities beyond the PRC market. We are currently exploring opportunities to establish a greater overseas market presence in Russia, Canada and the United States through targeted expansion, selective acquisitions, alliances, joint ventures or partnerships and intend to expand our retail distribution network in such overseas markets through the increase of retail channels.
- **Diversify our business into new product lines** — We intend to selectively diversify into new product lines that are less sensitive to seasonality patterns through targeted expansion, selective alliances, joint ventures or acquisitions. In view of this, we intend to expand our brand portfolio associated with such products by the introduction of new brands through in-house development or acquisition of established external brands.

RISK FACTORS

There are certain risks involved in our operations. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the PRC down apparel industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering and our Shares. A detailed discussion of the risk factors are set forth in the section headed “Risk Factors” of this prospectus. The following is a list of the risk factors:

Risks Relating to Our Business

- Our results of operations and financial position may fluctuate due to seasonality and changes in climate in markets where we sell our products.
- Rapid changes in fashion trends, consumer preferences or spending patterns may affect our business.
- We rely on sales of down apparel products as our main source of revenue.
- Our procurement of down supplies requires significant cash outlay and our business could be adversely affected if we over-estimate market demand.
- The outbreak of avian influenza could adversely affect our sales and results of operations.

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- Infringement of the trademarks of our brands, the sale of counterfeit products and our trademark licensing arrangements may affect our reputation and profitability.
- We currently conduct most of our business activities in, and derive most of our revenue from, the PRC market.
- We are dependent on third-party suppliers for our raw materials.
- Increases in raw material prices could adversely affect our business and results of operations.
- We rely on our contract manufacturers.
- Power shortages, if experienced by our contract manufacturers, may cause an adverse impact on our operations.
- Our new product lines may not be commercially viable or successful.
- We rely on our key personnel and our ability to attract and retain qualified personnel.
- Our reputation, brand image and sales could be adversely affected if third party operators of retail outlets and third party distributors do not manage the retail outlets in accordance with our standards, or if disputes occur between certain of the individual regional distributors and their customers.
- Our business may be affected if our third party distributors fail to perform the distribution agreements entered into with us or if they do not comply with applicable PRC business and tax registration requirements.
- We may not be able to monitor and evaluate the sales performance of our distributors accurately if the collection of sales and inventory data from these distributors are not timely or accurate which may affect our results of operations and financial condition.
- Our financial performance may not be fully indicative of the sales performance of our distributors or their respective distribution network.
- We may fail to secure retail space for concessionary retail outlets under the supervision of our regional sales companies on commercially reasonable terms.
- Increase in concessionaire fees payable in consignment sales in the future may reduce our profitability.
- We are subject to certain risks relating to the transportation and warehousing of our products.
- Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public Shareholders' best interest.
- Certain of our leased properties may be subject to title encumbrances.
- We may experience significant increases in write-down of inventories to net realizable value with a sudden decrease in market demand.

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- We may be unable to obtain financing on favorable terms, or at all, to fund our ongoing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.
- Our business relies on the proper performance of our management information systems, and any malfunction for extended periods could adversely affect our business.
- We may not have insurance coverage that is adequate to cover potential liability or losses.
- If we encounter difficulties executing our geographical expansion plans, our growth prospects may be limited.
- Our future acquired businesses, if any, may not be fully integrated into our existing operations.
- We may not be able to pay any dividends on our Shares.

Risks Relating to the PRC Down Apparel Industry

- We operate in a highly competitive market.
- We face increasing competition in view of China's accession to the WTO.

Risks Relating to Conducting Business in the PRC

- Changes in the PRC's political and economic policies could have a material adverse effect on our business operations.
- Adverse changes in foreign exchange regulations or fluctuations in the value of Renminbi may adversely affect our business and results of operations.
- PRC laws and foreign exchange controls may affect our ability to receive dividends and other payments from our PRC subsidiaries.
- Failure to comply with SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.
- Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.
- Interpretation of PRC laws and regulations involves uncertainty.
- You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.
- Preferential tax treatment currently granted by the PRC Government may be ceased, and the newly enacted PRC Enterprise Income Tax Law is expected to affect the applicable tax rates currently enjoyed by us.
- We may cease to enjoy financial subsidies granted by the local government authorities.

SUMMARY

- The newly enacted PRC Enterprise Income Tax Law could affect tax exemptions on dividends received by the Company and Shareholders and increase our enterprise income tax rate.
- Acts of God, acts of war and other disasters could affect our business.

Risks Relating to the Global Offering and Our Shares

- There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.
- Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- A potential sale of Shares by our existing Shareholders could have an adverse effect on our Share price.
- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, which may provide less protection to minority Shareholders than the laws of Hong Kong or certain other jurisdictions.
- Facts and statistics in this prospectus relating to the Chinese economy and the down and non-down apparel industry in China may not be fully reliable.
- We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following presents our summary financial information. The summary consolidated/combined balance sheet data as of May 31, 2004, March 31, 2005, 2006 and 2007 and the summary consolidated/combined income statement data for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2006 and 2007 included in the following tables are derived from, and should be read in conjunction with, our audited financial statements included in the accountants' reports set forth in Appendices IA and IB. Our financial statements have been prepared in accordance with IFRS.

Basis of Presentation

We were incorporated in the Cayman Islands on July 10, 2006 as an exempted company with limited liability. Our operations are substantially conducted in the PRC through our direct or indirect subsidiaries in the PRC.

Change of control

Prior to June 1, 2004, substantially all of our business was carried out by Bosideng Corporation and its subsidiaries, which were controlled by the then ultimate controlling shareholder, Union Holdings, during the period from April 1, 2004 to May 31, 2004. Pursuant to a series of equity transfer agreements, various entities ultimately controlled by Mr. Gao Dekang and his family acquired an effective controlling interest in Bosideng Corporation and its subsidiaries as of June 1, 2004. See "Our History and Structure — Background and History" for more information. As there was a change of

SUMMARY

ultimate controlling shareholder of Bosideng Corporation and its subsidiaries subsequent to May 31, 2004, under the relevant accounting standards, the financial information for the period from April 1, 2004 to May 31, 2004 could not be combined with our financial information for the period from June 1, 2004 to March 31, 2005 and is not comparable to the financial information of the Group for the period from June 1, 2004 to March 31, 2005 and each of the two financial years ended March 31, 2006 and March 31, 2007. Appendix IA to this prospectus sets out the historical combined financial information of our Group for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, while Appendix IB to this prospectus sets out the historical consolidated financial information of Bosideng Corporation and its subsidiaries for the period from April 1, 2004 to May 31, 2004.

Reorganization

As part of our Reorganization (as detailed in the section “Our History and Structure” of this prospectus), we continued operations related to (i) the research, design and development, raw materials procurement, outsourced manufacturing, marketing and distribution (including both domestic sales within the PRC and export sales outside the PRC) of down apparel and (ii) OEM management (the “**Continuing Operations**”), and discontinued certain operations including real estate development, investments in unlisted equity securities and other trading activities (the “**Discontinued Operations**”).

In addition, as part of the Reorganization, we no longer own any production facilities and outsource the manufacture of products for our branded down apparel and OEM management businesses. Production operations previously formed part of our down apparel operations, and, accordingly, under IFRS, could not be classified as part of our Discontinued Operations. The results of our production operations have been included as part of our Continuing Operations in our combined income statement for the period from June 1, 2004 to March 31, 2005 and the financial year ended March 31, 2006.

As a result of the foregoing steps of the Reorganization, as of March 31, 2006, the relevant entities that contain assets and liabilities related to the Discontinued Operations and our production operations were deemed distributed to Mr. Gao Dekang and his family. See section A.2 of Appendix IA of this prospectus for additional details relating to these entities.

As the ultimate controlling equity holders that controlled our Group and its predecessor entities since June 1, 2004 were Mr. Gao Dekang and his family, the financial information presented in Appendix IA of this prospectus has been prepared as a reorganization of business under common control. Accordingly, the results of our predecessor entities were included in Appendix IA of this prospectus in our combined income statement, up to March 31, 2006. Accordingly, our predecessor entities were included in the combined balance sheet of our Group as of March 31, 2005, and were excluded from the combined balance sheet of our Group as of March 31, 2006 and March 31, 2007. Save for the above, our combined income statement, in Appendix IA of this prospectus, includes the results of the companies now comprising our Group for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, as if our current group structure had been in existence and remained unchanged throughout such period. Our combined balance sheets as of March 31, 2005, 2006 and 2007 in Appendix IA of this prospectus have been prepared to present the state of affairs of the companies now comprising our Group as of the respective dates as if the current group structure had been in existence as of the respective dates.

SUMMARY

Summary Revenue Breakdown

We derive revenue primarily from (i) the sale of down apparel products, either through consignment or outright sales and (ii) OEM management. The following table sets out a breakdown of our revenue from continuing operations for the periods indicated.

| | Ten months ended March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---------------------------------|------------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) |
| Branded down apparel | | | | | | |
| Outright sales | 1,287,608 | 51.3% | 2,298,430 | 62.1% | 3,487,133 | 61.9% |
| Including: | | | | | | |
| Third party distributors | 1,274,655 | 50.8% | 2,258,417 | 61.1% | 3,474,693 | 61.7% |
| Direct retail sales . . . | 12,953 | 0.5% | 40,013 | 1.0% | 12,440 | 0.2% |
| Consignment sales | 670,274 | 26.7% | 773,326 | 20.9% | 1,431,923 | 25.4% |
| Others* | 16,791 | 0.7% | 30,389 | 0.8% | 61,513 | 1.1% |
| | <u>1,974,673</u> | <u>78.7%</u> | <u>3,102,145</u> | <u>83.8%</u> | <u>4,980,569</u> | <u>88.4%</u> |
| OEM management | <u>534,624</u> | <u>21.3%</u> | <u>596,496</u> | <u>16.2%</u> | <u>652,398</u> | <u>11.6%</u> |
| Total revenue | <u>2,509,297</u> | <u>100.0%</u> | <u>3,698,641</u> | <u>100.0%</u> | <u>5,632,967</u> | <u>100.0%</u> |

* Others mainly represent sales of raw materials relating to down apparel products.

We derive a substantial amount of our branded down apparel revenue from “Bosideng”, “Snow Flying”, “Bingjie” and “Kangbo”. The following table sets out a breakdown of revenue from continuing operations derived from our branded down apparel for the periods indicated.

| | Ten months ended March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---|------------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) |
| Bosideng | 1,177,146 | 59.6% | 2,011,171 | 64.8% | 2,594,165 | 52.1% |
| Snow Flying | 711,483 | 36.0% | 1,080,522 | 34.8% | 1,486,194 | 29.8% |
| Bingjie | 21,621 | 1.1% | 986 | 0.0% | 470,007 | 9.4% |
| Kangbo | 81,634 | 4.1% | 17,137 | 0.6% | 386,253 | 7.8% |
| Other brands | 2,348 | 0.1% | 93 | 0.0% | 24,199 | 0.5% |
| Others | 16,791 | 0.9% | 30,389 | 1.0% | 61,513 | 1.2% |
| | <u>2,011,023</u> | <u>101.8%</u> | <u>3,140,298</u> | <u>101.2%</u> | <u>5,022,331</u> | <u>100.8%</u> |
| Sales rebates | <u>(36,350)</u> | <u>(1.8%)</u> | <u>(38,153)</u> | <u>(1.2%)</u> | <u>(41,762)</u> | <u>(0.8%)</u> |
| Total branded down apparel revenue | <u>1,974,673</u> | <u>100.0%</u> | <u>3,102,145</u> | <u>100.0%</u> | <u>4,980,569</u> | <u>100.0%</u> |

SUMMARY

Summary Income Statement Data

| | Bosideng Corporation and its subsidiaries | The Group | | |
|---|---|---|---|---|
| | Period from April 1, 2004 to May 31, 2004 ⁽¹⁾ RMB'000 (Consolidated) | Period from June 1, 2004 to March 31, 2005 RMB'000 (Combined) | Year ended March 31, 2006 RMB'000 (Combined) | Year ended March 31, 2007 RMB'000 (Combined) |
| Continuing operations | | | | |
| Revenue | 46,688 | 2,509,297 | 3,698,641 | 5,632,967 |
| Cost of sales | (44,765) | (1,703,047) | (2,281,600) | (3,645,509) |
| Gross profit | 1,923 | 806,250 | 1,417,041 | 1,987,458 |
| Other income | 7,045 | 50,770 | 110,604 | 62,545 |
| Other expenses | (453) | (7,336) | (2,210) | (17,612) |
| Distribution expenses | (24,596) | (385,163) | (691,151) | (1,091,761) |
| Administrative expenses | (24,273) | (31,483) | (70,155) | (85,710) |
| (Loss)/profit from operations | (40,354) | 433,038 | 764,129 | 854,920 |
| Finance income | 226 | 1,517 | 3,500 | 3,993 |
| Finance expenses | (3,820) | (20,354) | (33,723) | (34,668) |
| Net financing expenses | (3,594) | (18,837) | (30,223) | (30,675) |
| (Loss)/profit before income tax | (43,948) | 414,201 | 733,906 | 824,245 |
| Income tax benefit/(expense) | 3,350 | (123,948) | (210,372) | (210,127) |
| (Loss)/profit from continuing operations | (40,598) | 290,253 | 523,534 | 614,118 |
| Discontinued operations | | | | |
| Loss from discontinued operations (net of income tax) | — | (33,422) | (16,636) | — |
| (Loss)/profit for the period/year | (40,598) | 256,831 | 506,898 | 614,118 |
| Attributable to: | | | | |
| Equity holders | (39,528) | 252,579 | 500,786 | 617,593 |
| Minority interests | (1,070) | 4,252 | 6,112 | (3,475) |
| (Loss)/profit for the period/year | (40,598) | 256,831 | 506,898 | 614,118 |
| Dividends | 333,219 | — | 103,029 | 453,160 |
| Basic earnings per share (in RMB) | N/A⁽²⁾ | 0.05 | 0.10 | 0.12 |
| Diluted earnings per share (in RMB) | N/A⁽²⁾ | 0.05 | 0.10 | 0.11 |

Notes:

- (1) As there was a change of ultimate controlling shareholder of Bosideng Corporation and its subsidiaries subsequent to May 31, 2004, under the relevant accounting standards, the financial information for the period from April 1, 2004 to May 31, 2004 could not be combined with our financial information for the period from June 1, 2004 to March 31, 2005 and is not comparable to the financial information of the Group for the period from June 1, 2004 to March 31, 2005 and each of the two years ended March 31, 2006 and March 31, 2007. See "Financial Information — Basis of Presentation" for more information.
- (2) Basic and diluted earnings per share information is not presented for the period from April 1, 2004 to May 31, 2004 as such information is not meaningful.

SUMMARY

Summary Balance Sheet Data

| | Bosideng Corporation and its subsidiaries | The Group | | |
|--|--|-------------------------------|-------------------------------|-------------------------------|
| | As of May 31, | As of March 31, | | |
| | 2004 | 2005 | 2006 | 2007 |
| | RMB'000 (Consolidated) | RMB'000 (Combined) | RMB'000 (Combined) | RMB'000 (Combined) |
| Non-current assets | | | | |
| Property, plant and equipment | 463,431 | 443,221 | 6,656 | 30,825 |
| Land use rights | 164,233 | 50,356 | — | — |
| Investment in equity accounted investees | — | 114,120 | — | — |
| Available-for-sale financial assets | 29,000 | 29,000 | — | — |
| Deferred tax assets | 61,944 | 23,570 | — | — |
| Total non-current assets | 718,608 | 660,267 | 6,656 | 30,825 |
| Current assets | | | | |
| Inventories | 619,475 | 414,473 | 528,883 | 1,243,902 |
| Trade and other receivables | 341,329 | 457,616 | 403,831 | 896,158 |
| Receivables due from related parties | — | 34,200 | 313,635 | 468,885 |
| Pledged bank deposits | 42,167 | 17,551 | — | 7,048 |
| Cash and cash equivalents | 125,157 | 486,119 | 246,349 | 507,806 |
| Assets classified as held for sale | — | 140,141 | — | — |
| Total current assets | 1,128,128 | 1,550,100 | 1,492,698 | 3,123,799 |
| Total assets | 1,846,736 | 2,210,367 | 1,499,354 | 3,154,624 |
| Equity | | | | |
| Issued/combined capital | 111,800 | 120,408 | 5,400 | 5,797 |
| Reserves | 326,561 | 330,466 | 40,859 | 80,164 |
| Retained earnings | 73,169 | 315,431 | 332,853 | 469,237 |
| Total equity attributable to equity holders | 511,530 | 766,305 | 379,112 | 555,198 |
| Minority interests | 9,538 | 28,518 | 600 | 16,086 |
| Total equity | 521,068 | 794,823 | 379,712 | 571,284 |
| Non-current liabilities | | | | |
| Convertible redeemable preference shares | — | — | — | 127,189 |
| Total non-current liabilities | — | — | — | 127,189 |
| Current liabilities | | | | |
| Interest-bearing borrowings | 330,500 | 314,500 | — | 240,000 |
| Shareholder loans | — | — | — | 395,940 |
| Income tax payables | 98,988 | 144,080 | 105,111 | 248,233 |
| Trade and other payables | 896,180 | 921,998 | 991,383 | 1,490,526 |
| Payables due to related parties | — | 34,966 | 23,148 | 81,452 |
| Total current liabilities | 1,325,668 | 1,415,544 | 1,119,642 | 2,456,151 |
| Total liabilities | 1,325,668 | 1,415,544 | 1,119,642 | 2,583,340 |
| Total equity and liabilities | 1,846,736 | 2,210,367 | 1,499,354 | 3,154,624 |
| Net current (liabilities)/assets | (197,540) | 134,556 | 373,056 | 667,648 |
| Total assets less current liabilities | 521,068 | 794,823 | 379,712 | 698,473 |

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING MARCH 31, 2008

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to the equity holders of the Company for the year ending March 31, 2008 will not be less than RMB950 million. Our business and operations are subject to strong seasonality and changes in markets where we sell our products. Our sales volumes during the third and fourth quarters of our financial year, which ends on March 31, are generally higher than sales volumes during the first and second quarters of our financial years. Please refer to the section headed “Risk Factors” and “Financial Information — Factors affecting our results of operations” in this prospectus for details. Due to strong seasonality of our business and operations, a substantial portion of our revenue and profit of a financial year has historically been generated in the last eight months of a financial year of the Group which ends on March 31. For example, the unaudited net profit for the four months ended July 31, 2006 only accounted for approximately 8.0% of the full year net profit for the financial year ended March 31, 2007. Consistent with this pattern, a substantial portion of our forecast profit for the year ending March 31, 2008 is expected to be earned in the last eight months of the financial year. Our full year financial results for the financial year ending March 31, 2008 will be different from our forecast in the event that the actual circumstances during the forecast period, including but not limited to the general weather condition for the 2007/2008 winter in the PRC, are different from the bases and assumptions set out in Appendix III to this prospectus.

Forecast consolidated profit attributable
to the equity holders of the Company⁽¹⁾ not less than RMB950 million

Unaudited pro forma forecast
diluted earnings per Share⁽²⁾ not less than RMB0.121

Notes:

- (1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is based on the above forecast consolidated profit attributable to the equity holders of the Company for the year ending March 31, 2008 and assuming that a total of 7,870,000,000 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$5,225 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.92 per Share, being the midpoint of the indicative offer price range stated in this prospectus. We intend to use these net proceeds for the following purposes:

- approximately 30% to 40% will be used for our expansion plans both domestically and in overseas markets such as Russia, Canada and the United States (which include potential selective acquisitions, alliances, joint ventures and other strategic investments), including diversification into new product lines such as bedding products, home linen products, a selected range of non-down apparel products, and other products that are less sensitive to seasonality patterns;

SUMMARY

- approximately 15% to 20% will be used to strengthen and expand our retail distribution network, of which approximately 12% to 15% of the net proceeds will be used to open new retail outlets, and approximately 3% to 5% of the net proceeds will be used to implement an ERP system;
- approximately 5% will be used for the continual implementation of our branding strategies;
- approximately 5% will be used for research, design and development including product design, development of new materials, and establishment of a quality inspection center;
- approximately 20% to 30% will be used to repay existing bank borrowings detailed as follows:⁽¹⁾

| <u>Bank</u> | <u>Annual Interest Rate</u> | <u>Maturity</u> | <u>Amount (RMB in millions)</u> |
|--|-----------------------------|---------------------------------|---|
| Bank of Communications, Shanghai Branch | 5.6% | February to March 2008 | 300.0 |
| HSBC, Shanghai Branch | 5.7%–5.9% | November 2007 to August 2008 | 230.0 |
| DBS Bank Ltd., Hong Kong Branch ⁽²⁾ | 0.75% over LIBOR | November 2008 | 376.1 |
| Bank of Ningbo, Shanghai Branch | 5.9% | February 2008 | 200.0 |
| Xiamen International Bank, Shanghai Branch | 5.9% | February 2008 | 150.0 |
| | | | 1,256.1 |

Notes:

(1) As of July 31, 2007 (which is the latest practicable date for determining our indebtedness) and as of the Latest Practicable Date, our total outstanding amount of bank borrowings amounted to approximately RMB489.4 million and RMB1,494.1 million, respectively. See the section headed “Financial Information — Indebtedness — Borrowings” for more details of the Group’s borrowings.

(2) This bank loan is used for the repayment of a loan due to a related party, Kong Bo Investment.

- the remaining amount of approximately not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the indicative offer price range.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the offering of these additional Offer Shares of approximately HK\$799 million, after deducting the estimated underwriting fees and expenses payable by us and assuming the same midpoint of the indicative offer price range. The additional proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

SUMMARY

Although from time to time, we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we do not have any finalized understanding, commitments or agreements, and we have not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not), with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit them in short-term demand deposits and/or money market instruments.

The Selling Shareholder will be selling a portion of their Shares in the Global Offering. The net proceeds of the Global Offering to the Selling Shareholder (after deducting underwriting commissions and discretionary incentive fees and estimated expenses payable by the Selling Shareholder in connection with the Global Offering and assuming an Offer Price of HK\$2.92 per Share, being the midpoint of the indicative offer price range) will be approximately HK\$336 million. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering.

DIVIDENDS AND DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of shareholders. In addition, our Controlling Shareholders will be able to influence our dividend policy.

Subject to the above factors, we currently plan to pay annual dividends of not less than 30% of our consolidated profit attributable to Shareholders beginning from the financial year ending March 31, 2008. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable.

Prior to the completion of the Reorganization (as detailed in the section headed “Our History and Structure” of this prospectus), dividends were declared by our subsidiaries to the then shareholders for the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and two years ended March 31, 2007, which amounted to RMB333.2 million, nil, RMB103.0 million and RMB453.2 million respectively. On August 28, 2007 and September 14, 2007, we declared dividends in an aggregate amount of approximately RMB467.4 million which were financed by our internal resources and bank borrowings and paid on September 17, 2007 to our then shareholders from our retained earnings for the financial year ended March 31, 2007. You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

On September 10, 2007, the dividend payable of RMB289.4 million as of March 31, 2007 was settled in full by our Group.

SUMMARY

OFFERING STATISTICS⁽¹⁾

| | Based on an Offer Price of HK\$2.56 | Based on an Offer Price of HK\$3.28 |
|---|--|--|
| Market capitalization of our Shares ⁽²⁾ | HK\$20,147.2 million | HK\$25,813.6 million |
| Prospective price/earnings multiple | | |
| (a) pro forma fully diluted ⁽³⁾ | 20.47 times | 26.23 times |
| (b) weighted average ⁽⁴⁾ | 17.91 times | 22.95 times |
| Unaudited pro forma adjusted net tangible asset value per Share ⁽⁵⁾ | RMB0.63 (HK\$0.65) | RMB0.79 (HK\$0.82) |

Notes:

- (1) All statistics in this table assume that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 7,870,000,000 Shares expected to be in issue immediately following the Global Offering.
- (3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the financial year ending March 31, 2008 on a pro forma fully diluted basis at the indicative Offer Prices of HK\$2.56 and HK\$3.28.
- (4) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective offer prices of HK\$2.56 and HK\$3.28.
- (5) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section "Unaudited Pro Forma Financial Information" in Appendix II and on the basis of a total of 7,870,000,000 Shares, being 6,000,000,000 Shares held by existing Shareholders together with the 1,870,000,000 Shares proposed to be issued upon listing, and taking into account the indicative Offer Prices of HK\$2.56 and HK\$3.28 per Share.

DEFINITIONS

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

| | |
|---------------------------|---|
| “Affiliate” | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| “Application Form(s)” | WHITE application form(s) and YELLOW application form(s) or where the context so requires, any of them |
| “Articles of Association” | the articles of association of the Company, adopted on September 10, 2007 and as amended from time to time |
| “Board” | the board of directors of the Company |
| “Bosideng Advertising” | Changshu Bosideng Advertising Co., Ltd.* (常熟市波司登廣告有限公司), a limited liability company incorporated in the PRC on September 12, 1996, currently wholly owned by Jiangsu Bosideng. Bosideng Advertising is a member of our Group |
| “Bosideng BVI” | Bosideng International Fashion Limited (波司登國際服飾有限公司), a limited liability company incorporated in the BVI on July 11, 2006, currently wholly owned by the Company. Bosideng BVI is a member of our Group |
| “Bosideng Corporation” | Bosideng Corporation Limited by Shares* (波司登股份有限公司), a company limited by shares incorporated in the PRC on June 30, 1994, currently owned by Shanghai Bosideng Holdings Group (as to 67.54%), Dezhou Kangxin Investment Co., Ltd. (as to 19.46%), Shandong Kangbo Industry Co., Ltd. (as to 7.50%), Jiangsu Kangbo Investment Co., Ltd. (as to 5.00%) and Mr. Gao Dekang (as to 0.50%). Bosideng Corporation is a company controlled by Mr. Gao Dekang |
| “Bosideng Design Center” | Shanghai Bosideng Fashion Design Development Center Co., Ltd.* (上海波司登服裝設計開發中心有限公司), a limited liability company incorporated in the PRC on March 23, 2001, currently wholly owned by Bosideng International Fashion. Bosideng Design Center is a member of our Group |
| “Bosideng Group” | Bosideng Corporation, its shareholders, subsidiary companies and associated companies at the relevant time and, where the context so requires, (a) in respect of the period prior to the completion of the Reorganization, may include our predecessor entities, and (b) in respect of the period after the completion of the Reorganization, excludes members of the Group |

DEFINITIONS

| | |
|----------------------------------|--|
| “Bosideng Import and Export” | Changshu Bosideng Import and Export Co., Ltd.* (常熟市波司登進出口有限公司), a limited liability company incorporated in PRC on April 11, 2002, currently wholly owned by Jiangsu Bosideng. Bosideng Import and Export is a member of our Group |
| “Bosideng International Fashion” | Shanghai Bosideng International Fashion Co., Ltd.* (上海波司登國際服飾有限公司), a limited liability company incorporated in the PRC on June 23, 2005, currently wholly owned by Bosideng BVI. Bosideng International Fashion is a member of our Group |
| “business day” | a day that is not a Saturday, Sunday or public holiday in Hong Kong |
| “BVI” | the British Virgin Islands |
| “Cayman Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Broker Participant” | a person admitted to participate in CCASS as a broker participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant |
| “Changshu Bingxu” | Changshu Bingxu Fashion Co., Ltd.* (常熟冰旭服飾有限公司), a limited liability company incorporated in the PRC on October 20, 2005, currently owned by Shanghai Bosideng Holdings Group (as to 80%) and Dezhou Kangxin Investment Co., Ltd. (as to 20%). Changshu Bingxu is a company controlled by Mr. Gao Dekang |
| “China” or “PRC” | the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong |
| “CIIC” | China Industrial Information Issuing Centre* (中國行業企業信息發佈中心) |

DEFINITIONS

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| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Company” or “our Company” | Bosideng International Holdings Limited (波司登國際控股有限公司), a company incorporated in the Cayman Islands on July 10, 2006 with limited liability, currently owned by Kong Bo Investment (BVI) (as to 85.74%), Kong Bo Development (BVI) (as to 0.88%), Olympics Investment (as to 12.23%) and Gather Wealth Holdings Limited (as to 1.15%) |
| “Controlling Shareholders” | Kong Bo Investment, Kong Bo Development, Mr. Gao Dekang, Ms. Mei Dong and Mr. Gao Xiaodong |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Director(s)” | the director(s) of the Company |
| “ERP system” | the Enterprise Resource Planning system, an application system to achieve integration of business and technical information with the aim of improving business processes, including both front office and back office functions |
| “Global Offering” | the Hong Kong Public Offering and the International Placing |
| “Group” or “our Group” | our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) their predecessors |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Companies Ordinance” | the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Hong Kong dollars” or “HK dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong Public Offering” | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong |
| “Hong Kong Offer Shares” | the 198,800,000 new Shares (subject to adjustment) being offered by us for subscription pursuant to the Hong Kong Public Offering |

DEFINITIONS

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| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Hong Kong Underwriters” | the several underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” |
| “Hong Kong Underwriting Agreement” | the underwriting agreement dated September 25, 2007 relating to the Hong Kong Public Offering entered into among us, the Controlling Shareholders (other than Mr. Gao Xiaodong), the Hong Kong Underwriters and the Joint Global Coordinators |
| “HSBC Private Equity” | The HSBC Private Equity Fund 3 Limited |
| “Huang Qiaolian” | Ms. Huang Qiaolian, also known as Ms. Zhu Lin |
| “IFRS” | International Financial Reporting Standards |
| “International Placing” | the conditional placing of the International Placing Shares to institutional, professional and other investors |
| “International Placing Agreement” | the international placing agreement relating to the International Placing expected to be entered into among us, the Selling Shareholder, the Controlling Shareholders (other than Mr. Gao Xiaodong), the International Underwriters and the Joint Global Coordinators on or around October 4, 2007 |
| “International Placing Shares” | the 1,789,200,000 Shares (subject to adjustment and the Over-allotment Option), of which 1,671,200,000 Shares are to be issued by us and 118,000,000 Shares are to be offered for Sale by the Selling Shareholder |
| “International Underwriters” | the several underwriters of the International Placing |
| “Investment Agreement” | the Investment Agreement entered into by the Company, Mr. Gao Dekang, Kong Bo Investment and Olympics Investment dated July 30, 2006 (as amended on September 5, 2006) |
| “Jiangsu Bosideng” | Jiangsu Bosideng Down Wear Limited* (江蘇波司登羽絨服裝有限公司), a limited liability company incorporated in the PRC on March 30, 2006, currently owned by Bosideng BVI (as to 49%) and Bosideng International Fashion (as to 51%). Jiangsu Bosideng is a member of our Group |
| “Jiangsu Xuezhongfei” | Jiangsu Xuezhongfei Apparels Manufacturing Co., Ltd.* (江蘇雪中飛製衣有限公司), a limited liability company incorporated in PRC on September 24, 1997, currently wholly owned by Bosideng Corporation. Jiangsu Xuezhongfei is a company controlled by Mr. Gao Dekang |

DEFINITIONS

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| “Jinan Jiahua” | Jinan Jiahua Shopping Square Group Co., Ltd. by Share* (濟南嘉華購物廣場集團股份有限公司), a limited liability company incorporated in the PRC on June 4, 1999, currently owned by Shenzhen Jiahe Weiye Investment & Development Co., Ltd.* (as to 53.2%), Jiangsu Kangbo Investment Co., Ltd. (as to 18.3%), Dezhou Kangxin Industry Co., Ltd. (as to 16.7%), Jinan Hualian Store Group Company Limited by Shares* (as to 3.8%), and Labour Union Committee of Jinan Hualian Store Group Company Limited by Shares* (as to 8.0%) |
| “Joint Global Coordinators”, “Joint Bookrunners”, “Joint Sponsors” or “Joint Lead Managers” | Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited (in alphabetical order) |
| “Kong Bo Development” | Kong Bo Development Limited (康博發展有限公司), a limited liability company incorporated in the BVI on June 28, 2006 wholly-owned by Ms. Mei Dong |
| “Kong Bo Investment” | Kong Bo Investment Limited (康博投資有限公司), a limited liability company incorporated in the BVI on June 28, 2006, owned by Mr. Gao Dekang (as to 95%) and by Mr. Gao Xiaodong (as to 5%) |
| “Latest Practicable Date” | September 14, 2007, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus |
| “Listing Date” | the date, expected to be on October 11, 2007, on which dealings in the Shares first commence on the Hong Kong Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “Memorandum of Association” | the memorandum of association of our Company |
| “Ministry of Commerce” | Ministry of Commerce of the PRC |
| “OEM” | original equipment manufacturing |
| “Offer Price” | the final Hong Kong dollar price per Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering |
| “Offer Shares” | the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option |
| “Olympics Investment” | Shanghai Olympics Investment Holdings Company Limited, an investment vehicle of HSBC Private Equity |

DEFINITIONS

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| “Over-allotment Option” | the option expected to be granted by us to the Joint Global Coordinators exercisable under the International Placing Agreement pursuant to which we may be required by the Joint Global Coordinators to issue up to an aggregate of 280,500,000 additional Shares, representing in aggregate approximately 14.11% of the Offer Shares initially available under the Global Offering, at the Offer Price |
| “PBOC” | the People’s Bank of China (中國人民銀行), the central bank of the PRC |
| “PRC Government” or “State” | the central government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them |
| “Parent Group” | Mr. Gao Dekang and his associates, other than members of the Group (as defined for the sole purpose of the section headed “Relationship with Controlling Shareholders and Connected Transactions”) |
| “Performance Adjustment Option” | the call option granted by Kong Bo Investment to Olympics Investment, as further described in the section headed “Our History and Structure — Performance Adjustment Option granted by Kong Bo Investment” |
| “Price Determination Date” | the date, expected to be on or around October 4, 2007 but no later than October 8, 2007, on which the Offer Price is fixed for the purposes of the Global Offering |
| “Put Option” | the put option granted by Kong Bo Investment to Olympics Investment, as further described in the section headed “Our History and Structure — Put Option granted by Kong Bo Investment” |
| “Qualified Institutional Buyers” or “QIBs” | qualified institutional buyers within the meaning of Rule 144A |
| “Regulation S” | Regulation S under the US Securities Act |
| “Renminbi” or “RMB” | the lawful currency for the time being of the PRC |
| “Reorganization” | the reorganization of the businesses comprising our Group, as described in the section entitled “Our History and Structure” |
| “Repurchase Mandate” | the repurchase mandate granted to the Board pursuant to a Shareholders’ resolution as described in Appendix VIII |
| “Rule 144A” | Rule 144A under the US Securities Act |

DEFINITIONS

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| “Sale Shares” | the 118,000,000 Offer Shares initially being offered for sale by the Selling Shareholder at the final Offer Price under the International Placing |
| “SAFE” | State Administration of Foreign Exchange of the PRC |
| “Securities and Futures Commission” or “SFC” | the Securities and Futures Commission of Hong Kong |
| “Selling Shareholder” | Olympics Investment |
| “Series A Shares” | the Series A Voting Convertible Redeemable Preference Shares of US\$0.0001 each in the capital of the Company |
| “Series B Shares” | the Series B Voting Convertible Preference Shares of US\$0.0001 each in the capital of the Company |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shanghai Bingjie” | Shanghai Bingjie Fashion Co., Ltd.* (上海冰洁服飾有限公司), a limited liability company incorporated in the PRC on April 21, 1999, currently owned by Bosideng BVI (as to 49%) and Bosideng International Fashion (as to 51%). Shanghai Bingjie (previously known as “Shanghai Bosideng Fashion Co., Ltd.”* (上海波司登服飾有限公司) or Shanghai Bosideng) is a member of our Group |
| “Shandong Bosideng” | Shandong Bosideng Fashion Co., Ltd.* (山東波司登服飾有限公司), a limited liability company incorporated in the PRC on May 17, 2006, currently owned by Bosideng BVI (as to 49%) and Bosideng International Fashion (as to 51%). Shandong Bosideng is a member of our Group |
| “Shanghai Bosideng Holdings Group” | Shanghai Bosideng Holdings Group Co., Ltd.* (上海波司登控股集團有限公司) (previously known as Dezhou Dekang Investment Co., Ltd. 德州德康投資有限公司), a limited liability company incorporated in the PRC on April 22, 2004, currently owned by Mr. Gao Dekang (as to 69.55%), Dezhou Kangxin Investment Co., Ltd. (as to 24.36%), and Jiangsu Kangbo Investment Co., Ltd. (as to 6.09%). Shanghai Bosideng Holdings Group is a company controlled by Mr. Gao Dekang |
| “Shanghai Kangbo” | Shanghai Kangbo International Trading Co., Ltd.* (上海康波國際貿易有限公司), a limited liability company incorporated in the PRC on November 6, 2000, currently owned by Shanghai Bingjie (as to 90%) and Shanghai International Bidding Company (as to 10%). Shanghai Kangbo is a member of our Group |

DEFINITIONS

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| “Shanghai Kangbo Feida” | Shanghai Kangbo Feida Apparels Co., Ltd.* (上海康博飛達服裝有限公司), a limited liability company incorporated in the PRC on May 26, 2005, owned by Bosideng Corporation (as to 55%) and Shanghai Feida Down Apparel Clothing Factory* (as to 45%). Shanghai Kangbo Feida is a company controlled by Mr. Gao Dekang |
| “Shanghai Shuangyu” | Shanghai Shuangyu Fashion Co., Ltd.* (上海雙羽服飾有限公司), a limited liability company incorporated in the PRC on June 28, 2006, currently owned by Bosideng BVI (as to 25%) and Bosideng International Fashion (as to 75%). Shanghai Shuangyu is a member of our Group |
| “Share(s)” | ordinary share(s) with nominal value of US\$0.00001 each in the share capital of our Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Shareholders’ Agreement” | the Shareholders’ Agreement entered into by the Company, Olympics Investment, Kong Bo Investment, Kong Bo Development, Mr. Gao Dekang, Ms, Mei Dong and Mr. Gao Xiaodong dated July 30, 2006 (as amended on September 5, 2006 and September 14, 2007) |
| “Share Option Scheme” | the share option scheme conditionally adopted by the Company pursuant to a resolution passed by the Shareholders on September 10, 2007, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix VIII to this prospectus |
| “Share Scheme” | the share scheme of the Company, the principal terms of which are summarized in the section headed “Share Scheme” in Appendix VIII to this prospectus |
| “Stabilizing Manager” | Morgan Stanley Asia Limited |
| “Suzhou Shuncheng” | Suzhou Shuncheng Investment Management Co., Ltd.* (蘇州順成投資管理有限公司), a limited liability company incorporated in the PRC on February 26, 2001, currently owned by Shanghai Bosideng Holdings Group (as to 95.74%) and Dezhou Kangxin Investment Co., Ltd. (as to 4.26%). Suzhou Shuncheng has been a company controlled by Mr. Gao Dekang since February 1, 2005 |
| “Underwriters” | the Hong Kong Underwriters and the International Underwriters |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Placing Agreement |

DEFINITIONS

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| “Union Holdings” | China Union Holdings Ltd.* (深圳華聯控股股份有限公司), its former name being Shenzhen Huizhong Chemical Fiber Industrial Co., Ltd. by Shares* (深圳市惠中化纖實業股份有限公司), a company limited by shares incorporated in PRC on November 11, 1993 and listed on the Shenzhen Stock Exchange (000036). Union Holdings is a third party independent from the Group |
| “United States” or “US” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “US\$” or “US dollars” | United States dollars, the lawful currency of the United States |
| “US Securities Act” | the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “we”, “us” or “our” | our Company or our Group (as the context may require) |
| “Zhejiang Sanhong” | Zhejiang Sanhong International Feather Co., Ltd.* (浙江三弘國際羽毛有限公司), a limited liability company incorporated in PRC on March 30, 1994, currently wholly owned by Hong Kong Sanhong International Co., Ltd.*. Zhejiang Sanhong is a third party independent from the Group |

The terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

* denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only

RISK FACTORS

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares, which may not be typically associated with investing in equity securities of companies from other jurisdictions. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected and the market price of the Offer Shares could fall significantly.

RISKS RELATING TO OUR BUSINESS

Our results of operations and financial position may fluctuate due to seasonality and changes in climate in markets where we sell our products.

We have experienced seasonal fluctuations in our revenue as our products and business are sensitive to changes in temperature and unpredictable weather patterns in markets where we sell our products. Due to the strong seasonality of our business, our sales are generally highest from October to February of the following year, which we consider to be our peak sales season. On the other hand, our sales are generally lowest from March to May before we enter into our off-peak sales season from June to September. As such, our sales volumes during the third and fourth quarters of our financial year, which ends on March 31, are generally higher than sales volumes during the first and second quarters of our financial year. For the same reason, a substantial portion of our revenue and profit is generated in the last eight months of the Group's financial year which ends on March 31.

Furthermore, any changes in climate resulting in warmer winters (and in particular during our peak sales period) in the PRC may adversely affect consumer demand for our down apparel products, which in turn may affect our sales inventory obsolescence. For example, for the financial year ended March 31, 2007, China experienced an unusually warm winter season. Our inventories increased by 135.2% from RMB528.9 million as of March 31, 2006 to RMB1,243.9 million as of March 31, 2007. Write-down of inventories to net realizable value of RMB256.6 million was recorded for the year ended March 31, 2007, compared to a reversal of RMB23.5 million recorded for the year ended March 31, 2006. Please see the section headed "Financial Information — Inventory Analysis" for more details. Our trade and other receivables and trade and other payables were also significantly affected during this period. We believe that the unusually warm winter in the PRC contributed significantly to these changes in our results of operations and financial position. We cannot assure you that adverse climate changes in markets where we sell our products will not adversely affect our operational and financial performance in the future.

In addition, for the foregoing reasons, comparisons of sales volumes and operating results between different periods within the same financial year, between same periods in different financial years or between different financial years, may not be meaningful and should not be relied on as indicators of our future performance.

Rapid changes in fashion trends, consumer preferences or spending patterns may affect our business.

We believe that our success depends largely on our ability to originate and define products and fashion trends as well as to anticipate, gauge and respond to changing consumer demands in a timely manner. There can be no assurance that we will be able to continue to research, design and develop products which appeal to consumers or successfully meet the constantly changing consumer demands in the future. Our failure to anticipate, identify and respond effectively to the changing

RISK FACTORS

consumer demands or fashion trends could adversely affect the level of acceptance of our products by our customers and our end-consumers, which in turn could adversely affect our brand image and results of our operations.

In addition, changes in economic conditions may significantly affect consumer spending patterns. Purchases of apparel tend to decline during periods of recessions in the general economy. Uncertainties regarding future economic prospects could also adversely affect consumer spending habits. Accordingly, if economic conditions deteriorate significantly in our primary markets, particularly in the PRC, our financial condition and results of operations may be materially and adversely affected.

We rely on sales of down apparel products as our main source of revenue.

Revenue derived from sales of our down apparel business accounted for approximately 78.7%, 83.9% and 88.4%, respectively, of our revenue for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Although as part of our strategy, we intend to diversify into non-down apparel products, there can be no assurance that our efforts will be successful. Even if our efforts in diversifying into non-down apparel products prove to be successful, a substantial proportion of our revenue is nonetheless expected to continue to be generated from sales of down apparel products. Any material adverse changes in consumer preferences or spending patterns, raw material prices, or the demand for, or price of, down apparel, may adversely affect our Group's operational and financial condition.

Our procurement of down supplies requires significant cash outlay and our business could be adversely affected if we over-estimate market demand.

We allocate a significant amount of financial resources in our down procurement. In order to provide sufficient lead time for the rearing of ducks and geese (from which down is derived) and to obtain better pricing terms in the event that we anticipate any price increases in our down supply, we make significant advance orders for down with our main suppliers three to four months before commencement of our outsourced manufacturing and before our production orders are finalized. In order to secure such advanced orders, we usually pay our down suppliers a deposit of approximately 15% to 30% of the total purchase price. If we over-estimate market demand of our down apparel products and we fail to generate sufficient sales due to factors such as changes in consumer preferences, spending patterns or climate changes, our financial conditions and profitability could be materially and adversely affected.

The outbreak of avian influenza could adversely affect our sales and results of operations.

Our business and our industry depend on the continued acceptance by our consumers for down-based products and the continued availability of down at commercially reasonable prices. As a result, an outbreak of avian influenza and similar communicable diseases could severely affect our business and our industry. In particular, an outbreak of avian influenza may result in the mass extermination of ducks and geese, from which down is derived, in the affected areas, which will lead to a decline in the availability of down. In addition, there may be generally a decline in the supply of workers who are willing to work with ducks and geese during the period of an avian influenza outbreak, which could also lead to a decline in down supply. Any significant decline in down supply in the market will generally lead to increases in down prices. Furthermore, our sales may decline significantly if our consumers perceive down-based products as unsafe. For the foregoing reasons, any recurrence of avian influenza or any similar communicable diseases may materially and adversely affect our business, profitability, financial condition and results of operations.

RISK FACTORS

Infringement of the trademarks of our brands, the sale of counterfeit products and our trademark licensing arrangements may affect our reputation and profitability.

We believe the trademarks associated with our brands are important to our success and competitiveness and recognize the importance of registering our brands as trademarks for protection against infringement. As of the Latest Practicable Date, we have maintained international registrations of our trademarks in approximately 50 countries and regions, as well as individual registrations in 23 countries and regions. We also owned a total of 367 registered trademarks and have submitted or acquired applications for the registration of 141 additional trademarks as of the Latest Practicable Date. As of the Latest Practicable Date, we were not aware of any material violations or infringements of our trademarks and intellectual property rights. However, we cannot assure you that the actions taken by us will be sufficient to protect our trademarks. The success of our applications for trademark registration depends on a number of factors, and there is no guarantee that all our trademarks will be successfully registered. It is possible that third parties may seek to initiate proceedings against us for infringement of their intellectual property rights through the use of our trademarks. In addition, we may initiate trademark infringement proceedings to defend the ownership of our trademarks. These proceedings may be costly and divert management personnel from their normal responsibilities, and the outcomes of these proceedings are difficult to predict. As many of our trademark applications are currently under review in the PRC, it is not possible to determine whether our trademark infringe, or will infringe on the intellectual property rights of third parties. If we are unsuccessful in defending any claim against us for infringement of others' trademark, we may be required to take certain actions including paying monetary damages or altering or ceasing to use our trademarks, any of which could adversely affect our business and reputation.

We cannot assure you that there will be no unauthorized sale of counterfeit products of our brands in our authorized or other third party retail outlets. We are aware that small quantities of counterfeit products bearing the "Bosideng" brand name exist in the PRC. Sale of such counterfeit products may result in a decrease in the sales of our products, an erosion of our goodwill, brand image and reputation, and a loss of consumer confidence in the image of our brands, thereby adversely affecting our financial condition and results of operations. Please see section headed "Business — Counterfeit products" for further details.

In addition, our brand names, or names similar to our brand names, may be registered or in use by third parties in markets we may wish to enter. As a result, we may have to incur significant expenses to acquire the right to use our brand names in such markets to avoid infringement of any third party intellectual property rights. If we are unable to do so, we may be prevented from entering such markets unless we use our other or new brands for such markets.

We also license certain of our brands such as "Bosideng" and "Snow Flying" to third parties for the manufacturing and sale of non-down apparel products. In the event that our brand licensees fail to manage our licensed brands in accordance with our required standards of brand management and sales performance, or if our brand licensees encounter operational or financial difficulties, or if disputes occur between these brand licensees and their respective suppliers or customers, our brand image, reputation and sales could be adversely affected even if such licensing arrangements are terminated.

RISK FACTORS

We currently conduct most of our business activities in, and derive most of our revenue from, the PRC market.

We currently conduct substantially all of our business activities in the PRC, and derive most of our revenue from the PRC. As such, a number of factors affecting our business and results of operations, to the extent they are applicable to the PRC, are particularly important. These factors include:

- weather patterns and climate changes in the PRC;
- changes in fashion trends and consumer preferences in the PRC;
- economic conditions in the PRC; and
- the availability of down supplies at commercially acceptable prices in the PRC.

An adverse change in these and any other factors that adversely affect our business activities and revenue derived from the PRC may have a material adverse effect on our results of operations.

We are dependent on third-party suppliers for our raw materials.

The success of our business depends on our ability to obtain from our suppliers sufficient quantities of quality down, fabric and ancillary materials at commercially acceptable prices and in a timely manner. Our suppliers are relatively highly concentrated, reflecting our efforts to consolidate our purchases to manage cost. Purchases from our five largest suppliers accounted for approximately 56.6%, 46.0% and 44.0%, respectively, of the total raw material purchases for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, and accounted for approximately 23.7%, 26.7% and 30.8%, respectively, of the total cost of sales for the same periods. While we maintain long-term relationships with many of our largest suppliers, we do not enter into long-term agreements with them. As a result, failure to maintain good relationships with our suppliers or unfavorable fluctuations in the price, quality or availability of these raw materials could have a negative effect on our profit margins and our ability to meet the demands of our customers. Furthermore, we cannot assure you that our suppliers will not consolidate their businesses to obtain a stronger bargaining position in their supply contract negotiations with us. If we are unable to maintain our existing and future supply arrangements to procure our raw materials on commercially acceptable terms, or at all, our costs of sales may increase and our profitability may be materially and adversely affected.

If the supply of our raw materials substantially decreases or if there are significant increases in prices, we may incur additional costs to acquire sufficient quantities of these materials in order to maintain our product offering schedules, thereby decreasing our profit margins. We may not be able to pass along these cost increases to our customers due to competitive and marketing pressures. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient raw materials when required, or at all, the resulting loss of production volume could materially and adversely affect our ability to deliver products to our customers in a timely manner, if at all, and materially and adversely harm our reputation, our financial performance and results of operations.

RISK FACTORS

Increases in raw material prices could adversely affect our business and results of operations.

Our principal raw materials, namely down and fabric, are subject to price volatility due to external market and environmental conditions. Down prices are affected by factors such as the supply of ducks and geese, and avian influenza outbreaks. In particular, save for the unusually warm winter in the financial year ended March 31, 2007, while the market for down apparel products has increased in recent years, the supply of ducks and geese has remained relatively stable, which resulted in increasing pressure on the price of down. Fabric prices may be affected by crude oil prices as crude oil is a primary raw material of fabric. The average prices we paid for our down supplies for the period from June 1, 2005 to March 31, 2006 and the two financial years ended March 31, 2007 were RMB237,120 per ton, RMB242,810 per ton and RMB240,460 per ton, respectively, while the average prices we paid for our fabric supplies were RMB11.64 per meter, RMB10.53 per meter and RMB10.92 per meter, respectively, for the same periods. If our raw material prices are to increase and if we are not able to fully pass on the price increases to our customers, our gross margins, profitability and results of operations may be adversely affected.

We rely on our contract manufacturers.

We outsource the manufacturing of our products to our contract manufacturers. As at March 31, 2007, we outsourced the manufacturing of our products to 331 contract manufacturers (of which five are affiliates of the Bosideng Group). We may not always be able to find contract manufacturers operating at a standard acceptable to us. Our contract manufacturers may not always be able to provide us with products of sufficiently high quality in a sufficient quantity in a timely manner and at a competitive price. We may, from time to time, reject products that do not meet our specifications, resulting in potential delays to our customers. In addition, if there are significant increases in the prices quoted by our contract manufacturers, we may not be able to fully pass these increases on to our customers due to competitive pricing pressures. In such cases, we may have to seek alternative contract manufacturers with comparable prices and products which may result in delivery delays to our customers. If we are unable to locate suitable alternative contract manufacturers or manufacture these products internally, we may have to cease sales of such items, thus materially and adversely affecting our financial performance and results of operations.

Power shortages, if experienced by our contract manufacturers, may cause an adverse impact on our operations.

Our contract manufacturers consume substantial amounts of electricity in their manufacturing process. Some of our contract manufacturers may maintain backup power systems for the purpose of providing electricity to their machinery and equipment until they can be safely turned off or switched to backup electricity supplies in order to reduce the loss of work-in-progress and to facilitate smooth resumption of electricity supplies. However, there can be no assurance that contract manufacturers will always have adequate supplies of electricity to meet their requirements or that our operating results, business or financial condition will not be adversely affected as a result of power shortages experienced by our contract manufacturers.

Our new product lines may not be commercially viable or successful.

As part of our strategy, we plan to use approximately 30% to 40% of the net proceeds from the Global Offering to, among other things, diversify into other products (such as bedding products, home linen products and a selected range of non-down apparel products) and make potential selective acquisitions, form business alliances or joint ventures or make other strategic investments. The development of such new product lines requires us to allocate significant operational and financial

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resources. In addition, the development of these products may require management and technical expertise which are significantly different from that required for our current product lines. We cannot assure you that we will have the requisite resources and expertise to undertake such developments. If our efforts are unsuccessful, our brand image could be eroded, and our financial condition and results of operations could be adversely affected.

We rely on our key personnel and our ability to attract and retain qualified personnel.

We depend on the continued efforts of our senior management team and other key employees for our success. We cannot assure you that any of our key employees will not voluntarily terminate his or her employment with us. The loss of service of any of our key management, in particular Mr. Gao Dekang, our founder, Chairman and Chief Executive Officer, could impair our ability to operate and make it difficult to execute our growth strategies. We may not be able to replace such persons within a reasonable period of time or with another person of equivalent expertise and experience, with the result that our business may be severely disrupted and our financial condition impaired.

Our continued success will also depend on our ability to attract and retain qualified management, administrative, design, procurement and retail distribution personnel to manage our existing operations and future growth. Qualified individuals are in high demand and we may not be able to successfully attract, assimilate or retain all the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot fully assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain qualified personnel and any increase in staffing costs to retain such personnel could have a negative impact on our ability to maintain our competitive position and to grow our business and our financial condition and results of operations could be materially and adversely affected as a result.

Our reputation, brand image and sales could be adversely affected if third party operators of retail outlets and third party distributors do not manage the retail outlets in accordance with our standards, or if disputes occur between certain of the individual regional distributors and their customers.

We have dedicated resources to the implementation of brand management policies through concessionary retail outlets under the supervision of our regional sales companies, and through collaboration with third party distributors, to manage various aspects of the retail outlets for our branded down apparel products. See the section headed “Business — Sales and Distribution — Brand management at retail outlets” for further details. Accordingly, we require the retail outlets for our branded down apparel products to adopt a stipulated décor and design that is distinctive to our products and brand portfolio. Design and layout guidelines relating to color, merchandise display, price displays and furnishings ensure that our brands convey a consistent image. We also collaborate with third party operators of retail outlets for our branded down apparel products and third party distributors to conduct training sessions with retail personnel on topics such as product and brand knowledge and customer service to ensure that they maintain our service standards. However, our reputation, brand image and sales may be damaged if the third party operators of retail outlets for our branded down apparel products or third party distributors do not manage the retail outlets in accordance with our standards, and our sales and results of operations may be adversely affected as a result. In addition, we conduct outright sales with third party distributors who distribute our products through specialty stores, department stores, supermarkets and hypermarkets and branded down apparel sales halls. See the section headed “Business — Sales and Distribution — Methods of Sales — Outright sales” for further details. Certain of these third party distributors are individual regional distributors who are contractually permitted to act in our name. In the event that disputes occur

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between these individual regional distributors and their customers, we may be held liable for any action which may be brought against these individual regional distributors. Consequently, our brand image, reputation and sales could be adversely affected.

Our business may be affected if our third party distributors fail to perform the distribution agreements entered into with us or if they do not comply with applicable PRC business and tax registration requirements.

We enter into distribution agreements with third party distributors pursuant to which distributors purchase our products on an outright basis and further offer our products either directly or indirectly at specialty stores or concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. See the section headed “Business — Sales and Distribution — Third Party Distributors” for further details.

As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets (namely specialty stores and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls), of which 5,823 retail outlets sourced our products through third party distributors. We therefore rely on our network of third party distributors, most of whom are individuals, to distribute our products to retail outlets across the PRC. In order for an individual to carry on a distribution business, the individuals are required to perform certain PRC business and tax registration procedures, which generally take one to two months to complete. As of the Latest Practicable Date, we entered into distribution agreements with approximately 609 individuals who had not completed such business and tax registration procedures. See the section headed “Business — Sales and Distribution — Third Party Distributors” for further details. Under PRC law, any distribution contract entered into with an individual who does not hold a valid business or tax registration certificate in the PRC may be deemed invalid and unenforceable. If any of our third party distributors who carry on their trade as individuals fail to perform the requisite PRC business and tax registration procedures, we may not be able to enforce the terms of our distribution agreement with the relevant individual distributor in the event that such distributor fails to or chooses not to perform his or her contractual obligations. Our PRC legal advisor has advised that transactions with such individual distributor under the respective distribution agreement may be null and void such that the individual distributor is required to return all unsold goods and compensate the Group in an amount equivalent to the purchase amount of all sold goods. In addition, if there are any defective unsold goods which are consequently returned to the Group, the individual distributor is liable for losses suffered by the Group as a result of such defects caused by such individual distributors. See the section headed “Business — Sales and Distribution — Third Party Distributors” for more details. We will use our reasonable endeavors to procure the relevant individual distributors to complete the requisite business and tax registration procedures as soon as practicable but no later than December 31, 2007. However, there is no assurance that our business operations and financial performance will not be adversely affected as a result of our contractual relationship (or invalidity thereof) with individual distributors without business or tax registration.

We may not be able to monitor and evaluate the sales performance of our distributors accurately if the collection of sales and inventory data from these distributors are not timely or accurate which may affect our results of operations and financial condition.

We maintain a computerized management information system through which we collect sales and inventory data on a weekly basis from our regional sales companies as well as third party distributors under our direct supervision. Our distributors are contractually bound to provide accurate and complete sales and operational data in such form and format as may be required by us from time to time. In practice, in order to monitor the sales and inventory of the retail outlets operated by third

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party distributors and their respective second-tier distributors, we require third party distributors under our direct supervision to submit (and to procure the submission by their second-tier distributors of) sales and inventory data of retail outlets under the respective supervision of these third party distributors and their respective second-tier distributors on a weekly basis. See the section headed “Business — Inventory Control — Management of inventory levels” for further details. We have revised our standard distribution agreement to provide for clearer and more specific requirements for all third party distributors under our direct supervision to submit accurate and complete sales and operational information of such third party distributors and their respective second-tier distributors, including but not limited to sales and inventory data, in such form and format as we require, on a weekly basis and from time to time as may be required by us. We intend to use our reasonable endeavors to procure the signing of these revised agreements with all distributors under our supervision by December 31, 2007.

We cannot control the accuracy and completeness of these sales and inventory data stored within our management information system since such data is dependent on the timely reporting of such data by third party distributors and their respective second-tier distributors. If these distributors do not collect and report sales and inventory data to us in a timely manner, or at all, or if such collected data are not accurate, we may not be able to accurately monitor and evaluate the sales performance of our third party distributors and their respective second-tier distributors. In addition, we take into account these sales and inventory data from third party distributors and second-tier distributors in planning various aspects of operations, such as outsourced manufacturing, procurement as well as sales and marketing. Inaccuracies in these data may adversely affect the accuracy of our operating plans. If we plan our operations based on inaccurate sales and inventory data for an extended period of time, our results of operation and financial condition may be adversely affected.

Our financial performance may not be fully indicative of the sales performance of our distributors or their respective distribution network.

Under agreements with third party distributors under our direct supervision, we have the contractual right to monitor the sales performance and manage these distributors, their respective second-tier distributors, and the retail outlets operated or supervised by them through measures relating to retail pricing, brand image at retail outlets, location of retail outlets and inventory level and sales flow. See the sections headed “Business — Sales and Distribution — Brand management at retail outlets”, “Business — Sales and Distribution — Pricing Strategy” and “Business — Management Information System” for details. However, our distributors, their respective second-tier distributors, and the retail outlets which they supervise or operate may, for whatever reason, experience difficulties in selling the products purchased from us in the retail market. Consequently, our financial performance and results of operations may not be fully indicative of the sales performance of distributors under our direct supervision and their respective second-tier distributors. These distributors may resort to liquidating their excessive inventory build-up through aggressive discounts in breach of our pricing policy, thereby having an adverse effect on our brand equity. Furthermore, difficulties experienced by our distributors, their respective second-tier distributors, and the retail outlets which they supervise or operate may lead to their reduced purchases from us in the future, thereby adversely affecting our financial condition and results of operation.

We may fail to secure retail space for concessionary retail outlets under the supervision of our regional sales companies on commercially reasonable terms.

For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, the total revenue generated by consignment sales (through the concessionary retail outlets under the supervision of our regional sales companies) was RMB670.3 million, RMB773.3 million and

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RMB1,431.9 million, respectively, which comprised 33.9%, 24.9% and 28.8%, respectively, of our total down apparel sales revenue for the same period. For concessionary retail outlets under the supervision of our regional sales companies, we typically enter into concessionaire agreements to obtain retail space in department stores, supermarkets and hypermarkets and branded down apparel sales halls. We cannot assure you that we will be able to obtain retail space on commercially acceptable terms. Nor can we assure you that we will be able to renew our existing concessionaire agreements upon expiry or on terms and conditions acceptable to us. If such agreements are not renewed, we may not be able to find alternative premises located in areas that offer similar business environments, and our competitors may move into such retail spaces previously occupied by us. As a result, our operating costs may increase, which may lead to a decline in our profitability.

Increase in concessionaire fees payable in consignment sales in the future may reduce our profitability.

We sell our down apparel products on a consignment basis mainly through department stores, supermarkets and hypermarkets and branded down apparel sales halls, and on an outright basis to three specialty stores in Changshu, Jiangsu Province directly operated by us, and to third party distributors who directly or indirectly distribute our products through specialty stores as well as concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we generated revenue from consignment sales for our branded down apparel business of RMB670.3 million, RMB773.3 million and RMB1,431.9 million, respectively, representing 33.9%, 24.9% and 28.8%, respectively, of our total down apparel sales revenue for the same period. For the same period, we generated revenue from outright sales for our branded down apparel business of RMB1,287.6 million, RMB2,298.4 million and RMB3,487.1 million, respectively, representing 65.2%, 74.0% and 70.0%, respectively, of our revenue for our total down apparel sales revenue for the same period. Under consignment sales arrangements, we pay the third party operator of the relevant retail outlet concessionaire fees calculated as a percentage of our monthly sales receipts. In comparison, outright sales arrangements do not require any deduction of concessionaire fees from payments received from third party distributors. Concessionaire fees comprise a significant portion of our distribution expenses, amounting to 32.3%, 27.7% and 27.4% of our distribution expenses for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, respectively. Accordingly, any increase in concessionaire fees in the future will cause an increase in our distribution expenses and may reduce our profitability. In addition, our revenue and profitability may be affected by the proportion of consignment sales compared with the proportion of outright sales within our branded down apparel business.

We are subject to certain risks relating to the transportation and warehousing of our products.

The delivery of finished products from our headquarters to the leased warehouses of our regional sales companies is conducted by third party transport operators. Such delivery services could be suspended and therefore interrupt the supply of our finished products to third party distributors and concessionary retail outlets under the supervision of our regional sales companies (especially during our peak season for sales) if unforeseen events occur which are beyond our control, such as poor handling and damage to our finished products, transportation bottlenecks, natural disasters or labor strikes. If our finished products are not delivered to our leased warehouses on time, or are delivered in a damaged state, we may experience a delay in delivery of our products to third party distributors and concessionary retail outlets under the supervision of our regional sales companies. We are not required to pay compensation for such delayed deliveries. However, our market reputation and profitability could be materially and adversely affected.

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In addition, we typically store our raw materials in leased warehouses temporarily for random quality inspection before they are delivered to contract manufacturers. Similarly, finished products are also stored in our leased warehouses of our headquarters and regional sales companies before being subsequently delivered. If fire or other accidents occur, causing damages to our raw materials and products, we may be unable to supply finished products to our distribution channels on time, and our market reputation and profitability could be materially and adversely affected.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public Shareholders' best interest.

Immediately upon completion of the Global Offering, our Controlling Shareholders will, in aggregate, beneficially own approximately 66.0% of our issued share capital, if the Over-allotment Option is not exercised, or approximately 63.8% if the Over-allotment Option is exercised in full. Accordingly, our Controlling Shareholders, through their voting power at Shareholders' meetings and their delegates on our Board, will be in a position to exert significant influence over our management and corporate policies, including our development strategies, capital expenditure and distribution plans. In addition, our Controlling Shareholders may cause us to implement corporate transactions which might not be in, or may conflict with, our other Shareholders' best interests. In particular, our Controlling Shareholders are able to:

- subject to applicable laws and regulations, cause our Board to act in a manner that may not be in the best interests of our other Shareholders;
- subject to the provisions of our Articles of Association, cause us to adopt amendments to our Articles of Association, including amendments that are not in the best interests of our other Shareholders; or
- otherwise determine the outcome of most corporate actions, including the enforcement of indemnities against our Controlling Shareholders and, subject to the applicable requirements of the Hong Kong Stock Exchange, cause us to effect corporate transactions without the approval of our other Shareholders.

We cannot assure you our Controlling Shareholders will vote on Shareholders' resolutions in a way that will benefit our other Shareholders.

Certain of our leased properties may be subject to title encumbrances.

As of the Latest Practicable Date, we leased 8 properties in the PRC for office, warehousing and sales and distribution uses from lessors who had not provided us with evidence of their valid and enforceable building ownership rights or evidence of their relevant rights or authority to sub-lease such properties, and such leases have not been registered with the relevant PRC authorities. These leased properties had an aggregate gross floor area of approximately 7,906.37 square meters, or accounted for 7.8% of the total number of leases and 7.5% of the aggregate floor area we leased in the PRC. Such leases may be deemed invalid and unenforceable under PRC law. In addition, as of the Latest Practicable Date, we leased 11 properties in the PRC for office, warehousing and sales and distribution uses in respect of which the lessors have obtained the legitimate building ownership certificates or have obtained the property owners' written consent to the sub-lease, but the leases have not been registered with the relevant PRC authorities. These leased properties had an aggregate floor area of 20,331.3 square meters, or accounted for 10.78% of the total number of leases and 19.28% of the aggregate floor area we leased in the PRC. See the section headed "Business — Properties" for further details. We cannot assure you that no third party will seek to challenge these

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leases in the future. Should disputes arise due to title encumbrances to such properties, we may encounter difficulties in our continued leasing of such properties. In this event, we will be required to relocate certain of our operations and we may incur additional costs relating to such relocations as well as business interruption. Our Directors are of the view that the leased properties can be easily replaced and therefore they are not crucial to our business. However, our business may be adversely affected if we relocate to less desirable locations.

We may experience significant increases in write-down of inventories to net realizable value with a sudden decrease in market demand.

As we operate in an industry that is subject to changes in weather patterns, climate change, constantly shifting fashion and market trends, a sudden decrease in market demand for our products could cause our inventory to accumulate, resulting in significant increases in write-down of inventories to net realizable value. We may also have to adjust our pricing policies and offer higher discount rates on our products for both the peak and off-peak sale seasons to reduce the risk of inventory accumulation, thereby affecting our profitability. Even if we adjust our pricing policies and offer higher discount rates on our products, there is no assurance that we can dispose of our products stored in inventory successfully or at all. If we experience significant increases in write-down of inventories to net realizable value, our operating results and financial performance will be materially and adversely affected. For the period from June 1, 2004 to March 31, 2005 and the financial year ended March 31, 2006, we recognized reversals of write-down of inventories to net realizable value in the amounts of RMB40.8 million and RMB23.5 million, respectively, but had a write-down of inventories to a net realizable value of RMB256.6 million for the financial year ended March 31, 2007. See the section headed “Financial Information — Inventory Analysis” for further details.

We may be unable to obtain financing on favorable terms, or at all, to fund our ongoing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements.

To fund our ongoing operations, existing and future capital expenditure requirements, acquisition and investment plans and other funding requirements, we need sufficient internal sources of liquidity or access to additional financing from external sources. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- obtaining the necessary PRC Government approvals to raise financing in the domestic or international markets;
- our future financial condition, results of operations and cash flows;
- the condition of the global and domestic financial markets; and
- changes in the monetary policy of the PRC Government with respect to bank interest rates and lending practices and conditions.

If adequate funding is not available to us on favorable terms, or at all, it may materially and adversely affect our ability to fund our existing operations, or develop or expand our business. In addition, future capital raised through issuance of our Shares or other securities may result in a substantial dilution of the interests of our Shareholders.

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Our business relies on the proper performance of our management information systems, and any malfunction for extended periods could materially and adversely affect our business.

Our management information system comprises a computerized system linking the database of our headquarters and 74 regional sales companies and contains information relating to supply chain management, distribution and our financial, administrative and human resource functions. See the section headed “Business — Management Information System” for further details. However, currently, our database containing operating data and our database containing financial and accounting data are not fully integrated. In addition, we cannot assure you that our management information systems will always operate with sufficient back-up systems and without interruption, malfunction or security risks. Any long term breakdown of, or disaster leading to damage to, our hardware system or to our software system, any delays in the reconciliation of information within the databases of our management information systems, or other failure of our management information system from, among other things, viruses and hacking, may materially and adversely affect our ability to operate and manage our business.

As part of our strategy, we plan to gradually upgrade our management information system and establish an ERP system within approximately three years. In particular, we plan to extend the ERP system to our main suppliers of raw materials, contract manufacturers, third party distributors as well as certain retail outlets within our distribution network. Such upgrading procedures may require the management information system to undergo certain business process re-engineering which may result in interruptions to our business. Furthermore, there may be inherent risks to the use of new software systems in the future, including our ability to integrate them successfully with our existing network systems. If our present or future management information systems do not function properly, our performance and profitability may be materially and adversely affected.

We may not have insurance coverage that is adequate to cover potential liability or losses.

We face various risks in connection with our businesses and may lack adequate insurance coverage or may have no relevant insurance coverage. In addition, in line with general industry practice in the PRC, we do not maintain product liability insurance, business interruption insurance or third-party liability insurance against claims for property damage, personal injury and environmental liabilities. The occurrence of any of these events may result in an interruption of our operations and subject us to significant losses or liabilities. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our financial condition and results of operations may be materially and adversely affected.

If we encounter difficulties executing our geographical expansion plans, our growth prospects may be limited.

As part of our business strategy, we plan to expand our retail distribution network to complement our existing business and explore overseas expansion opportunities in Russia, Canada and the United States where suitable opportunities arise. However, as of the Latest Practicable Date, we do not have any finalized understanding, commitments or agreements, and we have not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We cannot assure you that we will be able to identify any suitable investment projects or acquisition targets in the near future. Our ability to expand depends on factors such as:

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- our ability to identify, attract and reach agreements with suitable strategic retail channels, third party distributors, acquisition targets and other investments on commercially reasonable terms;
- the availability of adequate management and financial resources;
- the hiring, training and retention of skilled personnel;
- the adaptation of our logistics and other operational and management systems to an expanded retail distribution network;
- sustained consumer demand for our products at levels which can support acceptable profit margins; and
- our ability to obtain all required governmental and third-party consents, approvals and permits.

Our overseas expansion plans may expose us to regulatory risks, currency fluctuations, language and other cultural barriers, anti-dumping measures and other trade and non-trade barriers, foreign taxation and political and economic instability. We may therefore not be able to achieve our planned expansion objectives and our business growth could strain our managerial, operational and financial resources. Failure to effectively manage our expansion may lead to increased costs, reduced growth and reduced profitability for us.

Our future acquired businesses, if any, may not be fully integrated into our existing operations.

As part of our strategy, we plan to use approximately 30% to 40% of the net proceeds from the Global Offering to, among other things, make selective acquisitions, form business alliances or joint ventures or make other strategic investments in the PRC and the overseas markets where suitable opportunities arise so as to diversify our product lines and extend our geographical market presence. Such acquisition may not be successfully completed. The completion of such acquisitions or other investments is dependent upon completion of due diligence and the negotiation of definitive agreements. There can be no assurance that any such acquisitions can be completed on commercially acceptable terms, if at all. Even upon completion of an acquisition or other investment, we may experience difficulties in integrating the acquired business, its personnel and products into ours, and there may be delays or failures in realizing the benefits of the acquired business or other investments. We may also incur higher integration costs than initially anticipated. Furthermore, our management's time and attention may be diverted from other business concerns, and we may encounter difficulties in retaining key employees of the acquired business or other investments.

We may not be able to pay any dividends on our Shares.

Prior to the completion of the Reorganization (as detailed in the section headed "Our History and Structure" of this prospectus), dividends were declared by our subsidiaries to the then shareholders for the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and the two years ended March 31, 2007, which amounted to RMB333.2 million, nil, RMB103.0 million and RMB453.2 million respectively. On August 28, 2007 and September 14, 2007, we declared dividends in an aggregate amount of approximately RMB467.4 million which were paid on September 17, 2007 to our then shareholders from our retained earnings for the financial year ended March 31, 2007.

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In the future, the amount of dividends that we may declare and pay will be subject to, among other things, the full discretion of our Directors, and will depend upon our future operations and earnings, capital requirements and surplus, the general financial condition and any other factors which our Directors may consider relevant. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

RISKS RELATING TO THE PRC DOWN APPAREL INDUSTRY

We operate in a highly competitive market.

The down apparel industry is highly competitive and there can be no assurance that we will be able to sustain our competitive advantages or to effectively implement our business strategies. A number of competitive factors could have a material adverse effect on our results of operations, such as:

- no significant entry barriers to the down apparel industry;
- competitive pricing strategies of our competitors;
- established relationships between our competitors operating within certain geographic regions and their customers;
- expansion by existing competitors; and
- adoption by our competitors of innovative sales methods, better product designs or better branding efforts.

Increased competition in the PRC down apparel industry could reduce our sales, prices and margins and adversely affect our brand image and results of operations.

We face increasing competition in view of China's accession to the WTO.

The results of our operations are susceptible to the changing conditions of the PRC down apparel market. With China's accession to the WTO in 2001, and the subsequent lifting of certain restrictions on foreign investment in China's retail sector since the end of 2004, we believe that foreign investment in this sector has been increasing. In April 2004, the PRC Government promulgated the Administrative Measures on Foreign Investments in Commercial Sectors to liberalize the regulatory framework for foreign investment in China's retail industry. On December 11, 2004, the PRC Government removed the restrictions on territory and shareholding proportions of foreign enterprises engaged in the PRC retail business. In addition, tariffs on apparel merchandise of other international brands were reduced after the liberalization of the PRC textiles and clothing market. We believe these measures are likely to further increase competition in the down apparel industry in the PRC and may have a material adverse impact on our business, operation results and financial conditions.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Most of our business assets and operations are in the PRC, and most of our revenue is derived from our operations in the PRC. Accordingly, our results of operations, financial position, performance and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

Changes in the PRC's political and economic policies could have a material adverse effect on our business operations.

The PRC economy has, since 1949, largely been a centrally planned economy subject to a series of state economic plans adopted by the PRC Government. The PRC economy differs from the economies of most developed countries in many respects, including:

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

The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC Government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy for the past three decades, and is continuing to play a significant role in regulating industries by imposing industrial policies.

Although we believe these reforms will have a positive effect on China's overall and long-term development, we cannot predict whether changes in the political, economic and social conditions in the PRC will have any adverse effect on our current or future business, results of operations or financial condition. In addition, a slow-down of the Chinese economy could adversely affect our businesses, results of operations and growth prospects.

Adverse changes in foreign exchange regulations or fluctuations in the value of Renminbi may adversely affect our business and results of operations.

Our functional currency is Renminbi. The value of Renminbi fluctuates and is subject to changes in the PRC's political and economic conditions.

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US dollars, had been based on rates set by the PBOC. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi with the US dollar and the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On July 21, 2005, this revaluation resulted in the Renminbi appreciating against the US dollar and Hong Kong dollar by approximately 2%. The PRC Government has since made further adjustments to the exchange rate system. Any adverse changes in the value of the Renminbi against foreign currencies such as the Hong Kong dollar or US dollar in the future may adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the Shares in foreign currency terms.

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PRC laws and foreign exchange controls may affect our ability to receive dividends and other payments from our PRC subsidiaries.

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to distribute dividends to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including the International Financial Reporting Standards. PRC laws also require foreign-invested enterprises, such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

Failure to comply with SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.

On October 21, 2005, SAFE issued a new public notice which became effective on November 1, 2005. The notice requires PRC residents to make a registration with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company (referred to in the notice as a “special purpose offshore company”) outside of China for the purpose of capital financing; (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contribution; and (iii) after any major change in the share capital of the special purpose offshore company without any round-trip investment being made.

Our beneficial shareholders who are PRC residents (namely Mr. Gao Dekang, Ms. Mei Dong and Mr. Gao Xiaodong) have registered with SAFE in respect of the establishment of our Company. Going forward, such beneficial shareholders are required to comply with further foreign exchange registration requirements in all material respects in connection with our investments and financing activities. If our beneficial shareholders fail to comply with the relevant SAFE requirements, such failure may subject the beneficial owners to fines and legal sanctions and may also adversely affect our business operations.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (the “**M&A Provisions**”) issued by six PRC ministries including the Ministry of Commerce, effective from September 8, 2006, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-

RISK FACTORS

foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign-funded enterprise to conduct asset merger and acquisition. It stipulates that the business scope upon acquisition of domestic enterprises must conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄, 2004年修訂) issued by the National Development and Reform Commission (“NDRC”) and the Ministry of Commerce, and restricts the scope of permitted foreign investment. It also provides the takeover procedures for equity interests in domestic companies.

Our PRC legal advisor, Chen & Co. Law Firm, has advised us that there are uncertainties as to how the recent M&A Provisions will be interpreted or implemented. If we decide to acquire a PRC company, we cannot assure you that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

Interpretation of PRC laws and regulations involves uncertainty.

Most of our operations are, and will continue to be, conducted in China. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade.

However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve some uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action you may take against us in the PRC.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

Preferential tax treatment currently granted by the PRC Government may be ceased, and the newly enacted PRC Enterprise Income Tax Law is expected to affect the applicable tax rates currently enjoyed by us.

Each of Bosideng International Fashion, Jiangsu Bosideng, Shanghai Bingjie and Shandong Bosideng is qualified as a foreign-invested manufacturing enterprise (notwithstanding the Group’s outsourced manufacturing arrangements) which is eligible for preferential tax treatment of a full exemption from the enterprise income tax rate of between 27% and 33% (depending on the tax rate levied by the specific local authority) for two years beginning from January 1, 2007 and 50% relief from the enterprise income tax for three years thereafter. However, the qualifications for such preferential tax treatment are subject to annual tax inspections by the relevant taxation authorities. Furthermore, the criteria for the qualifications of a manufacturing enterprise under PRC law are currently vague and subject to interpretation by the local authorities. As the preferential tax treatment we have obtained commences in the calendar year 2007, we were not required to undergo the annual tax inspections for the calendar year 2006. The annual inspections for the calendar year 2007 will be conducted around April 2008. If we were to be deemed not qualified in the past or no longer qualified as a manufacturing

RISK FACTORS

enterprise in the future, we would be subject to the standard statutory tax rate and we could be required to pay income tax for the previous years at the applicable non-preferential tax rate. In particular, for the period from January 1, 2007 to March 31, 2007, we recognized an enterprise income tax expense of nil for Bosideng International Fashion, Shanghai Bingjie, Jiangsu Bosideng and Shandong Bosideng, based on the assumption that we will pass the tax inspection conducted in 2008 for this period. If, as a result of such tax inspection, we are to be deemed unqualified for such preferential treatment in 2007, we are likely to be required to pay enterprise income tax at the regular enterprise income tax rate between 27% and 33% (depending on the tax rate levied by the specific local authority) for the period from January 1, 2007 to March 31, 2007.

In addition, pursuant to the newly enacted PRC Enterprise Income Tax Law, which was enacted on March 16, 2007 and will become effective on January 1, 2008, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% from January 1, 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by the relevant tax authorities. Enterprises that are currently subject to an enterprise income tax lower than 25% may continue to enjoy such lower rate and gradually transfer to the new tax rate within five years after the effective date of the newly enacted PRC Enterprise Income Tax Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until such fixed term expires. However, for enterprises that have not made any profits and thus not enjoyed such preferential treatments, the period for enjoying preferential treatments shall be calculated from the year in which the newly enacted PRC Enterprise Income Tax Law becomes effective. As such, upon expiration of the tax privileges enjoyed under the current income tax laws, our operating subsidiaries in PRC which are wholly foreign owned or sino-foreign equity joint ventures will not be subject to any preferential tax rates previously available and will instead be subject to the uniform tax rate of 25%.

We may cease to enjoy financial subsidies granted by the local government authorities.

Shanghai Bingjie and Bosideng International Fashion currently enjoy financial grants from the local government authorities from funds earmarked to support the development of enterprises located within its geographical jurisdiction. For the period June 1, 2004 to March 31, 2005 and each of the two financial years ended March 31, 2007, the total subsidies received by us from the local government authorities amounted to approximately RMB8.6 million, RMB49.6 million and RMB12.1 million, respectively. These financial grants were provided without any conditions and the timing and amount of these financial grants were subject to the full discretion of the relevant local government authorities. As such, the discontinuation of any of these government grants could adversely affect our results of operations and financial condition.

The newly enacted PRC Enterprise Income Tax Law could affect tax exemptions on dividends received by the Company and Shareholders and increase our enterprise income tax rate.

We are incorporated under the laws of the Cayman Islands. As a foreign legal person, dividends derived from our business operations in the PRC are currently not subject to income tax under PRC law. However, we cannot assure you that such dividends will continue to be exempt from PRC income tax. Under the newly enacted PRC Enterprise Income Tax Law, if we are deemed a non-PRC tax resident enterprise without an office or premises in the PRC, withholding tax at the rate of 20% will be applicable to dividends paid by us, unless the tax is entitled to reduction or elimination in accordance with any future PRC laws or regulations or an applicable tax treaty between the PRC and the Cayman Islands. As of the Latest Practicable Date, the Cayman Islands has not entered into any such tax treaties with the PRC. The newly enacted PRC Enterprise Income Tax Law is also unclear as to how such tax reduction or elimination would be implemented.

RISK FACTORS

In addition, the newly enacted PRC Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “*de facto* management organization” located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on their worldwide income. However, the newly enacted PRC Enterprise Income Tax Law does not define the term “*de facto* management organization”. Substantially all members of our management are located in the PRC. If substantially all members of our management continue to be located in the PRC after the effective date of the newly enacted PRC Enterprise Income Tax Law, we may be deemed a PRC tax resident enterprise and therefore subject to an enterprise income tax rate of 25% on our worldwide income (including dividend income received from our subsidiaries). The newly enacted PRC Enterprise Income Tax Law also provides that dividends received by a qualified PRC tax resident from another PRC tax resident are exempt from enterprise income tax. However, given the short history of this law, it remains unclear as to the detailed qualification requirements for such exemption and whether the dividends which our Company receives from our PRC subsidiaries will be exempt from enterprise income tax if it is recognized as a PRC tax resident.

Acts of God, acts of war and other disasters could affect our business.

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

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, our distribution channels, our markets and our customers, any of which could adversely impact our revenue, cost of sales, results of operations and financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.

Prior to the listing of our Shares on the Hong Kong Stock Exchange, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and us and the Selling Shareholder, and may differ from the market prices for our Shares after listing. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in our Shares. However, there is no assurance that the listing of our Shares on the Hong Kong Stock Exchange will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile and could result in substantial losses for investors purchasing Offer Shares in the Global Offering.

Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our revenue, earnings, cash flows, announcements of new investments and changes in laws and regulations in the PRC. We can give no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Hong Kong Stock

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Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our shares in the Global Offering will experience an immediate dilution in the pro forma net tangible asset value of RMB0.79 (HK\$0.82) per Share based on the maximum Offer Price of HK\$3.28.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

A potential sale of Shares by our existing Shareholders could have an adverse effect on our Share price.

The Shares held by our existing Shareholders (save for the Sale Shares) are subject to certain lock-up periods falling six and twelve months after the date on which trading in our Shares commences on the Hong Kong Stock Exchange, details of which are set out in the section headed “Underwriting”. We cannot assure you that our existing Shareholders will not dispose of any Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, which may provide less protection to minority Shareholders than the laws of Hong Kong or certain other jurisdictions.

Our corporate affairs are governed by our Memorandum of Association and the Articles of Association and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 168A of the Hong Kong Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company’s affairs. See the section headed “Cayman Islands Company Law” in Appendix VI.

Facts and statistics in this prospectus relating to the Chinese economy and the down and non-down apparel industry in China may not be fully reliable.

Facts and statistics in this prospectus relating to the PRC, the PRC economy and the down and non-down apparel industry of the PRC are derived from various official publications and obtained from communications with various official agencies which we believe are reliable. However, we cannot assure you of the quality or reliability of such source materials. While our Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such

RISK FACTORS

sources, they have not been independently verified by us, the Selling Shareholder, the Joint Global Coordinators, the Underwriters, nor any of their or our affiliates or advisors. We therefore make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this prospectus relating to the PRC economy and the down apparel industry and other industries in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, including in the Ming Pao Daily News and Hong Kong Economics Times on September 11, 2007, which included certain financial information, financial projections, valuations and other information about us that does not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our shares, you should rely only on the financial, operational and other information included in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans, particularly plans relating to acquisition of new businesses;
- our operations and business prospects, including development plans for our existing and new businesses;
- our financial condition;
- the future developments and competitive environment for the PRC down apparel industry;
- the regulatory environment as well as the general industry outlook for the PRC down apparel industry; and
- the general economic trend of China.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" and in the relevant Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by its principal registrar, Butterfield Fund Services (Cayman) Limited in the Cayman Islands and our Company's branch register of members will be maintained by its Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.0360 : RMB1.00

HK\$7.7873 : US\$1.00

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

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

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| <u>Name</u> | <u>Address</u> | <u>Nationality</u> |
|--|---|------------------------|
| <i>Executive Directors</i> | | |
| Mr. Gao Dekang | Room 3002-03, No. 2, Lane 186, Dagu Road, Huangpu District, Shanghai, PRC | Chinese |
| Ms. Mei Dong | Room 3002-03, No. 2, Lane 186, Dagu Road, Huangpu District, Shanghai, PRC | Chinese |
| Ms. Gao Miaoqin | No. 81 Jiang Mei Peng, Yongjiang Road, Changshu, Jiangsu Province, PRC | Chinese |
| Dr. Kong Shengyuan | Room 2303, Tian Ge Building, No. 1065 Zhong Shan Nan Yi Road, Luwan District, Shanghai, PRC | Chinese |
| Ms. Huang Qiaolian | Room 2301, Lane 186, Dagu Road, Huangpu District, Shanghai, PRC | Chinese |
| Ms. Wang Yunlei | Room 306, No. 91, Zone 3, Wan Ke City Garden, No. 3333 Qi Xin Road, Shanghai, PRC | Chinese |
| <i>Non-executive Director</i> | | |
| Mr. Shen Jingwu | 73F, Block 2, Sorrento, 1 Austin Road West, Kowloon, Hong Kong | Chinese (Hong Kong) |
| <i>Independent Non-executive Directors</i> | | |
| Mr. Dong Binggen | 31D, Block 5, Bay Garden, Shenzhen, PRC | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| <u>Name</u> | <u>Address</u> | <u>Nationality</u> |
|-------------------|---|--------------------|
| Mr. Jiang Hengjie | Room 302, Unit 4, Building 6, Block 1, Fangqunyuan, Fengtai District, Beijing, PRC | Chinese |
| Mr. Wang Yao | Room 12, Unit 2, Building 23, Block 3, Sanlihe, Xicheng District, Beijing, PRC | Chinese |
| Mr. Ngai Wai Fung | 26A Wah Shan Mansion, 17 Tai Koo Shing Road, Quarry Bay, Hong Kong | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers
(in alphabetical order)

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

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

Legal Advisors to Our Company

As to Hong Kong and United States Laws:
Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to PRC Law:
Chen & Co. Law Firm
Suite 1901 North Tower
Shanghai Stock Exchange Building
528 Pudong Nan Road
Shanghai 200120
PRC

Legal Advisors to the Underwriters

As to Hong Kong and United States Laws:
Skadden, Arps, Slate, Meagher & Flom
42nd Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC Law:
Jun He Law Offices
20th Floor, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Reporting Accountants

KPMG

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Property Valuer

Sallmanns (Far East) Limited

20th Floor, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong

Receiving Bankers

The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Central
Hong Kong

Hang Seng Bank Limited

83 Des Voeux Road Central
Hong Kong

**Bank of Communications Co., Ltd.
Hong Kong Branch**

20 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

| | |
|---|--|
| Registered Office | Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance | Room 1703A, 17th Floor, Harcourt House 39 Gloucester Road Wanchai Hong Kong |
| Company Secretary and Qualified Accountant | Ms. Lo Ka Wai, Claudia Fellow member of the Hong Kong Institute of Certified Public Accountants |
| Authorized Representatives | Dr. Kong Shengyuan Room 2303, Tian Ge Building No. 1065 Zhong Shan Nan Yi Road Luwan District Shanghai PRC Ms. Lo Ka Wai, Claudia 1408 Yat Ching House Yee Ching Court Kowloon Hong Kong |
| Audit Committee | Mr. Ngai Wai Fung (<i>Chairman</i>) Mr. Dong Binggen Mr. Jiang Hengjie |
| Remuneration Committee | Mr. Gao Dekang (<i>Chairman</i>) Mr. Shen Jingwu Mr. Dong Binggen Mr. Jiang Hengjie Mr. Wang Yao |
| Nomination Committee | Mr. Gao Dekang (<i>Chairman</i>) Mr. Dong Binggen Mr. Jiang Hengjie |
| Principal Share Registrar and Transfer Office | Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands |

CORPORATE INFORMATION

**Hong Kong Branch Registrar and
Transfer Office**

Computershare Hong Kong Investor Services
Limited
Rooms 1712–16
17th Floor, Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

Compliance Advisor

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen’s Road Central
Hong Kong

Principal Bankers

Agricultural Bank of China
Changshu Sub-branch
17 North Haiyu Road
Changshu
Jiangsu Province
PRC

Bank of Communications
Shanghai Branch
200 Middle Jiangxi Road
Shanghai
PRC

Bank of Ningbo
Shanghai Branch
3rd Floor, Novel Plaza
128 West Nanjing Road
Shanghai
PRC

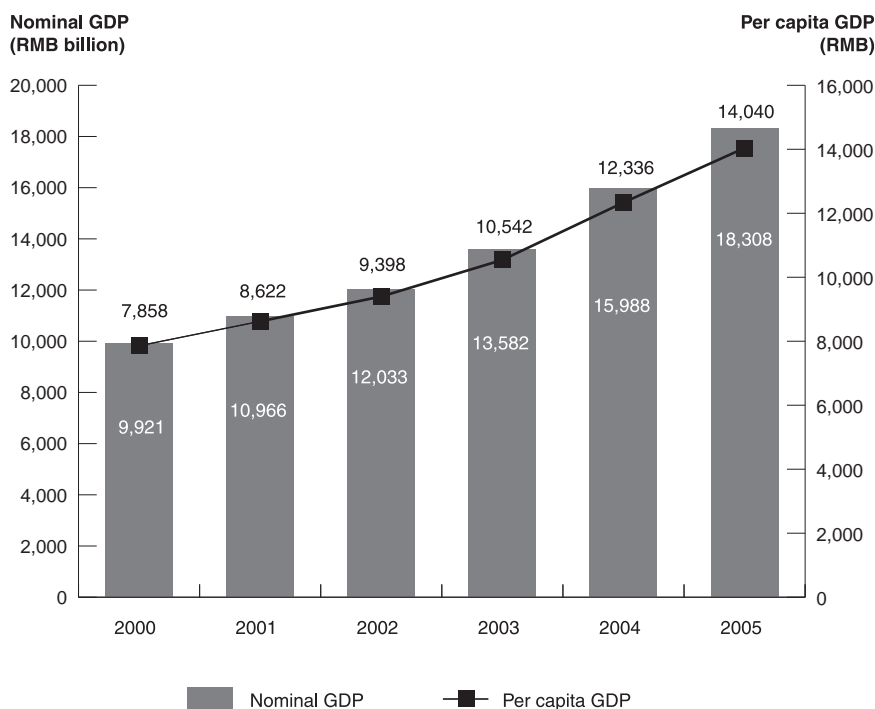
Bank of China Limited
Changshu Sub-branch
13 North Haiyu Road
Changshu
Jiangsu Province
PRC

INDUSTRY OVERVIEW

The economic and industry information and statistics set out in this section and elsewhere in this prospectus have been extracted from various official sources. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by the Directors in the exercise of extracting and repeating such information. We, the Selling Shareholder, the Joint Sponsors, the Underwriters, their respective directors and advisors or any other party involved in the Global Offering make no representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with each other or with other information. You should not place undue reliance on statements in this section.

ECONOMIC GROWTH AND URBANIZATION IN THE PRC

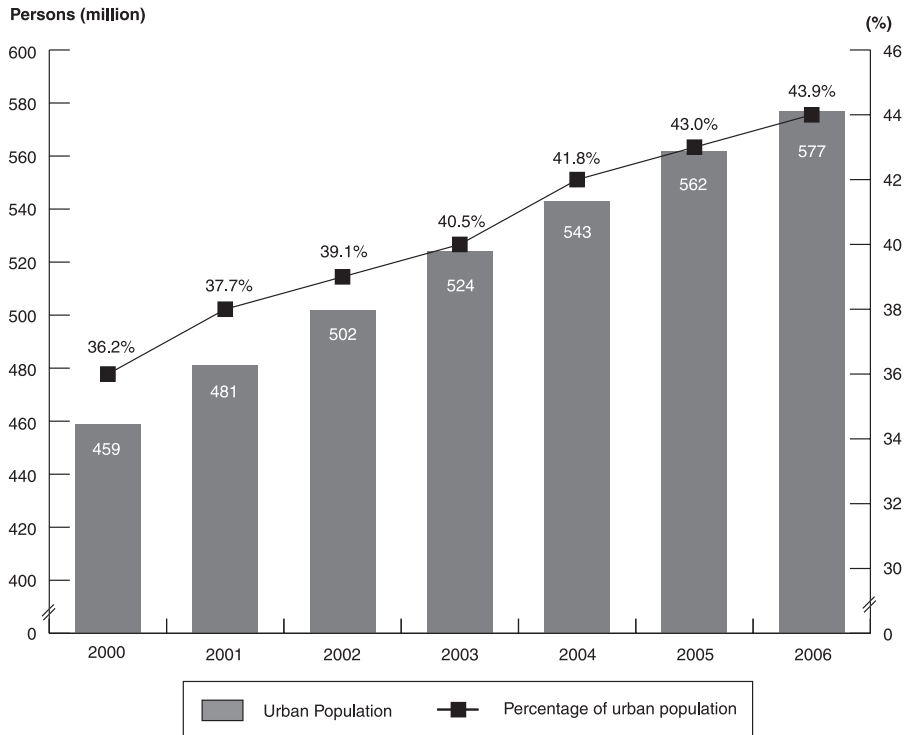
Since the introduction of economic reforms by the PRC government in the late 1970's, the PRC economy has grown significantly. According to the National Bureau of Statistics of China, from 2000 to 2005, the PRC's nominal GDP grew from RMB9,921 billion to RMB18,308 billion, representing a compound annual growth rate, or CAGR, of 13.0%. During the same period, the PRC's per capita GDP also increased from RMB7,858 to RMB14,040, representing a CAGR of 12.3%. In 2006, the PRC's nominal GDP reached RMB20,941 billion, which increased by RMB2,633 billion, or 14.4%, from that in 2005. According to National Bureau of Statistics of China, the PRC's real GDP, or inflation adjusted GDP, grew by 10.7% from 2005 to 2006. According to the Economist Intelligence Unit, or EIU, the PRC's economy is expected to continue growing rapidly in the coming years. The following chart sets forth the PRC's nominal GDP and per capita GDP in each of the years from 2000 to 2005.



Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

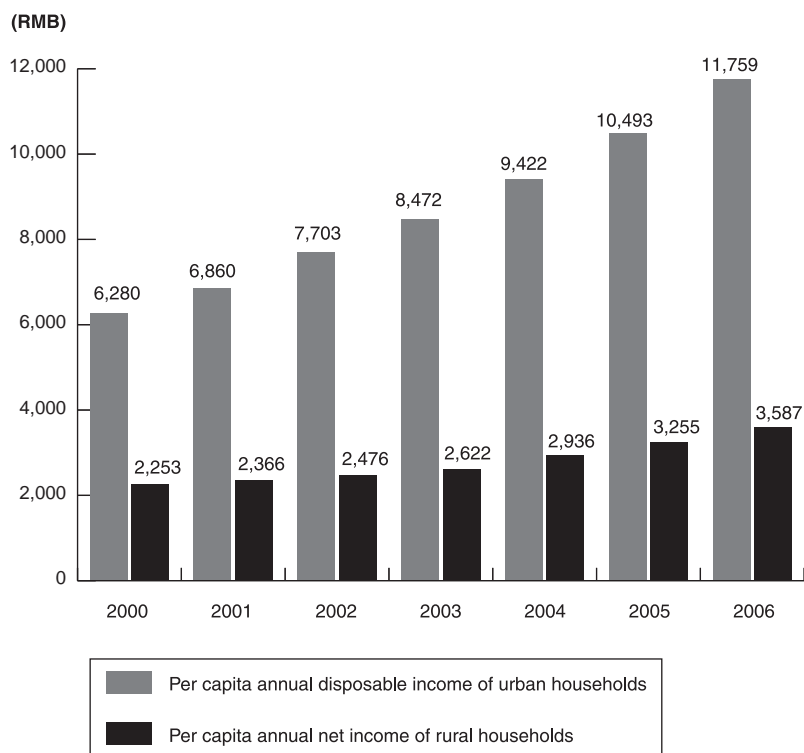
The PRC's economic growth has been accompanied by rapid urbanization. The total urban population in the PRC increased from 459 million as of December 31, 2000 to 577 million as of December 31, 2006, representing an increase of 25.7%, while the rural population in the PRC decreased by 8.8% during the same period. The urban population as a percentage of the total population increased from 36.2% in 2000 to 43.9% in 2006. The chart below sets forth the total urban population and the urban population as a percentage of the total population in China as of the end of the period indicated.



Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

Personal income in China has been increasing with economic growth and rapid urbanization. During the period from 2000 to 2006, the per capita annual disposable income of urban households in China increased from RMB6,280 to RMB11,759, representing a CAGR of 11.0%, and the per capita net income of rural households increased from RMB2,253 to RMB3,587, representing a CAGR of 8.1%. According to National Bureau of Statistics of China, in the first six months of 2007, the per capita disposable income of urban households in China reached RMB7,052, representing an increase of 14.2% from that for the first six months of 2006, and the per capita net income of rural households in China reached RMB2,111, representing an increase of 13.3% from that for the first six months of 2006. The following chart sets forth the per capita annual disposable income of urban households and the per capita net income of rural households in China for each of the years indicated.

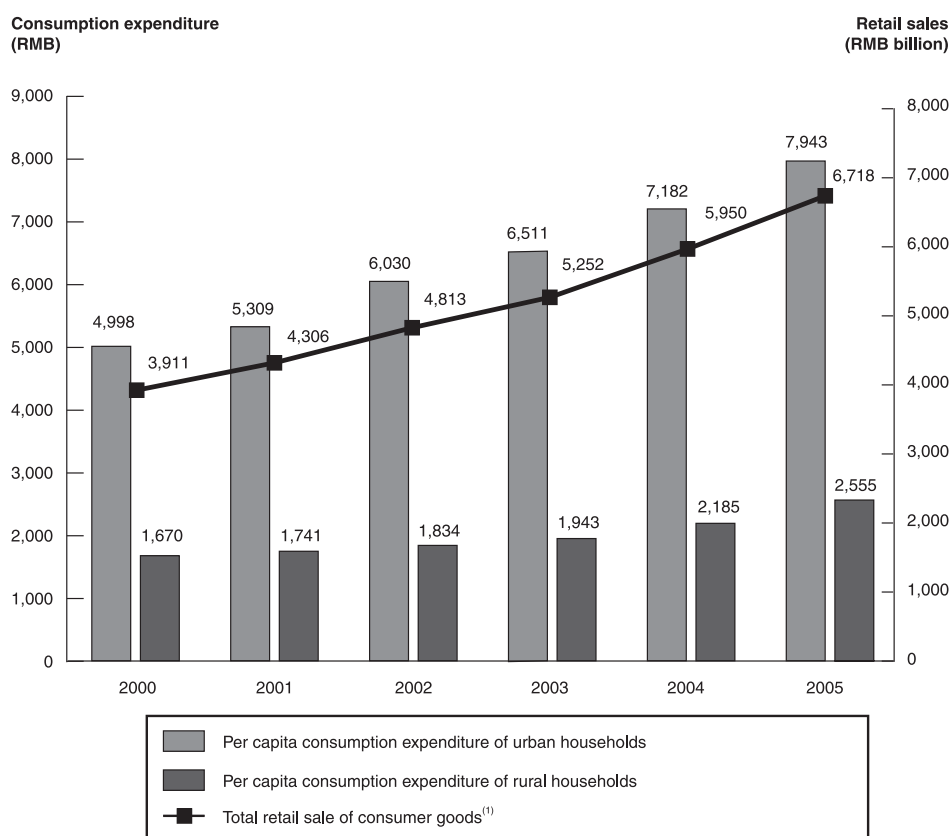


Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

GROWTH IN PERSONAL CONSUMPTION AND RETAIL SALES IN THE PRC

We believe the increasing urbanization and the higher annual per capita disposable income of urban households and per capita net income of rural households have contributed to the rapid growth in demand for consumer products in the PRC. From 2000 to 2005, the per capita consumption expenditures of urban households increased from RMB4,998 to RMB7,943, representing a CAGR of 9.7%, and the per capita consumption expenditures of rural households increased from RMB1,670 to RMB2,555, representing a CAGR of 8.9%. The retail sale industry in China has also experienced significant growth. The total retail sales of consumer goods in China increased from RMB3,911 billion in 2000 to RMB6,718 billion in 2005, representing a CAGR of 11.4%. In 2006, the total retail sales of consumer goods in China reached RMB7,641 billion, representing an increase of RMB923 billion, or 13.7%, from that of 2005. According to the National Bureau of Statistics of China, the total retail sales of consumer goods in China for the first six months of 2007 reached RMB4,204 billion, representing an increase of 15.4% from that for the first six months of 2006. The chart below sets forth the per capita consumption expenditures of urban households, the per capita consumption expenditures of rural households and the total retail sales of consumer goods in China for each of the years indicated.



Source: National Bureau of Statistics of China

- (1) Defined by the National Bureau of Statistics of China as the sum of the amount of consumer goods sold to urban and rural households by wholesale and retail, food and beverage, news and publication, postal service and other service industries and the amount of goods used by social groups for public consumption purposes.

INDUSTRY OVERVIEW

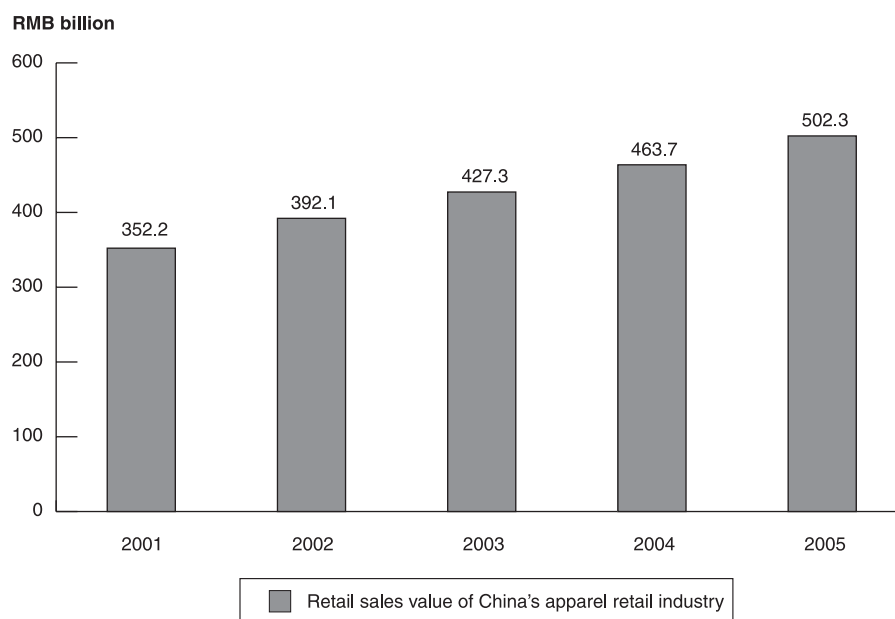
Under the PRC's Eleventh Five-Year Plan, one of the government's stated aims for the period from 2006 to 2010 is to bring more balance to the economy by reducing China's dependence on fixed asset investment and increasing the influence of personal consumption on economic growth. With this increased focus on personal consumption as a key driver for GDP growth, we believe consumption, particularly the consumption of consumer goods, will continue to grow at a rapid pace in the coming years.

We believe that the significantly higher per capita disposable income and per capita consumption expenditures of urban households demonstrate the emergence of an urban middle class in the PRC, which has been accompanied by changes in consumption patterns in the PRC. Whereas in the 1980s and 1990s income was primarily spent on basic necessities such as food, in recent years consumer spending has been increasingly directed towards lifestyle-enhancing products and services, such as apparel, footwear, leisure, sports and entertainment.

CHINA'S APPAREL MARKET

In line with China's annual per capita income growth as well as growth in personal consumption and retail sales, the apparel retail industry and per capita expenditure on apparel have also increased significantly in recent years.

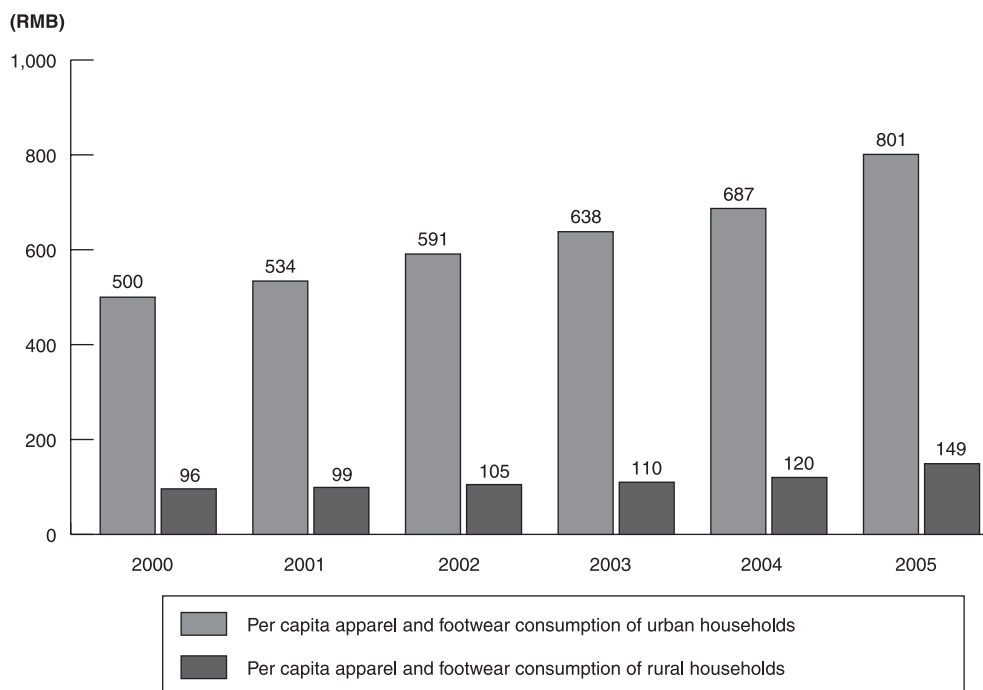
According to the China National Commercial Information Center, from 2001 to 2005, the retail sales value of China's apparel retail industry increased from RMB352.2 billion to RMB502.3 billion, representing a CAGR of 9.3%. Such retail sales value was estimated to be RMB538.7 billion in 2006. The chart below sets forth the retail sales value of China's apparel retail industry for each of the years indicated.



Source: China National Commercial Information Center

INDUSTRY OVERVIEW

From 2000 to 2005, the annual per capita apparel and footwear consumption of urban households increased from RMB500 to RMB801, representing a CAGR of 9.9%, and the annual per capita apparel and footwear consumption of rural households increased from RMB96 to RMB149 over the same period, representing a CAGR of 9.2%. The chart below sets forth the per capita apparel and footwear consumption of urban households and the per capita apparel and footwear consumption of rural households for each of the years indicated.



Source: National Bureau of Statistics of China

CHINA'S DOWN APPAREL MARKET

Overview

China's down product industry has experienced significant growth in recent years. According to CIIC's 2006 report, citing National Bureau of Statistics of China, annual sales revenue of down apparel and other down products totaled approximately RMB23.9 billion. China manufactures approximately 82 million to 88 million pieces of down apparel annually. In recent years, domestic sales of down apparel experienced a higher rate of growth than exports. According to CIIC's 2006 report, domestic sales of down apparel increased from approximately 38 million pieces in 2004 to approximately 50 million pieces in 2005 and approximately 60 million pieces in 2006, representing a CAGR of 25.7% from 2004 to 2006.

Competitive Landscape

China's down apparel industry is relatively fragmented. According to CIIC's 2006 report, citing National Bureau of Statistics of China, there are currently more than 4,300 down product makers, including more than 2,800 with annual sales over RMB1 million. A number of down apparel makers market products under more than one brand. According to CIIC, among the thirty largest brands by sales in 2006, Bosideng International Holdings Limited has four: Bosideng (number one), Snow Flying (number two), Kangbo (number seven) and Bingjie (number 11).

INDUSTRY OVERVIEW

The following table sets forth the market shares by sales and sales volume, of the ten largest brands as determined based on 2006 sales.

| | For the year ended December 31, 2006 | |
|--|---|---|
| | Market share by sales⁽¹⁾ | Market share by sales volume⁽²⁾ |
| | (%) | (%) |
| Bosideng | 24.3% | 21.4% |
| Snow Flying | 8.8% | 9.5% |
| Yalu | 5.2% | 5.3% |
| Yaya | 4.7% | 5.3% |
| Xuelun | 3.3% | 2.8% |
| Hansi | 3.2% | 3.7% |
| Kangbo | 3.0% | 4.0% |
| Jie'ao | 2.2% | 1.9% |
| Playboy | 2.0% | 1.3% |
| Tangpule | 1.7% | 1.4% |
| Total of top 10 brands | 58.4% | 56.5% |
| Total of Bosideng, Snow Flying and Kangbo | 36.1% | 34.9% |

Source: CIIC

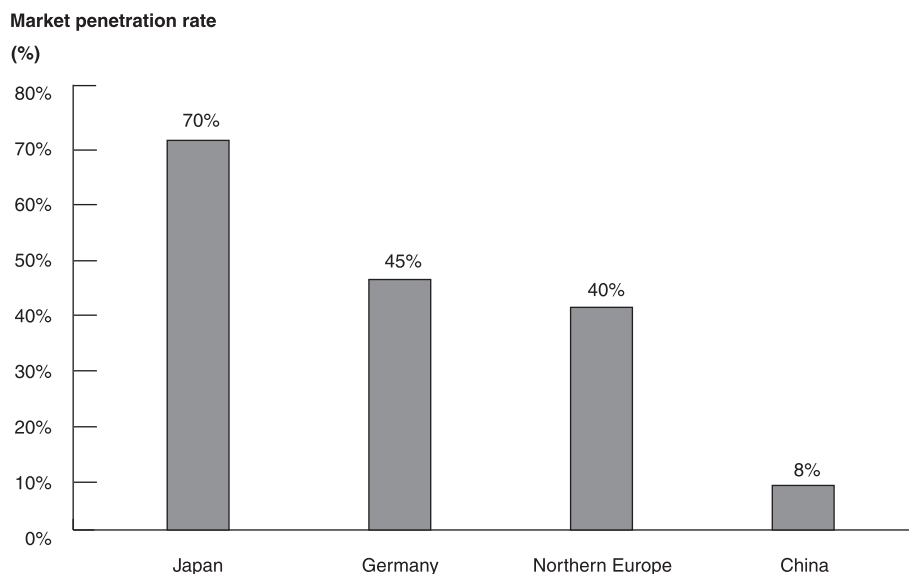
(1) Calculated by CIIC as a percentage of the market size of the 30 largest brands by sales.

(2) Calculated by CIIC as a percentage of the market size of the 30 largest brands by sales volume.

Growth Potential

Despite the significant increase in sales of down products in recent years, the penetration rate of down products in China remains significantly lower than some other countries. Accordingly, we believe that the lower penetration rate represents significant growth potential for China's down products industry. The following chart sets forth the market penetration rate of down products in selected countries and regions.

INDUSTRY OVERVIEW



Source: CIIC Report (2006)

Industry Trends

We believe that China's current down apparel industry is characterized by the following trends: (i) increasing market concentration with the leading brands gaining market share; and (ii) increasing consumer focus on fashion and functionality.

Increasing market concentration

Although China's down apparel market is currently relatively fragmented, the market is becoming increasingly concentrated as the leading brands have been gaining market share in recent years. For example, according to CIIC, from 2004 to 2006, the aggregate market share of the three largest brands currently marketed by the Group (including its predecessors) increased from 30.2% to 36.1% in terms of sales value.

INDUSTRY OVERVIEW

The following table sets forth the market shares of the ten largest brands in the PRC by sales for the years indicated.

| For the year ended December 31, | | | | | | |
|----------------------------------|--------------|---|--------------|---|--------------|---|
| Ranking | 2004 | | 2005 | | 2006 | |
| | Brand | Market share by sales ⁽¹⁾ (%) | Brand | Market share by sales ⁽²⁾ (%) | Brand | Market share by sales ⁽²⁾ (%) |
| 1. | Bosideng .. | 19.8% | Bosideng .. | 22.0% | Bosideng .. | 24.3% |
| 2. | Snow Flying | 8.8% | Snow Flying | 7.2% | Snow Flying | 8.8% |
| 3. | Yalu | 7.5% | Yalu | 6.2% | Yalu | 5.2% |
| 4. | Yaya | 4.6% | Yaya | 4.6% | Yaya | 4.7% |
| 5. | Weipeng... | 2.7% | Xuelun | 3.0% | Xuelun | 3.3% |
| Total of top 5 brands .. | | 43.4% | | 43.0% | | 46.3% |
| 6. | Tangpule .. | 2.7% | Kangbo.... | 2.7% | Hansi | 3.2% |
| 7. | Hansi | 2.6% | Jie'ao | 2.6% | Kangbo.... | 3.0% |
| 8. | Jie'ao | 2.3% | Hansi | 2.3% | Jie'ao | 2.2% |
| 9. | Kangbo.... | 1.6% | Tangpule .. | 1.8% | Playboy ... | 2.0% |
| 10. | Xuelun | 1.5% | Weipeng... | 1.5% | Tangpule .. | 1.7% |
| Total of top 10 brands .. | | 54.1% | | 53.9% | | 58.4% |

Source: CIIC

(1) Calculated by CIIC as a percentage of the market size of the 37 largest brands by sales.

(2) Calculated by CIIC as a percentage of the market size of the 30 largest brands by sales.

Increasing consumer emphasis on fashion, functionality and quality

As the per capita income levels of China's consumers continue to rise, and as urbanization continues, there has been an increasing emphasis on fashionableness, functionality and quality of down apparel:

- *Fashion.* According to a September 2006 report on China's apparel market by China National Commercial Information Center and Li & Fung Research Center, or China's Apparel Market Report, China's apparel industry, including the down apparel industry, is shifting from characteristics such as few varieties, high volume, and long product life cycle to more varieties, small volume and short product life cycle. This trend requires down apparel players to effectively manage the supply chain, from design and manufacturing to distribution and inventory management.
- *Functionality.* According to China Apparel Market Report, functionalities such as anti-bacterial and anti-radiation features have become increasingly attractive to consumers. One area of increasing functionality has been fabric innovation, which has become a key area in apparel product development. The use of nano-fabric has been introduced and attracted increasing attention in recent years for its anti-bacterial, anti-radiation features, fungus- and abrasion-resistance and moisture management capability.
- *Quality.* According to CIIC, in a random quality inspection on down products conducted by the Beijing municipal government in December 2006, of the 75 down products from 42 down apparel players which were inspected, 33 products passed, representing a passing

INDUSTRY OVERVIEW

rate of 44%. A majority of those products that failed the inspection were smaller local brands. In addition, according to CIIC, after reported incidents of avian influenza in China, China's consumers have become increasingly concerned about the quality of down products they purchase. We believe that many customers have shifted to leading brands that have developed products which have undergone anti-bacterial processing treatments. As a result, the quality differentiation between leading brands and others has become more prominent.

In order to meet the demands of China's consumers, down apparel players in the PRC are expected to allocate greater resources to diversify product lines, enhance product differentiation and strengthen research and design capabilities.

International Markets for China's Down Apparel Industry

China has significant down resources. According to a 2006 CIIC report, down exported by China constituted more than 70% of the world's down market and more than 60% of the world's down apparels were manufactured in China. In 2005, China's down product exports totaled approximately US\$1,770 million, which increased by US\$140 million, or 8.6%, from 2004. In 2005, China's down product exports to the United States, the largest importing country of China's down products, totaled US\$548 million, or 31.0% of China's total down product exports in that year. According to the same CIIC report, China exported 10.7 million down apparels with a total value of US\$203.3 million in the first six months of 2006, compared to 8.9 million apparels with a total value of US\$148.1 million in the first six months of 2005.

The international markets for China's down products industry have been expanding. The down apparel penetration rates in some developed countries and regions, which have greater potential down apparel consumption powers, are relatively low. For example, the down apparel penetration rates in Germany and northern Europe are 45% and 40%, respectively, compared to a penetration rate of 70% in Japan. We believe the relatively lower down apparel penetration rates in these countries and regions represent further growth opportunities for China's down apparel industry. In addition, there is also market potential for China's down products in developed countries and regions where down apparel penetration rates are high, in view of the cost advantage of China's down products compared to the down products produced in developed countries and regions.

OUR HISTORY AND STRUCTURE

BACKGROUND AND HISTORY

We are the leading down apparel company in the PRC, focusing on managing the portfolio of our down apparel brands, which includes research, design and development, raw materials procurement, outsourced manufacturing, marketing and distribution of our branded down apparel products. We were previously part of the Bosideng Group, a PRC conglomerate with a diversified portfolio of business interests, including down apparel brand management, contract manufacturing, sale, import and export of down and non-down apparel, OEM, property development, management of department stores, production and sale of cosmetic products and services relating to environmental protection.

Mr. Gao Dekang, our Chairman and Chief Executive Officer, first established an apparel business, with a sewing team of 11 villagers, in Changshu, China in 1975. As the apparel business of the sewing team grew through the years, Kangbo Arts and Crafts Fashion Factory was consequently established on May 28, 1991 as a collectively-owned enterprise for the apparel business.

On June 30, 1994, Kangbo Arts and Crafts Fashion Factory, together with Shanghai Dadi Baile Apparels Manufacturing Co., Ltd. (an independent third party), Shanghai Dajicheng Apparels Leather Company (an independent third party), Changshu Representative Office of Jiangsu Trust Investment Company of Agricultural Bank of China (an independent third party), and individual employees of Bosideng Corporation, established Bosideng Corporation as a PRC company limited by shares and Kangbo Arts and Crafts Fashion Factory held a 78.90% equity interest in Bosideng Corporation.

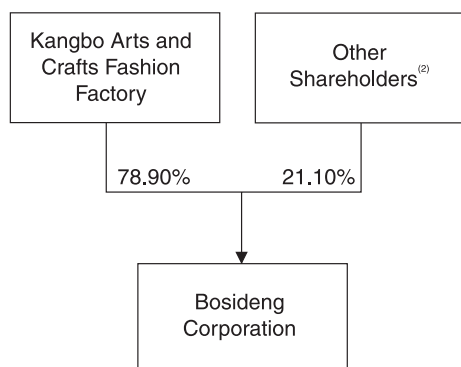
After gaining experience and establishing business relationships and networks within the PRC apparel industry for close to twenty years, the Bosideng Group began to develop and manage its own brand portfolio for its down apparel products. In line with this strategy, the Bosideng Group launched its flagship “Bosideng” brand in 1994, which focused on fashionable, high quality, casual and classic down apparel for men and women targeted at the medium and high end market. Within a year, “Bosideng” was recognized by the CIIC as the leading down apparel brand in the PRC based on sales in 1995. Following the success of the “Bosideng” brand, the Bosideng Group subsequently launched the “Snow Flying” brand in 1997 which focused on sporty and high quality down apparel for men and women targeted at the medium and high end market.

In January 1997, consistent with PRC Company Law and relevant administrative rules, Kangbo Arts and Crafts Fashion Factory as the majority shareholder of Bosideng Corporation was required by an official notice issued by the People’s Government of Baimao Town to undergo the process of determining the ownership of its collectively owned assets and equity interests, as a result of which Mr. Gao Dekang was determined by the People’s Government of Baimao Town and Changshu State-owned Assets Administration Bureau to be the owner of 88.00% of the equity interests of Kangbo Arts and Crafts Fashion Factory while Shanjing Villagers’ Committee and Changshu City Baimao Town Assets Operation and Investment Company, both independent entities, were determined to be the owners of the remaining 12.00% of the equity interests in Kangbo Arts and Crafts Fashion Factory. Our PRC legal advisor confirms that the determination of the equity interests of Kangbo Arts and Crafts Fashion Factory was in compliance with the relevant PRC laws and regulations and therefore, Mr. Gao Dekang’s 88% equity interest in Kangbo Arts and Crafts Fashion Factory would be free from challenge by any other parties. Following this process of the ownership determination and after obtaining the approval of the relevant government authorities, the shareholders of Kangbo Arts and Crafts Fashion Factory subsequently acquired the equity interests of Bosideng Corporation originally held by Kangbo Arts and Crafts Fashion Factory in the same proportion as their respective equity interests in Kangbo Arts and Crafts Fashion Factory. As a result, Mr. Gao Dekang became the 69.43% direct shareholder of Bosideng Corporation on January 31, 1997. The following diagrams set out (a) the shareholding structure of Bosideng Corporation prior to the ownership determination of the equity

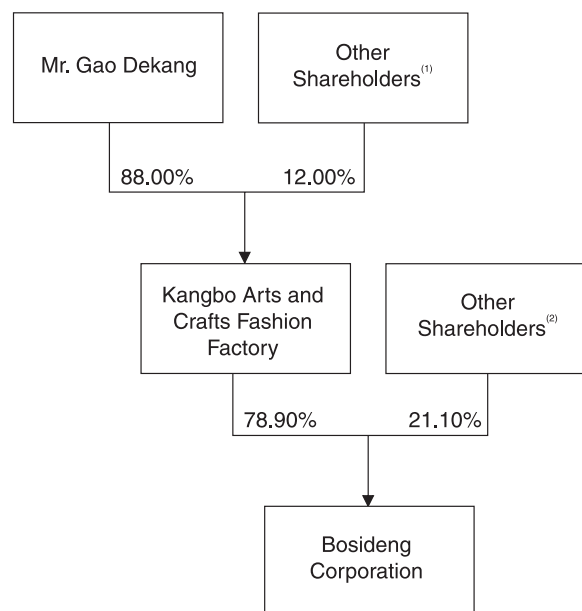
OUR HISTORY AND STRUCTURE

interests of Kangbo Arts and Crafts Fashion Factory, (b) the shareholding structure of Bosideng Corporation after the ownership determination of the equity interests of Kangbo Arts and Crafts Fashion Factory, and (c) the shareholding structure of Bosideng Corporation after the acquisition of the equity interests of Bosideng Corporation by the shareholders of Kangbo Arts and Crafts Fashion Factory.

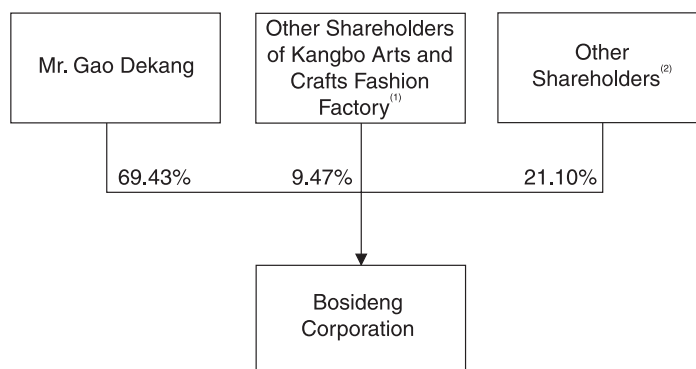
(a) Shareholding structure of Bosideng Corporation prior to the ownership determination of the equity interests of Kangbo Arts and Crafts Fashion Factory



(b) Shareholding structure of Bosideng Corporation after the ownership determination of the equity interests of Kangbo Arts and Crafts Fashion Factory



(c) Shareholding structure of Bosideng Corporation after the acquisition of the equity interests of Bosideng Corporation by the shareholders of Kangbo Arts and Crafts Fashion Factory



Notes:

- (1) The other shareholders are Shanjing Villagers' Committee and Changshu City Baimao Town Assets Operation and Investment Company, both of which are independent third parties.
- (2) The other shareholders are Shanghai Dadi Baile Apparels Manufacturing Co., Ltd. (an independent third party, as to 4.87%), Shanghai Dajicheng Apparels Leather Company (an independent third party, as to 3.25%), Changshu City Trust Investment Company (an independent third party, as to 6.49%), employees of Bosideng Corporation (as to 6.39%) and Ms. Mei Dong (as to 0.10%).

OUR HISTORY AND STRUCTURE

On November 6, 1998, Mr. Gao Dekang's majority shareholding in Bosideng Corporation was reduced to 26.54% when Union Holdings acquired a 51% shareholding in Bosideng Corporation from him and other shareholders of Bosideng Corporation for an aggregate consideration of RMB117.3 million based on the appraised value appraised by Shenzhen Assets Appraisal Firm. Union Holdings had no involvement in the day-to-day management and operations of Bosideng Corporation. Mr. Gao Dekang, Ms. Mei Dong, Ms. Gao Miaoqin, and Ms. Huang Qiaolian were the core group of executive management who were actively involved in the day-to-day management and operations of Bosideng Corporation and its operating entities.

As part of the Bosideng Group's plan to further expand its brand portfolio under its management, the "Kangbo" and "Bingjie" brands were launched in 2000 and 2001 respectively, both of which were targeted at the medium to low end market. "Kangbo" generally focused on basic and casual down apparel for men while "Bingjie" generally focused on youthful and trendy down apparel for women.

On April 26, 2001, Union Holdings transferred its 3% shareholding in Bosideng Corporation to Suzhou Shuncheng for a consideration of RMB13,046,880.00 which represented a 15% premium on the audited net asset value per share as of December 31, 2000 pursuant to an equity transfer agreement dated April 17, 2001. Following this equity transfer, the total shareholding of Union Holdings in Bosideng Corporation decreased from 51% to 48%. Suzhou Shuncheng was unrelated to Mr. Gao Dekang at the time of this equity transfer.

On April 22, 2004, Mr. Gao Dekang contributed his 26.54% shareholding in Bosideng Corporation to Dezhou Dekang Investment Co., Ltd. (a company controlled by Mr. Gao Dekang) as his contribution in Dezhou Dekang Investment Co., Ltd. based on the appraised value of RMB191,520,000.00.

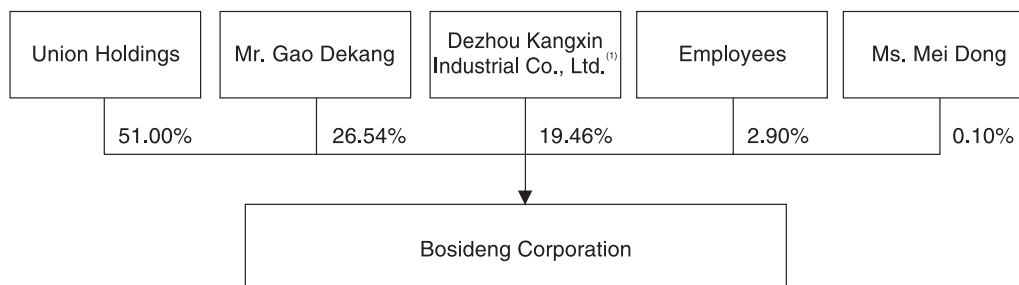
Pursuant to a series of equity transfer agreements dated July 26, 2004, Union Holdings divested, as of June 1, 2004, its remaining 48% shareholding in Bosideng Corporation as follows:

- Union Holdings transferred its 35% shareholding in Bosideng Corporation to Zhejiang Sanhong, a party unrelated to Mr. Gao Dekang, for a consideration of RMB152,976,871.60 based on the audited net asset value per share as of May 31, 2004;
- Union Holdings transferred its 8% shareholding in Bosideng Corporation to Jinan Jiahua, a related party to Mr. Gao Dekang, for a consideration of RMB34,966,142.08 based on the audited net asset value per share as of May 31, 2004; and
- Union Holdings transferred its remaining 5% shareholding in Bosideng Corporation to Jiangsu Kangbo Industrial Co., Ltd., a company controlled by Mr. Gao Dekang, for a consideration of RMB21,853,838.80 based on the audited net asset value per share as of May 31, 2004.

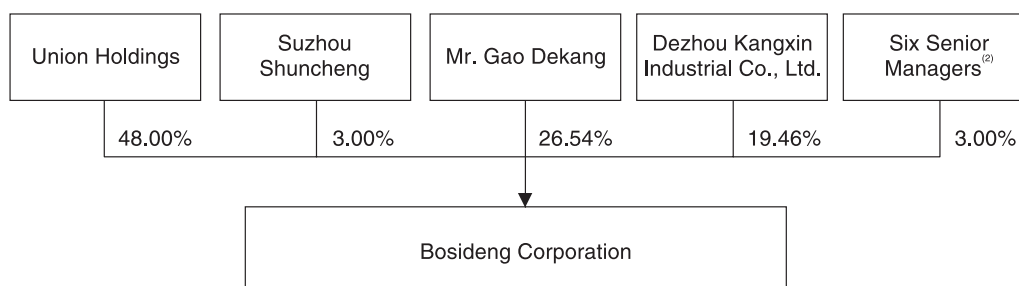
Following Union Holdings' divestment of its entire shareholding in Bosideng Corporation, Mr. Gao Dekang became the indirect controlling shareholder of Bosideng Corporation through Jiangsu Kangbo Industrial Co., Ltd., Dezhou Dekang Investment Co., Ltd. and Dezhou Kangxin Industrial Co., Ltd. as of June 1, 2004. The following diagrams set out the shareholding structure of Bosideng Corporation (a) before divestment of 51% shareholding in Bosideng Corporation by Union Holdings, (b) after the divestment of the 3% shareholding in Bosideng Corporation by Union Holdings, and (c) as of June 1, 2004, after the divestment, of the remaining 48% shareholding in Bosideng Corporation by Union Holdings.

OUR HISTORY AND STRUCTURE

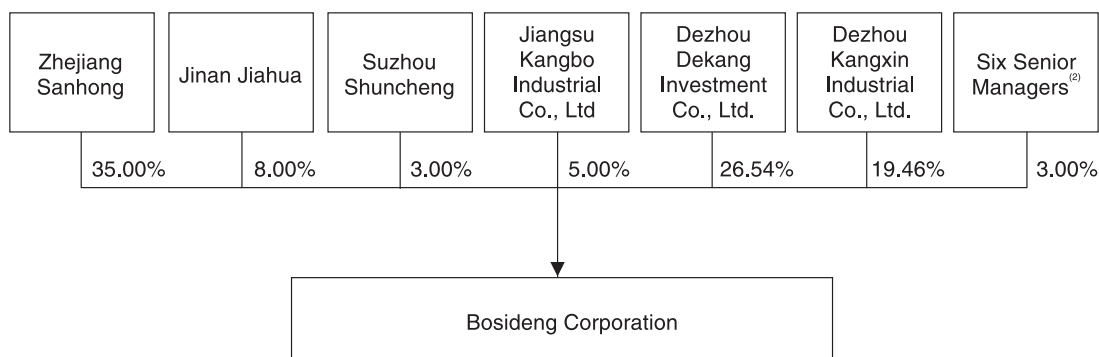
- (a) Shareholding structure of Bosideng Corporation before the divestment of 51% shareholding in Bosideng Corporation by Union Holdings



- (b) Shareholding structure of Bosideng Corporation after the divestment of the 3% shareholding in Bosideng Corporation by Union Holdings



- (c) Shareholding Structure of Bosideng Corporation after the divestment of the remaining 48% shareholding in Bosideng Corporation by Union Holdings as of June 1, 2004



Notes:

- (1) In December 2000, Dezhou Kangxin Industrial Co., Ltd. acquired approximately a total of 19.46% shareholding in Bosideng Corporation after it acquired (i) 6.49% shareholding interests from Changshu City Trust Investment Company (an independent third party) for a consideration of RMB6 million which was the mutually agreed price on commercial terms pursuant to an equity transfer agreement dated December 18, 2000; (ii) 3.495% shareholding interests from 168 employees of Bosideng Corporation for an aggregate consideration of approximately RMB7.93 million which was the mutually agreed price on commercial terms pursuant to a series of equity transfer agreements dated December 18, 2000; (iii) 1.58% shareholding interest from Changshu City Baimao Town Assets Operation and Investment Company (an independent third party) for a consideration of RMB4.75 million which was

OUR HISTORY AND STRUCTURE

the mutually agreed price on commercial terms pursuant to an equity transfer agreement dated December 20, 2000; and (iv) 7.9% shareholding interests from four individual shareholders of Bosideng Corporation (independent third parties) for an aggregate consideration of RMB22.71 million based on the audited net asset value pursuant to equity transfer agreements dated December 18, 2000 and December 20, 2000. Dezhou Kangxin Industrial Co., Ltd. was indirectly controlled by Mr. Gao Dekang at the time of the aforementioned equity transfers. Mr. Gao Dekang acquired a 33.30% shareholding in Dezhou Kangxin Industrial Co., Ltd. in April 2004 and the remaining shareholders are Mr. Gao Xiaodong (as to 50.00%) and Ms. Gao Xiaohong (as to 16.70%), who are son and daughter of Mr. Gao Dekang.

- (2) These six senior managers are Ms. Mei Dong, Mr. Gu Xueliang, Ms. Pan Jianping, Ms. Gao Miaoqin, Ms. Huang Qiaolian and Ms. Zhu Rongmei.

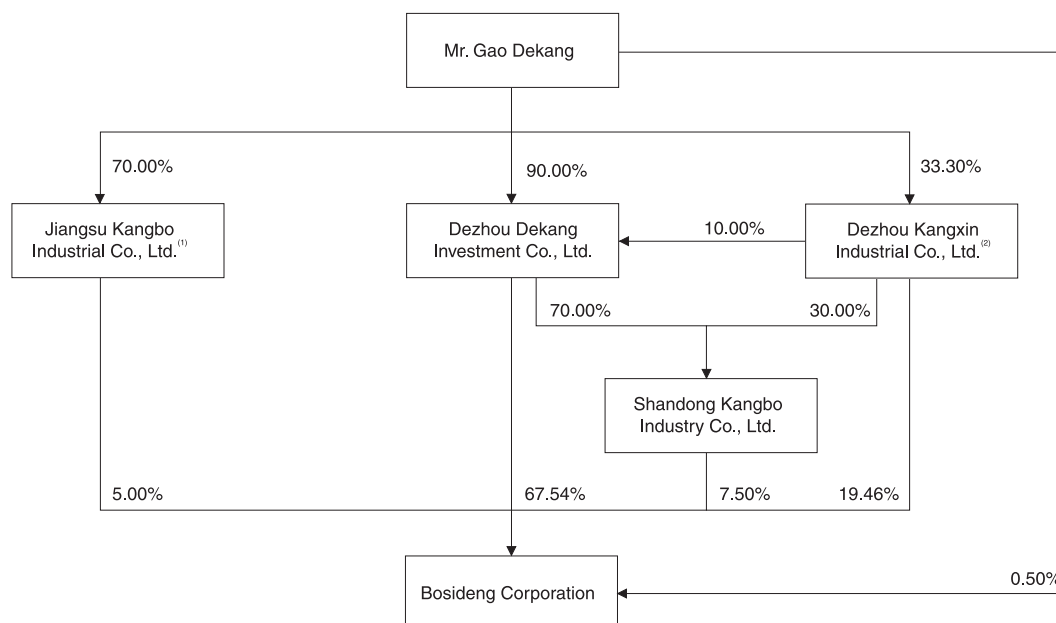
The shareholding held by Dezhou Dekang Investment Co., Ltd. in Bosideng Corporation increased to 32.54% after it further acquired (a) 3% shareholding interests from certain management personnel of Bosideng Corporation for an aggregate consideration of RMB13,133,954.10 based on the audited net asset value per share as of December 31, 2003 pursuant to a series of equity transfer agreements dated June 19, 2004, and (b) 3% shareholding interests from Suzhou Shuncheng for a consideration of RMB13,112,303.28 based on the audited net asset value per share as of May 31, 2004 pursuant to an equity transfer agreement dated July 26, 2004.

To obtain the assurance of business and financial performance of Bosideng Corporation from Mr. Gao Dekang, Zhejiang Sanhong and Jinan Jiahua entered into agreements with Mr. Gao Dekang (the “**Option Agreements**”) on July 26, 2004. Under the Option Agreements, each of Zhejiang Sanhong and Jinan Jiahua were granted an option to transfer their respective shareholdings in Bosideng Corporation to Mr. Gao Dekang or his related parties for the same purchase price at which each of Zhejiang Sanhong and Jinan Jiahua paid for their respective shareholdings in Bosideng Corporation. Zhejiang Sanhong and Jinan Jiahua may exercise their respective options to transfer the equity interests to Mr. Gao Dekang or his related parties and complete the transaction within six months from July 26, 2004, if the business and financial performance of Bosideng Corporation did not achieve certain benchmarks mutually agreed by the parties. Zhejiang Sanhong and Jinan Jiahua exercised their options under the Option Agreements and entered into equity transfer agreements dated January 24, 2005 and January 28, 2005 respectively. Under these equity transfer agreements, as of June 1, 2004, each of Zhejiang Sanhong and Jinan Jiahua transferred their respective shareholdings in Bosideng Corporation (amounting to 35% and 8%, respectively) to Dezhou Dekang Investment Co., Ltd. for an aggregate consideration of RMB187,943,013.68 based on the audited net asset value per share as of May 31, 2004 as specified in the equity transfer agreements between Zhejiang Sanhong, Jinan Jiahua and Union Holdings namely, the same price Zhejiang Sanhong and Jinan Jiahua paid to Union Holdings for the acquisition of equity interests in Bosideng Corporation in 2004.

In addition, Dezhou Dekang Investment Co., Ltd. transferred (a) 0.5% of its shareholding in Bosideng Corporation to Mr. Gao Dekang for a consideration of RMB2,185,410.50 which was the mutually agreed price on commercial terms pursuant to an equity transfer agreement dated January 28, 2005, and (b) 7.5% of its shareholding in Bosideng Corporation to Shandong Kangbo Industry Co., Ltd. (a company controlled by Mr. Gao Dekang) for a consideration of RMB32,781,157.50, which was the mutually agreed price on commercial terms pursuant to an equity transfer agreement dated January 28, 2005.

OUR HISTORY AND STRUCTURE

Following the above series of equity transfers, the shareholding structure of Bosideng Corporation effective as of February 3, 2005 is set out in the following diagram.



Notes:

- (1) The remaining shareholders of Jiangsu Kangbo Industrial Co., Ltd. comprise Mr. Zhang Junhua (as to 20%), Mr. Li Maonian (as to 5%) and Mr. Gao Jianzhong (as to 5%), who were independent third parties at that time. Mr. Zhang Junhua subsequently agreed to transfer his interest to Mr. Gao Dekang in June 2005, and Mr. Li Maonian and Mr. Gao Jianzhong agreed to transfer their respective interest to Mr. Gao Dekang in August 2006. After completion of these transactions, Mr. Gao Dekang held 100% of Jiangsu Kangbo Industrial Co., Ltd.
- (2) The remaining shareholders of Dezhou Kangxin Industrial Co., Ltd. comprise Mr. Gao Xiaodong (as to 50%) and Ms. Gao Xiaohong (as to 16.7%), who are son and daughter of Mr. Gao Dekang, respectively.

REORGANIZATION

In 2005, the Bosideng Corporation and other related businesses within the Bosideng Group began a significant rationalization of its organization structure to focus on the Bosideng Group's management of its portfolio of down apparel brands. In connection with this effort and in anticipation of the listing of our Shares on the Hong Kong Stock Exchange, the Bosideng Group began to group all assets relating to the branded down apparel business into a business group i.e., the Group, comprising a number of operating entities responsible for research, design and development, raw materials procurement, outsourced manufacturing, marketing and distribution of the Bosideng Group's branded down apparel products. The Bosideng Group's OEM management business was also included in the Group.

The Bosideng Group would continue to undertake the manufacture of branded down apparel and OEM products on a contractual basis, while the Group would focus its resources on its principal business activities and outsource its manufacturing arrangements to the Bosideng Group and other

OUR HISTORY AND STRUCTURE

independent third-party contract manufacturers to enhance its cost-effectiveness and to enable it to focus on research, design and development, raw materials procurement, and marketing and distribution of its branded down apparel products.

To this end, the Group underwent a series of reorganization steps which involved (i) domestic restructuring; (ii) the establishment of offshore entities; (iii) the investment by HSBC Private Equity; (iv) transfer of assets; (v) onshore acquisitions by offshore entities; and (vi) further organizational adjustments in 2007 prior to the Global Offering.

(i) Domestic restructuring

We established and acquired onshore operating entities to implement our brand management structure under which our operating entities specialise in the management of specific brands. Our brand portfolio was further expanded when we acquired the “Shangyu” and “Shuangyu” brands in 2006. “Shangyu” and “Shuangyu” brands focused on casual down apparel for men and women targeted at the low and medium end market.

The following table shows steps leading to the establishment and acquisition of our operating entities in the PRC in connection with the Reorganization:

| <u>Name of operating entity</u> | <u>Date of establishment/ acquisition⁽¹⁾</u> | <u>Principal business activity</u> |
|--|---|--|
| Bosideng International Fashion . . . | Established on June 23, 2005 | Undertaking our overall branding strategy and brand portfolio management Management of day-to-day operations of the “Snow Flying” brand |
| Shanghai Bingjie | Subscribed by Bosideng International Fashion on June 30, 2006 (as to 65%) and acquired on July 27, 2006 (as to the remaining 35%) | Management of day-to-day operations of the “Bingjie” brand |
| Jiangsu Bosideng | Established on March 30, 2006 Acquired by Bosideng International Fashion on May 22, 2006 | Management of day-to-day operations of the “Bosideng” brand |
| Shandong Bosideng | Established on May 17, 2006 | Management of day-to-day operations of the “Kangbo” brand |
| Bosideng Design Center. | Acquired by Bosideng International Fashion on July 28, 2006 | Undertaking the design of our branded down apparel products |
| Shanghai Shuangyu | Established on June 28, 2006 | Management of day-to-day operations of the “Shuangyu” and “Shangyu” brands |
| Bosideng Advertising | Acquired by Jiangsu Bosideng on July 27, 2006 | Responsible for overall advertising and promotional strategy |
| 74 regional sales companies ⁽²⁾ . . . | Acquired or established in April and May 2006 by Jiangsu Bosideng | Supervising retail outlets and third party distributors across the PRC; selecting, ordering and pricing products; inventory management and developing new retail outlets |

OUR HISTORY AND STRUCTURE

| <u>Name of operating entity</u> | <u>Date of establishment/ acquisition⁽¹⁾</u> | <u>Principal business activity</u> |
|------------------------------------|---|--|
| Bosideng Import and Export | Acquired by Jiangsu Bosideng on July 27, 2006 | Importing raw materials required for our products Exporting finished products for export sales and to OEM customers |
| Shanghai Kangbo | Acquired by Shanghai Bingjie on August 22, 2007 | Export of down apparel products |

Notes:

- (1) See the sections headed “Statutory and General Information — A. Further information about our Group — 2. Changes in share capital of our Group — Our subsidiaries” and “Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts” in Appendix VIII to this prospectus for further details of the establishment and acquisitions relating to these operating entities.
- (2) See the section headed “A.1 Companies now comprising the Group” of the Accountant’s Report in Appendix IA to the prospectus for further details of the 74 regional sales companies.

(ii) *Establishment of offshore entities*

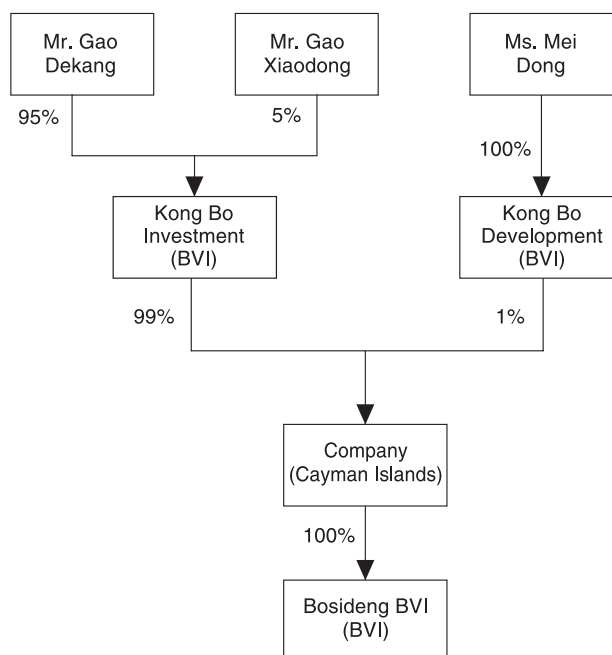
After the shareholding structure of the onshore entities had been established, the offshore entities were established in June and July 2006 as holding companies of our operating subsidiaries and were vehicles through which our operating subsidiaries were acquired.

On July 10, 2006, our Company was established as a limited liability company in the Cayman Islands to act as the ultimate holding company for the operating subsidiaries in our Group. As of July 30, 2006, Kong Bo Investment owned 99 ordinary shares and Kong Bo Development owned 1 ordinary share in our Company. Kong Bo Investment is the holding company for Mr. Gao Dekang and Mr. Gao Xiaodong, and Kong Bo Development is the holding company for Ms. Mei Dong.

On July 11, 2006, the Company established Bosideng BVI as a wholly-owned subsidiary. Bosideng BVI served as the corporate vehicle through which our operating subsidiaries in the PRC were acquired.

OUR HISTORY AND STRUCTURE

The following diagram sets out the shareholding structure of our offshore entities subsequent to their establishment.



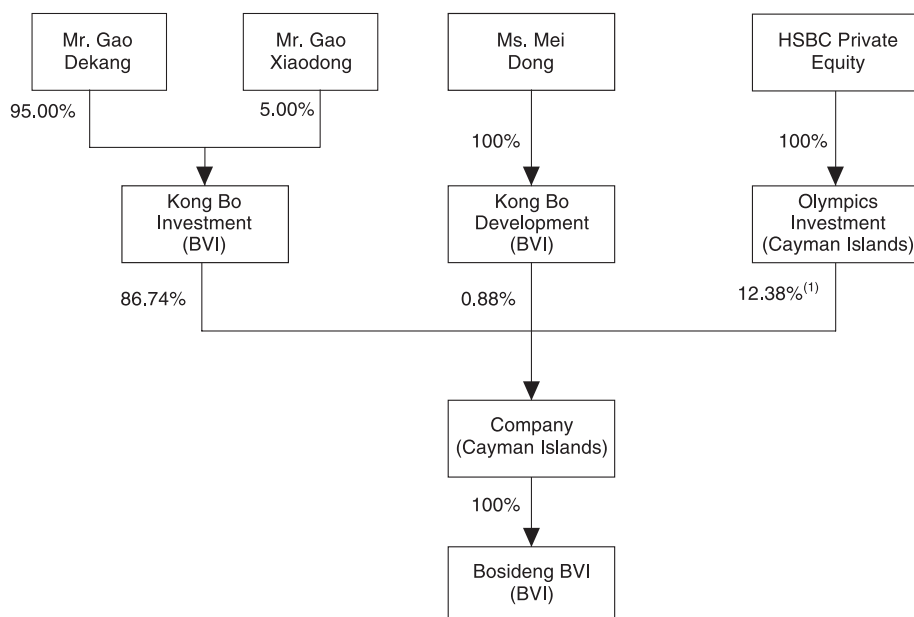
Subsequently, our Company increased its share capital to 50,000 ordinary shares, and issued these additional shares on a *pro rata* basis to Kong Bo Investment and Kong Bo Development. The Company also issued 5,336 Series B shares to Kong Bo Investment.

(iii) *Investment by HSBC Private Equity*

To raise capital for the acquisition by our offshore entities of our PRC operating entities, future capacity expansion and operation and development of our business operations, the Company entered into an Investment Agreement on July 30, 2006 with Mr. Gao Dekang, Kong Bo Investment and Olympics Investment. This Investment Agreement was amended on September 5, 2006. Pursuant to the Investment Agreement (as amended), Olympics Investment subscribed for a convertible bond issued by the Company at the price of US\$20 million. Olympics Investment also extended a loan to Kong Bo Investment in the amount of US\$50 million. Kong Bo Investment further extended this loan to the Company on July 30, 2006. On September 22, 2006, the convertible bond was converted into 2,135 Series A Shares. On September 22, 2006, 5,336 Series B Shares, were transferred to Olympics Investment from Kong Bo Investment as consideration for Olympics Investment waiving the repayment of the US\$50 million loan. These Series A Shares and Series B Shares on an as-converted basis constitute 3.54% and 8.84% shareholding in the Company, respectively. See “—HSBC Private Equity Investment” for further details.

OUR HISTORY AND STRUCTURE

The following diagram sets out the shareholding structure of our offshore entities following investment by HSBC Private Equity.



Note:

(1) Olympics Investment holds its interest in the Company in the form of Series A Shares and Series B Shares.

(iv) *Transfer of Assets*

From July 2006 to June 2007, all assets related to the branded down apparel and OEM management business were transferred from the Bosideng Group to our operating subsidiaries in the PRC through various asset transfers relating to inventory, equipment, trademarks and domain names pursuant to a series of transfer agreements. The equipment was transferred from the Bosideng Group to us at a consideration based on the net book value of the equipment, while the inventory (comprising raw materials and finished goods) was transferred from the Bosideng Group to us at consideration based on the book value of the inventory. The trademarks and domain names were transferred from the Bosideng Group to us at no consideration (subject to certain licensing arrangements of these trademarks and domain names in favor of the Bosideng Group which will continue after the Listing Date). Please see the section headed “Relationship with Controlling Shareholders and Connected Transactions — Continuing Connected Transactions — Trademark and Domain Name Licensing Arrangements pursuant to the Reorganization” for further details.

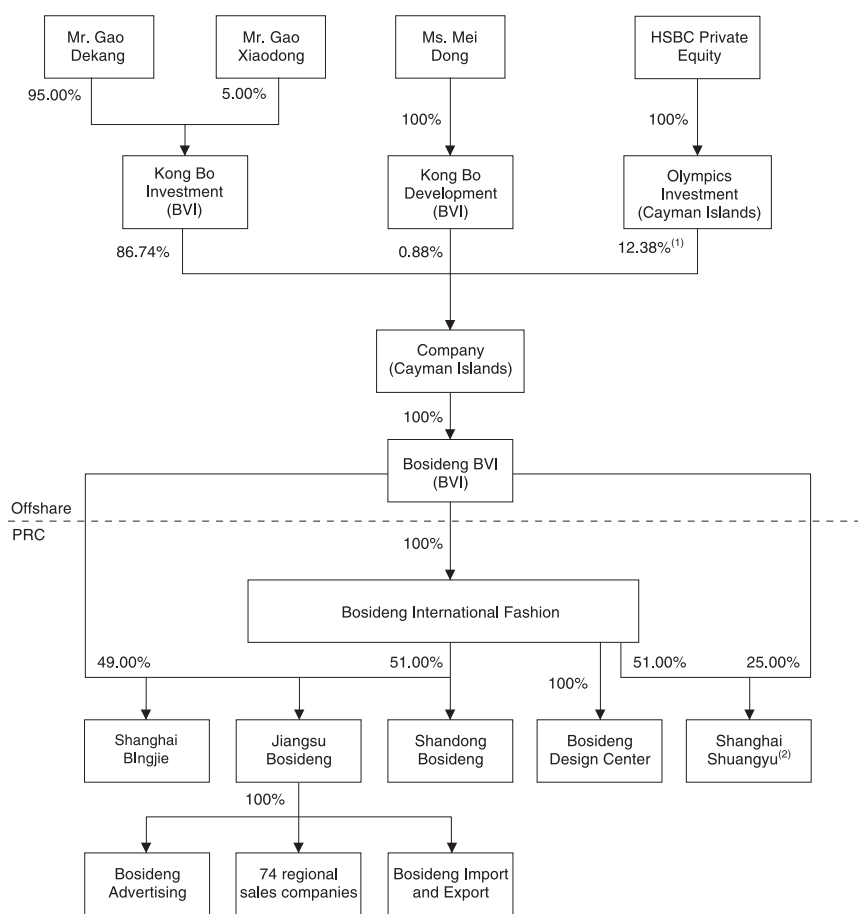
Subsequent to the injection of assets, the Bosideng Group ceased to engage in any down apparel business or OEM management business in which we are engaged.

(v) *Onshore acquisitions by offshore entities*

Subsequent to the asset transfer into our Group and investment in our Company by HSBC Private Equity, Bosideng BVI commenced with the acquisition of our PRC operating entities in July 2006, which comprised: (i) Bosideng International Fashion (approved by Shanghai Foreign

OUR HISTORY AND STRUCTURE

Investment Committee and Shanghai People’s Government on August 29, 2006 and September 1, 2006, respectively), (ii) Shanghai Shuangyu (approved by Shanghai Foreign Investment Committee and Shanghai People’s Government on August 31, 2006 and September 1, 2006, respectively), (iii) Shanghai Bingjie (approved by Shanghai Foreign Investment Committee and Shanghai People’s Government on August 29, 2006 and September 1, 2006, respectively), (iv) Jiangsu Bosideng (approved by Jiangsu Foreign Trade and Economic Cooperation Bureau and Jiangsu People’s Government on July 27, 2006 and July 28, 2006, respectively), and (v) Shandong Bosideng (approved by Shandong Foreign Trade and Economic Cooperation Bureau and Shandong People’s Government on August 8, 2006). Bosideng BVI acquired the entire shareholding of Bosideng International Fashion from Shanghai Bosideng Holdings Group (a controlling shareholder of Bosideng Corporation, which was previously known as Dezhou Dekang Investment Co., Ltd.) for a consideration of RMB53.5 million based on the appraised net asset value appraised by Shanghai Changxin Asset Appraisal Co., Ltd. Following a series of equity transfers and subscription of registered capital of our PRC operating entities by Bosideng BVI, each of Jiangsu Bosideng, Shanghai Bingjie and Shandong Bosideng was converted into a Sino-foreign equity joint venture company, and each was owned by Bosideng International Fashion (as to 51%) and Bosideng BVI (as to 49%). Similarly, Shanghai Shuangyu was converted into a Sino-foreign equity joint venture company owned by Bosideng International Fashion (51%), Bosideng BVI (25%), Shanghai Kangbo Feida (16.22%) and Changshu Bingxu (7.78%). For details of these acquisitions of our PRC operating entities, please refer to the sections headed “Changes in share capital of our Group — Our subsidiaries” and “Summary of material contracts” in Appendix VIII to this prospectus.



OUR HISTORY AND STRUCTURE

Notes:

- (1) Olympics Investment holds its interest in the Company in the form of Series A Shares and Series B Shares.
- (2) The other two shareholders of Shanghai Shuangyu are Changshu Bingxu (as to 7.78%) and Shanghai Kangbo Feida (as to 16.22%).

(vi) *Further organizational adjustments in 2007 prior to the Global Offering*

In 2007, the following series of adjustments to our business and shareholding structure were made:

- On June 14, 2007, we implemented the Share Scheme to incentivize our experienced personnel to remain with us. See the section headed “Statutory and General Information — E. Share Scheme” in Appendix VIII to this prospectus for further details. Under the Share Scheme, Kong Bo Investment and Olympics Investment contributed and transferred 574 ordinary shares of US\$1.00 each of the Company (prior to any sub-division of the share capital of the Company) and 87 Series A Shares (“**Scheme Shares**”) respectively on September 14, 2007 to Gather Wealth Holdings Limited, a subsidiary wholly owned by HSBC Trustee (Hong Kong) Limited, the trustee of the Share Scheme which was appointed pursuant to a Trust Deed dated June 14, 2007. Consequently, Gather Wealth Holdings Limited became a 1.15% shareholder of the Company through its interest in the Scheme Shares. HSBC Trustee (Hong Kong) Limited will procure Gather Wealth Holdings Limited to hold and deal with the Scheme Shares according to the instructions of the Company acting through the Award Committee, which shall determine the beneficiaries of the Share Scheme.
- To further rationalize our corporate structure, Bosideng International Fashion acquired the entire shareholding in Shanghai Shuangyu owned by Changshu Bingxu (as to 7.78%) and Shanghai Kangbo Feida (as to 16.22%) on July 11, 2007 for an aggregate consideration of RMB26,700,000 commercially agreed upon based on a premium on the audited net asset value in 2006, pursuant to which Shanghai Shuangyu became an indirect wholly-owned subsidiary of the Company.

We have been advised by our PRC legal advisor that we and our Controlling Shareholders have met the relevant requirements set out in the Interim Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (外國投資者併購境內企業暫行規定), effective from April 12, 2003, and the “Notice of SAFE on Issues relating to Foreign Exchange Control on Fund Raising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments” (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) promulgated on October 21, 2005 and other relevant laws, regulations and rules. Our PRC legal advisor has confirmed that we and our Controlling Shareholders have properly registered with the relevant branches of SAFE for foreign exchange on foreign investments.

According to the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (the “**M&A Provisions**”) effective from September 8, 2006, an offshore special purpose company formed for overseas listing purpose and controlled, directly or indirectly, by PRC domestic enterprise(s) or individual(s), is required to obtain approval from the CSRC for its overseas listing, especially in the event that such special purpose company acquires share of or equity interests in the PRC domestic enterprise(s) in exchange for the

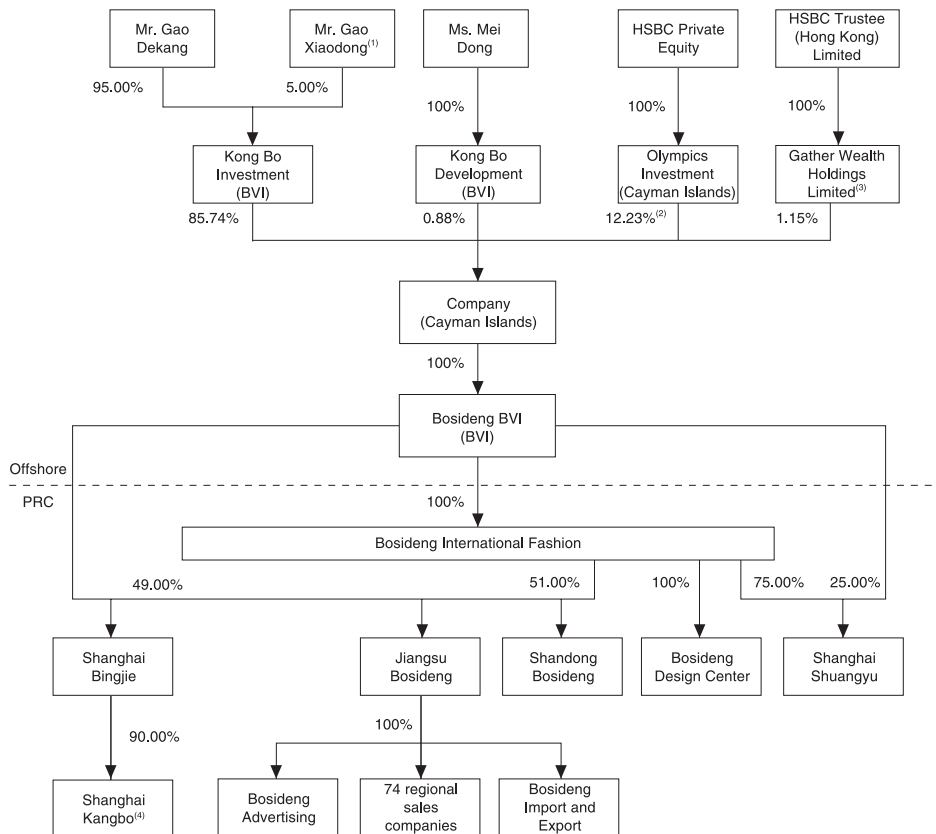
OUR HISTORY AND STRUCTURE

share of offshore companies. Our PRC legal advisor has advised us that, the M&A Provisions do not apply to the listing of our Shares on the Hong Kong Stock Exchange and approval by the CSRC is not required because (i) the acquisition of our onshore entities by our offshore entities had been approved by the relevant PRC government authorities before the M&A Provisions became effective; (ii) the M&A Provisions do not apply retroactively; and (iii) the acquisition of our onshore entities by our offshore entities were based on cash consideration and did not involve the exchange of shares of offshore entities.

Our PRC legal advisor has also confirmed that the registered capital of all PRC established joint ventures or wholly owned entities within the Group (save for Bosideng International Fashion and Jiangsu Bosideng) have been fully paid in. Our PRC legal advisor has further confirmed that (i) the current registered capital of Bosideng International Fashion is US\$40 million and the paid-in capital is US\$29.3 million, (ii) the current registered capital of Jiangsu Bosideng is US\$30 million and the paid-in capital is approximately US\$22.3 million, and (iii) the timing and method of contribution of the registered capital of both Bosideng International Fashion and Jiangsu Bosideng is in compliance with the applicable PRC law and their respective articles of association.

Our PRC legal advisor has further confirmed that the Reorganization is in compliance with the applicable PRC laws, rules, regulations and registrations requirements imposed by the relevant PRC authorities.

The following diagram sets out the shareholding structure of the Company and the operating subsidiaries immediately after the completion of Reorganization:



OUR HISTORY AND STRUCTURE

Notes:

- (1) Mr. Gao Xiaodong (the son of Mr. Gao Dekang) was previously appointed as a non-executive director of certain Group members (namely, the Company, Bosideng International Fashion, Shanghai Bingjie, Jiangsu Bosideng, Shandong Bosideng and Shanghai Shuangyu) to gain exposure and knowledge in the business operations and management processes. In view of Mr. Gao Dekang's decision to focus his time and managerial expertise on the Group following the Global Offering, Mr. Gao Xiaodong subsequently resigned as director of the relevant Group members in June 2007 and assumed the directorships and/or general manager positions in several entities within the Bosideng Group (such as Bosideng Corporation and Shanghai Bosideng Holdings Group) in order to focus his time and managerial skills on the Bosideng Group. Mr. Gao Xiaodong is currently responsible for overall management of the businesses unrelated to the Group's current business.
- (2) Olympics Investment holds its interest in the Company in the form of Series A Shares and Series B Shares.
- (3) Under the Share Scheme, Gather Wealth Holdings Limited, a wholly owned subsidiary of HSBC Trustee (Hong Kong) Limited, holds its interest in the Company in the form of 574 ordinary Shares of US\$1.00 each of the Company (prior to any sub-division of the share capital of the Company) and 87 Series A Shares ("Scheme Shares") on behalf of the beneficiaries of the Share Scheme. See the sections headed "(vi) Further organizational adjustments in 2007 prior to the Global Offering" above and "Statutory and General Information — E. Share Scheme" for further details.
- (4) The remaining 10.00% equity interests of Shanghai Kangbo is held by Shanghai International Bidding Company (an independent third party).

HSBC PRIVATE EQUITY INVESTMENT

On July 30, 2006, Olympics Investment entered into an Investment Agreement with Mr. Gao Dekang, Kong Bo Investment and the Company. This Investment Agreement was amended on September 5, 2006. Pursuant to the Investment Agreement (as amended), Olympics Investment subscribed for a convertible bond issued by the Company at the price of US\$20 million. Olympics Investment also extended a loan to Kong Bo Investment in the amount of US\$50 million. Kong Bo Investment further extended this loan to the Company on July 30, 2006. On September 22, 2006, the convertible bond was converted into 2,135 Series A Shares. On September 5, 2006, 5,336 Series B Shares were issued by the Company to Kong Bo Investment at a par value of US\$0.0001 per share. On September 22, 2006, the 5,336 Series B Shares were transferred to Olympics Investment from Kong Bo Investment as consideration for Olympics Investment waiving the repayment of the US\$50 million loan. At the date of this prospectus, these Series A Shares and Series B Shares on a fully diluted basis constitute 3.54% and 8.84% shareholding in the Company, respectively.

Subsequent to this investment, we obtained US\$70 million (comprising of US\$20 million proceeds from the convertible bond and US\$50 million proceeds from the loan extended by Kong Bo Investment) which has been mainly used for acquisitions and capital contributions to the increased registered capital of several Group members in the PRC pursuant to the Reorganization, working capital needs and general corporate purposes. The acquisitions and capital contributions relate to the acquisitions of our several PRC operating entities from the Bosideng Group and certain independent third parties, and the capital contributions to increase the registered capital of our several PRC operating entities. See the section headed "A. Further Information About Our Group — 2. Changes in share capital of our Group — Our Subsidiaries" in Appendix VIII — Statutory and General Information for further details of the parties to these acquisitions and capital contributions.

In connection with this investment, the Company, Olympics Investment, Kong Bo Investment, Kong Bo Development, Mr. Gao Dekang, Ms. Mei Dong and Mr. Gao Xiaodong also entered into a Shareholders' Agreement on July 30, 2006.

OUR HISTORY AND STRUCTURE

On September 14, 2007, Olympics Investment contributed and transferred 87 Series A Shares as part of the Scheme Shares to Gather Wealth Holdings Limited. See the section headed “Our History and Structure — Reorganization — (vi) Further organizational adjustments in 2007 prior to the Global Offering” for further details of the Share Scheme.

Upon the Global Offering becoming a qualified IPO (as defined in the Investment Agreement and disclosed below under the section headed “— Performance Adjustment Option granted by Kong Bo Investment”), the Series A Shares and Series B Shares will be mandatorily converted into ordinary Shares immediately prior to this Global Offering based on an adjusted conversion price of US\$0.0942379998 (for the Series A Shares) and US\$0.0942379999 (for the Series B Shares), after adjusting for the subdivision and capitalization of the Shares. This conversion price has been determined to reflect a valuation of the Company amounting to nine times the Company’s net profit after tax for the financial year ended March 31, 2006 and is based on a one-for-one conversion of each respective Series A Share and Series B Share into a Share, subject to adjustments upon the occurrence of certain events, such as when the Company distributes a dividend or such other form of distribution on its outstanding Shares, the Shares are subdivided, consolidated or reclassified, or when the Company issues Shares below the conversion price.

Following such conversion, the 2,048 Series A Shares held by Olympics Investment will be converted to 203,580,421 Shares and the 5,336 Series B Shares held by Olympics Investment will be converted to 530,571,532 Shares. The Global Offering and the proposed listing of our Company on the Hong Kong Stock Exchange is a qualified IPO for the purposes of the Investment Agreement. Upon conversion of the Series A Shares and Series B Shares, our Company will have one class of shares, being the Shares. In addition, all of the preferential rights enjoyed by Olympics Investment under the Series A Shares and Series B Shares which are not generally available to other shareholders will not subsist on and after the Listing Date.

For further information on the issuance and conversion of the Series A Shares and Series B Shares, and the subdivision and capitalization of the Shares, see the section headed “A. Further Information About Our Group — 2. Changes in share capital of our Group — Our subsidiaries” in Appendix VIII — Statutory and General Information.

Put Option granted by Kong Bo Investment

Pursuant to a put option agreement dated July 30, 2006 (as amended on September 5, 2006), Kong Bo Investment granted a put option (“**Put Option**”) which allows Olympics Investment to require Kong Bo Investment to purchase the Series B Shares upon the occurrence of certain events, such as, if the Company’s audited net profit for any financial year from operation (as calculated under the Hong Kong Financial Reporting Standards) after payment of and reservation for applicable taxes before minority interest of the Company for any financial year falls below US\$25 million, or if Mr. Gao Dekang ceases to be employed by the Company or ceases to play an important managerial role in the Group.

The Put Option will expire upon the completion of this Global Offering.

Performance Adjustment Option granted by Kong Bo Investment

Under the Shareholders’ Agreement, Kong Bo Investment also granted Olympics Investment a call option to acquire further shares in the Company from Kong Bo Investment at a price of US\$0.0001 per Share, which was determined on normal commercial terms after arms-length negotiations (“**Performance Adjustment Option**”). The Performance Adjustment Option is exercisable when the Company is preparing to complete the Global Offering and the Offer Price is likely, in the reasonable

OUR HISTORY AND STRUCTURE

opinion of Olympics Investment (based upon the consideration of all relevant factors such as the offer price range, market conditions and expected investor demand), to be less than an agreed minimum price which will cause the internal rate of return of Olympics Investment to be less than 30% per year. This minimum price is calculated by multiplying the price per share of the investment by Olympics Investment in the Company by $(1.3)^n$, where “n” is the number of years from September 5, 2006 to the date on which the preliminary “red herring” offering memorandum in connection with the Global Offering is published. The number of Shares which Olympics Investment is entitled to under the Performance Adjustment Option is calculated based on the Offer Price.

The Performance Adjustment Option is exercisable and may vest at any time before the completion of the qualified IPO, which is defined in the Investment Agreement as an initial public offering and listing of the Company’s ordinary shares (a) on the Hong Kong Stock Exchange, the United States National Association of Securities Dealers Automated Quotation (NASDAQ) or other internationally recognized stock exchange outside the PRC approved by Olympic Investment, and, in each case, the offer price is at least twice the price per share paid by Olympics Investment in its investment pursuant to the Investment Agreement, or (b) any other initial public offering approved by Olympics Investment. The Offer Price will not be more than HK\$3.28 per Offer Share and is expected to be not less than HK\$2.56 per Offer Share. Based on this indicative offer price range, (a) the Global Offering and the proposed listing of our Company on the Hong Kong Stock Exchange is a qualified IPO for the purposes of the Investment Agreement, and (b) the annual internal rate of return of Olympics Investment in the Company will not be less than 30% and the Performance Adjustment Option will consequently not be exercisable. In this connection, Olympics Investment has confirmed that it will not exercise the Performance Adjustment Option, provided that the Global Offering has been successfully completed and the Offer Price is not below HK\$2.56, being the bottom end of the indicative offer price range.

Following from the above and given that the Performance Adjustment Option will not be exercised, the cost per Share of Olympics Investment’s investment in the Company is approximately HK\$0.74, representing a discount of approximately 77.4% to the Offer Price of HK\$3.28, being the top end of the indicative offer price range, and approximately 71.0% to the Offer Price of HK\$2.56, being the bottom end of the indicative offer price range.

Pursuant to a loan agreement entered into between Shanghai Bosideng Holdings Group (a company controlled by Mr. Gao Dekang) and Bosideng International Fashion on August 24, 2006, Shanghai Bosideng Holdings Group extended a loan to Bosideng International Fashion in the amount of the Renminbi equivalent of US\$6.7 million. This loan does not bear any interest.

Pursuant to a loan agreement entered into between the Company, Kong Bo Investment and Olympics Investment dated July 30, 2006 (as amended on September 5, 2006), Kong Bo Investment lent US\$50 million to the Company at the interest rate of 2% per annum. The Company must repay this loan to Kong Bo Investment on or after the completion of this Global Offering on demand by Kong Bo Investment, except:

- If the Sponsors and the Company jointly determine that it is appropriate to repay this loan prior to the completion of this Global Offering, the Company must repay the loan at the time jointly determined by the Sponsors and the Company through an escrow mechanism specified in the loan agreement.

OUR HISTORY AND STRUCTURE

- If Olympics Investment exercises the Put Option (as disclosed in the paragraph headed “Put Option Granted by Kong Bo Investment”) or if Kong Bo Investment or the Company becomes insolvent, the Company must repay the principal amount of this loan plus a certain redemption default amount (defined as the amount of interest accruing at the rate of 6% per annum) to Olympics Investment.

The above-mentioned loans are for acquisitions and capital contributions to the increased registered capital of several Group members in the PRC pursuant to the Reorganization, working capital needs and general corporate purposes. The acquisitions and capital contributions relate to the acquisitions of several PRC operating entities from the Bosideng Group and certain independent third parties, and the capital contributions to increase the registered capital of our several PRC operating entities. See the section headed “A. further Information About Our Group — 2. Changes in share capital of our Group — Our subsidiaries” in Appendix VIII for further details of the parties to these acquisitions and capital contribution. These loans will be fully discharged prior to the completion of the Global Offering. The discharge of the above-mentioned loans will be funded by our bank borrowings and/or our internal resources.

Other Terms of the Investment

Preferential rights of Olympics Investments ceasing to exist upon completion of the Global Offering

Under the Shareholders’ Agreement, Olympics Investment has been granted preferential rights primarily in relation to the following:

Dividends. Olympics Investment is entitled to annual dividends distributed by the Company, which shall be non-cumulative and shall not be of an amount greater than 5% of the aggregate investment amount of US\$70 million in the Company.

Reserved Matters. Certain reserved matters of the Group (such as the approval or amendment of the Company’s annual strategic investment plan, and the amendment of expenditure limits, constitutional documents and the dividend policy of the Group) must be approved by at least Olympics Investment (in the case of a shareholders’ resolution) or the Director designated by Olympics Investment to be part of the board of Directors of the Company (in the case of a board resolution).

Right of First Offer. Each shareholder of the Company has a right of first offer over the Shares proposed to be sold by another shareholder. If there is more than one shareholder of the Company electing to acquire such Shares, these acquiring shareholders shall be entitled to such Shares to be sold according to their respective pro rata shareholding interests in the Company.

Tag-along Rights. In the event that Kong Bo Investment sells any part of its shareholding interest in the Company to a third party (subject to the approval by Olympics Investment, the shareholders’ rights of first offer and certain other stipulated conditions), Olympics Investment has the right to have up to a pro rata portion of its shareholding interest in the Company included in such sale, on substantially the same terms and conditions as such share sale by Kong Bo Investment.

Voting Arrangements. As long as Olympics Investment holds at least 5% shareholding in the Company, the parties to the Shareholders’ Agreement agree to use their voting rights in the Company to ensure that Olympics Investment may designate at least one director on the board of directors of the Company.

OUR HISTORY AND STRUCTURE

Information Rights. Olympics Investment is entitled to have full and equal access to our financial and accounting information and other books and records subject to certain confidentiality obligations.

The above-mentioned preferential rights of Olympics Investment will cease upon the completion of the Global Offering.

Board Representation

Pursuant to the Articles of Association, any Shareholder has the right to designate one Director to the board of Directors of the Company as long as its shareholding in the Company is at least 5%. This designated Director may exercise his voting powers in the Company in such manner as he thinks fit, subject to the fiduciary duties and duties of skill, care and diligence to which such Director is bound. In this connection, Olympics Investment has nominated a Director, Mr. Shen Jingwu, to the board of the Company and will continue to have such nomination rights after the completion of the Global Offering as long as its shareholding in the Company is at least 5%.

Lock-up

During the first six-month period after the completion of this Global Offering, Mr. Gao Dekang and Mr. Gao Xiaodong have agreed not to dispose of any shares in Kong Bo Investment, and Kong Bo Investment has agreed not to dispose of any Shares in the Company.

During the subsequent six-month period, Mr. Gao Dekang and Mr. Gao Xiaodong have agreed not to dispose of any shares in Kong Bo Investment and Kong Bo Investment has agreed not to dispose of any Shares, if, in each case, immediately after such transfer Mr. Gao Dekang would no longer be a controlling shareholder of the Company.

In addition, Olympics Investment has agreed not to dispose of any Shares (save for the Sale Shares) during the first six-month period after the completion of this Global Offering.

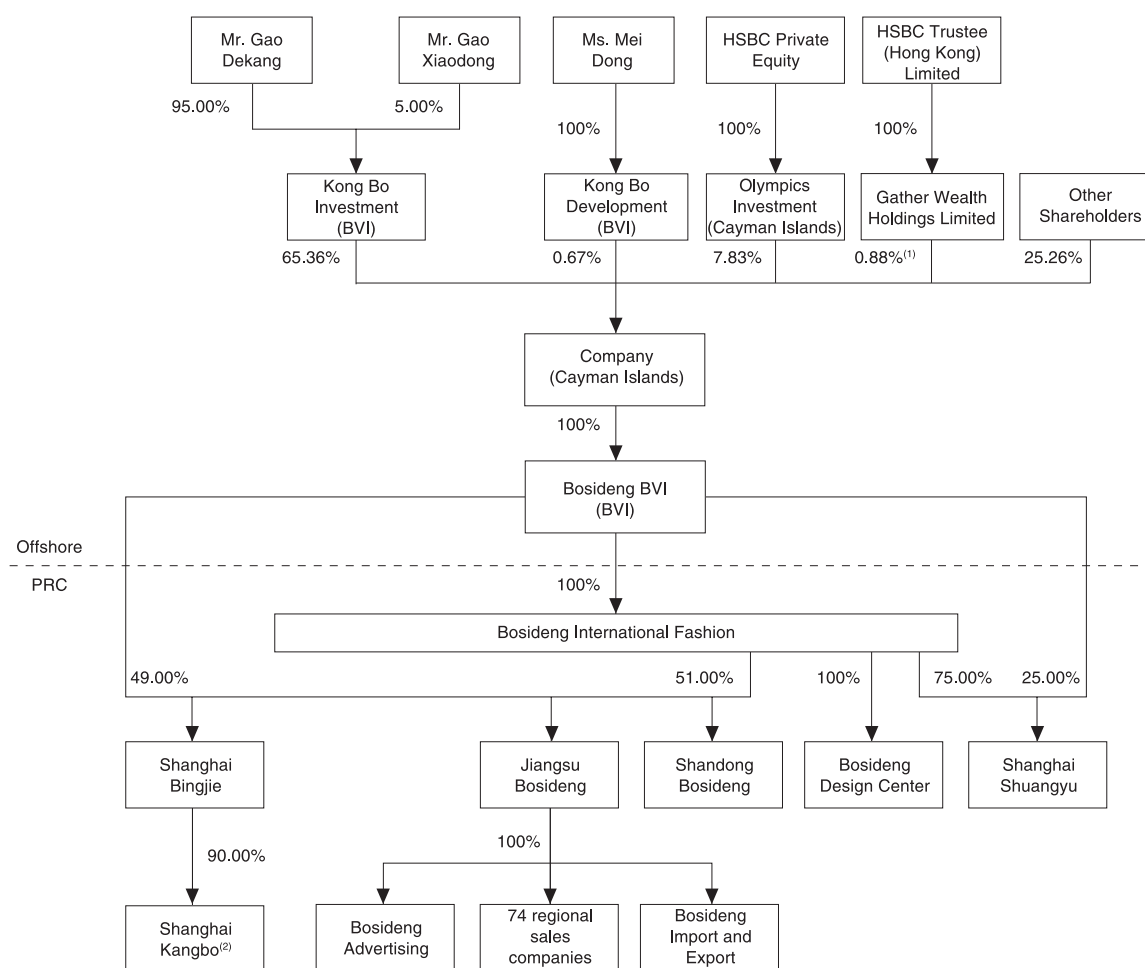
Information regarding HSBC Private Equity

HSBC Private Equity is a US\$700 million regional private equity fund focusing on private equity investments in Asia. The shareholders of HSBC Private Equity are principally institutional and private investors from Asia, Europe, the Middle East and the United States. HSBC Private Equity is advised by HSBC Private Equity (Asia) Limited (“HPEA”), which is the Asian private equity arm of the HSBC Group and has advised funds with an aggregate capital of approximately US\$1.9 billion. The principal geographic markets for HPEA’s funds include China, Hong Kong, Taiwan, South Korea, Southeast Asia and India. Principal sectors for investments by HPEA include consumer goods and services, industrial and manufacturing and electronics and technology. HPEA is a member of the HSBC Group.

OUR HISTORY AND STRUCTURE

OUR STRUCTURE AFTER THE GLOBAL OFFERING

The following chart and table show our corporate and shareholding structure immediately after completion of the Global Offering based on the following assumptions: (i) the Over-allotment Option has not been exercised, (ii) all outstanding Series A Shares and Series B Shares have been fully converted to Shares, (iii) the Put Option has not been exercised by Olympics Investment, and (iv) the Performance Adjustment Option has not been exercised.



Notes:

- (1) Gather Wealth Holdings Limited holds its interest in the Company on behalf of the beneficiaries of the Share Scheme. See the sections headed “(vi) Further organizational adjustments in 2007 prior to the Global Offering” above and “Statutory and General Information — E. Share Scheme” for further details.
- (2) The remaining 10.00% equity interests of Shanghai Kangbo is held by an independent third party.

OVERVIEW

We are the leading down apparel company in the PRC, with a significant lead over our closest competitor in terms of market share. We primarily focus on developing and managing the portfolio of our down apparel brands, which includes research, design and development, raw materials procurement, outsourced manufacturing, and marketing and distribution of our branded down apparel products. Our core brands are “Bosideng”, “Snow Flying” and “Kangbo”, and our other brands comprise “Bingjie”, “Shuangyu” and “Shangyu”. “Bosideng” was the leading down apparel brand in the PRC based on sales for 12 consecutive years from 1995 to 2006, according to the CIIC and National Bureau of Statistics of China. In 2006, “Bosideng”, “Snow Flying” and “Kangbo” down apparel products achieved a combined market share of 36.1% among the 30 largest down apparel brands in the PRC based on sales, according to the CIIC. We also engage in the OEM management business through which we procure raw materials and manage the outsourced manufacturing process on behalf of our OEM customers, as well as coordinate the export of down and non-down apparel to our OEM customers.

Our “Bosideng” brand was named as one of China’s top ten brands in the world by the World Confederation of Productivity Science, Chinese Association of Productivity Science and World Productivity Congress in 2006. In 2007, “Bosideng” was named as one of “China’s Top 25 Brands (2006–2007)” by the Brand Union Association⁽¹⁾, and was the only apparel brand amongst different industries which was awarded this prize for two consecutive years. In the same year, “Bosideng” was the only apparel brand named as one of China’s three famous brands in the world by the PRC General Administration of Quality Supervision, Inspection and Quarantine. In addition to “Bosideng”, our other brands have also achieved significant success. “Snow Flying” and “Kangbo” were ranked as the second and seventh PRC down apparel brands respectively, in terms of sales in 2006, according to the CIIC. Our “Bosideng”, “Snow Flying” and “Kangbo” brands were also each named as one of the most competitive brands by the Ministry of Commerce in 2007.

We currently focus our business activities in the PRC market. We seek to distinguish ourselves in the PRC down apparel industry through our established leading market position and the ability to effectively manage each stage of our supply chain and remain cost-competitive by leveraging our established relationships with our major suppliers and contract manufacturers. This in turn enables us to respond quickly to supplemental production orders and ensure timely delivery of our products to customers through the extensive retail distribution network through which our branded down apparel products are distributed.

As part of the Reorganization and in line with our strategy to focus on developing and managing the portfolio of our down apparel brands, we have, since the financial year ended March 31, 2007, outsourced all the manufacturing operations of our branded down apparel and OEM products to 331 contract manufacturers in the PRC, of which five are affiliates of the Bosideng Group, while the remaining 326 contract manufacturers as at March 31, 2007 are independent third parties. We believe that our outsourced manufacturing arrangements enable us to focus on our core strengths to achieve higher profit margins and be more cost-efficient as we do not directly undertake the operational and financial risks and expenses relating to the operation of production facilities and management of labor. Furthermore, our outsourced manufacturing arrangements enable us to focus on research, design and development, raw materials procurement, and marketing and distribution of our branded down

Note:

(1) According to its website, Brand Union Association is one of the influential forums in the PRC for brand development and was established in December 2005 by mass media and branding research institutions, such as IT Time Weekly, Fortune Owner and the Peking University Guanghua Management School.

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apparel products. Our Directors believe that our outsourced manufacturing arrangements are consistent with the practice of certain established apparel companies which also choose to outsource part or all of the manufacturing operations.

Our down apparel products primarily comprise down jackets, down vests and down pants. These products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. As at March 31, 2007, our branded down apparel products were sold at our three specialty stores, 1,018 concessionary retail outlets under the supervision of our 74 regional sales companies in approximately 67 cities across the PRC, and 4,956 specialty stores and 867 concessionary retail outlets operated or supervised by our third party distributors.

We experienced a significant growth in revenue and profit for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Our revenue from continuing operations during these periods was RMB2,509.3 million, RMB3,698.6 million and RMB5,633.0 million, respectively, and profit from continuing operations was RMB290.3 million, RMB523.5 million and RMB614.1 million, respectively. The net profit attributable to equity holders of the Group during the same periods was RMB252.6 million, RMB500.8 million and RMB617.6 million, respectively. Our branded down apparel business and OEM management business accounted for RMB4,980.6 million and RMB652.4 million, or 88.4% and 11.6%, respectively, of our revenue for the financial year ended March 31, 2007.

COMPETITIVE STRENGTHS

We believe that our success in the PRC down apparel industry and the potential for future growth are attributable to the following principal factors:

Leading market position in the PRC down apparel industry

We are the leading down apparel company in China, with a significant lead over our closest competitor in terms of market share. “Bosideng”, “Snow Flying” and “Kangbo” down apparel products achieved a combined market share of 36.1% among the 30 largest down apparel brands in the PRC based on sales, according to the CIIC. “Bosideng” was the leading down apparel brand in the PRC for 12 consecutive years from 1995 to 2006 according to the CIIC and National Bureau of Statistics of China, while “Snow Flying” and “Kangbo” were ranked as the second and seventh PRC down apparel brands respectively, in terms of sales in 2006, according to the CIIC. “Bosideng”, “Snow Flying” and “Kangbo” have also been each named as one of the “Most Competitive Brands” by the Ministry of Commerce in 2007. In 2006, “Bosideng” was the only apparel brand amongst various industries which was named as one of “China’s Top 25 Brands (1980–2005)” by the All-China Federation of Industry and Commerce, Brand Union Association and the China Economic and Social Council. “Bosideng” was also named as one of “China’s Top Ten Brands in World Market” in 2006 by the World Confederation of Productivity Science, Chinese Association of Productivity Science and World Productivity Congress. In 2007, “Bosideng” was named as one of “China’s Top 25 Brands (2006–2007)” by the Brand Union Association, and was the only apparel brand amongst different industries which was awarded this prize for two consecutive years. In the same year, “Bosideng” was the only apparel brand named as one of China’s three famous brands in the world by the PRC General Administration of Quality Supervision, Inspection and Quarantine.

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Despite increasing competition, we experienced a significant rate of revenue growth for the period from June 1, 2004 to March 31, 2005, and during the two financial years ended March 31, 2007. For the financial year ended March 31, 2007, our combined revenue for our “Bosideng”, “Snow Flying” and “Kangbo” down apparel products was RMB4,466.6 million, an increase of RMB1,357.8 million, or 43.7%, from RMB3,108.8 million in the financial year ended March 31, 2006.

We believe our leading market position has enhanced our ability to:

- benefit from an increasing economy of scale by utilizing our purchasing and bargaining power to obtain favorable prices from our long-term major suppliers and contract manufacturers, thereby maintaining a competitive cost structure;
- secure prime locations for retail outlets for favorable concessionaire fees; and
- further enhance brand reputation and customer loyalty.

Diverse brand and product portfolio based on a focused branding strategy

We have been actively engaged in sustained and focused brand building of our products to promote brand reputation and customer loyalty within our target markets. We seek to convey a fashionable and modern image for our brands through various marketing channels and strategies for specific brands and consumer groups. Through media advertising (such as television and print advertisements), our branding strategy aims to promote “Bosideng” and “Snow Flying” as high quality and trendy branded down apparel for the medium-to-high end market, and to promote “Kangbo”, “Bingjie”, “Shuangyu” and “Shangyu” as brands targeting the medium-to-low end of the market, especially among younger consumers. Through event-based marketing, we have participated in trade fairs and organized annual fashion shows to showcase the latest “Bosideng” autumn-winter down apparel. Through sponsoring prominent sporting events such as the Winter Olympics, we have gained increasing international recognition for our “Bosideng” and “Snow Flying” down apparel products.

We offer a wide range of down apparel products targeting various consumer segments through our core brands (“Bosideng”, “Snow Flying” and “Kangbo”) and our other brands (“Bingjie”, “Shuangyu” and “Shangyu”). Our brand portfolio targets a wide range of consumer segments in terms of age, gender and affluence within the PRC market and enables us to establish a strong foothold in different consumer segments for down apparel products in the PRC. We believe that our successful branding strategy and diverse product portfolio of our branded down apparel products have largely contributed to our Group’s success and our brands’ leading market position.

Extensive retail distribution network in the PRC

Our products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. As at March 31, 2007, our branded down apparel products were sold at our three specialty stores, 1,018 concessionary retail outlets under the supervision of our 74 regional sales companies in approximately 67 cities across the PRC, and 4,956 specialty stores and 867 concessionary retail outlets operated or supervised by third party distributors.

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The retail distribution network through which our down apparel products are distributed is supported by an efficient delivery system. We outsource the transportation of our finished and inspected products to third party logistics providers, who are required to deliver them in dedicated vehicles from our headquarters to the leased warehouses of our respective regional sales companies, concessionary retail outlets under the supervision of our regional sales companies, and third party distributors under our direct supervision. During the peak sale season, we seek to accommodate higher demand by requesting the logistics providers to increase their daily delivery frequencies. We believe that, due to our leading market position and large sales, our logistics providers place great importance on supporting the retail distribution network for our products and ensuring that our products are delivered on time.

Strong capability in product research, design and development

We have strong capability in product research, design and development and are committed to providing high quality, fashionable and trendy down apparel to our consumers. In an effort to ensure that our designs are in line with the latest fashion trends, we actively conduct research from trade exhibitions, sales performance, customer feedback, fashion-related media and have, to this end, collaborated with international fashion research institutes in France and Korea. To enhance the quality of our “Bosideng” down apparel products, we have procured down material which has been processed by a patented chitin anti-bacterial technology (which is neither owned by nor licensed to the Group). We also procure a special fabric material developed from nanotechnology (which is neither owned by nor licensed to the Group) which is odorless, anti-bacterial, water-repellent and stain-repellent for a selected range of our “Bosideng” down apparel products.

We had a design team comprising 24 designers as of March 31, 2007. Our design team is headed by Ms. Huang Qiaolian, who has approximately 20 years’ experience in the industry and has received numerous awards in recognition of her design expertise. Ms. Huang was honored as one of China’s top ten designers in 2001, and was recognized as one of the most popular fashion designers at the Hua Xia Classic Brands Fashion Festival organized by the Jiangsu Garment Association in 2002. In 2006, Ms. Huang was awarded the gold medal for ten years’ achievement in design and research of the fashion trend of cold-resistant apparel by the China Fashion Designers’ Association. Our designers have also collaborated with French and Korean research institutes of fashion and design trends to obtain first-hand information on the latest international fashion trends.

Comprehensive, market-oriented and responsive supply chain management capabilities

We are able to effectively manage all the key stages of our supply chain, which comprises product research, design and development, procurement of raw materials, outsourced manufacturing, marketing and promotion and distribution. In an effort to ensure that our product supply meets the actual market demand, we have a responsive, nimble and adaptable outsourced manufacturing process which enables us to respond quickly to supplemental production orders and efficiently deliver products to our customers. To achieve this, we have sufficient resources at each stage of our supply chain to expeditiously cope with any additional production orders. We believe that our network of major suppliers and manufacturers has sufficient capacity and will make best efforts to respond to additional production orders on a timely basis due to our established relationship with them.

Commitment to quality control

We have a quality control team comprising approximately 70 full-time employees as of March 31, 2007, who carry out inspections at each stage of the production management process in accordance with our quality control procedures. We impose stringent standards on the selection of our suppliers

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and contract manufacturers, such as quality control standards, capacity, technical and managerial capabilities, to ensure the quality of our products. We believe that our OEM management business with international apparel companies has enabled us to enhance our quality control capabilities. Through collaboration with our international OEM customers, we have gained significant knowledge and experience in implementing stringent quality control procedures. Given our stringent quality control procedures, the historical return rate of defective products for our down apparel and OEM products has been immaterial.

Experienced management team in the PRC down apparel industry

We have an experienced and capable senior management team specializing in the branded down apparel business in the PRC, who have developed long term business relationships with major suppliers, contract manufacturers, and distribution channels. Our Chairman and Chief Executive Officer, Mr. Gao Dekang, has over 20 years' experience in the down apparel industry and is currently the executive vice director of the Down Apparel and Product Committee of the China National Garment Association, vice chairman of the China Feather and Down Industrial Association, and vice chairman of the China National Light Industry Council. In addition, each of our key management personnel, comprising Ms. Mei Dong, Ms. Gao Miaoqin, Dr. Kong Shengyuan and Ms. Huang Qiaolian, has, on average, over ten years' experience in the down apparel industry in the PRC. We believe that their extensive experience and their intimate understanding of this industry have contributed significantly to our success.

We have also put in place incentive programs (comprising the Share Scheme and the Share Option Scheme), in an effort to align the interests of senior management, consultants and employees are aligned with those of our shareholders. We believe that these incentives will assist us in recruiting and retaining suitable management personnel.

OUR STRATEGY

Our principal goals are to further strengthen and expand our leading market position in the PRC down apparel industry while selectively diversifying into new products and new markets. We aim to achieve these goals through a business strategy with the following key aspects:

Strengthen brand differentiation, brand loyalty and reputation through targeted marketing efforts

We intend to strengthen the brand differentiation, brand loyalty and reputation of our down apparel products by tailoring our marketing efforts to different consumer segments. To this end, we intend to continue promoting "Bosideng" and "Snow Flying" to the medium-to-high end market, and "Kangbo" and our other brands, "Bingjie", "Shuangyu" and "Shangyu", to the medium-to-low end market. We will from time to time review our branding strategy and its effectiveness with a view to fine-tuning our branding strategy. As a result, we will seek to further improve our brand image and may introduce new brands to the market in the future to fully capture growth opportunities in the increasingly affluent PRC market.

We intend to work closely with our professional advertising consultant and continue our product research, design and development, as well as our advertising and marketing campaigns to further promote our brand image. To this end, we intend to continue advertising on prime television channels, renowned publications and magazines and in strategic outdoor venues with high pedestrian flow. We will also continue to sponsor sports and promotional events when suitable opportunities arise and maintain our market visibility through fashion shows and trade fairs.

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We believe that our branding strategy will strengthen brand loyalty and market demand of our products. We also believe we are able to leverage our branding strategy and product designs and enhance our profitability by increasing our retail prices of our “Bosideng” and “Snow Flying” products, targeted at the medium to high end market. Our branding strategy also enables us to further penetrate and capture different market segments ahead of our competitors. We will also leverage our enhanced brand equity to further strengthen the business relationships with our major suppliers, contract manufacturers and third party distributors.

Strengthen, expand and evaluate the retail distribution network for our branded down apparel products

We plan to enhance the efficiency of the retail outlets in cities in which we have an existing presence and expand the number of retail outlets which are operated or supervised by ourselves and by our third party distributors and their respective second-tier distributors in other cities in the PRC. In particular, as part of our expansion strategy, we intend to develop our self-owned stores in tier-one cities such as Beijing, Shanghai and the provincial capitals, as well as other developed medium to large cities in the PRC such as Dalian, Qingdao, Suzhou and Ningbo, to enhance the market penetration rate of our products which are targeted at the higher-end market. We intend to strengthen the retail distribution network for our branded down apparel products in the PRC through targeted expansion, selective acquisitions, alliances or joint ventures when suitable opportunities arise. In addition, we plan to regularly evaluate the performance of the retail distribution network for our branded down apparel products to enhance profitability for each retail outlet. To this end, we intend to enhance our cost control measures by consolidating any under-performing retail outlets in the PRC and re-allocating resources to other retail outlets with better sales performance.

Enhance our product research, design and development capability

The success of our products depends on our ability to produce a wide variety of designs that are based on the latest fashion trends. To this end, we intend to allocate more resources into expanding the size and quality of our research, design and development team through recruitment and training. We will also continue to collaborate with international fashion design institutes to access their first-hand knowledge of the latest global fashion trends and engage their services where suitable opportunities arise to leverage their design expertise and enhance our product designs.

We also intend to enhance our product research abilities through our collaboration efforts with the Chinese Academy of Sciences or other suitable research institutes. We currently procure high quality nanometer fabric which is odorless, anti-bacterial, water-repellant and stain-repellant for our premium products. Where suitable opportunities arise, we intend to collaborate with international and renowned research institutions in countries such as France, Italy and Japan, or acquire suitable companies with the relevant research capabilities and expertise to develop new fabric materials for our down apparel products.

Enhance supply chain management

We recognize that an efficient and effective supply chain management system requires the support of a centralized, comprehensive and integrated management information system. To this end, we plan to upgrade our management information system in phases and enhance the integration of our databases by retaining a software developer to establish an ERP system and extend its operational scope to both the upstream and downstream segments of the supply chain. We expect to complete this upgrade and integration gradually within three years. For instance, we intend to establish a point-of-sales register in our three specialty stores, the concessionary retail outlets under the supervision of

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our regional sales companies, and with certain of our third party distributors, and integrate data of each respective point-of-sale to the new ERP system. Such upgrades will enable us to have a comprehensive assessment of the performance of our entire supply chain and further enhance our response time to changing consumer demands and supplemental production orders. We expect that the management information system will facilitate the integration and exchange of information among concessionary retail outlets under the supervision of our regional sales companies, certain third party distributors, our respective regional sale companies, the departments in charge of product research, design and development, procurement, contract manufacturing, and our headquarters. In addition, we intend to strengthen our quality control system through the establishment of a quality inspection center, which will aim to further enhance our quality control capability to ensure our adherence to quality control standards at every stage of the supply chain.

Explore overseas expansion opportunities

We intend to continue exploring growth opportunities beyond the PRC market to complement our existing business and will consider other international markets with suitable climate, population size and consumption power in which we believe our down apparel products can be competitive. We are currently exploring opportunities to establish a greater overseas market presence in Russia, Canada and the United States through targeted expansion, selective acquisitions, alliances, joint ventures or partnerships. We intend to expand our retail distribution network in such overseas markets where suitable opportunities arise through the increase of retail channels, which will either be operated by us or by our authorized third party distributors and wholesalers who are able to provide us with valuable country-specific expertise and access to customers and business relationships.

We believe that our track record and experience in the PRC down apparel industry have provided us with insights into industry trends, customer needs and market potential, which will assist us in pursuing suitable expansion, acquisitions or alliances in these overseas markets.

Diversify our business into new product lines

To complement our existing product portfolio, we intend to selectively diversify into new product lines, such as bedding products, home linen products, a selected range of non-down apparel products, and other products that are less sensitive to seasonality patterns, through targeted expansion, selective alliances, joint ventures or acquisitions where suitable opportunities arise. With the increasing purchasing power of Chinese consumers, our Directors are optimistic about the future growth rate, profitability and development potential of such products. We intend to extend the reach of such new product lines throughout the PRC by leveraging our established brands and extensive retail distribution network. In addition, our experienced senior management team led by our Chairman and Chief Executive Officer, Mr. Gao Dekang, will leverage their business expertise and business network to set strategic directions in relation to product diversification and, where required, recruit suitable management expertise and acquire suitable technical expertise.

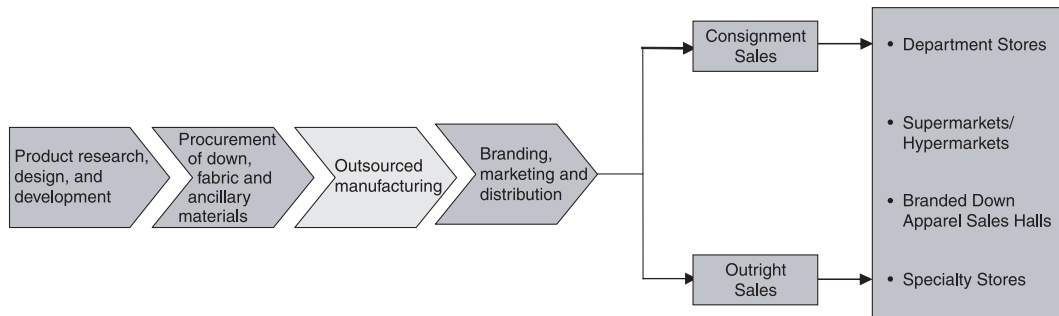
As part of our strategy to diversify into a selected range of non-down apparel products, we intend to expand our brand portfolio associated with such products to target new consumer segments so as to increase consumer coverage and customize our products to meet the varying needs of different consumer segments. To this end, we intend to introduce new brands through in-house development or acquisition of established external brands.

OUR PRODUCTS AND SERVICES

We primarily focus on managing the portfolio of our down apparel brands, including research, design and development, raw materials procurement, outsourced manufacturing, marketing and distribution of our down apparel products (through consignments or outright sales) to the retail distribution network for our branded down apparel products. We also engage in the OEM management business in which we procure raw materials, outsource the manufacturing process and coordinate the export of down and non-down apparel to our OEM customers.



BRANDED DOWN APPAREL

Our branded down apparel business entails the management of the research, design and development, raw materials procurement, outsourced manufacturing, marketing and distribution of our down apparel products to the retail distribution network for our branded down apparel products. These processes are illustrated in the following diagram:



Product and brand portfolio

Our down apparel products primarily comprise down jackets, down vests and down pants. We categorize our brands into core brands (including “Bosideng”, “Snow Flying”, “Kangbo”) and other brands (including “Bingjie”, “Shuangyu” and “Shangyu”). We have established different teams to be responsible for the research, design and development, raw materials procurement, management of outsourced manufacturing, marketing and distribution of products under our core brands and other brands. The following table sets forth the type and style as well as the target markets of our brands, which we evaluate on a regular basis.

| Brand | Trademark | Year of launch | Product type and style | Target customers |
|-------------------------|---|-----------------------|--|----------------------------|
| Core Brands | | | | |
| “Bosideng” |  | 1994 | Fashionable, high quality, casual and classic down apparel for men and women | Medium and high end market |
| “Snow Flying” |  | 1997 | Sporty, casual and high quality down apparel for men and women | Medium and high end market |

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| Brand | Trademark | Year of launch | Product type and style | Target customers |
|----------------------|---|----------------|---|---------------------------|
| "Kangbo" |  | 2000 | Basic and casual down apparel for men and women (with a focus on men's down apparel) | Low and medium end market |
| Other Brands | | | | |
| "Bingjie" |  | 2001 | Youthful and trendy down apparel for men and women (with a focus on women's down apparel) | Low and medium end market |
| "Shuangyu" |  | 1980 | Casual down apparel for men and women | Medium market |
| "Shangyu" |  | 1987 | Casual down apparel for men and women | Low and medium end market |

Core brands

"Bosideng"

Our leading brand, "Bosideng", was launched in 1994 to target the middle to high end market. In order to ensure that the style and designs of our "Bosideng" products are compatible with consumers' fast-changing preferences, we design over 200 "Bosideng" styles annually, out of which nearly 30 styles will be ultimately launched into the market during the peak sale season after the initial market feedback following trial sales before the peak sale season.

As part of our branding strategy to associate the "Bosideng" brand with high quality down apparel products, we procure down material which has been processed using a patented chitin anti-bacterial technology (which is neither owned by nor licensed to the Group) for our "Bosideng" products. We also procure a distinctive soft water-repellent and stain-repellent fabric developed from nanotechnology (which is neither owned by nor licensed to the Group) for some of our "Bosideng" down apparel products and intend to extend the use of such fabric to all of our "Bosideng" down apparel products.

We believe that our emphasis on quality and design of "Bosideng" down apparel has enabled us to achieve growth in our revenue of "Bosideng" down apparel products. For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, sales revenue of our "Bosideng" down apparel products was RMB1,177.1 million, RMB2,011.2 million and RMB2,594.2 million, respectively. During the 2006/2007 winter season, retail prices for our "Bosideng" down apparel products generally ranged from RMB350 to RMB600 each.

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Our “Bosideng” products have received a number of awards and recognitions, which include the following:

| <u>Year granted</u> | <u>Award</u> | <u>Issuing organization</u> |
|---------------------|--|---|
| 2005. | China’s Famous Brand Product | PRC General Administration of Quality Supervision, Inspection and Quarantine |
| 2006. | Ranked Number 1 in PRC for Twelve Consecutive Years from 1995 to 2006 | CIIC and National Bureau of Statistics of China |
| 2006. | One of China’s Top 25 Brands (1980–2005) (“Bosideng” was the only apparel brand amongst different industries) | All-China Federation of Industry and Commerce, Brand Union Association, China Economic and Social Council |
| 2006. | One of Consumers’ Favorite Ten Industrial Brands in China in 2005 | China General Chamber of Commerce, China National Commercial Information Center |
| 2006. | One of China’s Top Ten Brands in World Market in 2006 | World Confederation of Productivity Science, Chinese Association of Productivity Science, World Productivity Congress |
| 2007. | One of the Most Competitive Brands in the PRC | Ministry of Commerce |
| 2007. | One of China’s Top 25 Brands (2006–2007) (“Bosideng” was the only apparel brand amongst various industries which was awarded this prize for two consecutive years) | Brand Union Association |
| 2007. | One of China’s three “Famous Brands in the World” (“Bosideng” was the only apparel brand which was awarded this prize) | PRC General Administration of Quality Supervision, Inspection and Quarantine |

“Snow Flying”

“Snow Flying” was launched in 1997 to target the middle to high end market. Our “Snow Flying” down apparel products are designed with a focus on sporty, casual, bright-colored, modern and fashionable styles. Our revenue from “Snow Flying” down apparel products has increased for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. For the same period, sales revenue of our “Snow Flying” down apparel products was RMB711.5 million, RMB1,080.5 million and RMB1,486.2 million, respectively. During the 2006/2007 winter season, retail prices for our “Snow Flying” down apparel products generally ranged from RMB300 to RMB550 each.

The “Snow Flying” brand products have received the following main awards:

| <u>Year granted</u> | <u>Award</u> | <u>Issuing organization</u> |
|---------------------|--|--|
| 2005. | China’s Famous Brand Product | PRC General Administration of Quality Supervision, Inspection and Quarantine |
| 2006. | Ranked Number 2 in PRC for Seven Consecutive Years (2000–2006) | CIIC |
| 2007. | One of the Most Competitive Brands in the PRC | Ministry of Commerce |

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“Kangbo”

The “Kangbo” brand was established in 2000 to target the low and medium end market. “Kangbo” down apparel products have a casual and comfortable style and are designed for both indoor and outdoor wear. Our “Kangbo” brand had been licensed to an independent third party during the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. Such licensing arrangements were terminated in May 2006 and we subsequently commenced the sale of “Kangbo” down apparel products by ourselves during the financial year ended March 31, 2007 to strengthen brand management and quality control standards of “Kangbo” products. Sales revenue of “Kangbo” down apparel products was RMB386.3 million for the financial year ended March 31, 2007. During the 2006/2007 winter season, retail prices for our “Kangbo” down apparel products generally ranged from RMB270 to RMB500 each.

The “Kangbo” brand has received a number of awards which are set out below:

| <u>Year granted</u> | <u>Award</u> | <u>Issuing Organization</u> |
|---------------------|---|--|
| 2005. | China’s Famous Brand Product | PRC General Administration of Quality Supervision, Inspection and Quarantine |
| 2007. | One of the Most Competitive Brands in the PRC | Ministry of Commerce |

Other brands

“Bingjie”

“Bingjie” was previously licensed to us by the Bosideng Group in 2001 before it was transferred to us. “Bingjie” was launched in 2001 to target young consumers. “Bingjie” down apparel products are designed to portray a youthful and trendy style (with a focus on women’s down apparel) targeting the low and medium end market. Our “Bingjie” brand had been licensed to independent third parties during the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. Such licensing arrangements were terminated in April 2006 and we subsequently commenced the sale of “Bingjie” down apparel products by ourselves during the financial year ended March 31, 2007 to strengthen brand management and quality control standards of “Bingjie” products. Sales revenue of “Bingjie” down apparel products was RMB470.0 million for the financial year ended March 31, 2007. During the 2006/2007 winter season, retail prices for our “Bingjie” down apparel products generally ranged from RMB250 to RMB300 each.

“Shuangyu” and “Shangyu”

The “Shuangyu” and “Shangyu” brands were launched in 1980 and 1987, respectively, and were acquired by us in 2006. “Shuangyu” and “Shangyu” down apparel are designed to portray a casual style targeting the low and medium end market . We believe that “Shuangyu” was one of the earliest down apparel brands launched in the PRC. In 1988, “Shuangyu” won the silver award issued by the State Economic Commission of the PRC. “Shuangyu” was named as a “Shanghai Famous Brand” by the Shanghai Administration for Industry and Commerce in 2005. “Shangyu” down apparel gained market recognition when it became the sponsored down apparel for China’s expedition to the South Pole in 1984. The aggregate sales revenue of “Shuangyu” and “Shangyu” down apparel products was RMB23.4 million for the financial year ended March 31, 2007. During the 2006/2007 winter season, retail prices for our “Shuangyu” and “Shangyu” down apparel products generally ranged from RMB300 to RMB450 each and RMB200 to RMB300 each, respectively.

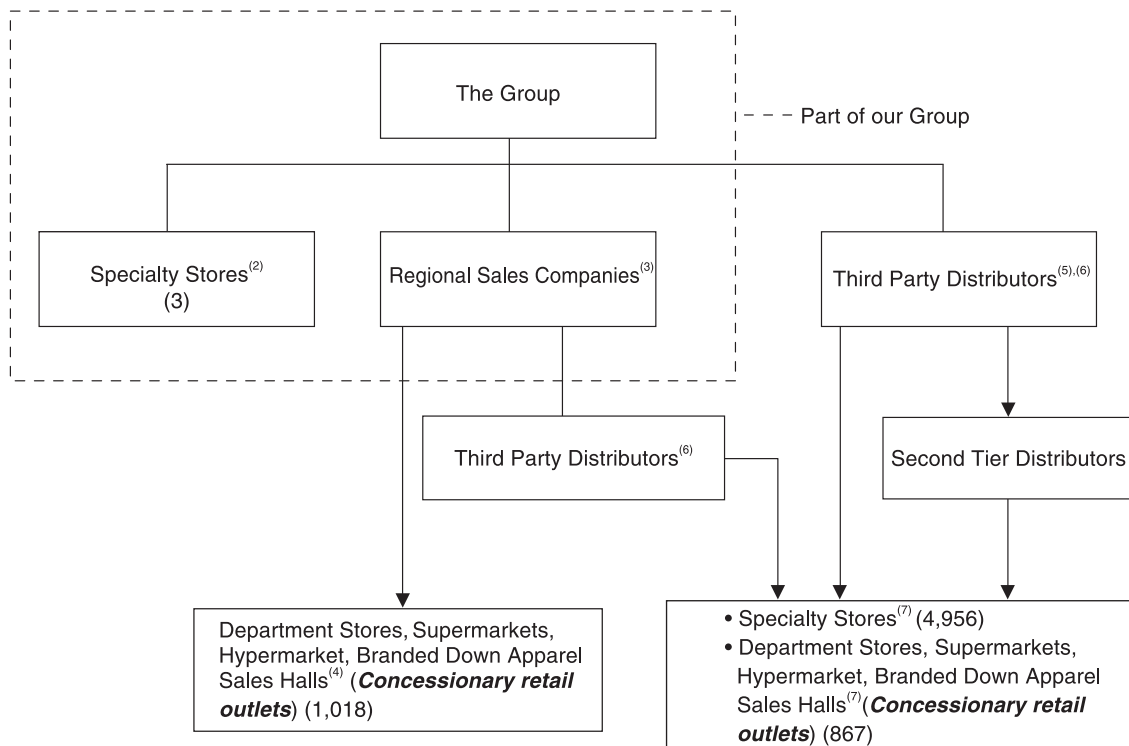
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SALES AND DISTRIBUTION

Our headquarters is located in Changshu, Jiangsu Province, and is primarily responsible for strategic business development, nationwide production plans, marketing and brand management, financial management, recruitment and training, internal controls, evaluation of sales and budgeting targets, and monitoring the performance of our regional sales companies.

Our products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. As at March 31, 2007, our branded down apparel products were sold at our three specialty stores, 1,018 concessionary retail outlets under the supervision of our 74 regional sales companies in approximately 67 cities across the PRC, and 4,956 specialty stores and 867 concessionary retail outlets operated or supervised by third party distributors.

The following diagram illustrates the retail distribution network through which our down apparel products are distributed⁽¹⁾:



Notes:

- (1) Data as of March 31, 2007.
- (2) The three specialty stores in Changshu, Jiangsu Province are directly operated by us.
- (3) The 74 regional sales companies in approximately 67 cities across the PRC are subsidiaries of the Group.
- (4) These are concessionary retail outlets under the supervision of our regional sales companies.

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- (5) The third party distributors include, among others, the eight individual regional distributors, whose details are set out in the section headed “Business — Sales and Distribution — Third Party Distributors” below.
- (6) Most of the Group’s third party distributors are individual distributors.
- (7) These retail outlets are operated directly by third party distributors under our direct supervision with whom we have direct business relationships, or by second-tier distributors under the supervision of the respective third party distributors of the Group. In particular, 2,964 specialty stores and 222 concessionary retail outlets located within department stores, supermarkets, hypermarkets and branded down apparel sales halls are directly operated by third party distributors under our direct supervision, and 1,992 specialty stores and 645 concessionary retail outlets are operated by second-tier distributors.

Our Regional Sales Companies

Each regional sales company directly supervises over 10 concessionary retail outlets, has approximately five to ten administrative staff, and is principally responsible for the supervision of retail outlets under their charge, selecting, ordering and pricing the products within their respective retail outlets, management of inventory and identifying new retail outlets. In addition, the regional sales companies also supervise the Group’s sales to the third party distributors within their respective geographic regions. As part of our marketing strategy, since 2004, we have implemented a sales incentive scheme under which our sales managers within each regional sales company are eligible for sales commissions, the amount of which is determined based on various factors including sales revenue achieved, extent of inventory clearance by each respective sales manager and local marketing and advertizing expenses incurred by the relevant sales company. These sales commissions are structured on a progressive scale (with proportionately higher sales commissions awarded if actual sales revenue and inventory clearance levels exceed stipulated targets) to further incentivize our sales managers.

Our regional sales companies select concessionary retail outlets based on factors such as consumption patterns of targeted consumer segments, population density and growth, geographical location and the level of competition in the vicinity. Furthermore, we select third party distributors (under our direct supervision) who have business relationships with retail outlets which have been selected based on the aforementioned factors. These distributors are in turn responsible for procuring their respective second-tier distributors to operate retail outlets which have been selected based on the same factors. See the section headed “Business — Sales and Distribution — Brand management at retail outlets” for details. Any expansion plan in retail outlets operated or supervised by our third party distributors must be approved by us before such expansion plan is implemented. As such, we believe that the concessionary retail outlets under the supervision of our regional sales companies do not face any material competition from the retail outlets operated by third party distributors, and that there is no over-concentration of retail outlets within any given area which will cause material competition among these retail outlets. In addition, third party distributors under our direct supervision are contractually bound to follow our uniform pricing policy and may not change the stipulated retail price of our down apparel products without our approval. These distributors are also responsible for procuring the adherence to our pricing policy by their respective second-tier distributors. See the section headed “Business — Sales and Distribution — Pricing strategy” for details. This further enables us to effectively avoid price competition between concessionary retail outlets under our supervision and retail outlets operated by both our third party distributors and their respective second-tier distributors.

Our regional sales companies are currently organized under seven sales regions across the PRC, comprising Shandong Province, Eastern China, South Eastern China, Central China, Northern China, North Eastern China and North Western China. In each sales region, we adjust our brand segments and adjust the mix of retail channels according to the customer preference. Each sales

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region also contains a mix of all types of retail channels within the retail distribution network through which our branded down apparel products are distributed. The following map illustrates the geographical distribution of our regional sales companies in the seven sales regions.

Map of our Sales Regions



The following tables set forth the number of third party distributors under our direct supervision as well as the number of specialty stores and concessionary retail outlets within the retail distribution network through which our down apparel products are distributed, which are categorized according to each of our seven sales regions for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007.

As of March 31, 2005:

| Sales region | Third party distributors under our direct supervision | Specialty stores | Concessionary retail outlets in department stores | Concessionary retail outlets in branded down apparel sales halls | Concessionary retail outlets in supermarkets and hypermarkets |
|-------------------------------|---|------------------|---|--|---|
| Shandong Province | 90 | 106 | 123 | 7 | 39 |
| Eastern China | 280 | 315 | 101 | 5 | 9 |
| South Eastern China | 92 | 106 | 75 | 11 | 48 |
| Central China | 302 | 366 | 67 | 17 | 10 |
| Northern China | 208 | 247 | 144 | 20 | 30 |
| North Eastern China | 234 | 299 | 84 | 36 | 2 |
| North Western China | 344 | 423 | 118 | 3 | 6 |
| Total | 1,550 | 1,862 | 712 | 99 | 144 |

Total number of retail outlets as of March 31, 2005:
2,817

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As of March 31, 2006:

| <u>Sales region</u> | <u>Third party distributors under our direct supervision</u> | <u>Specialty stores</u> | <u>Concessionary retail outlets in department stores</u> | <u>Concessionary retail outlets in branded down apparel sales halls</u> | <u>Concessionary retail outlets in supermarkets and hypermarkets</u> |
|-------------------------------|--|-------------------------|--|---|--|
| Shandong Province | 96 | 126 | 142 | 6 | 41 |
| Eastern China | 331 | 394 | 115 | 6 | 10 |
| South Eastern China | 107 | 139 | 77 | 11 | 53 |
| Central China | 362 | 485 | 78 | 19 | 14 |
| Northern China | 241 | 320 | 155 | 23 | 40 |
| North Eastern China | 265 | 386 | 87 | 37 | 2 |
| North Western China | 408 | 594 | 123 | 4 | 7 |
| Total | <u>1,810</u> | <u>2,444</u> | <u>777</u> | <u>106</u> | <u>167</u> |

Total number of retail outlets as of March 31, 2006:
3,494

As of March 31, 2007:

| <u>Sales regions</u> | <u>Third party distributors under our direct supervision</u> | <u>Specialty stores</u> | <u>Concessionary retail outlets in department stores</u> | <u>Concessionary retail outlets in branded down apparel sales halls</u> | <u>Concessionary retail outlets in supermarkets and hypermarkets</u> |
|-------------------------------|--|-------------------------|--|---|--|
| Shandong Province | 225 | 400 | 156 | 154 | 39 |
| Eastern China | 366 | 894 | 154 | 102 | 44 |
| South Eastern China | 204 | 436 | 83 | 90 | 57 |
| Central China | 424 | 1,137 | 115 | 112 | 17 |
| Northern China | 244 | 498 | 130 | 111 | 29 |
| North Eastern China | 255 | 535 | 104 | 180 | 13 |
| North Western China | 382 | 1,059 | 105 | 81 | 9 |
| Total | <u>2,100</u> | <u>4,959</u> | <u>847</u> | <u>830</u> | <u>208</u> |

Total number of retail outlets as of March 31, 2007:
6,844⁽¹⁾

Note:

- (1) The growth of the number of retail outlets from 3,494 in the financial year ended March 31, 2006 to 6,844 in the financial year ended March 31, 2007 was due mainly to the newly added retail outlets selling our “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” branded down apparel products. This was a result of the termination of our licensing arrangements with independent third parties with respect to the “Kangbo” and “Bingjie” brands as well as our acquisition of the “Shangyu” and “Shuangyu” brands in the financial year ended March 31, 2007. See the section headed “Business — Branded Down Apparel — Core brands” for details.

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Third Party Distributors

We enter into distribution agreements with third party distributors to distribute our branded down apparel products on an outright sale basis. These third party distributors further distribute our products either directly or indirectly (through wholesale distribution to their respective second-tier distributors) to specialty stores, and concessionary retail outlets within department stores, supermarkets and hypermarkets, and branded down apparel sales halls.

The following table sets forth the number of third party distributors under our direct supervision with whom we had direct business relationships from June 1, 2004 to March 31, 2005, for the two financial years ended March 31, 2007, and as of the Latest Practicable Date, respectively.

| <u>Financial period/year</u> | <u>Number of third party distributors under our direct supervision</u> |
|---|--|
| June 1, 2004 to March 31, 2005 | 1,550 |
| Financial year ended March 31, 2006 | 1,810 |
| Financial year ended March 31, 2007 | 2,100 |
| As of the Latest Practicable Date | 2,094 |

Most of these third party distributors are individuals (including our eight individual regional distributors), who are required under PRC law to perform certain business and tax registration procedures in order to carry on a distribution business. As of the Latest Practicable Date, we had entered into distribution agreements with 609 individual distributors who had not completed such business and tax registration procedures. As of the Latest Practicable Date, five out of our eight individual regional distributors had completed the requisite business and tax registrations, while the remaining three are in the process of completing the requisite registrations and are expected to complete the registrations no later than December 31, 2007. For the periods June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007, the revenue generated from the individual distributors (including our eight individual regional distributors) who have not completed the requisite procedures amounted to approximately 15.98%, 17.04% and 14.21%, respectively of our total revenue from the branded down apparel business. Under PRC law, any distribution agreement entered into with an individual who does not hold a valid business or tax registration certificate in the PRC may be deemed invalid and unenforceable. Accordingly, our PRC legal advisor has advised that, in accordance with the PRC Contract Law, such transactions between the individual distributor who fails to maintain the requisite business and the registration and ourselves under the relevant distribution agreement may be null and void such that the individual distributor is required to return all unsold goods and compensate the Group in an amount equivalent to the purchase amount of all sold goods. In addition, if there are any defective unsold goods which are consequently returned to the Group, the individual distributor itself is liable for losses suffered by the Group as a result of such defects caused by such individual distributors. See the section headed "Risk Factors — Our business may be affected if our third party distributors fail to perform the distribution agreements entered into with us or if they do not comply with applicable PRC business and tax registration requirements" for details of risks arising from such invalid and unenforceable transactions. Our PRC legal advisor has confirmed that our Group has not violated any relevant PRC laws and regulations and is not subject to any administrative penalties arising from our contractual relationships with these individual distributors. However, individual distributors who enter into such distribution agreements without the requisite business and tax registrations are themselves subject to certain administrative penalties. We have not experienced any losses or penalties as a result of the failure of business or tax

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registration by any of our individual distributors during the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007. We will use our reasonable endeavors to procure the relevant individual distributors to complete the requisite business and tax registration procedures as soon as practicable but no later than December 31, 2007. If the individual distributors fail to complete the requisite registrations by December 31, 2007, we will give them a grace period of three months, which will expire on March 31, 2008. If such individual distributors fail to complete their requisite registrations upon the expiry date, we will contractually terminate our business relationship with such individual distributors and find a suitable replacement without delay. In the event that we are unable to find any suitable replacements, the Directors are of the view that this will not have an adverse effect on our business operations to any material extent, as these individual distributors only accounted for approximately 14.21% of the Group's total revenue from the branded down apparel business for the financial year ended March 31, 2007. Our Controlling Shareholders have also agreed to indemnify us against any costs, expenses and operating or business losses arising from our contractual relationships with these individual distributors. For more details of the deed of indemnity, please see the paragraph headed "Statutory and General Information — Tax and other indemnities" in Appendix VIII to this prospectus. We have revised our standard distribution agreement to require each such distributor to obtain the requisite business license and tax registration certificate by March 31, 2008, failing which we will terminate our distribution agreement with these distributors. We will use our reasonable endeavors to procure all our distributors under our direct supervision to sign the revised standard distribution agreements no later than December 31, 2007. In addition, the revised standard distribution agreement will be applicable to all of our future new individual distributors going forward, who will be contractually bound to obtain the requisite business and tax registration certificate.

Among these third party distributors, eight individual regional distributors, including some of our largest customers for the financial year ended March 31, 2007 are contractually permitted to act in our name and are therefore entitled to hold themselves out as a representative office of our Group to the second-tier distributors and/or retail outlets. Such arrangements are permitted under the PRC General Principles of the Civil Law and are in line with our overall strategy of leveraging our leading market position in the PRC down apparel industry to further extend the geographical reach of our distribution network in the PRC, as these individual distributors distribute our products in cities and areas not covered by our regional sales companies, such as Heze (Shandong Province), Nanyang (Henan Province), Xuzhou (Jiangsu Province), Wenzhou, Lishui and Taizhou (Zhejiang Province), Shanghai, and Fujian, Guangdong and Guangxi Provinces. Under the distribution agreements signed with the individual regional distributors, we are contractually entitled to sell our products within the same regions in which these individuals operate. However, we have not exercised this contractual entitlement so as to prevent unnecessary competition between, and over-concentration of, retail outlets under our direct supervision and retail outlets operated or supervised by these individuals within any given region. For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, these eight individual distributors contributed to 10.0%, 9.0% and 8.1%, respectively, of the Group's outright sales revenue, amounting to RMB128.6 million, RMB206.5 million and RMB281.8 million, respectively. The distribution agreements we have entered into with these individual regional distributors generally have a term of one year, and generally require each distributor to distribute our down apparel products within specific geographical areas and to achieve annual sales targets. In addition, the individual regional distributors are contractually bound to follow our pricing and brand management policies. When acting as our representative offices, these individual regional distributors are required to keep us fully informed of their distribution activities, and do not have the discretion to transfer inventory between their retail outlets or their respective second-tier distributors without our approval. If any such individual regional distributor breaches the distribution agreement in any material aspect, we retain the discretion to terminate the distribution agreement at any time. Under the distribution agreements, these individual regional distributors are

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contractually bound to bear the risks and legal liabilities arising in connection of the distribution activities. However, in the event that disputes occur between these individual regional distributors and their customers, we cannot assure you that we will not be held liable for any action which may be brought against these individual regional distributors. See the section headed “Risk Factors — Our reputation, brand image and sales could be adversely affected if third party operators of retail outlets within our distribution network and third party distributors do not manage the retail outlets in accordance with our standards, or if disputes occur between certain of the individual distributors and their customers” for details. For the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, and as of the Latest Practicable Date, there have not been any disputes occurring between these individual regional distributors and their customers which have caused us to be held liable for any action brought against these individual regional distributors by their customers. We have revised the terms of our distribution agreements with these individual distributors, under which the individual distributors will not be allowed to act in our name without our written approval. In order to enforce our requirement for these individual distributors to obtain our written approvals, these distribution agreements also provide us with the right to conduct regular inspections on the premises of these individual distributors and their business operational documents (such as their financial statements, customers lists and business correspondence) to enable us to monitor whether they have obtained our requisite written approvals prior to dealing with their customers in our name. Any individual distributor who fails to obtain our requisite written approvals will be liable under these distribution agreements for all costs, expenses or operating and business losses arising from the such breach. We will also have the right to terminate the distribution agreement with the relevant individual distributor in the event of such breach. These distribution agreements also provide that the individual distributors will indemnify us for any losses incurred by third party actions against such individual distributors. We have selected our eight individual regional distributors based on their scale of business operations, creditworthiness, financial track record and business reputation. Based on such selection criteria and as of the Latest Practicable Date, nothing has come to our attention that such individual distributors do not have sufficient financial resources to provide such indemnity as provided for in these distribution agreements. We will use our reasonable endeavors to procure all distributors under our direct supervision to sign the revised standard distribution agreements no later than December 31, 2007.

Certain of these individual regional distributors comprise part of our five largest customers for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. These individuals comprising our five largest customers distribute our down apparel products within Eastern China (and in particular in Shanghai and Xuzhou) through the various retail channels and their respective second-tier distributors. In addition, certain of these individual distributors have established trading companies in the PRC through which our products are distributed to the various retail channels. We enter into distribution agreements with these individual distributors (instead of with their respective trading companies) so that we are not subject to any limited liability restrictions applicable to a corporate entity in the event that we seek recourse and take any legal action against these individual distributors arising from their breach of the distribution agreements.

Retail Channels

The retail distribution network for our down apparel products primarily consists of the following retail channels:

- **Specialty stores.** Specialty stores are owned and operated by third party distributors in the PRC, save for three specialty stores in Changshu, Jiangsu Province, which are directly operated by the Group. We believe that the use of third party distributors enables us to effectively expand brand reach and sales without incurring the expenditure and the risks

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relating to establishing new outlets by ourselves. As of March 31, 2007, we had entered into exclusive distribution agreements with approximately 1,800 third party distributors under our direct supervision to exclusively sell our products within specialty stores. Our regional sales companies and headquarters conduct random inspections of the specialty stores operated by these distributors to ensure their compliance with the exclusivity agreements. If any such distributors do not comply with the exclusivity agreements, we retain the discretion to terminate our business relationship with them. For the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we were not aware of any material breaches of such exclusive distribution agreements.

- **Department stores.** We enter into non-exclusive concessionaire agreements with department store operators pursuant to which we are allocated retail space to conduct consignment sales. In addition, we enter into non-exclusive distribution agreements with certain third party distributors pursuant to which these distributors are required to secure a stipulated retail floor area in department stores to sell our products.
- **Branded down apparel sales halls.** Branded down apparel sales halls are operated by third parties and comprise large-scale retail units selling branded down apparel under one roof. We enter into non-exclusive concessionaire agreements with branded down apparel sales hall operators pursuant to which we are allocated retail space to conduct consignment sales. In addition, we enter into non-exclusive distribution agreements with certain third party distributors pursuant to which these distributors are required to secure a stipulated retail floor area in branded down apparel sales halls to sell our products.
- **Supermarkets and hypermarkets.** Supermarkets are large retail stores selling food, apparel and household goods, while hypermarkets typically combine the functions of a department store and a supermarket. We enter into non-exclusive concessionaire agreements with supermarket or hypermarket operators pursuant to which we are allocated retail space to conduct consignment sales. In addition, we enter into non-exclusive distribution agreements with certain third party distributors pursuant to which these distributors are required to secure a stipulated retail floor area in supermarkets or hypermarkets to sell our products.

The following table sets forth the number of retail outlets in each of the above retail channels as well as the percentage of the retail outlets in each retail channel against the total number of retail outlets within the distribution network through which our down apparel products are distributed as of March 31, 2007 and the Latest Practicable Date, respectively.

| <u>Retail channels</u> | <u>As of March 31, 2007</u> | | <u>As of the Latest Practicable Date</u> | |
|--|-------------------------------------|--|--|--|
| | <u>Number of retail outlets</u> | <u>As a percentage of total number of retail outlets within our distribution network</u> | <u>Number of retail outlets</u> | <u>As a percentage of total number of retail outlets within our distribution network</u> |
| Specialty stores | 4,959 | 72.45% | 4,913 | 70.02% |
| Department stores | 847 | 12.38% | 900 | 12.83% |
| Branded down apparel sales halls | 830 | 12.13% | 961 | 13.70% |
| Supermarkets and hypermarkets | 208 | 3.04% | 242 | 3.45% |
| Total | <u>6,844</u> | <u>100%</u> | <u>7,016</u> | <u>100%</u> |

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Methods of Sales

Sales are either made on a consignment or outright basis. For the financial year ended March 31, 2007, the total revenue generated by consignment sales and outright sales was RMB1,431.9 million and RMB3,487.1 million respectively.

Consignment sales

In a consignment sale, we retain title to products delivered to concessionary retail outlets under the supervision of our regional sales companies until goods are sold to end-customers. We typically enter into concessionaire agreements with department stores, supermarkets, hypermarkets and branded down apparel sales halls, under which we pay the third party operator of the relevant retail outlet concessionaire fees calculated as a percentage of our monthly sales receipts. Our concessionaire agreements typically contain terms such as location and size of the outlet, duration of concessionaire arrangement, any renewal options, the calculation of concessionaire fees and payment terms.

As each piece of our down apparel products has an affixed bar code corresponding to a specific type of down apparel, our regional sales companies are able to keep records of the amount of products delivered to the concessionary retail outlets under their supervision by scanning such bar codes, and normally keep track of the sales volume in such retail outlets on a weekly basis by collecting the affixed bar codes of the down apparel products which they have sold. These sales and inventory data will be sent on a weekly basis through our management information system to our headquarters, which monitors and makes internal adjustments of inventory through transfers of inventory from sales regions with relatively lower market demands to sales regions with relatively higher market demands so as to satisfy market demands within different sales regions. Our headquarters keeps records in the management information system of the unit prices of each type of down apparel delivered to the regional sales companies by scanning the affixed bar codes of the down apparel products. By conducting weekly updating and reconciliation of the sales data collected from the regional sales companies against the records originally stored in the management information system on a weekly basis, our headquarters is able to ensure the accuracy and completeness of the records of the regional sales companies. See the section headed "Business — Management Information System" for further details. As of March 31, 2007, we were not aware of any sales records of the regional sales companies which were not retrievable. To maximize the efficiency and cost-effectiveness of the process of updating our sales records (a substantial portion of which are recorded during the weekends due to higher weekend sales), this updating process is conducted on a weekly basis.

Outright sales

(i) Outright sales to third party distributors

Outright sales are primarily conducted with third party distributors who directly or indirectly (through second-tier distributors) distribute our products through specialty stores, as well as through concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. In particular, the third party distributors may operate one or more specialty stores to sell our products to end-customers, or directly enter into concessionaire agreements with the relevant department stores, branded down apparel sales halls, or supermarkets and hypermarkets, to sell our products to end-customers. Alternatively, the third party distributors may act as wholesale distributors and sell our products to their second-tier distributors, who in turn sell our products through various retail channels.

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Under our distribution agreements with third party distributors, each third party distributor is provided with a contractual annual sales target (for each brand sold and for peak and off-peak seasons respectively). Distributors generally make a prepayment of approximately 20% to 30% of the aggregate annual sales targets at the beginning of the contractual term before the first delivery of our products and an additional deposit payment as security. Subsequent batches of delivered goods are paid for in installments by these distributors, who will be typically granted credit terms (ranging from 30 to 90 days) in respect of the total amount of purchases which has exceeded the value of the deposits paid. As a performance incentive, we offer rebates to third party distributors who have fulfilled their sales targets and have duly made full payment of our products. If the third party distributor has not achieved the contractual sales revenue target within a stipulated term, we retain the discretion to revoke any rebates payable and make deductions from the deposit amount. In addition, we conduct random inspections of the inventory of third party distributors under our direct supervision to assess the level of slow-moving inventories and their sales performance. This enables us to better identify whether there are any under-performing third party distributors with whom we need to terminate our distribution agreements if necessary. For the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we did not encounter any material termination of distribution agreements with third party distributors under our direct supervision as a result of such inspections.

We generally allow our third party distributors to inform us of their percentage of unsold goods to be returned and subsequently return such unsold goods to us within the financial year but no later than March 31 of each financial year. Third party distributors are not allowed to return any of our products purchased within a financial year if such financial year has already passed. The percentage of returned goods depends on a number of factors such as general market conditions, our relationship with specific distributors and the level of competition within the relevant sales region in which such third party distributors are located. Once the percentage of returned goods within a financial year has been contractually agreed and provided for in the respective distribution agreements, there is limited flexibility for a change in such percentage without mutual consent. During the unusually warm winter in the PRC in the financial year ended March 31, 2007, we allowed for certain third party distributors with whom we have good business relationships to return goods based on a higher than initially agreed-upon return rate (in comparison with previous financial years). Unsold goods returned from third party distributors are subject to our quality inspections. Returned goods which satisfy the requirements of our quality inspections will be stored in our leased warehouses and included in our annual inventory count, whereas returned goods which fail the requirements of our quality inspections will be rejected and returned to the relevant third party distributor. Upon completion of the annual inventory count, the actual revenue generated by these third party distributors for a financial year is ascertained as at March 31 of that financial year by reducing the revenue generated by these third party distributors (prior to the return of any unsold goods) by the actual amounts of goods returned and counted as part of our inventory. Consequently, the sales return provision made in relation to goods purchased by the third party distributors during a financial year can be adjusted or reversed as at March 31 of that financial year. As such, as at March 31 of each financial year, we can reasonably determine that the significant risks and rewards of ownership of the goods delivered to, and not returned by, the third party distributors have been transferred to the third party distributors and the Group can recognize the revenue arising from such transfer.

For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, returned goods amounted to approximately 16.6%, 13.1% and 19.9% (or 1.7 million, 2.0 million and 4.5 million pieces of down apparel products), respectively of the Group's total outright sales

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volume to third party distributors (prior to deducting the volume of outright sales returns). During this same period, the revenue generated by outright sales to third party distributors was RMB1,274.7 million, RMB2,258.4 million and RMB3,474.7 million, respectively.

(ii) *Direct retail sales*

We also conduct outright retail sales of our products to end-customers through three specialty stores in Changshu, Jiangsu Province, which are directly operated by us.

For the financial year ended March 31, 2007, the revenue generated by outright sales to end-customers through these three specialty stores was RMB12.4 million.

Brand management at retail outlets

We believe that the retail experience within retail outlets contributes significantly to purchase decisions and the brand image of our products. Accordingly, we have dedicated resources in the implementation of brand management policies through the concessionary retail outlets under the supervision of our regional sales companies, and through collaboration with third party distributors, to manage various aspects of the retail outlets within the distribution retail network through which our branded down apparel products are distributed. Key aspects include:

- *Design and appearance.* We aim to create a unique image for retail outlets through the use of standardized and modern décor and designs that are distinctive to our products and brand portfolio. Our headquarters sets out design, layout and store area guidelines relating to color, merchandise display, price displays and furnishings to ensure that our brands convey a consistent visual image. We select retail outlets which generally range from approximately 40 to 300 square meters.
- *Location.* We select concessionary retail outlets under the supervision of our regional sales companies, and enter into distribution agreements with third party distributors (under our direct supervision) who have business relationships with retail outlets, which are typically located within major department stores, supermarkets, hypermarkets and streets capturing high levels of pedestrian flow and various customer segments. Such retail outlets are identified based on factors such as consumption patterns of targeted consumer segments, population density and growth, geographical location and the level of competition in the vicinity.
- *Sales personnel.* Retail outlet personnel are either employed by us, by the third party operators of retail outlets within our distribution network, or by third party distributors. As retail outlet personnel play an essential role in promoting our brand image and collecting customer's feedback, we conduct regular staff training in collaboration with third party operators of retail outlets within our distribution network and third party distributors on topics such as product and brand knowledge to ensure they are equipped with sufficient skills to serve the end-customers.

In order to achieve our design, layout and store area guidelines, the concessionary retail outlets and third party distributors under our direct supervision are contractually bound to follow our brand management policies under the respective concessionaire agreements and distribution agreements. In addition, under these agreements, the third party distributors under our direct supervision are responsible for procuring the adherence of our brand management policies by their respective second-tier distributors. Our regional sales companies and headquarters conduct random inspections

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of the retail outlets operated by both our third party distributors and their respective second-tier distributors to ensure their compliance with our brand management requirements. If any such retail outlet does not comply with our brand management policy, we retain the discretion to require the relevant retail outlet to make, or require the third party distributor under our direct supervision to procure the making of, rectifications within the retail outlet within a stipulated time, suspend any of our promotional activities or training support with the relevant retail channel operator or the third party distributor, or even terminate our business relationship with them. For the periods from April, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we were not aware of any material violations of our brand management policy.

Pricing strategy

Our pricing policy involves setting different retail price points for different products targeting different consumer segments. We conduct regular reviews of our pricing strategy so as to remain price competitive. Any price adjustments will be based on factors such as production costs, prices set by competitors, inventory levels, market response to our existing retail prices and anticipated market trends and expected customer demand. The price range of our products within each sales region is formulated by our headquarters, which also take into account the standards of living in the respective regions. Price ranges are uniform within each sales region and our headquarters must approve any price reductions. Under the respective concessionaire agreements and distribution agreements, the concessionary retail outlets and third party distributors under our direct supervision are contractually bound to follow our pricing policy. In addition, the third party distributors under our direct supervision are also responsible for procuring the adherence of our pricing policy by their respective second-tier distributors. Our regional sales companies and headquarters conduct random inspections of the retail outlets within the retail distribution network through which our branded down apparel products are distributed. If any retail outlet does not comply with our pricing policy, we retain the discretion to terminate our business relationship with the relevant retail channel operator or the third party distributor which is responsible for procuring the adherence of our pricing policy by the second-tier distributors. For the periods from April, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we were not aware of any material violations of our pricing policy.

We occasionally offer special non-uniform discount rates within certain sales regions in special events such as joint promotions with certain department stores. We also offer discounts within limited promotional periods during the off-peak season of the down apparel market from June to August of every year. Discounts are generally not offered during the peak sale season from October of every year to February of the following year, and are only offered from time to time depending on factors such as inventory levels and our competitors' pricing policies. We are involved in joint promotions with department stores from time to time to maintain brand awareness and good relationships with them and reduce inventory levels.

MARKETING AND PROMOTION

Our marketing and promotional strategy aims to enhance our brand image and to increase consumer awareness of our products within our target markets. Besides aiming to create a unique image for retail outlets through the use of standardized and modern décor and designs that are distinctive to our products and brand portfolio, we apply different marketing and promotional strategies for specific brands and consumer groups. Most of our marketing activities are formulated and coordinated by our marketing department, which consists of 74 full-time employees as at March 31, 2007. We also engage professional advertizing companies from time to time to plan or organize marketing activities.

We engage in a number of marketing activities, including:

(i) Media advertising

We promote our products and brand image through different forms of media. For our “Bosideng” and “Snow Flying” brands which target the medium and high end market, we focus on associating “Bosideng” and “Snow Flying” brands with trendy and high quality down apparel products in the higher end market. For instance, we launch television commercials for “Bosideng” and “Snow Flying” down apparel products mainly through China Central Television (CCTV) and publish advertisements in newspapers and magazines which have a nationwide coverage. Advertisements of “Bosideng” down apparel are also displayed on the backrest covers in China Eastern Airlines flights to enhance consumer awareness of the “Bosideng” brand.

For our “Kangbo”, “Bingjie”, “Shuangyu” and “Shangyu” brands which target the medium to low end of the market, we focus on increasing brand awareness and popularity among younger consumers. We have engaged celebrities to endorse our “Kangbo” and “Bingjie” brands and launch television commercials and print advertisements, mainly through the mass media within certain sales regions.

As a continuing marketing strategy for all our brands, we also prepare complimentary brochures for newly launched product series which can be obtained by customers at our retail stores and exhibitions. To further extend our reach to customers, we update our website located at “www.bosideng.com” regularly to provide the latest product information to customers.

(ii) Event marketing

We organize fashion events to promote “Bosideng” as a premium brand. We believe that “Bosideng” is the only down apparel brand in the PRC which has been showcased in annual down apparel shows in Beijing for 11 consecutive years. For instance, the “Bosideng” 2007/2008 autumn-winter down apparel was launched under the theme of “Harmony and Harvest” (“和諧·收獲”) in March 2007 to showcase the latest fashion trends. We believe that such fashion events have contributed to our “Bosideng” brand becoming the top brand in the Chinese down apparel industry in terms of sales revenue and volume.

We also attend regular national trade fairs, where we display new designs for different target consumer groups and accept orders. We have been an active player in various international, national, provincial and municipal fashion festivals, most of which enjoy prominent media coverage. For instance, we were invited by the Ministry of Commerce to participate in the Russian fashion exhibition during March 2007 to showcase our “Bosideng” down apparel. Our “Bosideng” down apparel was also designated by the PRC Ministry of Foreign Affairs as gifts to leaders of foreign states.

(iii) Sponsorship

Sponsoring sports events is also an effective marketing tool to extend our market reach. For instance, in 2004, “Bosideng” became the first global down apparel brand sponsor for the Short Track Speed Skating World Cup. “Bosideng” was also the sponsoring brand to the PRC’s first gold medalist in men’s freestyle skiing during the 20th Winter Olympics Torino in 2006. These events were broadcast both in the PRC and internationally, thereby raising our brand

profiles. “Bosideng” is the only PRC down apparel brand which has sponsored expeditions to Mount Everest, the North Pole and the South Pole, thereby increasing its prominence in the sports arena.

SUPPLY CHAIN MANAGEMENT

Our supply chain management mainly comprises products research, design and development, procurement of raw materials, outsourced manufacturing and distribution of our branded down apparel products within the retail distribution network through which our branded down apparel products are distributed. We believe that our effective management of the supply chain enables us to efficiently utilize our product offering capabilities, reduce our product supply cycle time and respond quickly to changing market trends.

Product research, design and development

Our product development team consisted of 24 designers as of March 31, 2007 and is headed by Ms. Huang Qiaolian, who has approximately 20 years’ experience in the industry. Ms. Huang was honored as one of China’s top ten designers in 2001. In 2002, she was recognized as one of the most popular fashion designers at the Hua Xia Classic Brands Fashion Festival which was organized by the Jiangsu Garment Association. In 2006, Ms. Huang was also awarded the gold medal for ten years’ achievement in design and research of the fashion trend of cold-resistant apparel by the China Fashion Designers’ Association.

Our product research, design and development process mainly comprises the following stages:

- *Research.* Our designers attend various domestic and international trade exhibitions to keep themselves informed of the latest fashion trends. They also analyze past sales performance, consumer surveys, feedback from retail channel personnel on end-customer preferences, fashion-related websites and magazines, market conditions and the competitive landscape to create the overall design concept. In addition, our designers have collaborated with French and Korean research institutes of fashion and design trends to obtain first-hand information on the latest international fashion trends.
- *Conceptualization.* After conducting market research, the designers apply their research findings to conceptualize specific annual themes. In March of every year, we host an annual fashion show in Beijing to showcase our products which have been designed based on the conceptualized themes under the “Bosideng” brand.
- *Design and selection.* Subsequent to the annual fashion show in March of every year, our designers adopt certain features from the conceptualized themes (such as color or decoration details) and apply them to the final designs of all our branded down apparel products, which are subsequently put into production and launched on to the market. Each year, about 50 to 80 design styles will be selected for each brand and sent for production in preparation of preliminary market launches, out of which approximately 30 styles for each brand will be ultimately selected for mass production during the peak sale season.

Procurement

Our purchasing functions are centrally managed by our procurement department, which keeps a list of qualified suppliers which are assessed annually based on criteria such as quality, timing of delivery and pricing. Our procurement department prepares procurement plans based on our sales

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contracts and works closely with the other departments in charge of product design and development, contract manufacturing and sales and distribution to gather feedback on the type, quantity and timing of required raw materials. Our suppliers typically grant us a credit period of 30 to 120 days. We normally pay for raw materials through bank settlements.

The major raw materials used in the manufacture of our products are down and fabric, while the remaining raw materials comprise ancillary materials such as linings, buttons and zippers.

Procurement of down

We source down material mainly from qualified suppliers located in Zhejiang Province. The down material we procure is derived from ducks and geese, and has undergone a series of processed treatments such as sorting, washing, degreasing, deodorizing and sterilizing. The down we purchase is soft, lightweight and cold-resistant. In particular, we procure down material which has been processed using a patented chitin anti-bacterial technology (which is neither owned by nor licensed to the Group) for our “Bosideng” products, which further enhances the quality of our leading brand.

We generally enter into down procurement contracts with our main down suppliers in April or May, approximately three to four months before commencement of our outsourced manufacturing for the peak sale season. Such advance orders are to provide sufficient lead time for the rearing of ducks and geese and are entered into to secure better prices if we anticipate any price increases in down. Under the down supply contracts, the contractual down price will remain unchanged even if the prevailing market price increases, but we have the right to lower the contractual down price if the prevailing market price for down decreases. We usually pay down suppliers approximately between 15% and 30% of the annual total purchase price as deposit, and make payment for the down price based on monthly installments during the off peak season and on a weekly basis during the peak season.

Procurement of fabric

We source fabric mainly from domestic suppliers. The fabric used in manufacturing our products is light, down-retaining, breathable, wind-proof, durable and comfortable. We employ a fabric known as “Microft” as the outer layer of some of our down apparel. “Microft” is a functional fabric woven from a fine light microfiber. It is soft, water-repellent and moisture-permeable. We also use a distinctive soft anti-bacterial fabric which is water-repellent, stain-repellent and developed from nanotechnology (which is neither owned by nor licensed to the Group) for some of our “Bosideng” down apparel products, and intend to further develop and apply this nanotechnology to produce more high-quality fabric for these same products.

We generally enter into fabric procurement contracts in April to May after the determination of design patterns of the current year and upon confirmation of the production orders. We seek to obtain competitive pricing terms for fabric by leveraging our leading market position and making bulk orders. We typically do not pay any deposit for fabric (other than certain fabric suppliers to whom we pay a deposit), and make payment for the fabric price in monthly installments during the off-peak season and in weekly installments during the peak season.

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Procurement of ancillary materials

We source ancillary materials mainly from suppliers located in Shanghai city and Jiangsu province. We generally enter into ancillary material procurement contracts in April to May and July to August for off-peak and peak seasons respectively. We typically do not pay any deposit for ancillary materials, and we pay for ancillary materials on a monthly basis.

Our suppliers

We select raw material suppliers based on stringent criteria, which include an assessment of each supplier's business scale, production capacity, quality control standards (such as whether the ISO 9001:2000 quality management system has been established), commercial reputation and efficiency of delivery. Our major suppliers of raw materials are located in Eastern China (in particular in Jiangsu and Zhejiang Provinces) and are geographically proximate and easily accessible to our headquarters in Changshu, Jiangsu Province. As of the Latest Practicable Date, we were not aware of any violation by our raw material suppliers of the relevant laws and regulations for the production and sales of raw materials.

Our five largest suppliers (comprising suppliers of down, fabric and ancillary materials) together accounted for approximately 31.1%, 56.6%, 46.0% and 44.0%, respectively, of our total raw material purchases for the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Our largest supplier during such periods accounted for 19.5%, 26.3%, 18.3% and 16.8%, respectively, of our total raw material purchases. Although we have not entered into any long-term contracts with our suppliers, we have maintained long-term business relationships with our major suppliers, whom we believe regard us as their major customer in view of our leading market position and bulk orders from us every year. As of the Latest Practicable Date, we had not encountered any disruption of business as a result of shortage of raw materials or any delay in the procurement of raw materials. In addition, we had not experienced any difficulties in sourcing raw materials for our requirements. Given our established relationships with our suppliers, we do not envisage that we will experience any significant difficulties in obtaining supplies in the foreseeable future. Sino-tech Bosideng Nano Fashion (Suzhou) Co., Ltd., our supplier of fabric developed from nanotechnology, is 68% indirectly controlled by Mr. Gao Dekang and his associates. See the section headed "Relationship with Controlling Shareholders and Connected Transactions — Delineation of our Business from the Retained Business — Nanometer Fabric" for further details. As this supplier is a newly established company, there were no purchases made by us from this supplier for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007. Save as disclosed herein, none of our Directors, their associates or any shareholder (who or which, to the knowledge of our Directors, owns more than 5% of our share capital) has any interest in any of our large suppliers.

Outsourced manufacturing

Prior to the Reorganization, we owned a total of 6 production facilities occupying a total floor area of approximately 309,944.51 square meters. Such production facilities are located in Changshu, Jiangsu Province, Shandong Province and Shanghai and each production facility is equipped with apparel manufacturing facilities such as flat sewing machines, multi-needle sewing machines, assortment machines and seam sealing machines. These production facilities were retained by the Bosideng Group upon the Reorganization and were accounted for as part of the deemed distribution to equity holders as at March 31, 2006 at their carrying values. See the section headed "Financial Information — Basis of Presentation — Reorganization" for further details.

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Prior to the Reorganization, we also engaged third party contract manufacturers to produce our branded down apparel and OEM products. The total volume of production outsourced to third party contract manufacturers accounted for approximately 60.58% and 69.01% of the Group's total volume of production for the period from June 1, 2004 to March 31, 2005 and the financial year ended March 31, 2006, respectively.

As part of the Reorganization, manufacturing operations were not included in the Group and these production facilities remained within the Bosideng Group. Instead, we have, since the financial year ended March 31, 2007, outsourced the manufacturing of our branded down apparel and OEM products to approximately 331 contract manufacturers in the PRC, out of which five are controlled by the Bosideng Group, while the remaining 326 contract manufacturers are independent third parties. We have outsourced our manufacturing to certain contract manufacturers within the Bosideng Group as these manufacturers had been processing our down apparel products prior to the Reorganization and are thus more familiar with the Group's quality control requirements and preferred delivery schedules.

For the financial year ended March 31, 2007, contract manufacturers from the Bosideng Group accounted for approximately 24.0% of our outsourced production volume, while independent third-party contract manufacturers accounted for the remaining 76.0% of our outsourced production volume.

We adopt stringent criteria for selecting our contract manufacturers of our branded products and OEM products and allocating production orders between contract manufacturers from the Bosideng Group and independent third-party contract manufacturers, which include the review of their quality control standards, production capacity, length of business relationship, technical capabilities and managerial skills. We believe that our outsourced manufacturing arrangements enable us to focus on our core strengths to achieve higher profit margins and be more cost-efficient as we do not directly undertake the operational and financial risks and expenses relating to the operation of production facilities and management of labor. Furthermore, our outsourced manufacturing arrangements enable us to focus on research, design and development, raw materials procurement, and marketing and distribution of our branded down apparel products. Our Directors believe that our outsourced manufacturing arrangements are consistent with the practice of certain established apparel companies which also choose to outsource part or all of the manufacturing operations.

The contracts entered into between the contract manufacturers and the Group (both prior to and after the Reorganization) typically stipulate that we shall provide our contract manufacturers with the designs, specifications and raw materials of the products. In some cases, we also require the contract manufacturers to procure certain raw materials used for our OEM products. The contract manufacturers, in turn, provide labor, factory premises, necessary equipment, water and electricity for production purposes. We pay the relevant contract manufacturers a fee based on production volume. Our contract manufacturers typically grant us a credit period of 30 to 60 days. We normally pay processing fees to the contract manufacturers through bank settlements.

Outsourced manufacturing for our down apparel products commences in May and August of every year for off-peak sale and peak sale seasons respectively. Due to seasonal fluctuations in the demand for down apparel, our peak sale season for our down apparel is usually from October to February of the following year. We usually engage approximately 300 contract manufacturers to prepare for the required production capacity during the peak season. As of March 31, 2007, we outsourced manufacturing of our branded down apparel and OEM products to 331 contract manufacturers in the PRC, out of which five are affiliates of the Bosideng Group. The established business relationships between our contract manufacturers and our Group has enabled our contract manufacturers to deliver finished products to us on a timely basis. During the peak season, our

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contract manufacturers can accommodate the production of up to approximately 23 million pieces of down apparel products, which capacity would be sufficient to support increased orders of up to 30% in excess of our initial production plan for the peak season. To ensure that our increased orders can be satisfied, we typically select manufacturers with large production capacities as our contract manufacturers. In addition, we assign our employees to monitor each of the contract manufacturers in its daily production progress during the peak season. If any contract manufacturer fails to fulfill our production orders, we retain the discretion to engage other manufacturers to satisfy any additional orders. As of March 31, 2007, we had not experienced any situation where any contract manufacturers failed to fulfill any significant production order. In the event that such situation occurs in the future, we believe that we will be able to find suitable substitute contract manufacturers without causing any material interruptions to our business operations by leveraging our leading market position in the PRC down apparel industry to engage other available manufacturers in Jiangsu Province and surrounding areas with sufficient production capacity.

We believe that we have a good working relationship with our contract manufacturers. As of the Latest Practicable Date, we had not encountered any disruption of business as a result of a shortfall of, or delay in, production output from our contract manufacturers. Mr. Gao Dekang and his associates (other than members of our Group) own or control certain manufacturing companies, namely Jiangsu Xuezhongfei, Shanghai Kangbo Feida, Shandong Kangbo Industry Co., Ltd., Smartland Children's Wear Co., Ltd. and Changshu Bosideng Apparel Co., Ltd. See the section headed "Relationship with Controlling Shareholders and Connected Transactions — Delineation of our Business from the Retained Business — Contract Manufacturing" for further details. As disclosed in that section, prior to the Reorganization, manufacturing activity was treated as part of the Group from the accounting perspective and the operating results of the Parent Group were consolidated into the Group's operating results. As such, manufacturing arrangements with the Parent Group were eliminated on consolidation and no audited historical figure was available for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. The processing volume of outsourced manufacturing transactions between the Group and these manufacturing companies for the financial year ended March 31, 2007 was approximately 9.53 million pieces, amounting to 24.0% of the Group's total orders placed to contract manufacturers for the same period. Save as disclosed herein, none of our Directors, their associates or any Shareholder (who or which, to the knowledge of our Directors, owns more than 5% of our capital) has any interest in any of the contract manufacturers to whom we outsource.

We currently do not have any plans to acquire the production facilities from the manufacturing companies within the Bosideng Group. However, our current strategy may change if future market and economic conditions subsequent to the completion of the Global Offering dictate that it may be in the best interest of the Company and its Shareholders to acquire these production facilities. In such event, we will fully comply with the relevant requirements under the Listing Rules and observe the requisite procedures as set out in the non-competition deed to be entered into between Mr. Gao Dekang, Kong Bo Investment and the Company. Please refer to the section headed "Relationship with Controlling Shareholders and Connected Transactions — Non-Competition Undertaking" for details.

Logistics

We believe that an effective logistics management system is essential to our business performance and enables efficient product replenishment. As such, we have developed a nation-wide distribution network to ensure timely delivery to the concessionary retail outlets under the supervision of our regional sales companies and to the third party distributors under our direct supervision, and to minimize inventory levels. Each of our regional sales companies has leased at least one warehouse to store its allocated inventory.

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Finished products are first delivered by our contract manufacturers to our headquarters for quality inspection. Thereafter, we outsource the transportation of our finished and inspected products to third party logistics providers, who will deliver them to the leased warehouses of our respective regional sales centers, the concessionary retail outlets under the supervision of our regional sales companies and certain third party distributors.

We set stringent criteria in the selection of our logistics providers, such as reputation, ability to operate round-the-clock and having a distribution network covering our sales regions. These outsourcing arrangements enable us to reduce our capital investment, avoid any risk of liability for transportation accidents, and delivery delays or loss as our logistics provider bears such risks. We evaluate the performance of our logistics providers periodically and terminate the services of those with unsatisfactory services. Long-term business relationships are established with quality logistics providers by leveraging our leading market position, so as to lower the risk of losses arising from non-performing logistics providers.

INVENTORY CONTROL

As we offer products which are both seasonal and subject to changes in climate and consumer preferences, our sales levels fluctuate, which in turn affects our inventory level. We believe that maintaining appropriate levels of inventory is critical to our overall profitability.

Management of inventory levels

We have implemented an inventory management system involving stock maintenance, stock-in, transfer and receipt of apparel, sales invoicing and sales recording. Our inventory control department conducts stock checks (both on-site and through our management information system) on a regular basis. We manage our inventory differently for peak sale and off-peak sale seasons. During the peak season, we closely monitor and assess market demand and make internal adjustments of inventory through transfers of inventory from sales regions with relatively lower market demands to sales regions with relatively higher market demands based on sales performance. This is achieved through the re-distribution of our inventory between different sales regions. During the off-peak season or during periods of relatively lower market demands, such as the unusually warm winter in the financial year ended March 31, 2007, we conduct regular stock checks, consolidate and re-distribute inventories of our sales companies within the same sales region, which are subsequently offered for sale at a discount to reduce the risk of inventory obsolescence. Third party distributors under our direct supervision also experienced higher inventory levels due to the unusually warm winter in the PRC in the financial year ended March 31, 2007. We have assisted distributors with whom we have good business relationships to cope with their inventory levels through temporary extensions of credit periods (primarily ranging from three to six months) and our return of unsold goods policy. See the sections headed “Financial Information — Trade Receivable Analysis — Turnover of trade and bills receivable” and “Business — Outright Sales — (i) Outright sales to third party distributors”, respectively, for further details.

To further manage our inventory, we have implemented a sales incentive scheme under which our sales managers are eligible for sales commissions determined based on the extent of inventory clearance (other than sales revenue) achieved by each respective sales manager. As a further incentive, sales commissions are structured on a progressive scale, with proportionately higher sales commissions awarded if actual sales revenue and inventory clearance levels exceed stipulated targets.

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We also monitor the inventory of third party distributors under our direct supervision through random inspections of their inventory to assess the level of slow-moving inventory. See the section headed “Business — Sales and Distribution — Methods of Sales — Outright sales” for details. Our third party distributors are not allowed to transfer inventories among their respective retail outlets or second-tier distributors without our approval. In addition, to monitor the sales and inventory of the retail outlets operated by third party distributors and their respective second-tier distributors, we require third party distributors under our direct supervision to submit (and to procure the submission by the second-tier distributors of) sales and inventory data of retail outlets under the respective supervision of these third party distributors and their respective second-tier distributors on a weekly basis. See the section headed “Business — Management Information System” for further details. We also conduct random inventory inspections of these retail outlets.

The sale of down apparel is seasonal in nature, with October to February of the following year being the peak season for our sales. As such, the inventory level at the end of each calendar year is relatively high, with most of our revenue being recorded from September to December each year and from January to March of the following year. We also accumulate a certain level of inventories for our off-season sales from June to August each year. Inventories are stated at lower of cost or net realizable value. We estimate the net realizable value of our inventories based on our review with reference to the condition of the inventory, consumer taste, aging, seasonality and purchasing power of consumers. We prepare aging analysis of our finished goods at each balance sheet date. Based on the aging analysis, we prepare sales forecast detailing the estimate timing and quantities of each category of the products to be sold or used in the future. The categories of down apparels are analyzed by brand, the year of manufacture, style and design. We also prepare the estimated selling price for each category of products for different periods in which the products are expected to be sold based on the forecast. We estimate net realizable value based on the estimated selling price less estimated expenses.

Management of inventory composition

It is also important that we are able to anticipate the composition of our inventory that will most closely reflect future sales patterns. We typically analyze past sales performance, the specifications of production orders, any planned promotional activities and general consumer trends, in order to forecast the composition of inventory required to meet future demand.

MANAGEMENT INFORMATION SYSTEM

We maintain a computerized information system which links the database of our headquarters and 74 regional sales companies. Our systems contain information relating to supply chain management (such as stock replenishment and inventory distribution), distribution, and the Group’s financial, administrative and human resource functions. In respect of the financial data contained in our management information system, our headquarters keeps records in the management information system of the unit prices of each type of down apparel delivered to our regional sales companies and the third party distributors under our direct supervision by scanning the affixed bar codes of the down apparel products. As an additional measure, each of our regional sales companies also scans the affixed bar codes of the down apparel products to be delivered to the third party distributors and concessionary retail outlets under its supervision, and collect from them the affixed bar codes of the products which have been sold. Information relating to the aggregate amount of sales revenue and inventories collected by the regional sales companies is sent to our head office through the management information system on a weekly basis.

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Distributors under our direct supervision are contractually bound to provide accurate and complete sales and operational data in such form and format as may be required by us from time to time. In practice, in order to monitor the sales and inventory of the retail outlets operated by third party distributors and their respective second-tier distributors, we require third party distributors under our direct supervision to submit sales and inventory data, most of them by submitting to us the bar codes of goods sold at retail outlets under their supervision, and by submitting to us the sales and inventory data of their respective second-tier distributors, both on a weekly basis. We have revised our standard distribution agreement to make clearer and more specific requirements for all third party distributors under our direct supervision to submit accurate and complete sales and operational information of such third party distributors and their respective second-tier distributors, including but not limited to sales and inventory data, in such form and format as we require, on a weekly basis and from time to time as may be required by us. We intend to use our reasonable endeavors to procure the signing of these revised agreements with all distributors under our supervision by December 31, 2007.

By conducting weekly updating and reconciliation of information collected from the regional sales companies and the third party distributors against the records originally stored in the management information system, our headquarters is able to ensure the accuracy and completeness of the data in the management information system. We had not experienced any material malfunction or interruption in our management information system for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007.

We have back-up systems for our management information system at the local telecommunication bureau in Changshu, Jiangsu Province, where our headquarters is located. In the event of any interruptions in our management information system, our back-up information can be restored within the same day with the support of the telecommunication bureau. We plan to gradually upgrade our management information system and use approximately 3% to 5% of the net proceeds to us from the Global Offering to collaborate with a software developer to establish an ERP system and extend its operational scope to both the upstream and the downstream members of the supply chain within approximately three years. In particular, we plan to extend the ERP system to our main suppliers of raw materials, contract manufacturers, third party distributors, as well as certain retail outlets. This will enable and facilitate the integration and exchange of information among retail outlets, third party distributors, our distribution centers, the departments in charge of contract manufacturing, procurement, and product research, design and development, and our head office. Please see the section headed “Business — Strategies — Enhance our supply management chain” and “Risk Factors — Our business relies on the proper performance of our management information systems” for further details.

QUALITY CONTROL

We recognize the importance of quality control over our products and believe that the Group’s continued commitment to high quality is crucial to our Group’s success.

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Our quality control staff closely monitors the whole down apparel production process, and each team is assigned to specific tasks to optimize efficiency and ensure product quality. As of March 31, 2007, our quality control team had 70 full time employees who carry out inspections at each of the following production stages:

- **Procurement.** Raw materials and ancillary materials are only purchased from approved suppliers that meet our rigorous standards. Physical inspections are conducted on purchased raw materials on a random basis before they are delivered to our contract manufacturers, and any identified defective materials are rejected.
- **Outsourced Manufacturing.** Most of our contract manufacturers are located in Jiangsu Province and we are therefore able to exercise centralized quality control over the down apparel manufacturing process. The contract manufacturers' workshop inspectors conduct inspections on all the semi-finished products, and our quality control staff who are despatched to the contract manufacturer conduct random inspections on the semi-finished products, and any defective semi-finished products are disposed of, redone or repaired. The contract manufacturers' workshop inspectors are also responsible for the inspection of all finished products. Random inspections are conducted by our quality control staff on finished products before warehouse delivery.
- **Warehousing.** Inspections are conducted on warehoused products to separate the defective products, which would be sent to the quality inspection department for further inspection and disposal if necessary.
- **Delivery.** Delivery vehicles are inspected prior to delivery of the finished products from our warehouses to the concessionary retail outlets under the supervision of our regional sales companies and our third party distributors.

OEM MANAGEMENT BUSINESS

In addition to the down apparel business, we also engage in OEM management business whereby we procure raw materials, outsource the manufacturing process and coordinate the export of down and non-down apparel to our OEM customers. Our OEM products are exported to countries such as the United States and Japan.

Our OEM customers will provide us with specified designs and samples, and in some cases, we design products for our OEM customers in accordance with their specifications. Thereafter, we prepare a prototype product for our customer's approval before coordinating with our suppliers and contract manufacturers to commence production. We typically grant our OEM customers a credit term ranging from 30 to 90 days. As of March 31, 2007, we have not experienced any material default in the collection of our accounts receivables from our OEM customers.

Our OEM management business is committed to quality control. Our quality control staff ensures that any outsourced manufacturing of OEM products for export adheres to customers' standards, specifications and procedures. Given our stringent quality control procedures, the return of defective products for our OEM products have been immaterial.

We believe that our OEM management business complements our branded down apparel business as it enables us to keep abreast of the latest international fashion trends and international quality control standards. We are therefore able to leverage such knowledge and experience and apply them to our distribution of down apparel products and to any suitable overseas expansion plans.

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OUR CUSTOMERS

Our customers of our branded down apparel business comprise third party distributors (most of whom are individuals) who directly or indirectly distribute our products through specialty stores, department stores, supermarkets and hypermarkets and branded down apparel sales halls, as well as end-customers (through consignment sales and through sales by the three specialty stores operated by us in Changshu, Jiangsu Province). See the section headed “Business — Sales and distribution — Methods of Sale” for details of the respective methods of sale adopted through the retail channels. Our OEM customers mainly comprise proprietary owners of international fashion labels and a Hong Kong-based trading company, which is an independent third party and facilitates communication with most of our OEM customers who are overseas companies with operating entities in Hong Kong. Our five largest customers accounted for approximately 29.0%, 14.7%, 12.4% and 13.8% of our revenue, while our largest customer accounted for approximately 9.2%, 7.6%, 4.3% and 10.2% of our revenue, respectively, for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007, respectively. Our top five customers during this period comprised certain individual regional distributors, proprietary owners of international fashion labels, as well as the Hong Kong-based trading company which facilitates communication with our OEM customers. See the section headed “Business — Sales and Distribution — Third Party Distribution” for further details of these individual regional distributors.

None of our Directors, their associates or any shareholder (who or which to the knowledge of our Directors owns more than 5% of our Company’s capital) has any interest in any of our large customers.

CASH MANAGEMENT

As our retail distribution network has a wide geographical reach in the PRC, we have established a system to maintain strict control over our cash inflows and outflows. Details of our cash management are set out below.

Cash Inflow

Concessionary retail outlets under the supervision of our regional sales companies. We do not directly collect sales proceeds paid by the end-customers of the concessionary retail outlets. Sales proceeds are generally collected by the operators of concessionary retail outlets on behalf of the Group. All such sales proceeds will be paid to us on a monthly basis through deposits or remittance into our designated bank accounts after deduction of the concessionaire fees and other relevant fees. As of March 31, 2007, we had not experienced any material default in collecting the sales proceeds from such concessionary retail outlets.

Third party distributors under our direct supervision. We collect deposits from third party distributors under our direct supervision before delivery of the first batch of orders. We also typically allow a credit term ranging from 30 to 90 days in respect of subsequent batches of delivered goods for the total amount of purchases which has exceeded the value of the deposits paid. See the Section headed “Business — Sales and Distribution — Methods of Sales — Outright Sales” for details. Sales proceeds and deposits from such third party distributors are paid through cash, deposits or remittance into our designated bank accounts, or by debit cards. As of March 31, 2007, we had not experienced any material risks relating to bad debt, credit risk or losses of cash collections in respect of our dealings with third party distributors. We adopt strict internal control procedures for handling cash payments from our third party distributors. Cash received from third party distributors is duly recorded on receipts acknowledged by these distributors and is deposited into our designated bank accounts

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on a daily basis. We conduct daily reconciliation of sales records with actual cash proceeds. Sales receipts have serial numbers to facilitate the process of checking sales amounts against cash proceeds.

Our three specialty stores in Changshu, Jiangsu Province. We collect cash proceeds in our three self-operated specialty stores at the time of sales to end-customers. Accordingly, these three specialty stores handle a significant amount of cash every day, especially during the peak season. We adopt strict internal control procedures for handling cash at these three store outlets. All cash receipts are deposited on a daily basis into our designated bank accounts. Each of these specialty stores conducts daily reconciliation of sales records with actual cash proceeds. Sales receipts are attached with serial numbers to facilitate the process of checking sales amounts against cash proceeds. In addition, staff from our head office conducts random checks on cash proceeds against the records of cash deposits as well as on the sales receipts to ensure that sales are properly recorded. As of March 31, 2007, we had not experienced any material losses of our cash collections.

OEM customers. Sales proceeds from our OEM customers are typically paid to us through deposits or remittance into our designated bank accounts. We typically grant our OEM customers a credit term ranging from 30 to 90 days. As of March 31, 2007, we had not experienced any material default in the collection of our accounts receivable from our OEM customers.

Cash Outflow

Our headquarters is responsible for evaluating the expense budgets prepared by our regional sales companies on a monthly basis, and provide only the amount of cash required by the respective regional sales company to meet its monthly expenditure budget. We believe that, through the constant monitoring of our cash outflow, we are able to keep track of all expenditure and minimize any unnecessary expenses.

INTELLECTUAL PROPERTY

Trademarks

We believe our trademarks and domain names associated with our brands have contributed significantly to our success and competitiveness and have enabled us to establish a diverse brand portfolio within the PRC market. As such, we have maintained domestic and international registrations of our trademarks and domain names to prevent any infringement of our intellectual property rights. As of the Latest Practicable Date, we were not aware of any material violations or infringement of our trademarks and intellectual property rights.

We recognize the importance of registering our brand names as trademarks for protection against infringement. As of the Latest Practicable Date, we have maintained international registrations of our trademarks in approximately 50 countries and regions, as well as individual registrations in 23 countries and regions. Pursuant to the Reorganization, a total of 318 registered trademarks and 136 additional applications for trademark registration and 23 domain names have been assigned to Bosideng International Fashion, a member of our Group, subject to the completion of registration procedures. In addition, we entered into assignment agreements to acquire 36 domain names and 50 trademarks and trademark registration application from the Bosideng Group, subject to the completion of the registration procedures. Details of our intellectual property portfolio are provided in the section headed “Intellectual property rights” in Appendix VIII — Statutory and General Information.

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The assignments of registered trademarks and applications for trademark registration have been approved by the PRC Trademark Office by July 7, 2007 and have been published in the official trademark gazette as required under the PRC Trademark Law.

Trademark licensing arrangements

To further promote our brand names and broaden our product offering, we have entered into trademark licensing agreements with apparel manufacturers for the production of apparel such as men's suits, jackets, woolen coats, underwear and socks under our brands such as "Bosideng" and "Snow Flying". These products are designed and produced by the licensees under the trademark licensing arrangements and sold through their respective distribution networks. (See the section headed "Relationship with Controlling Shareholders and Connected Transactions" for further details of certain of these arrangements.) Our "Kangbo" and "Bingjie" brands were previously licensed to independent third parties during the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. The licensing arrangements for our "Kangbo" and "Bingjie" brands were terminated in 2006 when we commenced the sale of down apparel products under these two brands by ourselves during the financial year ended March 31, 2007 to strengthen brand management and quality control standards.

We require our licensees to manufacture products which conform with our brand images and quality control standards, and impose restrictions on the licensees as to the retail price of the apparel so produced.

Under the licensing agreements, our licensees typically pay fixed annual license fees if the licensees' actual annual output is equal to or less than the agreed annual output. Additional license fees are paid on a per item basis in excess of the agreed annual output. For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, the license fees we received amounted to approximately RMB42.2 million, RMB61.0 million and RMB50.4 million, respectively. The licensing agreements usually have a term of two to three years and we have the right to terminate such agreements by giving one to two months' written notice to the licensees.

We believe that the licensing arrangements will broaden our customer base and enhance brand awareness of our non-down apparel products among our customers in the short term. However, in the event that the brand licensees fail to manage our licensed brands in accordance with our required standards and sales performance, or in the event that the brand licensees go into operational or financial difficulties, or in the event that disputes occur between the brand licensees and their suppliers or customers, our brand image, reputation and sales could be adversely affected if such licensed brands continue to be associated with us even if such licensing arrangements have been terminated. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Infringement of the trademarks of our brands and the sale of counterfeit products may affect our reputation and profitability" for further details.

Counterfeit products

We are aware that small quantities of counterfeit products bearing the "Bosideng" brand name exist in the PRC. Where appropriate, we inform the relevant PRC government authorities of the existence of such counterfeit goods and request for appropriate actions to be taken to protect our intellectual property rights. Such actions may include the confiscation or destruction of the counterfeit products or the imposition of a fine. We may also commence proceedings before the PRC courts

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against the counterfeiting party. In addition, we have adopted appropriate measures such as adding a counterfeit prevention bar code on our products, and will continue to take appropriate legal actions to defend our trademarks from all possible infringements.

EMPLOYEES

As of March 31, 2007, we had a total of 1,034 full time employees in the PRC. The following table shows a breakdown of our full time employees by function as of March 31, 2007:

| <u>Division</u> | <u>Number of Employees</u> |
|--|----------------------------|
| Marketing and Sales | 442 |
| Management of Outsourced Manufacturing | 288 |
| Administration | 76 |
| Procurement | 72 |
| Quality Control | 70 |
| Financial | 52 |
| Design | 24 |
| Others (compliance and auditing) | <u>10</u> |
| Total | <u><u>1,034</u></u> |

Welfare contributions

In accordance with applicable PRC regulations on social insurance and housing funds, our Group participates in a pension contribution plan, a medical insurance plan, an unemployment insurance plan and a housing fund for our employees. As confirmed by Chen & Co. Law Firm, our PRC legal advisor, we comply with all statutory social insurance and housing fund obligations applicable to us under PRC laws.

Remuneration

We incurred staff costs of approximately RMB13.5 million, RMB96.7 million, RMB106.9 million and RMB86.7 million for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007.

We review the performance of our employees annually, the results of which are used in their annual salary review and promotion appraisal. We reward our senior management with annual bonuses based on various performance criteria. Our senior management are also entitled to participate in our Share Scheme and our employee share option scheme, details of which are more fully set out in Appendix VIII — Statutory and General Information. We believe that by offering our key employees a shareholding stake in our Company, we align their interests with that of the Group.

We consider our relationship with our employees to be good. We have not experienced any strikes, work stoppages or significant labor disputes in the past and have not experienced any significant difficulties in recruiting or retaining qualified staff.

PROPERTIES

Leased Properties

As of the Latest Practicable Date, we leased 102 properties in the PRC with an aggregate floor area of approximately 105,438.44 square meters for office, warehousing, product display and sales uses, and one property in Hong Kong with a floor area of approximately 81.48 square meters for office uses.

In respect of eight leased properties in the PRC respectively for office, warehousing and sales and distribution uses, the lessors have not provided the building ownership certificates or the property owners' written consents to the sub-lease, and the leases have not been registered with the relevant PRC authorities. These leased properties have an aggregate floor area of 7,906.37 square meters, or account for 7.8% of the total number of leases and 7.5% of the aggregate floor area we lease in the PRC. We are unable to estimate the exact time required for such building ownership certificates or written consents to be granted and the leases to be legally registered. Our legal counsel as to PRC law, Chen & Co. Law Firm, has advised us that we, as lessee in good faith, will not be subject to any civil, administrative or criminal liabilities or penalties as a result of the failure of the lessors to obtain the building ownership certificates or the owners' written consents to the sub-lease and to register the leases with the relevant PRC authorities. However, such failure may render the relevant lease agreements governing such leased properties to be invalid and unenforceable under PRC law.

In respect of 11 leased properties in the PRC respectively for office, warehousing and sales and distribution uses, the lessors have obtained the legitimate building ownership certificates or have obtained the property owners' written consent to the sub-lease, but the leases have not been registered with the relevant PRC authorities. These leased properties have an aggregate floor area of 20,331.3 square meters, or account for 10.78% of the total number of leases and 19.28% of the aggregate floor area we lease in the PRC. Our legal counsel as to PRC law, Chen & Co. Law Firm has advised us that the failure to register the leases does not affect the legality, validity and enforceability of the lease agreements and that we, as lessee in good faith, will not be subject to any civil, administrative or criminal liabilities or penalties as result of such failure. However, such failure may result in third parties in good faith challenging our interests in such leased properties.

As of the Latest Practicable Date, we were not aware of any challenge being made by any third party on the titles of any of such properties which might affect our current occupation. Should disputes arise due to title encumbrances to such properties, we may encounter difficulties in continuing to lease such properties and may be required to relocate. In such circumstances, our Directors are of the view that such relocations will not have a material adverse effect on our business operations, as the leased properties can be easily replaced within a week if we are required to vacate these leased premises, and we estimate that relocation costs will not exceed RMB1 million. We believe that the relocation of these premises will not cause interruption to our business operations to any material extent, as the affected properties for sales and distribution uses only accounted for 2.94% of the total number of leases and 1.30% of the aggregate floor area we leased as of the Latest Practicable Date.

We will use our reasonable endeavors to procure the relevant lessors to obtain the relevant building ownership certificates or, failing which, identify the legal owner of the relevant property and execute a new lease with such legal owner. If we are unable to agree with the relevant legal owner of such leased premises, or if there is a real relocation risk, the Company will find a suitable replacement without delay.

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In addition, we have obtained written undertakings from the lessors of 18 affected properties confirming that such lessors will have to compensate us for any losses incurred due to title encumbrances on the leased properties or failure on the part of the lessors to duly register the leases with the PRC authorities. Furthermore, although there is one lessor of an affected property who has not provided us with such undertaking, our Controlling Shareholders have also agreed to indemnify us against any costs, expenses and operating or business losses (including without limitation penalties and fines imposed by the relevant PRC authorities) arising from the relocation of the business or assets from any affected properties. For more details of the deed of indemnity, please see the paragraph headed “Statutory and General Information — Tax and other indemnities” in Appendix VIII to this prospectus. For more details of our leased properties, please see the property valuation report as set out in Appendix IV to this prospectus.

COMPETITION

The down apparel industry in China is highly competitive. There are no significant entry barriers to the down apparel industry. Our competitors may, despite their smaller business scale, specialize in specific target markets and have greater ability to establish closer customer relationships by responding more quickly to customers’ needs and preferences within their niche markets. We have also been facing overseas competition subsequent to the lifting of certain restrictions on foreign investment in China’s retail sector since the end of 2004.

However, we believe that our leading market position in the PRC down apparel industry, strong brand recognition, comprehensive product portfolio, extensive retail distribution network through which our branded down apparel products are distributed, responsive supply chain management capabilities and experienced management and design team will enable us to have a significant competitive advantage in our industry. By leveraging these strengths, we are able to maintain our leading position and effectively control various aspects of our supply chain to produce high quality products which are trendy, fashionable and competitively priced.

INSURANCE

Our major operating subsidiaries have maintained insurance for, among other things, fixed assets, raw materials and finished products in our leased warehouses. In respect of our employees, we have purchased insurance for all our staff in the PRC as required by PRC law.

As we are not directly involved in the manufacturing process, we do not maintain product liability insurance. In addition, in line with general industry practice in the PRC, we do not maintain business interruption insurance or third-party liability insurance against claims for property damage, personal injury and environmental liabilities. The occurrence of any of these events may result in an interruption of our operations and subject us to significant losses or liabilities. See the section headed “Risk Factors — We may not have insurance coverage that is adequate to cover potential liability and losses” for further details. We did not make any material insurance claims during the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007. We also believe that the insurance coverage over our assets, properties and products is adequate for our operations.

GOVERNMENT REGULATIONS

As of the Latest Practicable Date, our business operations in the PRC were not subject to any specific license requirements other than those generally applicable to companies and businesses operating in the PRC. In the opinion of our PRC legal advisor, Chen and Co. Law Firm, we have

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obtained all the necessary licenses, approvals and permits from the appropriate regulatory authorities for our business operations in the PRC and have complied with all relevant laws and regulations in relation to our business operations. We have not been materially penalized by national or local authorities for violations of PRC laws and regulations, including the tax authorities. In certain instances, we have incurred fines for misleading symbols or descriptions in our advertisements and publicity materials within certain regions in the PRC, and for delays in the filing of tax returns. Whilst the aggregate amount of these fines is immaterial in comparison with our results of operations, we are in the process of implementing precautionary measures to prevent any future similar incidents from occurring and to enhance the supervision of our production of advertisements and publicity materials and the filing of tax returns. These measures include (a) establishing a dedicated examination committee (comprising legal counsel who are appointed to deal with all matters relating to our intellectual property and advertisements) to review our advertisements, publicity materials and packaging, (b) engaging external professional advertising companies to produce advertisements and image designing services, (c) strengthening the supervision process relating to the use of advertisements, publicity materials and packaging in our distribution channels, and (d) hiring a professional tax consultant and designating and training selected personnel to ensure the timely filing of our tax returns and strengthening the management of our financial audits. The Directors are of the view that the implementation of these measures will significantly reduce the risk of any similar incidents occurring in the future.

ENVIRONMENTAL PROTECTION AND SAFETY

We consider the protection of the environment and work safety to be important. We have designated experienced senior officers to be responsible for regulating our work safety and health conditions and environmental protection, with a view to ensuring our business operations comply with all applicable laws and regulations, and monitoring our continual compliance in these two areas.

We primarily focus on developing and managing the portfolio of our down apparel brands and in line with this strategy, we outsource all the manufacturing operations of the branded down apparel and OEM products to contract manufacturers in the PRC. As a result of such outsourced manufacturing arrangements, we are not directly involved in the manufacturing process and our business operations are therefore environmentally friendly. We believe that the environmental friendliness of our down apparel products has enhanced our competitive market position. In 2002, our “Bosideng” down apparel products were accredited with the American Green Products Committee Certification.

In view that the production process of our contract manufacturers (i) uses raw materials that are not hazardous to health, (ii) is mainly labor-intensive and does not cause any material industrial pollution or require consumption of high levels of energy, we believe that the production process of our contract manufacturers does not generate hazards that have any significant adverse impact on the environment, and there are only minimal requirements for waste disposal. Nevertheless, we select our contract manufacturers based on certain stringent criteria, including their compliance with environmental, health and work safety rules and regulations, and whether they have obtained any ISO 14001 certification relating to environmental protection standards.

We have been advised by our PRC legal advisor, Chen & Co. Law Firm, that our business operations do not require us to comply with any specific environmental protection rules or regulations. We are mainly subject to general environmental protection laws and regulations, including the PRC Environmental Protection Law (環境保護法), PRC Air Pollution Prevention Law (大氣污染防治法), PRC Water Pollution Prevention Law (水污染防治法) and other applicable laws and regulations.

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In terms of social responsibility in relation to health, safety, insurance and accidents, we are subject to various labor and safety laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the Regulation of Insurance for Labor Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例). We have adopted a series of measures to ensure health and safety of our employees, such as providing our employees with welfare schemes including, among other things, injury insurance and medical insurance, and providing training to our employees to enhance their awareness of occupational safety.

In view of the environmentally friendly nature of our business and our outsourced manufacturing arrangements, we did not incur any significant capital expenditure in relation to environmental protection during the Track Record Period. We currently do not have any specific capital expenditure plan in relation to environmental protection. However, we will devote operating and financial resources on environmental protection whenever we are required by PRC laws and regulations to do so in the future.

As of the Latest Practical Date, no environmental and work-safety complaints or administrative penalties had been made against or imposed on us. Our PRC legal advisor has confirmed that we have complied with the applicable PRC laws and regulations on environmental protection and workplace safety in all respects

LEGAL PROCEEDINGS

We are involved in legal proceedings from time to time in the ordinary course of our business. As of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

RETAINED BUSINESS OF OUR CONTROLLING SHAREHOLDER

Types of Retained Business

Upon the completion of the Reorganization and as of the date of this prospectus, Mr. Gao Dekang and his associates (as defined under the Listing Rules) other than members of our Group (which for the sole purpose of this section headed “Relationship with Controlling Shareholders and Connected Transactions”, is collectively defined as the “**Parent Group**”) have control of or interests in certain businesses which do not form part of our Group. These businesses can be classified into two categories: (a) active businesses which do not compete, directly or indirectly, with our business (the “**Retained Business**”); and (b) inactive businesses or businesses which have been disposed of to independent third parties or otherwise wound up as at the date of this prospectus (the “**Inactive Business**”).

The Retained Business mainly consists of businesses that are not related to the apparel industry, including property development, department store management, hotel management, production and sale of cosmetic products, general trading activities and provision of services relating to environmental protection. The Retained Business which has a degree of connection with the apparel industry is summarized in the table below.

| <u>Business Type</u> | <u>Key Features</u> |
|--|--|
| Contract Manufacturing . | Provision of contract manufacturing facilities and services of down apparel products and other fashion apparel including shirts, trousers, blouses, and sweaters |
| Menswear Business | Design, manufacturing and sale of various kinds of menswear, other than down apparel products |
| Hosting of Apparel Fashion Hall | Provision of exhibition venue and services for sale of down and non-down apparel products |
| Nanometer Fabric Business | Production and supply of nanometer water-proof fabric for down apparel products |

The Inactive Business, to the best knowledge of our Directors, includes businesses that might otherwise be in potential competition with our core business, such as the production and sale of down products and the export and OEM management business, and other apparel related business such as the production and sale of ladieswear, childrenswear, underwear and bedding accessories. The Inactive Business was not injected into our Group as part of the Reorganization, nor was such business acquired by us after the Reorganization as our Directors are of the view that such businesses either do not form part of our core business or do not, as at the date of this prospectus, present an attractive business opportunity for our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Delineation of our Business from the Retained Business

Our Directors are of the view that there is a clear delineation between the Retained Business and our business, as a result of which, none of the Retained Business would compete, or is expected to compete, directly or indirectly, with our core business, which is (i) the design, research and development, raw material procurement, outsourced manufacturing, marketing, sales and distribution (including both domestic sales within the PRC and export sales outside the PRC) of down apparel, and (ii) management of OEM business. In particular, the Directors believe that each of the Retained Business which has a degree of connection with the apparel industry as described in the table above can be clearly differentiated from ours for the following reasons.

Contract Manufacturing: The contract manufacturing is conducted through a number of factories and production sites owned or controlled by Mr. Gao's family, namely, Jiangsu Xuezhongfei, Shanghai Kangbo Feida, Shandong Kangbo Industry Co., Ltd., Smartland Children's Wear Co., Ltd. and Changshu Bosideng Apparel Co., Ltd. (together, the "**Manufacturing Companies**"). In order to further strengthen our competitive position, we focus our resources on the design, raw material procurement, marketing, sale and distribution of our products and outsource the manufacturing process of our products to reliable external contract manufacturers, which include the Manufacturing Companies. The Manufacturing Companies specialize in the manufacturing process of apparel on a contractual basis for us as well as their third party customers and are not involved, whether directly or indirectly, in any stage of our non-outsourced supply chain. In particular, the Manufacturing Companies are not involved in the OEM management business which generally includes marketing, export trading, trading coordination and OEM export client relationship management. As such, there is no overlap between the businesses of the Manufacturing Companies and our Group.

Menswear Business: The menswear business is conducted through Bosideng Menswear Company Limited, a company which is 58% indirectly owned by Mr. Gao's family ("**Bosideng Menswear**"). Bosideng Menswear is primarily engaged in the design, production and sale of menswear, other than down apparel products, and is not engaged in any OEM business. Based on the unaudited management accounts of the menswear business, for the year ended December 31, 2006, the menswear business recorded (i) sales revenue of approximately RMB250.9 million, (ii) net profit of approximately RMB44.0 million, and (iii) net assets of approximately RMB79.1 million. Pursuant to a non-competition undertaking provided by Mr. Gao Dekang on behalf of himself and the Parent Group, details of which are set out below, Bosideng Menswear will continue not to manufacture any down apparel products. As such, the business of Bosideng Menswear is clearly differentiated from ours, which is primarily the design, raw material procurement, marketing, sales and distribution and sale of down apparel as well as OEM management business.

Hosting of Apparel Fashion Hall: The hosting services of apparel fashion halls are conducted through Shandong Rushang Co. Ltd, which is 75% indirectly owned by Mr. Gao's family ("**Shandong Rushang**"). Shandong Rushang is engaged in the organization and hosting of various sales events and exhibitions of down and non-down apparel and does not participate in the design, procurement, marketing or production of down apparel products. Shandong Rushang therefore is one of the many sales channels through which we market and distribute our down apparels. As we do not operate or otherwise engage in the hosting of any apparel fashion hall, there is no overlap of business between Shandong Rushang and us.

Nanometer Fabric: The sale of nanometer fabric is conducted through Sino-tech Bosideng Nano Fashion (Suzhou) Co., Ltd, a joint venture which is 68% indirectly controlled by Mr. Gao's family ("**Bosideng Nano**"). Nanometer fabric is a material used to produce fabric which is odorless, anti-

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

bacterial, water-repellent and stain-repellent. As Bosideng Nano specializes in the scientific research, development and production of nanometer fabric and does not participate in any way in the design, raw material procurement, marketing, sales or distribution of down apparel products, there is no overlap of business between Bosideng Nano and our Group.

As at the date of this prospectus, we do not engage in any of the Retained Business. The exclusion of the Retained Business from the Group is in line with our strategy to maintain and further strengthen our market position as a leading down apparel company in the PRC, specializing in the research, design and development, raw materials procurement, marketing and distribution of branded down apparels, and OEM management business.

Non-Competition Undertaking

Mr. Gao Dekang, a controlling shareholder of both our Group and the Retained Business (either through himself or through his associates), has entered into a deed of non-competition (the “**Non-competition Deed**”) dated September 15, 2007 in favor of our Company, pursuant to which Mr. Gao Dekang has undertaken to our Company that he will not, and will procure that none of his associates (other than members of the Group) will, during the Restricted Period (as defined below), directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business in the PRC or elsewhere in the world which is or may be in competition with our core business, i.e., (i) the research, design and development, raw materials procurement, outsourced manufacturing, marketing, sales and distribution (including both domestic sales within the PRC and export sales outside the PRC) of down apparel, and (ii) the engagement in OEM management business, and any other new business which the Group may undertake from time to time after the listing of our Shares (the “**Restricted Business**”).

Such non-competition undertaking does not apply to the following parties which have:

- (a) any interests in the shares of any member of the Group; or
- (b) interests in the shares of a company other than the Group provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated sales or consolidated assets, as shown in that company’s latest audited accounts; and
 - (ii) the total number of the shares held by Mr. Gao Dekang/or his associates in aggregate does not exceed 10% of the issued shares of that class of the company in question and Mr. Gao Dekang and/or his associates are not entitled to appoint a majority of the directors of that company.

The “Restricted Period” stated in the Non-competition Deed refers to the period during which:

- (i) the Shares of our Company remain listed on the Hong Kong Stock Exchange; and
- (ii) Mr. Gao Dekang and/or his associates (other than members of the Group), individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of our Company; or

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- (iii) Mr. Gao Dekang or the relevant associates remains as a director of any member of the Group.

Mr. Gao Dekang has further undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to Mr. Gao Dekang and/or any of his associates (other than members of the Group) (the “**Offeror**”) is first referred to us in the following manner:

- (a) Mr. Gao Dekang is required to, and shall procure his associates (other than members of the Group) to, refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Group to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs) (the “**Offer Notice**”).
- (b) The Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a notice from us declining the New Opportunity and confirming that such New Opportunity would not constitute competition with our core business, or (ii) the Offeror has not received such notice from us within 10 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting exclusively of independent non-executive Directors who do not have a material interest in the matter as to whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

Right of First Refusal

Under the Non-competition Deed, in the event that, during the Restricted Period, Mr. Gao Dekang or any of his associates (except any members of our Group) intend to dispose of any of the Retained Business, or any business to be acquired pursuant to any New Opportunity, or any interest therein, the seller shall first offer to our Company the right to acquire such business or interest and none of Mr. Gao Dekang and his associates (except any members of our Group) may proceed with such disposal to any third party, unless the terms of disposal are not more favorable than those offered to our Company, following the rejection of such offer by our Company. We will also seek approval from a committee of our Board consisting exclusively of independent non-executive Directors who do not have a material interest in the matter as to whether to pursue or decline such offer. We will fully comply with the applicable requirements of the Listing Rules if we decide to exercise the right of first refusal.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Option to acquire Business

Mr. Gao Dekang has granted us, pursuant to the Non-competition Deed, an option to acquire any of the Retained Business, or any business to be acquired pursuant to any New Opportunity, or any interest therein, on and in accordance with commercial terms which shall have been opined upon by a committee of our Board consisting exclusively of independent non-executive Directors, after taking into account appraised values provided by qualified independent third party valuers (where applicable) and advice from independent experts as being, *inter alia*, normal commercial terms, in the ordinary course of business of our Company, fair and reasonable and in the interests of our Company as a whole.

Our Board, including our independent non-executive Directors, will take into account various factors in determining whether or not to exercise such option. As a minimum, our Board will consider (i) the competitiveness of the target business in the relevant industry; (ii) the competitive strengths and financial position of the target business; (iii) the growth prospect of the target business; and (iv) the attractiveness of the consideration.

As at the date of this prospectus, our Directors have not exercised such option as we currently do not have any plans to diversify into any of the Retained Business.

Further Undertakings

Mr. Gao Dekang has further undertaken to:

- (a) procure all relevant information relating to the implementation of the Non-competition Deed in his possession and/or the possession of any of his associates to be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our auditors to have access to such of their financial and corporate records as may be necessary for us to determine whether the non-competition undertakings have been complied with by Mr. Gao Dekang and his associates; and
- (c) provide us, within 10 business days from the receipt of our written request, with a written confirmation in respect of his compliance and that of his associates with the non-competition undertakings and consent to the inclusion of such confirmation in our annual report.

Mr. Gao Dekang, for himself and on behalf of his associates (except any member of our Group), has also acknowledged that we may be required by the relevant laws, regulations, rules of the stock exchange(s) on which we may be listed and the regulatory bodies to disclose, from time to time, information on the New Opportunity, including but not limited to disclosure in public announcements or our annual report or decisions made by us to pursue or decline such New Opportunity and has agreed to such disclosure to the extent necessary to comply with any such requirement.

Assessment of compliance with non-competition undertakings

Our independent non-executive Directors will, based on the information available to them, including information and confirmation provided by or obtained from Mr. Gao Dekang and his associates (other than members of our Group) as described above, review on an annual basis (i) the compliance with the non-competition undertakings; and (ii) all the decisions taken in relation to

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whether to exercise the option pursuant to the Non-competition Deed and whether to pursue any business opportunities which may be referred or offered to us by Mr. Gao Dekang or his associates (other than members of our Group) pursuant to the Non-competition Deed. Findings of such review will be disclosed in our annual report after the listing of our Shares.

RELIANCE OF AND INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Operational Independence

During the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007, we entered into certain transactions involving lease of real properties and use of services provided by certain Retained Business, some of which are expected to continue after the listing of our Shares on the Hong Kong Stock Exchange. Details of these transactions are set out in the paragraph headed “Connected Transactions” below and in the Accountants’ Reports in Appendices IA and IB to this prospectus. Our Directors confirm that we are able to operate independently despite the existence of such transactions and can carry on our business independently of our Controlling Shareholders and their associates, for the reasons explained below.

Procurement of nanometer fabric

Prior to the establishment of Bosideng Nano, we purchased nanometer fabric from a Taiwan-based third party supplier. After the listing of our Shares, we will purchase nanometer fabric from Bosideng Nano while continuing the procurement arrangements with the Taiwan-based supplier. Our Directors are of the view that it is in the interest of our Shareholders to expand our supplier base so as to mitigate risks associated with our supply chain and accommodate our business expansion. The nanometer fabric that we purchase from Bosideng Nano is readily available from other suppliers. We will purchase nanometer fabric from Bosideng Nano only if the purchase orders are made on normal commercial terms or on terms which are favorable to us. Other than the procurement of nanometer fabric, we do not purchase any other raw materials from the Retained Business. For the next three financial years, our Directors expect that the maximum aggregate annual purchase amount payable to the Parent Group in respect of the purchase of raw materials will not exceed 0.2% of our total cost of goods sold for the financial year ended March 31, 2007. Therefore, our Directors are of the view that we have independent access to raw material supplies and do not rely on Bosideng Nano to secure the supply of our raw materials.

Outsourcing of Manufacturing

As part of our overall business strategy, we outsource the manufacturing process to reliable and price competitive contract manufacturers, including the Manufacturing Companies. See the section headed “Business — Supply Chain Management — Outsourced manufacturing” for further details. We choose the Manufacturing Companies as our contract manufacturers because these manufacturers had been processing our down apparel products prior to the Reorganization and are thus more familiar with our quality control requirements and preferred delivery schedules.

A substantial number of third party contract manufacturers are located in areas close to where we operate, some of which are of comparable size and capability as the Manufacturing Companies. Therefore, as a customer, we are able to easily replace the Manufacturing Companies with third party manufacturers should we consider the quality of products processed by the Manufacturing Companies unsatisfactory or the cost of manufacturing no longer competitive. In addition, during

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the peak season, we usually engage approximately 300 contract manufacturers, most of which are independent third parties, in anticipation of an increase in the required production capacity, which would further reduce the degree of our reliance on the Manufacturing Companies.

For the financial year ended March 31, 2007, the total processing fees paid or payable by us to the five largest manufacturers and the largest manufacturer were RMB342 million and RMB266 million, accounting for approximately 34% and 26% of our total processing fees incurred for the same period, respectively. Among the largest five contract manufacturers for the year ended March 31, 2007, the largest contract manufacturer is the Parent Group, which manufactured our down apparels and OEM products through the Manufacturing Companies, namely, Changshu Bosideng Apparel Co., Ltd., Jiangsu Xuezhongfei Garment Co., Ltd., Shanghai Kangbo Feida Garment Co., Ltd., Shandong Kangbo Industry Co., Ltd. and Smartland Children's Wear Co., Ltd., as well as Jiangsu Bosideng Garment Co., Ltd., a company which ceased to be an associate of Mr. Gao Dekang since November 2006. The remaining four largest contract manufacturers are all independent third parties of our Group. For the financial year ended March 31, 2007, we incurred processing fees amounting to RMB266 million to the Parent Group. Orders, in terms of units, placed to the Parent Group accounted for approximately 24% of the total orders placed to contract manufacturers for the financial year ended March 31, 2007. For the next three financial years, our Directors expect that the maximum aggregate annual processing fee payable to the Parent Group in respect of the outsourced manufacturing will not exceed 6% of our total revenue and 9% of our total cost of goods sold for the financial year ended March 31, 2007.

Furthermore, although the manufacturing process is outsourced to external parties, we closely monitor the performance of our contract manufacturers through frequent on-site inspection and regular review of quality control standards, production capacity, technical capabilities and managerial skills of our contract manufacturers. We consider this to be a key factor in our successful management of our supply chain. Accordingly, our Directors are of the view that we retain overall control of, and do not rely on the Parent Group to run, our outsourced manufacturing process.

Lease of Properties

We rent a number of real properties from certain companies carrying on the Retained Business (the "**Lessors**") as our offices or warehouses, details of which are set out in the paragraph headed "Connected Transactions" below. Each of the property leases was entered into on normal commercial terms (or on terms more favourable to us) after arms-length negotiations. Sallmanns (Far East) Ltd., the independent property valuer of the Group, has reviewed our lease agreements and confirms that the rents payable by us to the Lessors are in line with market rates. We believe that in the event any of the Lessors ceases to lease any of the properties to us, we would be able to find suitable alternative premises from third parties in the same region without undue delay or inconvenience.

In addition, we have a right to terminate the lease of any premises leased from the Lessors at any time prior to its expiry at our discretion. Our PRC legal advisor, Chen & Co. Law Firm, confirms that the property lease agreements do not contain any provisions that would restrict our ability to similar properties from independent third parties. Furthermore, for the next three financial years, our Directors expect that the maximum aggregate annual rental payable to the Parent Group in respect of the property leases will not exceed 0.3% of our revenue and 0.5% of our total cost of goods sold for the financial year ended March 31, 2007. Therefore, our Directors are of the view that we do not in any way rely on the Lessors to secure our use of warehouses and offices.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Sale and Distribution

Some of our down apparels are sold through the sales events and exhibitions run by Shandong Rushang and the department store managed by Jinan Jiahua Department Store (“**Jinan Jiahua**”), which is a related party of Mr. Gao Dekang.

Shandong Rushang was incorporated on November 14, 2001 and became an associate of Mr. Gao Dekang on December 18, 2006. Prior to Shandong Rushang becoming an associate of Mr. Gao Dekang, it was already one of our distributors. The historical amount in respect of the distribution arrangements with Shandong Rushang for the financial period ended March 31, 2007 was RMB2.66 million. The historical amounts in respect of the distribution arrangements with Shandong Rushang for the financial periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the financial year ended March 31 2006 were less than RMB3.0 million.

Jinan Jiahua is a department store which sells a wide variety of products, among which, down apparels only constitute an insignificant portion. The concessionaire fee we pay to Jinan Jiahua is on normal commercial terms and is the same as what we pay to third party department stores in the similar regions. The historical amounts with Jinan Jiahua for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31 2007 were less than RMB0.6 million each year.

For the next three financial years, our Directors expect that the maximum aggregate annual concessionaire fee payable to the Parent Group in respect of distribution arrangements will not exceed 1.2% of our distribution expenses for the financial year ended March 31, 2007. Therefore, we do not rely on the sale and distribution network of our Controlling Shareholders or any of their associates to develop and maintain our customer relationships as well as to meet our output targets.

Financial Independence

As of the date of this prospectus, all loans, securities and guarantees due to and from Mr. Gao Dekang and his associates (other than members of our Group) have been released in full or novated to our Group. As such, our Directors believe that we are financially independent from our Controlling Shareholders and their associates.

Management Independence

Our Board currently comprises six executive Directors, one non-executive Director and four independent non-executive Directors. Other than Mr. Gao Dekang, our executive chairman who also assumes non-executive directorships with the Retained Business, none of our Directors holds any directorship or senior management role in the Retained Business.

Mr. Gao Dekang assumes non-executive directorships with the Retained Business because he is exercising his rights as the controlling shareholder of the Retained Business to have representatives appointed to look after his own interests. Notwithstanding Mr. Gao Dekang's directorships in the Retained Business, our Directors, including the independent non-executive Directors, are of the view that our Board is able to manage our business on a full time basis independently from the Retained Business for the following reasons:

- (a) Mr. Gao Dekang confirms and undertakes that, so long as he remains as an executive Director of the Company, all positions held by him with the Parent Group are, and will continue to be, of a non-executive nature. In addition, each other Director confirms that, as of the date of this prospectus, he or she does not hold any directorship or senior

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management position with the Parent Group, and further undertakes that, so long as he or she remains as an executive Director of the Company, he or she will not accept any executive directorship or senior management position with the Parent Group or any other entity save for entities within our Group;

- (b) None of our Retained Business competes, or is likely to compete, with our core business and therefore, the dual roles assumed by Mr. Gao Dekang in most cases will not affect the requisite degree of impartiality of our executive Directors in discharging their fiduciary duties owed to our Company;
- (c) We have four independent non-executive Directors, and certain matters of the Company, including connected transactions and other matters referred to in the Non-competition Deed, details of which are set out above, must always be referred to the independent non-executive Directors for review. This helps to enhance the independence of our management from that of the Retained Business;
- (d) In an event of conflict of interests, the relevant Director(s), including Mr. Gao Dekang and his family members, namely, Ms. Mei Dong and Ms. Gao Miaoqin, will abstain from voting, will not be present in the relevant Board meetings and will be excluded from deliberation by our Board. Hence the relevant Directors would be unable to influence the Board from making decisions on the matters in which he or she is, or may be, interested. All of our Directors, including the four independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective board and observe their fiduciary duties in an event of conflict of interests. Please refer to the section headed “Directors and Senior Management — Directors” for a summary of the relevant experiences and qualifications of our Directors; and
- (e) Saved as disclosed herein, our daily operations will be managed by our senior management team, none of whom holds any senior managerial position or directorship position within the Retained Business.

CONTINUING CONNECTED TRANSACTIONS

Connected Persons

The Parent Group

Following the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Gao Dekang will continue to be our substantial shareholder beneficially interested in approximately 65% of our issued share capital.

For so long as Mr. Gao Dekang remains a substantial shareholder of us, transactions between our Group and the Parent Group will constitute connected transactions for us under the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Continuing Connected Transactions Pursuant to Reorganization

Trademark and Domain Name Licensing Arrangements Pursuant to the Reorganization

As part of the Reorganization, Bosideng Corporation has assigned to us all the trademarks and domain names that are relevant to the core business of our Group (details of which are set out in the section headed “Statutory and General Information — 2. Intellectual property rights” in Appendix VIII to this prospectus), on the condition that we will (i) license these domain names to the Parent Group on a royalty-free and perpetual basis; (ii) license these trademarks to the Parent Group for use as company names and for use on properties invested by the Parent Group on a royalty-free and perpetual basis; and (iii) save as provided in (ii) above, license these trademarks to the Parent Group solely for use in connection with business operations which are outside the scope of the Group’s business for a term of three years.

1. Domain name and Corporate name licensing arrangements

As the licensing arrangements disclosed in (i) and (ii) above were entered into on a royalty free basis and on normal commercial terms, such arrangements constitutes a *de minimis* continuing connected transaction exempt from reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The above royalty-free arrangements were entered into in the context of the Reorganization and form part of the domain name and trademark assignment from the Parent Group to us. The Directors, having taken into account the nature of the Reorganization as well as that (a) the domain names and trademarks were assigned to us for the benefit of our Group and (b) the Parent Group will pay us royalties on an annual basis in respect of arrangements referred to in (iii) above, are of the view that the trademark and domain name assignment and licensing arrangements, despite the royalty-free treatment in respect of the corporate names and domain names, were entered into on normal commercial terms.

2. Framework trademark licensing agreement

In respect of the arrangement disclosed in (iii) above, the Parent Group will pay us royalties on an annual basis to be calculated as a percentage ranging from 1% to 2% of its total sales of products carrying such licensed trademarks. We also apply the same range of fee percentage to our trademark licensing arrangements with independent third parties. The Company and the Parent Group entered into a framework trademark licensing agreement on September 15, 2007 to effect such arrangement.

The historical amount for the transactions under the framework trademark licensing agreement paid by the Parent Group to us from June 1, 2004 to March 31, 2005, and for the two financial years ended March 31, 2007 was RMB7.0 million, RMB10.6 million and RMB11.0 million, respectively, mainly comprising the royalty income received from Bosideng Menswear.

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The maximum aggregate annual amount due for the next three years under the framework trademark licensing agreement from the Parent Group to us must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|-----------------------------|---|------|------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total fee payable | 4.5 | 5.8 | 7.0 |

The historical royalty income received from Bosideng Menswear includes the advertisement costs associated with the use of our trademarks by Bosideng Menswear. Going forward, with a view to reducing connected transactions and minimizing risks arising from any potential legal dispute, we will no longer arrange advertisements of products of our licensees carrying our trademarks. As such, the royalty income we expect to receive over the next three financial years as set out above will exclude all foreseeable advertisement costs. In arriving at the above annual caps, the Directors have considered the historical sales of Bosideng Menswear, which uses our brands for all of its products. Our Directors have also taken into account the expected increase of the sales of the Retained Business, in particular, the increase of sales to be generated by Bosideng Menswear as well as a possibility of increasing the percentage of royalty fees as a result of the expected increase in the value of our trademarks.

The term of the framework trademark licensing agreement is three years, renewable at the option of our Company for another term of three years by giving at least three months' notice prior to the expiry of the initial term.

The framework trademark licensing agreement is entered into on normal commercial terms and constitutes a continuing connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement requirements.

Given the importance of these trademarks and domain names to our business, in particular, the "Bosideng" brand, the following protective measures have been adopted by us:

- (i) All products and services provided by the Parent Group carrying our domain names and/or trademarks, whether on a royalty-free basis or not, must meet certain quality standards as specified by us from time to time before the release of such products or services. In determining whether the qualities of such products or services are to our satisfaction, our Directors will take into account qualities of products or services provided by enterprises with a similar reputation to us in their relevant industries and assess the pricing policies adopted by the Parent Group. To the extent necessary or desirable, our Directors may also seek opinions from independent experts. Mr. Gao Dekang and his associates, including Ms. Mei Dong and Ms. Gao Miaoqin, will abstain from the decision making process. Such measures enable us to minimize the risk of any potential misuse of our trademarks or domain names by the Parent Group;
- (ii) The use of our trademarks and domain names by the Parent Group is subject to the undertakings as set out in the Non-competition Deed, pursuant to which, the Parent Group will not compete with our existing business, which is the design, procurement and sale of

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down apparel and engagement in OEM management business, and any business to be carried out by us in the future. Our independent non-executive Directors will review compliance with the Non-competition Deed on an annual basis, with a view to ensuring, among other things, that our products are, and will continue to be, clearly delineated from those produced by the Parent Group;

- (iii) In addition, our business, as described in this prospectus, will be clearly set out in our corporate communication with our Shareholders, including our annual reports and interim reports. We will also maintain and update in a timely manner our corporate website which will contain information about our organizational structure and business so as to minimize any potential confusion to a reasonable consumer as to which businesses are run by us as a result of use of our trade marks and domain names by the Parent Group; and
- (iv) Notwithstanding the licensing arrangement of our domain names, the Group and the Parent Group do not, and will continue not to, provide any respective information of the Group and the Parent Group through the same domain name.

Non-Competition Deed

Pursuant to the Reorganization, we have entered into the Non-competition Deed with Mr. Gao on his own behalf and on the behalf of his associates (other than members of the Group), details of which are set out in the paragraph headed “Non-Competition Undertaking” above.

As the Non-competition Deed was entered into in favor of the Group and there is no consideration payable by us to Mr. Gao in respect of the Non-Competition Deed, the Non-competition Deed constitutes a *de minimis* connected transaction exempt from reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions Entered into in the Ordinary Course of Business

Following the Reorganization, we have entered into, in the ordinary course of business, a number of connected transactions with the Parent Group, which will continue after the listing of our Shares on the Hong Kong Stock Exchange.

The Directors, including our independent non-executive Directors, are of the opinion that these transactions have been entered into, and will be carried out following the completion of the Global Offering, in the ordinary and usual course of our business on normal commercial terms which are fair and reasonable, and in the interest of our Shareholders as a whole, and that the proposed annual caps for these non-exempt-continuing connected transactions as set out below are fair and reasonable.

1. *Framework Manufacturing Outsourcing and Agency Agreement*

We have, in the ordinary course of our business, entered into a framework manufacturing outsourcing and agency agreement with Mr. Gao Dekang dated September 15, 2007, pursuant to which, we have agreed to outsource our manufacturing process of down apparel to the Parent Group on a non-exclusive basis, which currently includes the Manufacturing Companies. Under the framework manufacturing outsourcing and agency agreement, we have the right to contract with third party manufacturers at our discretion and on such terms as we deem appropriate.

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Pursuant to the framework manufacturing outsourcing and agency agreement, the Parent Group will provide labor, factory, premises, necessary equipment, water and electricity for the processing of down apparel products. In order to facilitate the manufacturing work, we provide the Parent Group with raw materials, product designs and specifications, and pay the Parent Group a fee based on the agreed production volume. With such outsourcing arrangement, we will be able to operate our core business activities in a more cost-efficient manner and focus on research, design and development, raw materials procurement, and marketing and distribution of our branded down apparel products.

On our behalf, the Parent Group will from time to time procure raw materials for our OEM business from independent third party suppliers in the PRC in accordance with our instructions. The raw materials procured pursuant to such agency arrangement will be used solely for the manufacturing of our OEM products and no agency fee is payable by us to the Parent Group in respect of such arrangement. The existence of such agency arrangement does not prevent us from purchasing raw materials directly from independent third parties or through independent third party contract manufacturers, nor does it impose an obligation on us to procure raw materials through the Parent Group. Therefore, our Directors are of the view that the agency arrangement contemplated under the framework outsourcing manufacturing and agency agreement is for the convenience and benefit of our Group.

Prior to the Reorganization, manufacturing activity was treated as part of the Group from the accounting perspective and the operating results of the Parent Group were consolidated into the Group's operating result. As such, manufacturing arrangement with the Parent Group was eliminated on consolidation and no audited historical figure was available for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. For details, please refer to the paragraph headed "Basis of Presentation" under the section headed "Financial Information" in this prospectus. The historical amount of the outsourcing manufacturing under the framework manufacturing outsourcing and agency agreement for the financial year ended March 31, 2007 was approximately RMB257.2 million. The difference between the historical amount of RMB257.2 million and the total processing fee of RMB266 million paid by the Group to the Parent Group for the financial year ended March 31, 2007 as disclosed under the paragraph headed "— Reliance of and Independence from our Controlling Shareholder — Operational Independence — Outsourcing of Manufacturing" relates to the processing fee of approximately RMB8.5 million paid by us to Jiangsu Bosideng Garment Co. Ltd, which ceased to be an associate of Mr. Gao Dekang and hence a connected person of our Group in November 2006. As such, the historical processing fee paid to Jiangsu Bosideng Garment Co. Ltd is not taken into account in determining the basis of the proposed annual cap for transactions contemplated under the framework manufacturing outsourcing and agency agreement.

The maximum aggregate annual amount due for the next three years under the framework manufacturing outsourcing and agency agreement from us to the Parent Group must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|-----------------------------|---|-------|-------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total fee payable | 270.0 | 297.7 | 327.5 |

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In arriving at the above annual caps, our Directors have considered the historical figures of the relevant transactions, the expected increase in prices for the receipt of similar services from third party contract manufacturers over the next three years, in particular, the increase of manufacturing fees as a result of higher labor costs, and have taken into account our future expansion and expected market conditions and demand for our down apparel products.

The term of the framework outsourcing manufacturing agreement is three years, renewable at the option of our Company for another term of three years by giving at least three months' notice prior to the expiry of the initial term. Either party may terminate the framework outsourcing manufacturing agreement at any time by giving at least three months' notice.

The framework outsourcing manufacturing agreement is entered into on normal commercial terms and constitutes a continuing connected transaction subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement and independent shareholders' approval requirements.

2. Framework Raw Material Purchase Agreement

We have entered into a framework raw material purchase agreement dated September 15, 2007 with Mr. Gao Dekang, pursuant to which, we have agreed to purchase (on a non-exclusive basis) nanometer fabric from the Parent Group. Under the framework raw material purchase agreement, the quality and prices of the raw materials, i.e., nanofabric, supplied by the Parent Group to us must be comparable to the quality and prices of those similar products the Parent Group supplies to third party customers.

As a newly established company incorporated on June 15, 2005, Bosideng Nano has not commenced production of nanometer fabric as at the date of this prospectus. As such, there was no annual purchase amount paid under the framework raw material purchase agreement by us to the Parent Group for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007.

The maximum aggregate annual amount due for the next three years under the framework raw material purchase agreement from us to the Parent Group must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|--------------------------------|---|------|------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total purchase amount. | 3.0 | 5.0 | 8.0 |

In arriving at the above annual caps, our Directors have considered the market prices of the raw materials, in particular, nanometer fabric, for use in down apparel products, and have taken into account the expected expansion of our down apparel business. In addition, the Directors are of the opinion that the increase of annual caps is also in line with our strategic plan to further strengthen our position in the middle-to-high quality down apparel market.

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The term of the framework raw material purchase agreement is three years, renewable at the option of our Company for another term of three years by giving at least three months' notice prior to the expiry of the initial term. Either party may terminate the framework raw material purchase agreement at any time by giving at least three months' notice.

The framework raw material purchase agreement is entered into on normal commercial terms and conditions and constitutes a continuing connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement requirements.

3. Framework Distribution and Sale Agreement

We have, in the ordinary course of business, entered into a framework sale and distribution agreement dated September 15, 2007 with Mr. Gao Dekang, pursuant to which, the Parent Group will sell our down apparels through its distribution and sales channels, including Shandong Rushang and Jinan Jiahua, for a commission fee to be calculated as an agreed percentage of the monthly sales receipts. Under the framework sale and distribution agreement, the commission rate payable by us to the Parent Group must be in line with the rate offered by the Parent Group to our competitors.

Prior to the Reorganization, Shandong Rushang was not a connected person to the Group. The historical amount in respect of the distribution arrangements with Shandong Rushang for the financial period ended March 31, 2007 was RMB3.1 million. The historical amounts in respect of the distribution arrangements with Shandong Rushang for the financial periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the financial year ended March 31 2006 were less than RMB3.0 million. The historical amounts with Jinan Jiahua for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005 and the two financial years ended March 31 2007 were less than RMB0.6 million each year. The maximum aggregate commission fee due for the next three years under the framework distribution and sale agreement from us to the Parent Group must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|---|--|------|------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total fee payable | 5.5 | 8.3 | 13.0 |
| Fee payable to Shandong Rushang | 5.0 | 7.8 | 12.5 |
| Fee payable to Jinan Jiahua. | 0.5 | 0.5 | 0.5 |

In arriving at the above annual caps, our Directors have considered the expected market conditions and demand for our down apparel products over the next three years, our expected expansion and the sales channels expected to be adopted by our competitors. In particular, Shandong Rushang, an operator of down apparel fashion halls in China, is expected to undergo significant expansion and growth at an average rate of approximately 50% over the next three years based on our understanding of Shandong Rushang's expansion strategy after our discussion with the management of Shandong Rushang.

The term of the framework distribution and sale agreement is three years, renewable at the option of our Company for another term of three years by giving at least three months' notice prior to the expiry of the initial term. Either party may terminate the framework distribution and sale agreement at any time by giving at least three months' notice.

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The framework distribution and sale agreement is entered into on normal commercial terms and constitutes a continuing connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement requirements.

4. *Property Lease Agreement*

In the ordinary course of business, we have entered into a property lease agreement with Mr. Gao Dekang dated September 15, 2007. Under the property lease agreement, the Parent Group will lease certain properties with a total area of approximately 55,824 square meters to us. The properties leased under the property lease agreement will be used as our regional offices or warehouse. The term of each lease granted under the property lease agreement is no more than 20 years. Our Directors are of the view that a lease term of 20 years is common in the PRC and such long lease term would help reduce any potential inconvenience and administrative cost arising from the expiry of a short-term lease.

Prior to the Reorganization, the lessors were treated as part of the Group from the accounting perspective and the operating results of such lessors were consolidated into the Group's operating result. As such, lease arrangements with such lessors were eliminated on consolidation and no audited historical figure was available for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. For details, please refer to the paragraph headed "Basis of Presentation" under the section headed "Financial Information" in this prospectus. The historical amount of the property lease under the property lease agreement for the financial year ended March 31, 2007 was RMB8.4 million.

The maximum aggregate rental payable to the Parent Group for the three financial years ending March 31, 2010 must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|--------------------------------|---|------|------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total rental payable | 8.6 | 8.9 | 9.2 |

In arriving at the above annual caps, our Directors have considered the historical figures of the existing leases, details of which are set out below, and the expected increase of rental in the regions in which we lease properties from the Parent Group.

The Directors confirm that the property lease agreement is entered into on normal commercial terms. Sallmanns (Far East) Ltd., the independent property valuer of the Group, has reviewed the above leases under our property lease agreement and confirms that the current rent payable by us under the property lease agreement is in line with the market rates.

Set out below is a list of the 12 current leases entered into pursuant to the property lease agreement, which form part of the conditions for the waiver application as described in the paragraph headed "— Waiver Application for Non-exempt Continuing Connected Transactions". The approximate annual rental payable as set out in the table below reflects the rental paid by us to the relevant associates of Mr. Gao Dekang for the financial period ended March 31, 2007. As such, any new lease to be entered into between us and the Parent Group over the next three financial years will

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

not be covered by the waiver granted by the Hong Kong Stock Exchange in respect of the transactions contemplated under the property lease agreement and will be subject to the relevant requirements under the Listing Rules.

| <u>Existing leases</u> | <u>Approx. annual rental payable</u> (RMB million) | <u>Approx. size of the property</u> (square meters) | <u>Location</u> | <u>Use of the property</u> |
|------------------------|---|--|-----------------|----------------------------|
| 1. | 1.63 | 11,781 | Jiangsu | Warehouse and display |
| 2. | 0.43 | 403 | Jiangsu | Office |
| 3. | 0.04 | 279 | Shandong | Office |
| 4. | 0.92 | 6,607 | Jiangsu | Warehouse |
| 5. | 0.21 | 201 | Shanghai | Office |
| 6. | 0.80 | 5,790 | Jiangsu | Office |
| 7. | 1.83 | 13,213 | Jiangsu | Warehouse |
| 8. | 2.14 | 15,396 | Shandong | Warehouse and office |
| 9. | 0.18 | 1,309 | Jiangsu | Warehouse |
| 10. | 0.03 | 200 | Jiangsu | Office |
| 11. | 0.02 | 200 | Jiangsu | Office |
| 12. | 0.15 | 445 | Jiangsu | Sales office |

Under the property lease agreement, we are able to terminate a lease of any premise at any time prior to its expiry at our sole discretion and without any penalty. Despite the long duration of each lease, we enjoy the flexibility of a short-term lease to relocate to another site or premises at any time should we consider any property leased or to be leased under the framework lease agreement no longer suitable for our use or no longer cost-competitive. The Parent Group, on the other hand, is not entitled to terminate any lease under the property lease agreement without our consent, which enables us to minimize any potential and/or unexpected disruption to our business operations which may arise from the expiry of a short-term lease. Furthermore, despite the long duration of each lease, the rent payable under the property lease agreement is to be reviewed every year taking into account market conditions, but should not be higher than the rent applicable to a third party tenant at the relevant time. Based on the foregoing, the Directors and the Joint Sponsors are of the view a duration longer than three years is beneficial to us. The Directors and the Joint Sponsors also confirm that a lease term for a period of 20 years is not beyond normal practice in the PRC. Sallmanns (Far East) Limited, an independent valuer, has confirmed that the terms of the property lease agreement reflect the prevailing market condition in the PRC and that the rent reflects market rates of comparable properties and is fair and reasonable to us.

The property lease agreement constitutes a continuing connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement requirements. The Company confirms that it will comply with the applicable requirements under Chapter 14A of the Listing Rules upon the expiry of the three financial years ending March 31, 2010.

5. *Framework Integrated Service Agreement*

We have entered into an integrated service agreement with the Parent Group dated September 15, 2007 pursuant to which the Parent Group agrees to provide various ancillary services to us, which currently include provision of hotel accommodation, for a term of three years, renewable for a further three years at our option.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Kang Bo Hotel, a three-star rated hotel of the Parent Group, is one of the few hotels within walking distance to our headquarters located in Changshu. Given the limited choices, our employees often choose to stay with Kang Bo Hotel when they are on business trips to our headquarters. Our Directors believe our employees will continue to choose Kang Bo Hotel after the listing of our Shares unless we relocate our headquarters or find alternative hotels closer to our headquarters.

Prior to the Reorganization, the hotel accommodation expenses were treated as part of the Group from the accounting perspective and the operating result of Kang Bo Hotel was consolidated into the Group's operating result. As such, hotel accommodation services provided by Kang Bo Hotel was eliminated on consolidation and no audited historical figure was available for the periods from April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the financial year ended March 31, 2006. For details, please refer to the paragraph headed "Basis of Presentation" under the section headed "Financial Information" in this prospectus. The historical amount in respect of the integrated service agreement for the financial year ended March 31, 2007 was RMB2.0 million, being the fee paid in respect of the provision of hotel accommodation. The maximum aggregate service fee due for the next three years under the framework integrated service agreement from us to the Parent Group must not exceed the annual caps set out below.

| | Proposed annual cap for the year ending March 31 | | |
|-----------------------------|---|------|------|
| | 2008 | 2009 | 2010 |
| | (RMB millions) | | |
| Total fee payable | 3.4 | 3.4 | 3.4 |

The RMB1.4 million increase in the annual caps in respect of the provision of hotel accommodation is estimated by reference to the expected 50% increase in the room rates of Kang Bo Hotel, taking into account its recent renovation, and the frequency of business travels over the next three financial years. The term of the framework integrated service agreement is three years, renewable at the option of our Company for another term of three years by giving at least three months' notice prior to the expiry of the initial term. Either party may terminate the framework integrated service agreement at any time by giving at least three months' notice.

The framework integrated service agreement is entered into on normal commercial terms and constitutes a continuing connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements under the Listing Rules. We have applied for and have obtained an exemption from the Hong Kong Stock Exchange from complying with the announcement requirements.

Waiver Application for Non-exempt Continuing Connected Transactions

No Waiver Sought for Certain Transactions

No waiver is sought for the domain name and corporate name licensing arrangements and the Non-Competition Deed described above in the paragraph headed "Connected Transactions Pursuant to Reorganization" because each of them is automatically exempt by the Listing Rules from reporting, announcement and independent shareholders' approval requirements.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

Scope of Waiver

Under the Listing Rules, the highest applicable ratio, as defined under Rule 14A.07 of the Listing Rules, of each of the continuing connected transactions contemplated under the framework outsourced manufacturing agreement as described under the paragraph headed “Non-exempt Continuing Connected Transactions” is expected to exceed 2.5%. As such, these transactions are considered to be non-exempt continuing connected transactions under Rules 14A.45 to 14A.47 of the Listing Rules and are subject to reporting, announcement and the prior independent shareholders’ approval requirements under Rule 14A.48 of the Listing Rules.

In respect of the continuing connected transactions contemplated under the framework trademark licensing agreement, framework integrated service agreement, property lease agreement, framework raw material purchase agreement and framework distribution and sale agreement, as the highest applicable ratio as set out in Rule 14A.07 of the Listing Rules, where applicable, is, on an annual basis, expected to be less than 2.5% but more than 0.1%, such transactions are exempt from the independent shareholders’ approval requirements but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Accordingly, we have requested the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has agreed, to grant a waiver to our Company from strict compliance with the announcement and/or independent shareholders’ approval requirements relating to continuing connected transactions under the Listing Rules. In addition, we will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

Each of the continuing connected transactions referred to in the paragraph headed “Non-exempt Continuing Connected Transactions”, and the framework trademark licensing agreement described in the paragraph headed “Connected Transactions Pursuant to Reorganization”, other than the transactions under the property lease agreement, is for a term of three years, renewable at the option of our Company. The renewal of the term of each of these continuing connected transactions will have to comply with the rules applicable to connected transactions under the Listing Rules.

Confirmation from the Sponsors

The Joint Sponsors are of the view that the non-exempt continuing connected transactions described above in the paragraph headed “Continuing Connected Transactions” have been entered into in the ordinary and usual course of business of the Company, are on normal commercial terms, fair and reasonable and in the interest of the Shareholders of the Company as a whole, and the proposed annual caps for all the transactions referred to in the paragraph headed “Non-exempt Continuing Connected Transactions” are fair and reasonable.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of 11 Directors, comprising six executive Directors, one non-executive Director and four independent non-executive Directors. Our Directors serve staggered terms of three years each, with one-third of our Board retiring at each annual general meeting provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The table below shows certain information in respect of the members of our Board.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------------------|------------|--------------------------------------|
| Mr. Gao Dekang | 55 | Chairman and Chief Executive Officer |
| Ms. Mei Dong | 39 | Executive Director |
| Ms. Gao Miaoqin | 56 | Executive Director |
| Dr. Kong Shengyuan | 44 | Executive Director |
| Ms. Huang Qiaolian | 42 | Executive Director |
| Ms. Wang Yunlei | 27 | Executive Director |
| Mr. Shen Jingwu | 38 | Non-executive Director |
| Mr. Dong Binggen | 57 | Independent Non-executive Director |
| Mr. Jiang Hengjie | 56 | Independent Non-executive Director |
| Mr. Wang Yao | 49 | Independent Non-executive Director |
| Mr. Ngai Wai Fung | 45 | Independent Non-executive Director |

Executive Directors

Mr. Gao Dekang, aged 55, is our Chairman and Chief Executive Officer. Mr. Gao is our founder and is responsible for the strategic development and overall management of the Group. Mr. Gao has over 20 years' experience in the down apparel industry. He has acted as Director of Baimao Town Shanjing Clothing Factory (1980–1983), Director of Baimao Town Down Apparel Factory (1984–1992), Chairman and General Manager of Changshu Down Product Group Corp. (1992–1993), Chairman (from 1994 to 1998, and from 2004 to present) and General Manager (from June 1994 to June 2007) of Bosideng Corporation and, pursuant to the Reorganization, Chairman and Chief Executive Officer of the Company. Mr. Gao has also assumed leadership in various associations, such as the China Garment Association (as Vice President since 2004) and the Down Apparel and Related Products Committee of China National Garment Association (as First Deputy Director since 2006). Mr. Gao has been awarded numerous prizes and honors. In 1993, he was awarded the title of Special Contributor to the Development of China's Apparel Industry by the former Ministry of Domestic Trade. In 1998, he was awarded the title of National Excellent Township Entrepreneur by the Ministry of Agriculture. In 2000, he was named as a National Model Worker by the State Council and as a National Model Worker in the textile industry by the State Administration of Textile Industry, and was awarded an achievement medal by the China Garment Association for his contributions to the Chinese apparel industry. In December 2002, he was elected as a delegate to the 10th National People's Congress. In 2005, he was awarded the Outstanding Contribution Prize in the Chinese Down

DIRECTORS AND SENIOR MANAGEMENT

Industry from the China Feather and Down Industrial Association and was accredited as a down apparel expert in China. In 2006, he was ranked among the 50 figures representing Chinese outstanding brands for 2005. In January 2007, he was named as an Economic Figure of Year 2006 by China Central Television, an Innovation Figure in the Chinese textile industry by China National Textile and Apparel Council and a Figure of Leading Brands for Year 2006 by China Brand Union Association. In June 2007, he was awarded as China's Top Ten Pioneer Entrepreneurs (中國十大創業領袖) by the "Contemporary Manager" magazine. Mr. Gao is a senior economist and a senior engineer. Mr. Gao received an EMBA degree (majoring in Business Administration) from Phoenix International University in December 2002.

Mr. Gao has not held any directorship in any public listed companies in the past three years. For Mr. Gao's interest in the Shares of the Company within the meaning of Part XV of the SFO, please refer to Appendix VIII "Statutory and General Information — Further Information about our Directors, Management, Staff and Experts — Disclosure of Interests". Mr. Gao is the spouse of Ms. Mei Dong (our Controlling Shareholder and Director), father of Mr. Gao Xiaodong (our Controlling Shareholder), and cousin of Ms. Gao Miaoqin (our Director). Mr. Gao is shareholder and director of Kong Bo Investment (our Controlling Shareholder). Save as disclosed above, there are no other matters concerning Mr. Gao's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Mei Dong, aged 39, was appointed as our executive Director in July 2006. Ms. Mei is responsible for sales and marketing of our Group. Ms. Mei has over ten years' experience in the down apparel industry. She joined Bosideng Corporation in June 1994, and acted as Director, Executive Deputy General Manager and Chief Operating Officer. Since she joined Bosideng Corporation, Ms. Mei has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. In December 2006, Ms. Mei was named as a National Model Worker in the textile industry by the National Textile Industry Association. Ms. Mei received an EMBA degree (majoring in Business Administration) from Phoenix International University in December 2002. Ms. Mei has not held any directorship in any public listed companies in the past three years. For Ms. Mei's interest in the Shares of the Company within the meaning of Part XV of the SFO, please refer to Appendix VIII "Statutory and General Information — Further Information about our Directors, Management, Staff and Experts — Disclosure of Interests". Ms. Mei is the spouse of Mr. Gao Dekang (our Controlling Shareholder and Director), and mother of Mr. Gao Xiaodong (our Controlling Shareholder). Ms. Mei is also a shareholder and director of Kong Bo Development (our Controlling Shareholder). Save as disclosed above, there are no other matters concerning Ms. Mei's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Gao Miaoqin, aged 56, was appointed as our executive Director in July 2006. Ms. Gao is mainly responsible for the overall administrative management and coordination of the Group's operations. Ms. Gao has over ten years' experience in the down apparel industry. She joined Bosideng Corporation in June 1994, and acted as Director and Deputy General Manager. Since she joined Bosideng Corporation, Ms. Gao has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, she served as a teacher in various middle schools in Changshu and won several recognitions and honors as an excellent teacher. In 2004, she was ranked among 100 Outstanding Chinese Corporate Culture Researchers by the China Association for Corporate Culture Exchange. In January 2007, she won the title of Meritorious Contributor to the Construction of Dezhou Economic Development Zone. Ms. Gao received a certificate of advanced English education for middle school English teachers from Suzhou University of China in August 1985. Ms. Gao has not held any directorship in any public listed companies in the past three years.

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She does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Ms. Gao is the cousin of Mr. Gao Dekang (our Controlling Shareholder and Director), and aunt of Mr. Gao Xiaodong (our Controlling Shareholder). Save as disclosed above, there are no other matters concerning Ms. Gao's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Dr. Kong Shengyuan, aged 44, was appointed as our executive Director in July 2006. Dr. Kong is responsible for the supervision and planning of the investment and finance of our Group. Dr. Kong joined Bosideng Corporation in March 2004, and acted as Director. Since he joined Bosideng Corporation, Dr. Kong has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, from July 1987 to August 1994, Dr. Kong served as an Assistant Professor of the Economic School of the China University of Mining and Technology. From June 1997 to February 2002, he acted as the Director of the Assets Office of Hualian Development Group, a company engaged in the chemical and textile industries, and real estate development and management. From March 2002 to March 2004, he served as the Deputy General Manager of Union Holdings, a PRC company listed on the Shenzhen Stock Exchange (000036) and engaged in investment, the chemical and textile industries, and real estate development and management. Dr. Kong received a Master's Degree from the China University of Mining and Technology in July 1987 and a Doctor's Degree from the Renmin University of China in July 1997. Dr. Kong is a senior economist. Dr. Kong has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Dr. Kong is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Dr. Kong's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Huang Qiaolian, aged 42, was appointed as our executive Director in June 2007. Ms. Huang is our chief designer and is in charge of designing our Group's branded down apparel products. Ms. Huang has over 20 years' experience in the fashion industry. She joined Bosideng Corporation in March 1997, and acted as Director and Deputy General Manager in charge of the Design Department. Since she joined Bosideng Corporation, Ms. Huang has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, Ms. Huang served as Director of the Design Center of Jiangsu Meierzi Group from 1988 to 1996. Ms. Huang has won several prizes and honors. In 2001, she was ranked among the Top Ten Fashion Designers in China by the China Fashion Designers' Association. In 2002, she was appraised as one of the Most Popular Fashion Designers at the Hua Xia Classic Brands Fashion Festival by the Jiangsu Garment Association. In 2003, she was awarded the Scientific and Technological Progress Prize by the Changshu Municipal People's Government. In 2004, she received the Modern Fashion Master Medal from the Shanghai International Fashion Federation. In 2006, she won the title of Meritorious Designer in China's Fashion Trend Forecasts awarded by the China Fashion Designers' Association. Ms. Huang received a diploma from East China Normal University in Shanghai in January 2006. Ms. Huang is also popularly known as Ms. Zhu Lin in the down apparels industry in the PRC. Ms. Huang has not held any directorship in any public listed companies in the past three years. She does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Ms. Huang is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Ms. Huang's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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Ms. Wang Yunlei, aged 27, was appointed as our executive Director in September 2006. Ms. Wang assists Mr. Gao Dekang in the overall management of our Group. Ms. Wang joined Shanghai Bingjie in May 2005 as Assistant to the Chief Executive Officer and has since then remained in the Group. Previously, she served as an accountant at Shanghai Hongguo Building Materials Co., Ltd., a wholly foreign-owned company engaged in architecture and engineering. Ms. Wang received a college certificate in Accounting from Shanghai Donghua University in July 2001, a Bachelor of Arts degree in Business Administration from Upper Iowa University in the United States in May 2004 and a Master's Degree in Business Administration from the New York Institute of Technology in December 2004. Ms. Wang has not held any directorship in any public listed companies in the past three years. She does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Ms. Wang is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Ms. Wang's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Non-executive Director

Mr. Shen Jingwu, aged 38, is our non-executive Director. Mr. Shen joined the Company in September 2006 when he was appointed Director of the Company. Mr. Shen joined HSBC Private Equity (Asia) Limited ("**HPEA**") in 2005 and is currently a Director and Head of Greater China of HPEA. Prior to joining HPEA, he was a Vice-President at Vertex China Investment, specializing in private equity investments in the Greater China region. Previously, he was the head of the Technology Investment Department of Shanghai Industrial Holdings Limited, managing the firm's venture capital investments. Prior to his appointment in Shanghai Industrial Holdings Limited, Mr. Shen was a consultant at Bain & Co. in the United States and Hong Kong, providing strategic consultancy services to multinational corporations. Mr. Shen received an MBA degree from Stanford University with a specialization in strategy and venture capital investments in June 1997, and a Bachelor of Science degree in Economics from the Wharton School, University of Pennsylvania, graduating summa cum laude. Mr. Shen is registered as a Licensed Representative of HPEA with the SFC in Hong Kong. Mr. Shen has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Mr. Shen is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Mr. Shen's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Independent Non-executive Directors

Mr. Dong Binggen, aged 57, senior engineer, was appointed as our independent non-executive Director in September 2007. In July 1977, Mr. Dong graduated from Eastern China Textile Institute (now Donghua University) with a Bachelor of Arts degree. From 1977 to 1994, he worked at Zhejiang Silk Institute (now Zhejiang Sci-Tech University) as a teacher, Dean of General Affairs, Chairman of the University Assets Management Committee and Vice President of the Institute. In 1994, Mr. Dong served as General Manager of China Garments Corporation and President of the China National Garment Association. From February 1997 to present, he has worked with Hualian Development Group Co., Ltd. as Chairman and Chief Executive Officer. Mr. Dong is also concurrently Vice Chairman of the China Textile Entrepreneur Association, Vice Chairman of the China Garment Association, Managing Director of the China National Textile and Apparel Council, Chairman of the Shenzhen Textile Industry Association, President of the Shenzhen Textile Engineering Association

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and Vice Chairman of the Shenzhen Entrepreneur Association. Mr. Dong is currently a director of Union Holdings, a PRC company listed on the Shenzhen Stock Exchange (000036). From January 2001 to June 2004, he served as director in Industrial Bank Co., Ltd., a PRC company listed on the Shanghai Stock Exchange (601166). Save as disclosed above, Mr. Dong has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Mr. Dong is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Mr. Dong's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Jiang Hengjie, aged 56, senior engineer, was appointed as our independent non-executive Director in September 2007. Mr. Jiang is the First Vice President and Legal Representative of the China Garment Association, Chairman of the National Garment Standardization Technology Committee, Managing Director of the China Textile Engineering Society as well as a visiting professor at the Art College of Tsinghua University, Suzhou University, Jiangxi Institute of Clothing Technology and Beijing Institute of Clothing Technology. Previously, he successively served at the Textile Bureau of the Ministry of Light Industry, the Production Division of the Ministry of Textile Industry, China Silk Corporation, the Silk Bureau of the Ministry of Textile Industry and the Production Coordination Department of the Ministry of Textile Industry. Mr. Jiang received a B.A. degree in sericulture from Suzhou Silk Engineering Institute in August 1975. Currently, Mr. Jiang is a director of Shanghai Nine Dragon Co., Ltd. (600555) and SGSB Group Co., Ltd. (600843), both of which are PRC companies listed on the Shanghai Stock Exchange. Save as disclosed above, Mr. Jiang has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Mr. Jiang is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Mr. Jiang's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wang Yao, aged 49, was appointed as our independent non-executive Director in September 2007. Since 1989, Mr. Wang has worked for the Commercial Information Center of the Ministry of Commerce, Commercial Information Center of the PRC Ministry of Domestic Trade, China National Commercial Information Center and China General Chamber of Commerce. He now serves as Deputy Secretary and concurrently Head of the Industry Development Department and Information Department of the China General Chamber of Commerce, as well as Deputy Director of the China National Commercial Information Centre. Over the past 15 years, Mr. Wang has focused his research efforts on China's retail market, macro-economy and statistics and analysis of retail data. He has also provided consulting services concerning the retail market for industrial and commercial enterprises and government departments. Since 1992, he has published periodic monitoring reports on the national consumable retail market annually. Mr. Wang received a Ph.D. degree in Engineering from Harbin Institute of Technology in March 1989. Currently, Mr. Wang is a director of Golden Eagle Retail Group Ltd., a PRC company listed on the Hong Kong Stock Exchange (3308). Save as disclosed above, Mr. Wang has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Mr. Wang is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Mr. Wang's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ngai Wai Fung, aged 45, was appointed as our independent non-executive Director in September 2007. He is currently the Director and Head of Listing Services of KCS Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton respectively), an independent integrated corporate services provider, Vice President of the Hong Kong Institute of Chartered Secretaries and the Chairman of its China Affairs Committee. He was the Company Secretary of Industrial and Commercial Bank of China (Asia) Limited in 2005, Executive Director of Top Orient Capital (Asia) Ltd from 2003 to 2005, the Company Secretary of China Unicom Limited from 2001 to 2003, the Executive Director, the Company Secretary and the Chief Financial Officer of Oriental Union Holdings Limited from 1999 to 2001. Mr. Ngai is an associate of the Association of Chartered Certified Accountants in the United Kingdom, an associate of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Hong Kong Institute of Chartered Secretaries. Mr. Ngai received a Master's Degree in Corporate Finance from Hong Kong Polytechnic University in 2002 and a Master's Degree in Business Administration from Andrews University of Michigan in 1992. He is a doctoral candidate in Finance at Shanghai University of Finance and Economics. Mr. Ngai has over 18 years of senior management experience, most of which is in the areas of finance, accounting, internal control and regulatory compliance for issuers including major red chips companies. Mr. Ngai is currently an independent non-executive director and a member of the Audit Committee of China Life Insurance Company Limited (02628), Franshion Properties (China) Limited (0817) and China Chief Cable TV Group Limited (08153), shares of which are listed on the Hong Kong Stock Exchange.

Save as disclosed above, Mr. Ngai has not held any directorship in any public listed companies in the past three years. He does not have any interest in the Shares of the Company within the meaning of Part XV of the SFO. Mr. Ngai is not connected with any Directors, senior management, substantial Shareholders or the Controlling Shareholders. Save as disclosed above, there are no other matters concerning Mr. Ngai's appointment that need to be brought to the attention of the Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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SENIOR MANAGEMENT

The following table sets forth certain information concerning our senior management personnel.

| Name | Age | Position |
|----------------------------------|-----|---|
| Mr. Gao Dekang | 55 | Chief Executive Officer |
| Ms. Mei Dong | 39 | Senior Vice President |
| Ms. Gao Miaoqin | 56 | Senior Vice President |
| Dr. Kong Shengyuan | 44 | Senior Vice President |
| Ms. Huang Qiaolian | 42 | Director of Research and Design |
| Ms. Lo Ka Wai, Claudia | 35 | Chief Financial Officer |
| Ms. Wang Yunlei | 27 | Assistant to the Chief Executive Officer |
| Mr. Huang Gui | 32 | Assistant to Chief Executive Officer of Bosideng International Fashion |
| Ms. Pan Jianping | 52 | Assistant to Chief Executive Officer of Bosideng International Fashion |
| Ms. Huang Meifang | 38 | General Manager of the “Bosideng” Brand Division of Jiangsu Bosideng |
| Ms. Gu Lizhen | 38 | General Manager of the “Snow Flying” Brand Division of Bosideng International Fashion |
| Ms. Gan Lingyun | 31 | General Manager of Bosideng Import and Export |
| Mr. Rui Jinsong | 34 | Deputy General Manager of the Marketing Headquarters of Jiangsu Bosideng |
| Mr. Song Jiajun | 34 | Deputy General Manager of the Marketing Headquarters of Jiangsu Bosideng |
| Mr. Shen Guangjian | 33 | Manager of the Strategic Investment Department of Bosideng International Fashion |

For information on Mr. Gao Dekang, Ms. Mei Dong, Ms. Gao Miaoqin, Dr. Kong Shengyuan, Ms. Huang Qiaolian and Ms. Wang Yunlei, see “— Directors”.

For information on Ms. Lo Ka Wai, Claudia, see “— Qualified Accountant and Company Secretary.”

Mr. Huang Gui, aged 32, is Assistant to Chief Executive Officer of Bosideng International Fashion and Deputy General Manager of Jiangsu Bosideng. Mr. Huang has over nine years’ experience in business management. He joined Bosideng Corporation in May 2004, and acted as

DIRECTORS AND SENIOR MANAGEMENT

Assistant to the Chief Executive Officer. Since he joined Bosideng Corporation, Mr. Huang has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, he worked with Zhangjiagang Yitong Fiber Weaving Co., Ltd. as Executive General Manager from May 2001 to December 2001, with Xi'an Xiaoyue Enterprise Management Company as General Manager from January 2002 to August 2003, and with Jiangsu Changgang Metal Coating Co., Ltd. as Vice Chief Executive Officer from September 2003 to May 2004. Mr. Huang studied at the Northern Jiaotong University of China, majoring in Management Engineering, from September 1994 to July 1998.

Ms. Pan Jianping, aged 52, is Deputy General Manager of Jiangsu Bosideng. Ms. Pan has over 20 years' experience in the down and non-down apparel industries. She joined Bosideng Corporation in 1994, and acted as Deputy General Manager in charge of quality control. Since she joined Bosideng Corporation, Ms. Pan has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Ms. Pan graduated from the Beijing College for Further Education for Military and Civilian Services, majoring in Business Management in March 2004.

Ms. Huang Meifang, aged 38, is General Manager of the "Bosideng" Brand Division of Jiangsu Bosideng. Ms. Huang has over 20 years' experience in the down and non-down apparel industries. She joined Bosideng Corporation in 1996, and acted as Deputy Department Head of the Manufacturing Department. Since she joined Bosideng Corporation, Ms. Huang has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Ms. Huang graduated from Changshu Zhitang High School in June 1986.

Ms. Gu Lizhen, aged 38, is General Manager of the "Snow Flying" Brand Division of Bosideng International Fashion. Ms. Gu joined has over 20 years' experience in the down and non-down apparel industries. She joined Jiangsu Xuezhongfei (an entity of the Bosideng Group) in 1998, and acted as General Manager. Since she joined Bosideng Corporation, Ms. Gu has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Ms. Gu studied at Jiangsu Television and Radio Broadcasting University, majoring in Business Management, from March 2005 to March 2007.

Ms. Gan Lingyun, aged 31, is General Manager of Bosideng Import and Export. Ms. Gan joined Bosideng Corporation in June 1999, and acted as Secretary to Executive General Manager and Director of the International Business Department. Since she joined Bosideng Corporation, Ms. Gan has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Ms. Gan studied at the Social College of Suzhou University, majoring in Office Automation, from September 1995 to July 1998.

Mr. Rui Jinsong, aged 34, is Executive Deputy General Manager of the Marketing Headquarters of Jiangsu Bosideng. Mr. Rui joined Bosideng Corporation in May 2004, and acted as General Manager for Regional Marketing. Since he joined Bosideng Corporation, Mr. Rui has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, he worked with Hangzhou Maizhixibai Intelligence Technology Co., Ltd. as department head from September 1994 to December 1995, with Jiangsu Gongliqi Group Co., Ltd. as Manager from April 1996 to October 1998, and with Changshu Xingchi Daily Chemical Co., Ltd. as Assistant to General Manager from December 1998 to May 2004. Mr. Rui studied at Wuxi Light Industry College, majoring in Textile Engineering, from September 1990 to July 1994.

Mr. Song Jiajun, aged 34, is Deputy General Manager of the Marketing Headquarters of Jiangsu Bosideng. Mr. Song joined Bosideng Corporation in September 2005, and acted as Assistant to the Chief Executive Officer. Since he joined Bosideng Corporation, Mr. Song has remained in the Bosideng Group and, pursuant to the Reorganization, in the Group. Previously, Mr. Song worked for

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approximately ten years with Guangdong Hengwei Group Co., Ltd., a company engaging in down and non-down casual apparel businesses, successively as regional marketing and sales manager and chief operating officer. Mr. Song studied at Shanghai Huangpu District Part-time University, majoring in Marketing, from September 1992 to July 1995.

Mr. Shen Guangjian, aged 33, is Manager of the Strategic Investment Department of Bosideng International Fashion. Mr. Shen joined Bosideng International Fashion in April 2007. Previously, he worked with the Investment Banking Department of Huanan Securities Co., Ltd. as Assistant to Manager from December 2000 to September 2002 (mainly responsible for corporate restructuring, share issues and PRC domestic listings), with Polaris Securities (Hong Kong) Limited Shanghai Representative Office as Project Manager from September 2002 to March 2005 (mainly responsible for Hong Kong listings, private placements and mergers and acquisitions), and with GC Investment Consulting (Shanghai) Co., Ltd. as Senior Project Manager from April 2005 to March 2007 (mainly responsible for international financing for PRC domestic enterprises). Mr. Shen received his Bachelor of Economics degree in July 1998 and Master of Economics degree in July 2001, both from Anhui University of China. Mr. Shen holds a Hong Kong Securities Institute Specialist Certificate (with a specialization in corporate finance) and professional qualifications for securities issues, undertakings, investment analysis and brokerage and investment funds granted by the China Securities Association. Mr. Shen is also qualified as a mid-level economist with a specialization in finance by the PRC Ministry of Personnel.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Lo Ka Wai, Claudia, aged 35, the Chief Financial Officer and Company Secretary of the Company, joined the Group in May 2007. Prior to joining the Group, she was the Financial Controller and Company Secretary of China Mengniu Dairy Company Limited from February 2005 to April 2007 and the Financial Controller of Ocean Grand Holdings Limited from June 2004 to October 2004. Ms. Lo had also worked for Arthur Andersen from September 1994 to June 2002 and for PricewaterhouseCoopers from July 2002 to April 2004. Ms. Lo graduated with a Master's Degree in Business Administration from the Hong Kong University of Science and Technology and is a fellow member of the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong including that normally at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. We conduct substantially all of our operations in the PRC. Most of our Directors reside in the PRC, with all of our executive Directors ordinarily resident in the PRC. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the conditions that we (among other things) maintain the following arrangements to maintain effective communication between the Hong Kong Stock Exchange and ourselves.

We have appointed two authorized representatives, namely our executive Director, Dr. Kong Shengyuan (who ordinarily resides in Shanghai) and our company secretary and qualified accountant, Ms. Lo Ka Wai, Claudia (who ordinarily resides in Hong Kong), who will act at all times as our principal channel of communication with the Hong Kong Stock Exchange. Ms. Lo Ka Wai, Claudia will be readily contactable in Hong Kong by phone, facsimile and email to promptly address inquiries from the Hong Kong Stock Exchange. Dr. Kong Shengyuan holds valid traveling documents to visit Hong Kong

DIRECTORS AND SENIOR MANAGEMENT

and will be able to meet with the relevant members of the Hong Kong Stock Exchange within a reasonable period of time, when required. Dr. Kong will also be readily available in Shanghai, China by phone, facsimile and email.

We have also appointed our non-executive Director, Mr. Shen Jingwu and Mr. Shen Guangjian as alternates to Ms. Lo Ka Wai, Claudia and Dr. Kong Shengyuan, respectively. Mr. Shen Guangjian is the Head of Strategic Investment Department of Bosideng International Fashion. Mr. Shen Jingwu and Mr. Shen Guangjian will, together with our compliance advisor appointed in accordance with Rule 3A.19 of the Listing Rules, act as additional channels of communication between us and the Hong Kong Stock Exchange. Mr. Shen Jingwu and Mr. Shen Guangjian will also be readily contactable by the Hong Kong Stock Exchange where necessary to promptly address inquiries from the Hong Kong Stock Exchange by phone, facsimile and email. In addition, we have provided the contact details of all Directors to the Hong Kong Stock Exchange and our Directors will provide the contact details of their accommodation to the authorized representatives during their business trip.

Each of our authorized representatives and their alternates has access to our board of directors and senior management at all times, and will be able to visit Hong Kong within a reasonable period of time to meet with the Hong Kong Stock Exchange as and when required.

Further, we will appoint Guotai Junan Capital Limited as our compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules, and have established a place of business in Hong Kong.

BOARD COMMITTEES

Audit committee

We established an audit committee on September 15, 2007 with written terms of reference pursuant to Rule 3.21 of the Listing Rules and paragraph C3 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, all of whom are our independent non-executive Directors. The chairman of the audit committee is Mr. Ngai Wai Fung.

The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to perform other duties and responsibilities as assigned by our Board.

Remuneration committee

We established a remuneration committee on September 15, 2007 with written terms of reference pursuant to paragraph B1 of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee consists of 5 members, comprising three independent non-executive Directors, one non-executive Director and one executive Director. The chairman of the remuneration committee is Mr. Gao Dekang. The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration packages of our Directors and senior management, and evaluate and make recommendations on our retirement scheme and our performance assessment system and bonus and commission policies.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

We established a nomination committee on September 15, 2007. The nomination committee consists of three members, comprising two independent non-executive Directors. The chairman of the nomination committee is Mr. Gao Dekang. The primary functions of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

RETIREMENT SCHEMES

Our employees in the PRC participate in various pension schemes organized by the relevant municipal and provincial government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management, and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees.

The total amount of contributions we made for such employee pension schemes for the period from June 1, 2004 to March 31, 2005, and each of the financial years ended March 31, 2006 and 2007 was approximately RMB4.8 million, RMB7.2 million and RMB4.9 million, respectively.

Our Group complies in all material respects with all PRC statutory requirements on retirement contributions.

SHARE SCHEME

We have conditionally adopted the Share Scheme, pursuant to which Shares are granted to employees, management members, consultants and Directors of our Group during the financial year. Please refer to the section headed “Share Scheme” in Appendix VIII to this prospectus for further details.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed “Share Option Scheme” in Appendix VIII.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity of our employees, compensation in the form of salaries, bonus, other allowances and benefits in kind, including our contribution to the pensions scheme for our executive Directors, in their capacity as employees, according to the PRC law.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007 were approximately RMB0.4 million, RMB5.4 million, RMB2.4 million and RMB2.7 million, respectively.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid by our Group to our five highest paid individuals for the period from April 1, 2004 to May 31, 2004,

DIRECTORS AND SENIOR MANAGEMENT

the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007 were approximately RMB0.4 million, RMB5.4 million, RMB2.3 million and RMB2.6 million respectively.

No remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office in respect of the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Further, none of our Directors had waived any remuneration during the same period.

Under our arrangements currently in force at the date of this prospectus, the aggregate remuneration of our Directors for the financial year ending March 31, 2008 is estimated to be no more than RMB15.6 million. In addition, our executive Directors (save for Mr. Gao Dekang) are entitled to certain Shares granted to them pursuant to the Share Scheme. See Appendix VIII of this prospectus under the section headed “E. Share Scheme” for further details. As part of his remuneration, one of our executive Directors, Dr. Kong Shengyuan, has received from our Company a fee equivalent to US\$1.05 million in recognition of his contributions in relation to the proposed Global Offering of the Company. This fee constitutes part of the expenses incurred in preparation of the Global Offering and is in addition to the salaries, allowances and other benefits in kind earned by Dr. Kong Shengyuan for the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, which amounted to approximately RMB52,000, RMB260,000, RMB313,000 and RMB313,000, respectively. This fee is not related to Dr. Kong Shengyuan’s contributions to the Group in respect of the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. This fee is also neither related to the Group’s previous relationship with Union Holdings (see the section headed “Our History and Structure — Background and History” for further details) nor Dr. Kong Shengyuan’s previous appointment as Deputy General Manager of Union Holdings (see the section headed “Directors and Senior Management — Directors — Executive Directors” for further details). Dr. Kong Shengyuan has been entrusted by the Board with the task of leading, coordinating and acting as a special advisor and consultant of all aspects of the proposed Global Offering of the Company, in view of his management and financial expertise and his familiarity with the Group’s business, operations and strategic directions. In particular, Dr. Kong Shengyuan has been actively involved in discussions with professional parties in the course of preparing for the Global Offering and acts as the main point of contact for these professional parties, as well as the channel of communication between these professional parties and our Directors and management. These responsibilities are in addition to the scope of his day-to-day responsibilities as an executive Director and have obviated the need for the Company to engage a financial advisor to perform this role and incur additional related expenses. In light of the aforementioned factors, the Directors (including our independent non-executive Directors) are of the view that such fees payable to Dr. Kong Shengyuan are fair and reasonable. These fees will also be disclosed in our first annual report to be published after the Listing Date. Dr. Kong Shengyuan has confirmed that he has fulfilled and will continue to be able to fulfill his fiduciary duties as a Director in accordance with the requirements under Rule 3.08 of the Listing Rules.

COMPLIANCE ADVISOR

We will appoint Guotai Junan Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;

DIRECTORS AND SENIOR MANAGEMENT

- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

We expect to enter into a compliance advisor's agreement with the Compliance Advisor, the material terms of which we expect to be as follows:

- (a) we will appoint the Compliance Advisor as our compliance advisor for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) the Compliance Advisor shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and other applicable laws, regulations and codes, and to act as one of our principal channels of communication with the Hong Kong Stock Exchange;
- (c) we will agree to indemnify the Compliance Advisor for certain actions against and losses incurred by the Compliance Advisor arising out of or in connection with the performance by the Compliance Advisor of its duties under the agreement, and any material breach by us of the provisions of the agreement or any material breach by us or our Directors, authorized representatives, senior managers or attorneys of the provisions of the Listing Rules; and
- (d) we may terminate the appointment of any Compliance Advisor if the Compliance Advisor's work is of an unacceptable standard as permitted by Rule 3A.26 of the Listing Rules. The Compliance Advisor may terminate its appointment by service of 14 days' notice to us subject to specific trigger events.

SUBSTANTIAL AND SELLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and on the assumptions that (i) the Over-allotment Option has not been exercised, (ii) all outstanding Series A Shares and Series B Shares have been fully converted to Shares, (iii) the Put Option has not been exercised by Olympics Investment, and (iv) the Performance Adjustment Option has not been exercised, the following persons will have interests or short positions in Shares which would fall to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO, or are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

| <u>Name</u> | <u>Shares owned immediately prior to the Global Offering</u> | | <u>Shares owned immediately after the Global Offering</u> | |
|---|--|------------|---|------------|
| | Number | Percentage | Number | Percentage |
| Kong Bo Investment ⁽¹⁾ | 5,144,275,202 | 85.74% | 5,144,275,202 | 65.36% |
| Mr. Gao Dekang ⁽¹⁾ | 5,144,275,202 | 85.74% | 5,144,275,202 | 65.36% |
| Mr. Gao Xiaodong ⁽²⁾ | 5,144,275,202 | 85.74% | 5,144,275,202 | 65.36% |
| Olympics Investment ⁽³⁾ | 734,151,953 | 12.24% | 616,151,953 | 7.83% |
| HSBC Private Equity ⁽³⁾ | 734,151,953 | 12.24% | 616,151,953 | 7.83% |
| Solandra Investments Limited ⁽³⁾ | 734,151,953 | 12.24% | 616,151,953 | 7.83% |
| HSBC Entities ⁽⁴⁾ | 734,151,953 | 12.24% | 616,151,953 | 7.83% |

Notes:

- (1) Mr. Gao Dekang is the beneficial owner of 95% of the issued share capital of Kong Bo Investment and is deemed to be interested in the number of Shares held by Kong Bo Investment.
- (2) Mr. Gao Xiaodong is the beneficial owner of 5% of the issued share capital of Kong Bo Investment and is deemed to be interested in the number of Shares held by Kong Bo Investment (as Mr. Gao Xiaodong, together with his father, Mr. Gao Dekang, are entitled to exercise or control the exercise of the voting power of Kong Bo Investment at the Company's general meeting).
- (3) Olympics Investment is the wholly-owned subsidiary of HSBC Private Equity. Solandra Investments Limited owns 33.8% of the shareholding interests of HSBC Private Equity. Solandra Investments Limited is an indirect wholly-owned subsidiary of its ultimate holding company, HSBC Holdings plc. Each of HSBC Private Equity and Solandra Investments Limited is deemed to be interested in the Shares held by Olympics Investment.
- (4) This refers to the shareholding of each of the HSBC Entities, which comprise The Hongkong and Shanghai Banking Corporation Limited, HSBC Asia Holdings B.V., HSBC Asia Holdings (UK), HSBC Holdings B.V. and HSBC Finance (Netherlands), each of which are deemed to be interested in the Shares held by Olympics Investment. Olympics Investment is the wholly-owned subsidiary of HSBC Private Equity. Solandra Investments Limited owns 33.8% of the shareholding interests of HSBC Private Equity. Solandra Investments Limited is directly wholly-owned by The Hongkong and Shanghai Banking Corporation Limited, which is directly wholly-owned by HSBC Asia Holdings B.V., a direct wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is in turn directly wholly-owned by HSBC Holdings B.V., which is directly wholly-owned by HSBC Finance (Netherlands), a direct wholly-owned subsidiary of HSBC Holdings plc.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Global Offering, (without taking into account any Shares which may be sold pursuant to the exercise of the Over-allotment Option) have interests or short positions in Shares which would fall to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO, or are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SUBSTANTIAL AND SELLING SHAREHOLDERS

SELLING SHAREHOLDER

Pursuant to the International Placing Agreement, Olympics Investment will sell 118,000,000 Shares, representing approximately 1.50% of the total issued share capital of the Company immediately following completion of the Global Offering without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option. The shareholdings of the Selling Shareholder immediately prior to and following the completion of the Global Offering, before giving effect to the exercise of the Over-allotment Option, are set out in the table below.

| <u>Selling Shareholders</u> | <u>Number of Shares held by Selling Shareholder prior to its sale of Shares (Shares)</u> | <u>Number of Shares sold by Selling Shareholder (Shares)</u> | <u>After the Global Offering and the sale of Shares by Selling Shareholder but before the exercise of the Over-allotment Option</u> | |
|-------------------------------|--|--|---|------------|
| | | | <u>(Shares)</u> | <u>(%)</u> |
| Olympics Investment | 734,151,953 | 118,000,000 | 616,151,953 | 7.83% |

For more details of the lock-up arrangements restricting some of our Shareholders to sell or otherwise dispose of our Shares, please see the “Underwriting” section in this prospectus.

OUR CORPORATE INVESTORS

The Corporate Placing

As part of the International Placing, we and the Joint Global Coordinators entered into placing agreements (each, a “**Corporate Placing Agreement**”) with certain corporate investors (each, a “**Corporate Investor**”) for the subscription by the Corporate Investors at the Offer Price for such number of Shares as agreed pursuant to respective Corporate Placing Agreements (the “**Corporate Placing**”). Each Corporate Investor is an independent third party not connected with us. None of the Corporate Investors will be a substantial shareholder of our Company upon listing, nor will any Corporate Investor subscribe for any Offer Shares under the Global Offering other than pursuant to a Corporate Placing Agreement.

The Corporate Placing will form part of the International Placing. The Offer Shares to be subscribed by a Corporate Investor will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus nor by any exercise of the Over-allotment Option.

The Corporate Investors

The Corporate Investors are Cenwise Investment Limited, China Life Insurance Company Limited, Chow Tai Fook Nominee Limited, Equity Advantage Limited and Li Ka Shing Foundation Limited. Each of the Corporate Investors has undertaken to subscribe for such number of Shares equal to the maximum number of Shares (rounded down to the nearest board lot) which may be purchased with US\$25,000,000 (exclusive of the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) at the Offer Price. Assuming the midpoint Offer Price of HK\$2.92, the total number of Shares subscribed by each of the Corporate Investors would be 66,672,000 Shares (rounded down to the nearest board lot), which represents, for each Corporate Investor, approximately 0.85% of the Company’s enlarged total issued share capital immediately following the Global Offering, assuming the Over-allotment Option is not exercised or, for each Corporate Investor, approximately 3.35% of the number of Offer Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised.

Cenwise Investment Limited

Cenwise Investment Limited is a private company incorporated in the BVI and is indirectly wholly owned by Shau Kee Financial Enterprises Limited, which is in turn wholly owned by Lee Financial (Cayman) Limited, of which Dr. the Hon. Lee Shau Kee is a substantial shareholder.

China Life Insurance Company Limited

China Life Insurance Company Limited is a company incorporated on June 30, 2003 in the PRC. The company was listed on the New York Stock Exchange and the Hong Kong Stock Exchange in December 2003, and listed on the Shanghai Stock Exchange in January 2007. China Life Insurance is one of the largest life insurance companies in China. China Life Insurance has an extensive distribution network in China, comprising exclusive agents, direct sales representatives, and dedicated and non-dedicated agencies. China Life Insurance’s products and services include individual life insurance, group life insurance, accident and health insurance. China Life Insurance is a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance. China Life Insurance also provides both individual and

OUR CORPORATE INVESTORS

group accident and short-term health insurance policies. Through its controlling shareholding in China Life Insurance Assets Management Co., Ltd., China Life Insurance is one of the largest insurance asset management companies in China, and one of the largest institutional investors in China.

Chow Tai Fook Nominee Limited

Chow Tai Fook Nominee Limited is a company incorporated in Hong Kong and is principally engaged in investment holding business. It is wholly and beneficially owned by Dato Dr. Cheng Yu-Tung.

Equity Advantage Limited

Equity Advantage Limited, a company incorporated in the BVI, is an investment holding company with investments across a broad range of industries. Equity Advantage Limited is ultimately 100% owned by the Dickson Poon family.

Li Ka Shing Foundation Limited

In 1980, the Li Ka Shing Foundation Limited was set up to coordinate donations towards medical, education, cultural and other community welfare projects in a systemic manner. The Li Ka Shing Foundation Limited and other private charitable foundations established by Mr. Li Ka-shing have supported numerous charitable activities with grants, sponsorships and commitments of over HK\$8.4 billion.

Corporate Placing Agreements

Conditions Precedent

The subscription obligations of the Corporate Investors will be conditioned upon, among other things, the Hong Kong Underwriting Agreement and the International Placing Agreement being entered into and having become unconditional by the Listing Date and not being terminated in accordance with the terms of the respective agreements.

Restrictions on Disposal by the Corporate Investor

Each Corporate Investor has agreed to that, other than with the prior written consent of the Company and the Joint Global Coordinators, for a period of six months following the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange (the “**Corporate Lock-up Period**”) the Corporate Investor will abide by a specified set of restrictions on its ability to dispose of its Investor Shares. Each Corporate Investor has agreed that, at any time after the expiry of the Corporate Lock-up Period, in connection with any disposal of Investor Shares that would otherwise have been restricted during the Corporate Lock-up Period, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares and will comply with the Listing Rules and other applicable laws.

Shares

The Shares to be held by Corporate Investors pursuant to Corporate Placing Agreements will be counted towards the public float of the Company.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company as of the date of this prospectus and immediately after completion of the Global Offering:

As of the date of this prospectus

| | US\$ |
|---|--------------|
| Authorized share capital: | |
| 20,000,000,000 Shares of US\$0.00001 each | 200,000 |
| 2,135 Series A Shares of US\$0.0001 each | 0.2135 |
| 5,336 Series B Shares of US\$0.0001 each | 0.5336 |
| Issued share capital: | |
| 5,257,199,855 Shares of US\$0.00001 each | 52,571.99855 |
| 2,135 Series A Shares of US\$0.0001 each | 0.2135 |
| 5,336 Series B Shares of US\$0.0001 each | 0.5336 |

Immediately after completion of the Global Offering

| | US\$ |
|---|---------|
| Authorized share capital: | |
| 20,000,000,000 Shares of US\$0.00001 each | 200,000 |
| Existing issued share capital | |
| (subsequent to the conversion of the Series A Shares and Series B Shares): | |
| 6,000,000,000 Shares of US\$0.00001 each | 60,000 |
| Issue of Shares as part of the Global Offering: | |
| 1,870,000,000 Shares of US\$0.00001 each | 18,700 |
| Issue of Shares on exercise of the Over-allotment Option: | |
| 280,500,000 Shares of US\$0.00001 each | 2,805 |
| Total issued share capital on completion of the Global Offering | |
| (prior to the exercise of the Over-allotment Option): | |
| 7,870,000,000 Shares of US\$0.00001 each | 78,700 |
| Total issued share capital on completing the Global Offering | |
| (upon the exercise of the Over-allotment Option): | |
| 8,150,500,000 Shares of US\$0.00001 each | 81,505 |

Assumptions

The table immediately above assumes that the Global Offering becomes unconditional and is completed. This table above also assumes that the 2,135 Series A Shares and the 5,336 Series B Shares in issue at the date of this prospectus will convert to Shares at the time of Listing based on the stated Offer Prices. See the section entitled “Our History and Structure — HSBC Private Equity Investment” for further details on the conversion of the Series A Shares and Series B Shares. This table above does not take into account the exercise of any options granted or to be granted under the Share Option Scheme (see Appendix VIII — “Statutory and General Information”), any Shares which may be issued or repurchased pursuant to the general mandate to issue Shares (see the section headed “Share Capital — General Mandate to Issue Shares”), or the general mandate to repurchase Shares (see the section headed “Share Capital — General Mandate to Repurchase Shares”).

SHARE CAPITAL

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering”, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any subscription rights which may be granted under our Share Option Scheme or any scrip dividend scheme or similar arrangements, or any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders, or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, or upon the exercise of the Over-allotment Option) with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options to be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any).

This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company’s next annual general meeting is required by any applicable law or the Articles of Association to be held; and
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this General Mandate, please refer to the section entitled “Further Information about our Group — Written resolutions of our Shareholders” in Appendix VIII.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering”, the Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares (Shares which may be listed on the Hong Kong Stock Exchange or on any other stock exchange and Shares which are recognized by the Securities and Futures Commission and the Hong Kong Stock Exchange for this purpose) with a total nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options to be granted under the Share Option Scheme).

SHARE CAPITAL

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the Securities and Futures Commission and the Hong Kong Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Repurchase of our own securities” in Appendix VIII.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company’s next annual general meeting is required by any applicable law or the Articles of Association to be held; and
- (iii) it is varied or revoked by an ordinary resolution of our Company’s shareholders in general meeting.

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You should read the following discussion and analysis of our financial condition and results of operation in conjunction with our financial statements and related notes included in the Accountants' Reports set out in Appendices IA and IB to this prospectus. The Accountants' Reports have been prepared in accordance with IFRS. The following discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk Factors".

OVERVIEW

We are the leading down apparel company in the PRC with a significant lead over our closest competitor in terms of market share. We primarily focus on managing our portfolio of down apparel brands, which includes research, design and development, raw materials procurement, outsourced manufacturing, and marketing and distribution of our branded down apparel products. Our core brands are "Bosideng", "Snow Flying" and "Kangbo", and our other brands comprise "Bingjie", "Shuangyu" and "Shangyu". We also engage in the OEM management business through which we procure raw materials, and manage the outsourced manufacturing process on behalf of our OEM customers, as well as coordinate the export of down and non-down apparel to our OEM customers.

We currently focus our business activities in the PRC market. We seek to distinguish ourselves in the PRC down apparel industry through our established leading market position and the ability to effectively manage each stage of our supply chain and remain cost-competitive by leveraging our established relationships with our major suppliers and contract manufacturers. This in turn enables us to respond quickly to supplemental production orders, and ensure timely delivery of our products to customers through the use of the extensive retail distribution network through which our branded down apparel products are distributed.

As part of the Reorganization and in line with our strategy to focus on developing and managing the portfolio of our down apparel brands, we have, since the financial year ended March 31, 2007, outsourced all the manufacturing operations of our branded down apparel and OEM products to 331 contract manufacturers in the PRC, of which five are affiliates of the Bosideng Group, while the remaining 326 contract manufacturers as at March 31, 2007 are independent third parties. We believe that our outsourced manufacturing arrangements enable us to focus on our core strengths to achieve higher profit margins and be more cost-efficient as we do not directly undertake the operational and financial risks and expenses relating to the operation of production facilities and management of labor. Furthermore, our outsourced manufacturing arrangements enable us to focus on research, design and development, raw materials procurement, and marketing and distribution of our branded down apparel products. Our Directors believe that our outsourced manufacturing arrangements are consistent with the practice of certain established apparel companies which also choose to outsource part or all of the manufacturing operations.

Our products are distributed through an extensive retail distribution network with a wide geographical reach in the PRC. As at March 31, 2007, the retail distribution network through which our down apparel products are distributed comprised 6,844 retail outlets, namely specialty stores, and concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls. As at March 31, 2007, our branded down apparel products were sold at our three specialty stores, 1,018 concessionary retail outlets under the supervision of our 74 regional sales companies in approximately 67 cities across the PRC, and 4,956 specialty stores and 867 concessionary retail outlets operated or supervised by third party distributors.

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We experienced a significant growth in revenue and profit for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007. Our revenue from continuing operations during these periods was RMB2,509.3 million, RMB3,698.6 million and RMB5,633.0 million, respectively, and profit from continuing operations was RMB290.3 million, RMB523.5 million and RMB614.1 million, respectively. Our net profit attributable to equity holders of the Group during the same periods was RMB252.6 million, RMB500.8 million and RMB617.6 million, respectively. Our branded down apparel business and OEM management business accounted for RMB4,980.6 million and RMB652.4 million, or 88.4% and 11.6%, respectively, of our revenue for the financial year ended March 31, 2007.

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands on July 10, 2006 as an exempted company with limited liability. Our operations are substantially conducted in the PRC through our direct or indirect subsidiaries in the PRC.

Change of control

Prior to June 1, 2004, substantially all of our business was carried out by Bosideng Corporation and its subsidiaries, which was controlled by the then ultimate controlling shareholder, Union Holdings, during the period from April 1, 2004 to May 31, 2004. Pursuant to a series of equity transfer agreements, various entities ultimately controlled by Mr. Gao Dekang and his family acquired an effective controlling interest in Bosideng Corporation and its subsidiaries as of June 1, 2004. See “Our History and Structure — Background and History” for more information. As there was a change of ultimate controlling shareholder of Bosideng Corporation and its subsidiaries subsequent to May 31, 2004, under the relevant accounting standards, the financial information for the period from April 1, 2004 to May 31, 2004 could not be combined with our financial information for the period from June 1, 2004 to March 31, 2005 and is not comparable to the financial information of the Group for the period from June 1, 2004 to March 31, 2005 and each of the two years ended March 31, 2006 and March 31, 2007. Appendix IA to this prospectus sets out the historical combined financial information of our Group for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, while Appendix IB to this prospectus sets out the historical consolidated financial information of Bosideng Corporation and its subsidiaries for the period from April 1, 2004 to May 31, 2004. Furthermore, the historical combined financial information of our Group for the ten-month period ended March 31, 2005 is not comparable to the historical combined financial information of our Group for either of the years ended March 31, 2006 and March 31, 2007 as the periods are of different lengths and the results may be affected differently by seasonality, climate changes and other factors.

Reorganization

As part of our Reorganization (as detailed in the section “Our History and Structure” of this prospectus), we continued operations related to (i) the research, design and development, raw materials procurement, outsourced manufacturing, marketing, sales and distribution, procurement and sale (including both domestic sales within the PRC and export sales outside the PRC) of down apparel and (ii) OEM management (the “**Continuing Operations**”), and discontinued certain operations including real estate development, investments in unlisted equity securities and other trading activities (the “**Discontinued Operations**”).

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In addition, as a part of the Reorganization, we no longer own any production facilities and we outsource the manufacture of products for our branded down apparel and OEM management businesses. Production operations previously formed part of our down apparel operations, and, accordingly, under IFRS, could not be classified as part of our Discontinued Operations. The results of our production operations have been included as part of our Continuing Operations in our combined income statement for the period from June 1, 2004 to March 31, 2005 and the financial year ended March 31, 2006.

As a result of the foregoing steps of the Reorganization, as of March 31, 2006, the relevant entities containing the assets and liabilities related to the Discontinued Operations and our production operations were deemed distributed to Mr. Gao Dekang and his family. See section A.2 of Appendix IA of this prospectus for additional details relating to these entities.

As the ultimate controlling equity holders that controlled our Group and its predecessor entities, as defined in page IA-1 of the Appendix I to this Prospectus, since June 1, 2004 were Mr. Gao Dekang and his family, the financial information presented in Appendix IA of this prospectus has been prepared as a reorganization of business under common control. Accordingly, the results of our predecessor entities were included in Appendix IA of this prospectus in our combined income statement, up to March 31, 2006. In addition, the state of affairs of our predecessor entities were included in the combined balance sheet of our Group as of March 31, 2005, and were excluded from the combined balance sheet of our Group as of March 31, 2006 and March 31, 2007. Save for the above, our combined income statement in Appendix IA of this prospectus includes the results of the companies now comprising our Group for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, as if our current group structure had been in existence and remained unchanged throughout such period. Our combined balance sheets as of March 31, 2005, 2006 and 2007 in Appendix IA of this prospectus have been prepared to present the state of affairs of the companies now comprising our Group as of the respective dates as if the current group structure had been in existence as of the respective dates.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Weather and seasonality

We typically experience seasonal fluctuations in our revenue, as our branded down apparel is sensitive to changes in temperature and unpredictable weather patterns. Due to the strong seasonality of our business, our sales are generally highest from October to February of the following year, which we consider to be our peak sales season. In contrast, our sales are generally lowest from March to May before we enter into our off-peak sales season from June to September. Historically, we derived a substantial majority of our revenue from sales in peak seasons. For the same reason, a substantial portion of our revenue and profit is generated in the last eight months of the Group's financial year, which ends on March 31. In addition, any climate changes resulting in warmer winters (and in particular during our peak sales period) in the PRC may adversely affect consumer demand for our branded down apparel, which, in turn, may affect our sales, inventory and revenue.

Condition of the PRC economy

We conduct substantially all our operations in the PRC, which has experienced rapid economic growth over the past two decades and rising levels of per capita disposable income, consumer spending and living standards. This growth has enabled Chinese consumers to include, in addition to their basic necessities, fashionable and trendy apparel, including our down products, as part of their consumption. Our continued growth will, to a certain extent, depend on the continued growth of the PRC economy and the concurrent rise of per capita disposable income.

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Expansion of the retail distribution network for our branded down apparel products

We plan to enhance the efficiency of the retail outlets in cities in which we have an existing presence and expand the number of retail outlets in other cities in the PRC. In addition, we intend to develop our self-owned stores in tier-one cities such as Beijing, Shanghai and the provincial capitals, as well as other developed medium to large cities in the PRC such as Dalian, Qingdao, Suzhou and Ningbo. The amount of retail space we, our distributors and their second-tier distributors occupy and the revenue generated per square meter will ultimately affect our revenue. The revenue generated per square meter (and consequently revenue) is in turn affected by factors such as location and size of the retail outlet, pricing, and competition.

Business and product mix

Our two business segments comprise the branded down apparel business and the OEM management business. The gross profit margins of these two business segments differ significantly. Our branded down apparel business had a gross profit margin of 37.9% compared with 15.5% for our OEM management business for the year ended March 31, 2007. The higher gross profit margin for our branded down apparel business is due to the different nature of the two businesses. In our OEM management business we act as a contractor and in our branded down apparel business we manage the value chain and are the principal that contracts out our production requirements. Therefore, if the mix of revenue we derive from our branded down apparel business and OEM management business changes, our gross profit and gross profit margin will also change.

In our branded down apparel business, we offer a wide range of down apparel products through our core brands and other brands to target different consumer segments in the PRC. We target our “Bosideng” and “Snow Flying” down apparel products at the medium to high-end market and, accordingly, these brands generally have higher average selling prices than our other brands. In addition, we believe that we achieve higher gross profit margins from sales of our “Bosideng” and “Snow Flying” down apparel products as compared to our other brands. Consequently, we believe the proportion of sales of “Bosideng” and “Snow Flying” down apparel products affect the gross profit margin for our branded down apparel business.

Proportion of consignment and outright sales

We sell our down apparel products on a consignment basis mainly through concessionary retail outlets under the supervision of our regional sales companies within department stores, supermarkets and hypermarkets and branded down apparel sales halls, and on an outright basis mainly through third party distributors. For the year ended March 31, 2007, we generated revenue from consignment sales and outright sales of our branded down apparel business of RMB1,431.9 million and RMB3,487.1 million, respectively, representing 28.8% and 70.0% of our branded down revenue, respectively, and 25.4% and 61.9% of our total revenue, respectively. Under consignment sales arrangements, we pay the retail channel operator concessionaire fees calculated as a percentage of our monthly sales receipts. In comparison, outright sales arrangements do not require any deduction of concessionaire fees from payments received from third party distributors. We account for concessionaire fees as part of our distribution costs. Concessionaire fees comprise a significant portion of our distribution expenses, amounting to 27.7% and 27.4% of our distribution expenses for the financial years ended March 31, 2006 and 2007, respectively. As a result of the distribution expense for consignment sales, the price at which we sell the same product may differ based on the distribution channel. Consequently, the gross profit margin for the same product may differ depending on the distribution methods. The net profit for the same product, however, generally remains similar for

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a consignment sale and an outright sale. Our revenue may therefore be affected by the proportion of consignment sales compared with the proportion of outright sales within our branded down apparel business.

Cost of raw materials

The cost of raw materials is a major component of our cost of sales relating to the branded down apparel business, accounting for 45.3%, 54.2% and 55.1% of our cost of sales and 63.6%, 70.1%, and 64.9% of branded down apparel cost of sales, in each case, for the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, respectively. Our main raw materials comprise down and fabric for the shell and lining, both of which are subject to price volatility due to market conditions. Down prices are affected by a number of factors, including the supply of ducks and geese and avian flu outbreaks. Fabric prices may be affected by crude oil prices as crude oil is a raw feedstock for the making of fabric. We seek to capitalize on our purchasing and bargaining power to obtain more favorable prices from our long-term major suppliers. However, our gross profit margins and profitability may be affected if we are unable to maintain good relationships with our suppliers, or if there are continued and unfavorable fluctuations in the price, quality and availability of our raw materials. See the sections headed “Risk Factors — We are dependent on third-party suppliers for our raw materials” and “Risk Factors — Increases in raw material prices could adversely affect our business and results of operations” for further details.

Competition

The PRC down apparel industry is highly competitive and has no significant entry barriers. Although we face competition from both international and domestic brands in the PRC, we are the leading down apparel company in the PRC, with our “Bosideng”, “Snow Flying” and “Kangbo” down apparel products achieving a combined market share of 36.1% among the 30 largest down apparel brands in the PRC based on sales in 2006, according to the CIIC. We expect competition to further intensify principally due to the entry of new foreign and domestic retailers in the PRC and as a result we may be required to offer discounted prices in response to our competitors’ pricing policies. As a result, our ability to maintain or further increase our profitability will primarily depend on our ability to compete effectively by leveraging our leading market position in the PRC, high brand recognition, brand and product portfolio, extensive retail distribution network, supply chain management capabilities and experienced management and design team to differentiate ourselves from competitors. See the section headed “Business — Competition” for further details.

Marketing and sales efforts

The extent of the success of our marketing, promotion and brand building activities impacts our market share and the average selling prices of our products through price premiums, which in turn affects our revenue and profitability. As part of our efforts to enhance brand differentiation, brand loyalty and awareness within our markets, we employ various marketing channels such as media advertizing, event-based marketing and sponsorship of prominent sporting events. See the section headed “Business — Marketing and Promotion” for further details.

In 2004, we implemented a sales incentive scheme to enhance our sales and profitability. Under this incentive scheme, our sales managers receive sales commissions based on sales revenue targets, period-end inventory levels and other factors, including the local marketing and advertising expenses incurred by the relevant sales companies. We believe our sales incentive scheme had a significant effect on our revenue for the two financial years ended March 31, 2007. See the section headed “Business — Sales and Distribution” for further details.

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Taxation

Our profit attributable to equity holders is affected by the tax exemptions, financial subsidies and preferential tax treatment that we enjoy and which, if ceased, will affect our profitability and financial condition. New taxation laws enacted in the PRC may also affect our profitability and financial condition.

Each of Bosideng International Fashion, Shanghai Bingjie, Jiangsu Bosideng and Shandong Bosideng has qualified as a foreign-invested manufacturing enterprise eligible for preferential tax treatment of a full exemption from the enterprise income tax rate of between 27% and 33% (depending on the tax rate levied by the specific local authority) for two years beginning January 1, 2007 and 50% relief from the enterprise income tax for three years thereafter. In addition, Shanghai Bingjie obtained a preferential tax rate of 27% from the local tax authority for the period from November 1, 2006 to December 31, 2006. Accordingly, Shanghai Bingjie is subject to PRC enterprise income tax at a rate of 33%, 27% and 0% for the period from April 1 to October 31, 2006, the period from November 1, 2006 to December 31, 2006 and the period from January 1, 2007 to March 31, 2007, respectively.

In addition, Bosideng International Fashion was exempted by the local tax authority from income tax during the period from July 1, 2005 to December 31, 2005. On September 14, 2006, Bosideng International Fashion became a foreign invested enterprise. Bosideng International Fashion is entitled to a full exemption from the enterprise income tax for a period of two calendar years starting from its first profit-making year, followed by a 50% relief from the enterprise income tax for three calendar years thereafter. The year 2007 is the first profit making year after the Group obtained such preferential tax treatment. As a result, Bosideng International Fashion was subject to PRC enterprise income tax at a rate of 33% for calendar year 2006 and 0% for the period from January 1, 2007 to March 31, 2007. Our domestic companies established in the PRC have income tax rates ranging from 18% to 33%.

On March 16, 2007, the newly enacted PRC Enterprise Income Tax Law was enacted, and will become effective on January 1, 2008. Under the newly enacted PRC Enterprise Income Tax Law, if we are deemed as a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 20% will be applicable to dividends paid by us, unless the tax qualifies for reduction or elimination in accordance with any future PRC laws or regulations or an applicable tax treaty between the PRC and the Cayman Islands. As of the Latest Practicable Date, the Cayman Islands has not entered into any such tax treaties with the PRC. The newly enacted PRC Enterprise Income Tax Law is also unclear as to how such tax reduction or elimination would be implemented.

In addition, the newly enacted PRC Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “*de facto* management organization” located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on their worldwide income. However, the newly enacted PRC Enterprise Income Tax Law does not define the term “*de facto* management organization”. Substantially all members of our management are located in the PRC. If substantially all members of our management continue to be located in the PRC after the effective date of the newly enacted PRC Enterprise Income Tax Law, we may be deemed a PRC tax resident enterprise and therefore subject to an enterprise income tax rate of 25% on our worldwide income (including dividend income received from our subsidiaries). The newly enacted PRC Enterprise Income Tax Law also provides that dividends received by a qualified PRC tax resident from another PRC tax resident are exempt from enterprise income tax. However, given the short history of this law, it remains unclear as to the detailed qualification requirements for such exemption and whether the dividends which our Company receives from our PRC subsidiaries will be exempt from enterprise income tax if it is recognized as a PRC tax resident.

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There will be a transition period for enterprises that currently receive preferential tax treatments granted by the relevant tax authorities. Enterprises that are currently subject to an enterprise income tax lower than 25% may continue to enjoy such lower rate and gradually transfer to the new tax rate within five years after the effective date of the newly enacted PRC Enterprise Income Tax Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until such fixed term expires. Our PRC legal counsel, Chen & Co. Law Firm, has advised that there should not be an immediate significant negative effect on existing foreign-invested enterprises which currently enjoy the reduced tax rates.

See the section headed “Risk Factors — Risks Relating to Conducting Business in the PRC” for risks relating to taxation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies which involve subjective assumptions and estimates as well as complex judgements relating to certain accounting items. We set forth below those accounting policies that we believe involve the most significant estimates and judgements used in the preparation of our financial statements.

Revenue recognition

We measure revenue from the sale of goods at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, return or allowances, trade discounts and volume rebates. We recognize revenue in the income statement when the significant risks and rewards of ownership have been transferred to the customers. We do not recognize revenue if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and if there is continuing management involvement on our part with the goods.

We recognize outright sales of down apparel products to third party distributors in the PRC and sales of OEM products overseas in accordance with the terms of delivery and when the collectibility of sales proceeds is reasonably assured. For our outright sales of down apparel products to third party distributors in the PRC, goods are generally considered delivered when the distributors acknowledge receipts of delivery. The terms of delivery of our OEM products are generally “Free on Board (FOB)”. We recognize consignment sales of down apparel products through concessionary retail outlets located within department stores, supermarkets and hypermarkets and branded down apparel sales halls at the time of sale to end-customers.

For the period from June 1, 2004 to March 31, 2005 and the two financial years ended March 31, 2007, we determined the amount of outright sales returns from our third party distributors at the end of each financial year with reference to (i) the contractually agreed percentage of returned goods as provided for under the relevant distribution agreements, (ii) the results of physical stocktake of inventories to ensure that all goods returned within the financial year have been included as part of the Group’s annual inventory count, and (iii) after our approval, and agreement by our third party distributors, the actual amount of sales returns. We present our revenue net of these outright sales returns. Outright sales returns are adjusted to revenue recognized during the financial year. Third party distributors are not allowed to return any of our products purchased within a financial year if such financial year has already passed. As such, at March 31 of each financial year, we can reasonably determine that the significant risks and rewards of ownership of the goods delivered to, and not returned by, the third party distributors have been transferred to the third party distributors and the Group can recognize the revenue arising from such transfer.

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Inventories

We state inventories at the lower of cost and net realizable value. We compute the cost of inventories using the weighted average method. The cost of inventories includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes direct labor and an appropriate share of overheads based on normal operating capacity.

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. We estimate net realizable value of inventories based on current market conditions and the historical experience of distributing and selling products of a similar nature (such as the estimated timing of inventories to be used or sold and estimated selling price of inventories in accordance with our sales and marketing strategies formulated with reference to the market and weather conditions as well as customer taste and purchasing power). Such estimates could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. We estimate net realizable value of finished goods based on our sales forecast and review with reference to the aging and condition of the inventory categorized by brand and design, consumer taste, seasonality, purchasing power of the consumers and historical experience of actual write-off of inventories. We reassess the estimations at each balance sheet date. We have adopted a consistent approach in estimating net realizable value of inventories for the periods April 1, 2004 to May 31, 2004, June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007.

Impairment for bad and doubtful debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of customers to make required payments. We regularly perform reviews of accounts receivable balances and the credit policy on a specific, case-by-case basis. We base our estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Compound financial instruments

Compound financial instruments issued by us comprise convertible redeemable preference shares that were converted from a convertible bond and are redeemable on a specific date or at the option of the holders and can be converted to ordinary shares at the option of the holders. On our historical balance sheet, compound financial instruments represent Series A Shares issued to HSBC Private Equity. The number of shares to be issued does not vary with changes in their fair value. The compound financial instruments consist of a liability component, an equity component and an embedded derivative which is not closely related to the host contract.

We recognize the liability component of a compound financial instrument at the fair value of a similar liability that does not have an equity conversion option. We initially recognize the equity component at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and the embedded derivative. We allocate any directly attributable transaction costs to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to our initial recognition, we measure the liability component of compound financial instruments at an amortized cost using the effective-interest method. We do not remeasure the equity component of compound financial instruments subsequent to initial recognition.

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The embedded derivative was initially recognised at fair value, which was evaluated by the Directors based on the likelihood at the inception date of whether the embedded derivative will be discharged. The embedded derivative was subsequently discharged prior to the balance sheet date.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

We derive revenue primarily from (i) the sale of down apparel products, either through consignment arrangements or outright sales and (ii) OEM management. Under our consignment sales arrangements, we pay the retail channel operator a concessionaire fee calculated as a percentage of our monthly sales receipts. For outright sales, we derive revenue from the sale of our down apparel products to third party distributors. We derive revenue under our OEM management business primarily by selling finished products to the OEM customers. See “Business — Branded Down Apparel — Methods of Sale” and “Business — OEM Management Business”. We record our outright sales net of any sales rebates. The following table sets out a breakdown of our revenue from continuing operations for the periods indicated.

| | Ten months ended March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---------------------------------|------------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) |
| Branded down apparel | | | | | | |
| Outright sales | 1,287,608 | 51.3% | 2,298,430 | 62.1% | 3,487,133 | 61.9% |
| Including: | | | | | | |
| Third party distributors | 1,274,655 | 50.8% | 2,258,417 | 61.1% | 3,474,693 | 61.7% |
| Direct retail sales . . . | 12,953 | 0.5% | 40,013 | 1.0% | 12,440 | 0.2% |
| Consignment sales | 670,274 | 26.7% | 773,326 | 20.9% | 1,431,923 | 25.4% |
| Others* | 16,791 | 0.7% | 30,389 | 0.8% | 61,513 | 1.1% |
| | <u>1,974,673</u> | <u>78.7%</u> | <u>3,102,145</u> | <u>83.8%</u> | <u>4,980,569</u> | <u>88.4%</u> |
| OEM management | <u>534,624</u> | <u>21.3%</u> | <u>596,496</u> | <u>16.2%</u> | <u>652,398</u> | <u>11.6%</u> |
| Total revenue | <u>2,509,297</u> | <u>100.0%</u> | <u>3,698,641</u> | <u>100.0%</u> | <u>5,632,967</u> | <u>100.0%</u> |

* Others mainly represent sales of raw materials relating to down apparel products.

We derive a substantial amount of our branded down apparel revenue from “Bosideng”, “Snow Flying”, “Bingjie” and “Kangbo”. The following table sets out a breakdown of revenue from continuing operations derived from our branded down apparel for the periods indicated.

| | Ten months ended March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---|------------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) |
| Bosideng | 1,177,146 | 59.6% | 2,011,171 | 64.8% | 2,594,165 | 52.1% |
| Snow Flying | 711,483 | 36.0% | 1,080,522 | 34.8% | 1,486,194 | 29.8% |
| Bingjie | 21,621 | 1.1% | 986 | 0.0% | 470,007 | 9.4% |
| Kangbo | 81,634 | 4.1% | 17,137 | 0.6% | 386,253 | 7.8% |
| Other brands | 2,348 | 0.1% | 93 | 0.0% | 24,199 | 0.5% |
| Others | 16,791 | 0.9% | 30,389 | 1.0% | 61,513 | 1.2% |
| | <u>2,011,023</u> | <u>101.8%</u> | <u>3,140,298</u> | <u>101.2%</u> | <u>5,022,331</u> | <u>100.8%</u> |
| Sales rebates | <u>(36,350)</u> | <u>(1.8%)</u> | <u>(38,153)</u> | <u>(1.2%)</u> | <u>(41,762)</u> | <u>(0.8%)</u> |
| Total branded down apparel revenue | <u>1,974,673</u> | <u>100.0%</u> | <u>3,102,145</u> | <u>100.0%</u> | <u>4,980,569</u> | <u>100.0%</u> |

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We licensed the sale of branded down apparel for the “Bingjie” and “Kangbo” brands to third parties during the ten-month period ended March 31, 2005 and the financial year ended March 31, 2006. Revenue from “Bingjie” and “Kangbo” brands in the above table relates to sales of existing inventory during the period in which the “Bingjie” and “Kangbo” brands were licensed to third parties. We record revenue from the licensing of these two brands under “other income”. See “— Other income” for more information.

Cost of sales

Our cost of sales primarily consists of raw materials, direct labor, processing fees, overheads, write-down of inventories to net realizable value and OEM management business expenses. Raw materials primarily consists of down and fabric. Direct labor costs were incurred when we manufactured our products until March 31, 2006. See “— Basis of Presentation”. Processing fees include the outsourcing costs associated with the production of our apparel products. Overheads primarily consist of outbound shipping costs. Write-down of inventories to net realizable value relates to the provision made to state our inventory at net realizable value. OEM management business expenses include costs related to our OEM management business which primarily consists of raw materials costs and processing fees. The following table sets out a breakdown of our cost of sales for the period indicated.

| | Ten months ended March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|--|------------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) | Amount (RMB'000) | % of total (%) |
| Branded down apparel | | | | | | |
| Raw materials | 770,352 | 45.3% | 1,237,756 | 54.2% | 2,007,467 | 55.1% |
| Processing fee | 373,534 | 21.9% | 440,228 | 19.3% | 694,845 | 19.1% |
| (Reversal)/write down of inventories to net realizable value | (40,806) | (2.4%) | (23,519) | (1.0%) | 256,609 | 7.0% |
| Overheads | 74,053 | 4.3% | 83,080 | 3.6% | 86,431 | 2.4% |
| Direct labor | 48,676 | 2.9% | 30,822 | 1.4% | — | — |
| Others | 10,866 | 0.6% | 20,435 | 0.9% | 48,933 | 1.3% |
| Inter-segment elimination | (26,054) | (1.5%) | (23,683) | (1.0%) | — | — |
| | <u>1,210,621</u> | <u>71.1%</u> | <u>1,765,119</u> | <u>77.4%</u> | <u>3,094,285</u> | <u>84.9%</u> |
| OEM management | <u>492,426</u> | <u>28.9%</u> | <u>516,481</u> | <u>22.6%</u> | <u>551,224</u> | <u>15.1%</u> |
| Total cost of sales | <u>1,703,047</u> | <u>100.0%</u> | <u>2,281,600</u> | <u>100.0%</u> | <u>3,645,509</u> | <u>100.0%</u> |

Other income

Other income consists of royalty income and government grants. We derive income from the licensing of our trademarks with apparel manufacturers for the production of apparel, such as men’s suits, jackets, woolen coats, underwear and socks. See “Business — Intellectual Property — Trademark Licensing Arrangements”. See “— Factors Affecting Our Results of Operations — Taxation and Government Grants” for more information on the government grants. In view of our decision to strengthen our brand management and quality control standards of “Kangbo” and “Bingjie” brands and certain other trademarks and to resume our sales of these brands, we ceased licensing (i) our branded down apparel for the “Kangbo” and “Bingjie” brands and (ii) a number of our trademarks, in each case, to third parties, during the financial year ended March 31, 2007.

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Shanghai Bingjie and Bosideng International Fashion enjoy financial grants from the Shanghai Municipal Government (Huangpu and Yangpu Districts), which supports the development of enterprises located within its jurisdiction. In addition, Shandong Kangbo Industry Co., Ltd. and the Shandong branch of Bosideng Corporation, which were no longer combined into our results of operations subsequent to March 31, 2006, enjoyed financial grants from the local Shandong government. The total government grants received by us during the period from June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007 amounted to approximately RMB8.5 million, RMB49.6 million and RMB12.1 million, respectively. The provision of these financial grants was unconditional and subject to the full discretion of the relevant local government authority.

Other expenses

Other expenses for the ten months ended March 31, 2005 and the financial year ended March 31, 2006 related to the disposal of fixed assets. Other expenses for the year ended March 31, 2007 primarily related to fees payable to the licensees in connection with the early termination of licensing of a number of our trademarks in relation to non-down products as of March 31, 2006. The following table sets out a breakdown of our other expenses for the periods indicated.

| | Ten months ended March 31, 2005 (RMB'000) | Year ended March 31, 2006 (RMB'000) | Year ended March 31, 2007 (RMB'000) |
|---|--|---|---|
| Loss on disposal of fixed assets | 7,336 | 2,210 | 127 |
| Early termination fees to licensees | — | — | 17,485 |
| | <u>7,336</u> | <u>2,210</u> | <u>17,612</u> |

Distribution expenses

Distribution expenses primarily consist of concessionaire fees, advertising, promotion, salary and welfare, entertainment and traveling, sales commission, rental, sales tax and surcharges and others. We pay concessionaire fees in connection with our consignment sales. Promotion expenses include costs of gifts, gift certificates and other promotional activities. We generally do not provide discounts on the retail price of our products. Based on market conditions, however, we may increase our promotional activities (and our promotional expenses) to increase sales, through promotions such as the provision of a gift with the purchase of branded down apparel. The following tables set out a breakdown of our distribution expenses for the periods indicated.

| | Ten months ended March 31, 2005 (RMB'000) | Year ended March 31, 2006 (RMB'000) | Year ended March 31, 2007 (RMB'000) |
|---------------------------------------|--|---|---|
| Concessionaire fees | 124,558 | 191,528 | 299,477 |
| Advertising | 111,577 | 140,361 | 292,040 |
| Promotion | 30,313 | 89,145 | 280,421 |
| Salary and welfare | 38,175 | 48,644 | 64,656 |
| Entertainment and traveling | 12,000 | 32,664 | 46,832 |
| Sales commission | 22,605 | 95,204 | 31,274 |
| Rental | 7,268 | 9,377 | 12,952 |
| Sales tax and surcharges | 14,048 | 22,736 | 9,769 |
| Others | 24,619 | 61,492 | 54,340 |
| | <u>385,163</u> | <u>691,151</u> | <u>1,091,761</u> |
| Total distribution expenses | <u>385,163</u> | <u>691,151</u> | <u>1,091,761</u> |

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Administrative expenses

Administrative expenses primarily consist of salary and welfare, travel, office expenses, bad debt provision, depreciation and certain other expenses.

Net financing expenses

Net financing expenses consist of finance expenses net of finance income. Finance income consists of interest income on bank deposits. Finance expenses primarily consist of interest expenses on borrowings, bank charges, net foreign exchange loss, and for the financial year ended March 31, 2007, interest on convertible redeemable preference shares.

Income tax expense

Income tax expense primarily consists of provisions for PRC income tax. Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempt from payment of Cayman Islands income tax. Our subsidiaries and predecessor entities incorporated in the PRC are subject to PRC enterprise income tax of 33% except as described above in “— Factors Affecting Our Results of Operations — Taxation and Government Grants”.

Minority interests

Minority interests primarily represent interests in the results and net assets of our subsidiary and predecessor entities attributable to outside equity holders prior to March 31, 2006. As of March 31, 2007, our only minority interests were in Shanghai Shuangyu and Shanghai Kangbo.

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RESULTS OF OPERATIONS

The following table summarizes the consolidated income statement data for the period from April 1, 2004 to May 31, 2004 and the combined income statement for the period from June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007. The figures are extracted from the accountants' reports, the texts of which are set out in Appendix IB and IA, respectively, to this prospectus.

| | Bosideng Corporation and its subsidiaries | The Group | | |
|---|---|---|---|---|
| | Period from April 1, 2004 to May 31, 2004 ⁽¹⁾ RMB'000 (Consolidated) | Period from June 1, 2004 to March 31, 2005 RMB'000 (Combined) | Year ended March 31, 2006 RMB'000 (Combined) | Year ended March 31, 2007 RMB'000 (Combined) |
| Continuing operations | | | | |
| Revenue | 46,688 | 2,509,297 | 3,698,641 | 5,632,967 |
| Cost of sales | (44,765) | (1,703,047) | (2,281,600) | (3,645,509) |
| Gross profit | 1,923 | 806,250 | 1,417,041 | 1,987,458 |
| Other income | 7,045 | 50,770 | 110,604 | 62,545 |
| Other expenses | (453) | (7,336) | (2,210) | (17,612) |
| Distribution expenses | (24,596) | (385,163) | (691,151) | (1,091,761) |
| Administrative expenses | (24,273) | (31,483) | (70,155) | (85,710) |
| (Loss)/profit from operations | (40,354) | 433,038 | 764,129 | 854,920 |
| Finance income | 226 | 1,517 | 3,500 | 3,993 |
| Finance expenses | (3,820) | (20,354) | (33,723) | (34,668) |
| Net financing expenses | (3,594) | (18,837) | (30,223) | (30,675) |
| (Loss)/Profit before income tax | (43,948) | 414,201 | 733,906 | 824,245 |
| Income tax benefit/(expense) | 3,350 | (123,948) | (210,372) | (210,127) |
| (Loss)/profit from continuing operations | (40,598) | 290,253 | 523,534 | 614,118 |
| Discontinued operations | | | | |
| Loss from discontinued operation (net of income tax) | — | (33,422) | (16,636) | — |
| (Loss)/Profit for the period/year | (40,598) | 256,831 | 506,898 | 614,118 |
| Attributable to: | | | | |
| Equity holders | (39,528) | 252,579 | 500,786 | 617,593 |
| Minority interests | (1,070) | 4,252 | 6,112 | (3,475) |
| (Loss)/profit for the period/year | (40,598) | 256,831 | 506,898 | 614,118 |
| Dividends | 333,219 | — | 103,029 | 453,160 |
| Basic earnings per share (in RMB) | N/A ⁽²⁾ | 0.05 | 0.10 | 0.12 |
| Diluted earnings per share (in RMB) | N/A ⁽²⁾ | 0.05 | 0.10 | 0.11 |

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Notes:

- (1) As there was a change of ultimate controlling shareholder of Bosideng Corporation and its subsidiaries subsequent to May 31, 2004, under the relevant accounting standards, the financial information for the period from April 1, 2004 to May 31, 2004 could not be combined with our financial information for the period from June 1, 2004 to March 31, 2005 and is not comparable to the financial information of the Group for the period from June 1, 2004 to March 31, 2005 and each of the two years ended March 31, 2006 and 2007. See “— Basis of Presentation” for more information.
- (2) Basic and diluted earnings per share information is not presented for the period from April 1, 2004 to May 31, 2004 as such information is not meaningful.

Year ended March 31, 2007 compared with year ended March 31, 2006 — Continuing Operations

Revenue. Our revenue increased by RMB1,934.3 million, or 52.3%, from RMB3,698.6 million for the financial year ended March 31, 2006 to RMB5,633.0 million for the financial year ended March 31, 2007. Revenue from our branded down apparel increased by RMB1,878.4 million, or 60.6%, from RMB3,102.1 million for the financial year ended March 31, 2006 to RMB4,980.6 million for the financial year ended March 31, 2007. This was primarily attributable to expansion of our sales force (further to which our marketing and sales personnel was increased from 312 employees in the financial year ended March 31, 2006 to 442 employees in the financial year ended March 31, 2007), mainly in our sales regions in Eastern China and Central China. In addition, we enhanced the efficiency of our distribution network by increasing unit sales per square meter in many retail outlets through selection of relatively more accessible retail outlet locations with higher pedestrian and consumer traffic and expansion of retail space in selected stores with strong sales performance, and increased our advertising and promotion efforts. Revenue from the OEM management business as a percentage of revenue decreased from 16.2% in the financial year ended March 31, 2006 to 11.6% in the financial year ended March 31, 2007. Revenue from our OEM management business increased by RMB55.9 million, or 9.4%, from RMB596.5 million for the financial year ended March 31, 2006 to RMB652.4 million for the financial year ended March 31, 2007. The relatively stable revenue from our OEM management business reflects our strategic focus on our branded down apparel business.

For our branded down apparel business, in terms of brands, the increase in revenue was primarily due to an increase in sales of our branded down apparel, which was primarily attributable to revenue generated from the sales of down apparel products under our “Kangbo” and “Bingjie” brands (as a result of the cessation of the licensing of our “Kangbo” and “Bingjie” brands to third parties and resumption of selling products under these two brands by ourselves) and continued growth in revenue generated from sales of down apparel products under our “Bosideng” and “Snow Flying” brands. The revenue increase in this period was also attributable to expansion of our sales force, enhancement of the efficiency of our distribution network and increased advertising and promotion efforts (as explained in the immediately preceding paragraph). In terms of distribution channels, consignment sales of our branded down apparel grew at a higher rate than outright sales of our branded down apparel and the contribution of outright sales and consignment sales to revenue from branded down apparel changed, with outright sales representing 70.0% of our revenue from branded down apparel and consignment sales representing 28.8% of our revenue from branded down apparel in the financial year ended March 31, 2007 as compared to 74.1% and 24.9% in the financial year ended March 31, 2006, respectively. The change in the mix of outright sales and consignment sales reflects our strategic shift in the financial year ended March 31, 2007 to increase consignment sales.

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Cost of sales. Cost of sales for the financial year ended March 31, 2007 was RMB3,645.5 million, an increase of RMB1,363.9 million, or 59.8%, compared to RMB2,281.6 million for the financial year ended March 31, 2006. This increase was primarily due to an increase in the sale of branded down apparel, which resulted in an increase in raw material expenses and processing fee expenses. Cost of sales also increased due to a significant increase in write-down of inventories to net realizable value, which resulted from the higher inventory level as of March 31, 2007 compared to March 31, 2006. We believe that the significant increase in inventory as of March 31, 2007 was significantly affected by the unusually warm winter in the PRC in the financial year ended March 31, 2007. This increase in inventory was further caused by our decision to assist third party distributors under our direct supervision to cope with their inventory levels during this unusually warm winter so as to further develop our good business relationships with them. Such assistance was rendered through our acceptance of unsold returned goods based on a higher than initially agreed-upon return rate (in comparison with previous financial years). We were also willing to accept a higher amount of unsold returned goods for the financial year ended March 31, 2007 to minimize any risks of these distributors resorting to selling our products at heavily discounted prices in breach of our pricing policy, which may consequently have an adverse effect on our brand equity.

Gross profit. Gross profit for the financial year ended March 31, 2007 was RMB1,987.5 million, an increase of RMB570.4 million, or 40.3%, compared to RMB1,417.0 million for the financial year ended March 31, 2006. Gross profit margin for the financial year ended March 31, 2007 decreased to 35.3% from 38.3% for the financial year ended March 31, 2006.

Gross profit for branded down apparel for the financial year ended March 31, 2007 increased to RMB1,886.3 million from RMB1,337.0 million for the financial year ended March 31, 2006. This increase was primarily attributable to the revenue increase of 60.6% from the financial year ended March 31, 2006 to the financial year ended March 31, 2007, as discussed in the paragraph headed “— Revenue”. Gross profit margin for branded down apparel for the financial year ended March 31, 2007 decreased to 37.9% from 43.1% for the financial year ended March 31, 2006. This decrease was primarily attributable to the unusually warm winter in the PRC in the financial year ended March 31, 2007, which in turn resulted in an increase in inventory notwithstanding the increase in revenue and gross profit for the financial year ended March 31, 2007. See the paragraph “— Cost of Sales” for further details of the factors causing such inventory increase. The relatively high inventory levels then resulted in a significant increase in write-down of inventories to net realizable value amounting to RMB256.6 million for the financial year ended March 31, 2007. In the financial year ended March 31, 2007, we ceased licensing the “Kangbo” and “Bingjie” brands to third parties for the sale of branded down apparel products and we introduced two new brands (namely “Shuangyu” and “Shangyu”, which were acquired by us in the first half of 2006) to our portfolio. These brands generally have a lower gross profit margin than our “Bosideng” and “Snow Flying” brands, which resulted in a lower overall gross profit margin in the financial year ended March 31, 2007.

Gross profit margin for the OEM management business for the financial year ended March 31, 2007 increased to 15.5% from 13.4% for the financial year ended March 31, 2006. This increase was primarily attributable to the fact that in the financial year ended March 31, 2006, we derived revenue from domestic processing fees as part of our management business, which has lower gross profit margins relative to our other OEM management business, and we did not derive any revenue from domestic processing fees in the financial year ended March 31, 2007.

Other income. Our other income decreased by RMB48.1 million, or 77.0%, from RMB110.6 million in the financial year ended March 31, 2006 to RMB62.5 million in the financial year ended March 31, 2007 primarily due to the decrease in government grants and, to a lesser extent, royalty income. Government grants decreased as the relevant government authority, pursuant to the exercise

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of its sole discretion, provided us with less of these discretionary grants. Royalty income decreased as we ceased licensing our branded down apparel for certain brands, including the “Kangbo” and “Bingjie” brands, in view of our intent to strengthen our brand management and quality control standards of these brands and to resume our sales of these brands.

Other expenses. Our other expenses increased by RMB15.4 million, from RMB2.2 million in the financial year ended March 31, 2006 to RMB17.6 million in the financial year ended March 31, 2007. This increase was primarily due to the one-off early termination fees amounting to RMB17.5 million payable to licensees in connection with the licensing of a number of our trademarks in relation to non-down products.

Distribution expenses. Our distribution expenses increased by RMB400.6 million, or 58.0%, from RMB691.2 million in the financial year ended March 31, 2006 to RMB1,091.8 million in the financial year ended 2007, which was primarily due to an increase in advertizing expenses, promotion expenses and concessionaire fees. Distribution expenses as a percentage of revenue increased from 18.7% in the financial year ended March 31, 2006 to 19.4% in the financial year ended March 31, 2007, which was primarily attributable to an increase in advertizing and promotion expenses, which in turn were partially offset by a decrease in sales commission. Promotion expense increased primarily due to increased promotional activities, such as the provision of a gift with the purchase of our branded down apparel, to enhance sales. Advertizing expenses increased primarily as a result of increased advertizing activity to enhance sales. Sales commission decreased even though revenue increased at a high rate due to our high inventory levels as of March 31, 2007 as our inventory is a key factor considered when determining sales commissions. See “— Factors Affecting Our Results of Operations — Marketing and Sales Efforts”. In addition, concessionaire fees as a percentage of consignment sales decreased from 24.8% in the financial year ended March 31, 2006 to 20.9% in the financial year ended March 31, 2007. Such decrease was affected by our entry into second-tier cities in the PRC, where we are able to pay lower concessionaire fees.

Administrative expenses. Our administrative expenses increased by RMB15.5 million, or 22.2%, from RMB70.1 million in the financial year ended March 31, 2006 to RMB85.7 million in the financial year ended March 31, 2007, which was primarily due to an increase in office expenses and traveling expenses.

Profit from operations. Our profit from operations increased by RMB90.8 million, or 11.9%, from RMB764.1 million in the financial year ended March 31, 2006 to RMB854.9 million in the financial year ended March 31, 2007.

Net financing expenses. Our net financing expenses increased by RMB0.5 million, or 1.5% from RMB30.2 million in the financial year ended March 31, 2006 to RMB30.7 million in the financial year ended March 31, 2007, which was primarily attributable to interest recognized on Series A Shares, largely offset by a decrease in interest expense on bank borrowings.

Profit before income tax. Profit before tax for the financial year ended March 31, 2007 was RMB824.2 million, an increase of RMB90.3 million, or 12.3%, compared with RMB733.9 million for the financial year ended March 31, 2006.

Income tax expense. Our income tax expense for the financial year ended March 31, 2007 decreased by RMB0.3 million, from RMB210.4 million for the financial year ended March 31, 2006 to RMB210.1 million for the financial year ended March 31, 2007. Our effective tax rate decreased from 28.7% for the financial year ended March 31, 2006 to 25.5% for the financial year ended March 31, 2007. This decrease was primarily attributable to each of Bosideng International Fashion, Shanghai

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Bingjie, Jiangsu Bosideng and Shandong Bosideng qualifying as a foreign-invested manufacturing enterprise eligible for preferential tax treatment of a full exemption from the enterprise income tax rate of between 27% and 33% (depending on the tax rate levied by the specific local authority) for two years beginning from calendar year 2007. In addition, Bosideng International Fashion became a foreign invested enterprise on September 14, 2006. As a result, Bosideng International Fashion is entitled to a full exemption from the enterprise income tax for a period of two calendar years starting from its first profit-making year, followed by a 50% relief from the enterprise income tax for three calendar years thereafter. We elected to treat calendar year 2007 to be the first profit-making year. Accordingly, Bosideng International Fashion was subject to PRC enterprise income tax at a rate of 33% for calendar year 2006 and 0% for the period from January 1, 2007 to March 31, 2007. In addition, Shanghai Bingjie became a foreign invested enterprise on September 18, 2006. As a result, Shanghai Bingjie is entitled to a full exemption from the enterprise income tax for a period of two calendar years starting from its first profit-making year, followed by a 50% relief from the enterprise income tax for three calendar years thereafter. We elected to treat calendar year 2007 to be the first profit-making year. Furthermore, Shanghai Bingjie obtained a preferential tax rate of 27% from the local tax authority for the period from November 1, 2006 to December 31, 2006. Accordingly, Shanghai Bingjie was subject to PRC enterprise income tax at a rate of 33%, 27% and 0% for the period from April 1, 2005 to October 31, 2006, the period from November 1, 2006 to December 31, 2006 and the period from January 1, 2007 to March 31, 2007, respectively.

Profit from continuing operations. Profit from continuing operations for the financial year ended March 31, 2007 increased by RMB90.6 million, or 17.3%, to RMB614.1 million from RMB523.5 million in the financial year ended March 31, 2006.

Profit for the year. Profit for the year increased by RMB107.2 million, or 21.2%, from RMB506.9 million in the financial year ended March 31, 2006 to RMB614.1 million in the financial year ended March 31, 2007.

Profit attributable to equity holders of the Group. Profit attributable to equity holders of the Group increased by RMB116.8 million, or 23.3%, from RMB500.8 million in the financial year ended March 31, 2006 to RMB617.6 million in the financial year ended March 31, 2007.

Year ended March 31, 2006 compared to the ten-month period ended March 31, 2005 — Continuing Operations

Prospective investors should note that they should not draw any conclusions from the following comparison of our financial results for the financial year ended March 31, 2006 and the ten-month period ended March 31, 2005, as the periods are of different lengths and may be affected differently by seasonality, climate changes and other factors. Prospective investors are cautioned not to place undue reliance on the following discussion.

Revenue. Our revenue was RMB2,509.3 million for the ten-month period ended March 31, 2005 and was RMB3,698.6 million for the financial year ended March 31, 2006. Revenue from sales of branded down apparel and revenue from the OEM management business contributed 78.7% and 21.3% to our revenue in the ten-month period ended March 31, 2005 and 83.9% and 16.1% in the financial year ended March 31, 2006, respectively. Revenue increased in the year ended March 31, 2006, primarily due to the cold winter in the PRC in the financial year ended March 31, 2006 and the effect of a sales incentive scheme initially introduced in 2004. The decrease in the percentage of revenue derived from our OEM management business reflects our strategy of focusing on our branded down apparel business. The proportion of consignment sales to outright sales as a percentage of revenue from branded down apparel changed from 33.9% and 65.2% in the ten-month

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period ended March 31, 2005 to 24.9% and 74.1% in the year ended March 31, 2006. The decrease in the proportion of consignment sales was primarily attributable to our strategy of increasing outright sales in the year ended March 31, 2006 as we considered the available commercial terms for outright sales to be more favorable than consignment sales.

Cost of sales. Cost of sales for the ten-month period ended March 31, 2005 was RMB1,703.0 million. We recognized reversals of write-down of inventories to net realizable value for the period from June 1, 2004 to March 31, 2005 and the financial year ended March 31, 2006 in the amounts of RMB40.8 million and RMB23.5 million, respectively due to improved market conditions in the subsequent respective periods which resulted in higher net realizable value of down apparel inventories. In particular, for the year ended March 31, 2006, there was favorable market demand primarily due to the cold winter in the PRC for the 2005/2006 winter season and the effect of a sales incentive scheme initially introduced in 2004.

Gross profit. We had a gross profit of RMB806.3 million for the ten-month period ended March 31, 2005 and gross profit of RMB1,417.0 million for the financial year ended March 31, 2006. Gross profit margin for the ten-month period ended March 31, 2005 was 32.1% as compared to 38.3% for the financial year ended March 31, 2006. Gross profit margin for branded down apparel for the ten-month period ended March 31, 2005 was 38.7% as compared to 43.1% for the financial year ended March 31, 2006. The increase in gross profit margin for branded down material was primarily attributable to price increases and a change in our branded down apparel product mix, which was due to increased sales of branded down apparel products from our “Bosideng” brand. Gross profit margin for the OEM management business for the ten-month period ended March 31, 2005 was 7.9% as compared to 13.4% for the financial year ended March 31, 2006. The increase in gross profit margin for the OEM management business was primarily due to the conclusion of an export quota system in the PRC that was in place in the financial year ended March 31, 2006.

Other income. Our other income for the ten-month period ended March 31, 2005 was RMB50.8 million, which primarily consisted of royalty income, and to a lesser extent, government grants. For the ten-month period ended March 31, 2005, in addition to licensing our trademarks for non-down products, we also licensed the trademark for down apparel products for our “Kangbo” and “Bingjie” brands.

Other expenses. Our other expenses decreased by RMB5.1 million, from RMB7.3 million in the ten-month period ended March 31, 2005 to RMB2.2 million in the financial year ended March 31, 2006. This decrease was primarily due to the decrease in the loss on disposal of fixed assets.

Distribution expenses. Our distribution expenses for the ten-month period ended March 31, 2005 were RMB385.2 million and for the financial year ended March 31, 2006 were RMB691.2 million. Distribution expenses as a percentage of revenue for the ten-month period ended March 31, 2005 was 15.3% as compared to 18.7% for the financial year ended March 31, 2006. The increase in distribution expenses as a percentage of revenue was primarily attributable to increases in concessionaire fees, advertizing and promotion and sales commission as a percentage of revenue. Concessionaire fees, as a percentage of consignment sales, increased from 18.6% in the ten-month period ended March 31, 2005 to 24.8% in the financial year ended March 31, 2006, reflecting our strategy of increasing outright sales in the financial year ended March 31, 2006, as discussed above in the paragraph headed “— Revenue”. Sales commission as a percentage of revenue increased primarily due to the effect of the sales incentive scheme implemented since 2004.

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Administrative expenses. Our administrative expenses for the ten-month period ended March 31, 2005 were RMB31.5 million, which was primarily due to depreciation and salary expenses. Our administrative expenses for the financial year ended March 31, 2006 were RMB70.2 million, including a management fee amounting to RMB10.0 million paid by the Group to Shanghai Bosideng Holdings Group for the provision of one-off management services.

Profit from operations. Profit from operations for the ten-month period ended March 31, 2005 was RMB433.0 million.

Net financing expenses. Net financing expenses for the ten-month period ended March 31, 2005 were RMB18.8 million, primarily consisting of interest on bank borrowings, which was partially offset by interest income on bank deposits.

Profit before income tax. Profit before tax for the ten-month period ended March 31, 2005 was RMB414.2 million.

Income tax expense. Income tax expense for the ten-month period ended March 31, 2005 was RMB123.9 million. The effective tax rate for the ten-month period ended March 31, 2005 was 29.9%.

Profit from continuing operations. Profit from continuing operations for the ten-month period ended March 31, 2005 was RMB290.3 million.

Profit for the year/period. Profit for the year for the financial year ended March 31, 2006 was RMB506.9 million and profit for the ten-month period ended March 31, 2005 was RMB256.8 million.

Profit attributable to equity holders of the Group. Profit attributable to equity holders of the Group was RMB500.8 million in the financial year ended March 31, 2006 and RMB252.6 million for the ten-months ended March 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from cash flow provided by sales of our products. We have met the remainder of our requirements primarily through equity contribution from our Shareholders and long-term and short-term borrowings. Following our Global Offering, we expect to fund our foreseeable expenditures and expansion plans with loan facilities provided by banks and internally generated cash flows as well as net proceeds from the Global Offering. Failure to obtain capital on reasonable commercial terms would increase our financing costs and might cause delay in our expenditure plan.

We adopt a prudent funding and treasury approach to monitor our liquidity risk by performing periodic reviews and evaluations of our liquidity with regard to industry characteristics, market conditions, business strategies and changes in our business operations and financial condition and adjustment of the current and non-current portions of our debt structure on a timely basis. Our objective is to ensure continuity of funds and flexibility through the use of various means of financing and by maintaining an adequate amount of committed credit facilities.

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Cash Flow

The following table sets forth selected data from our combined cash flow statements for the periods indicated.

| | <u>Period from June 1, 2004 to March 31, 2005</u> (RMB'000) | <u>Year ended March 31, 2006</u> (RMB'000) | <u>Year ended March 31, 2007</u> (RMB'000) |
|--|--|---|---|
| Net cash generated from operating activities | 680,961 | 670,222 | 65,481 |
| Net cash used in investing activities | (106,951) | (218,369) | (32,425) |
| Net cash (used in)/generated from financing activities | (87,891) | (691,623) | 226,404 |
| Cash and cash equivalents at end of the period/year | 486,119 | 246,349 | 507,806 |

Cash flow from operating activities

Net cash generated from operating activities for the financial year ended March 31, 2007 was RMB65.5 million compared to net cash generated from operating activities of RMB670.2 million for the financial year ended March 31, 2006. Net cash generated from operating activities for the financial year ended March 31, 2007 resulted from cash generated from operating activities of RMB142.2 million, income tax paid of RMB73.5 million, interest paid of RMB15.3 million and government grants received of RMB12.1 million. Operating profit before changes in working capital was RMB1,094.7 million. In the financial year ended March 31, 2007, changes in working capital amounted to RMB952.4 million, primarily as a result of an increase in trade and other receivables of RMB654.8 million and an increase in inventories of RMB737.1 million, which was partially offset by an increase in trade and other payables of RMB215.0 million and a decrease in receivables due from related parties of RMB166.2 million. The increase in trade and other receivables was primarily attributable to an extension of the credit period to selected creditworthy customers due to the warm winter experienced in the financial year ended March 31, 2007. The increase in inventories was primarily attributable to the warm winter experienced in the financial year ended March 31, 2007. Trade and other payables increased because, in view of the increase in receivables and inventories, we re-negotiated with some of our long-term vendors for, and were granted, an extension of the credit period.

Net cash generated from operating activities for the financial year ended March 31, 2006 was RMB670.2 million. Net cash generated from operating activities for the financial year ended March 31, 2006 resulted from cash generated from operating activities of RMB718.1 million, income tax paid of RMB72.9 million, interest paid of RMB24.6 million and government grants received of RMB49.6 million. Operating profit before changes in working capital was RMB705.2 million. In the financial year ended March 31, 2006, changes in working capital were RMB12.9 million, primarily as a result of an increase in trade and other payables of RMB292.4 million, which was partially offset by an increase in trade and other receivables of RMB120.5 million and an increase in inventories of RMB121.8 million. The increase in trade and other payables was primarily attributable to the increase in the scale of our operations in the financial year ended March 31, 2006 and accrued commission, which was primarily attributable to the sales incentive scheme implemented since 2004. The increase in trade and other receivables was primarily due to increases in advances and prepayments made during the financial year ended March 31, 2006, which were deemed distributed to Mr. Gao Dekang and his family as at March 31, 2006 as part of our Reorganization. The increase in inventories was primarily attributable to the increase in revenue in the financial year ended March 31, 2006.

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Net cash generated from operating activities for the ten-month period ended March 31, 2005 was RMB680.9 million. Net cash generated from operating activities for the ten-month period ended March 31, 2005 resulted from cash generated from operating activities of RMB730.7 million, income tax paid of RMB40.5 million, interest paid of RMB17.9 million and government grants received of RMB8.6 million. Operating profit before changes in working capital was RMB392.6 million. In the ten-month period ended March 31, 2005, changes in working capital were RMB338.2 million, primarily as a result of a decrease in inventories of RMB245.8 million and an increase in trade and other payables of RMB242.9 million, which was partially offset by an increase in trade and other receivables of RMB131.8 million. The decrease in inventory was primarily attributable to sales of existing inventory during the ten-month period ended March 31, 2005. The increase in trade and other payables was primarily due to increases in the scale of operations, customer deposits and accrued commissions, which were primarily attributable to the increase in revenue. The increase in trade and other receivables was primarily due to the increase in revenue.

Cash flow from investing activities

Net cash used in investing activities in the financial year ended March 31, 2007 was RMB32.4 million, primarily due to the acquisitions of property, plant and equipment of RMB29.5 million. The increases in property, plant and equipment primarily related to the opening of new sales companies and the Reorganization, as a result of which we needed to make certain capital expenditures. See “Our Business — Sales and Distribution” for more information on our sales companies.

Net cash used in investing activities in the financial year ended March 31, 2006 was RMB218.4 million, primarily due to the acquisition of property, plant and equipment of RMB73.4 million, lendings to a third party of RMB54.0 million and an increase in pledged bank deposits of RMB46.5 million. The acquisitions of property, plant and equipment primarily related to property, plant and equipment which were subsequently deemed distributed. The lendings were made to Hangzhou Hualian Economic Development Co., Ltd. prior to our Reorganization. As part of our Reorganization, this loan was deemed distributed to Mr. Gao Dekang and his family. The increase in pledged bank deposited increased to secure banking facilities.

Net cash used in investing activities in the ten-month period ended March 31, 2005 was RMB107.0 million, primarily due to investment in equity accounted investees of RMB115.5 million, which was partially offset by a decrease in pledged bank deposits of RMB24.6 million. The investment to equity accounted investees related to the investment in Changshu Mingliu Property Investment Co., Ltd. and Zhongke Nano, which were deemed distributed to Mr. Gao Dekang and his family in the financial year ended March 31, 2006.

Cash flow from financing activities

Net cash generated from financing activities in the financial year ended March 31, 2007 was RMB226.4 million, primarily as a result of proceeds from bank borrowings of RMB732.9 million and proceeds from convertible redeemable preference shares, net of issue cost of RMB147.3 million, which was partially offset by net cash advances to related parties of RMB555.6 million and repayment of interest-bearing borrowings of RMB97.0 million. The proceeds from bank borrowings were used as part of our working capital. The proceeds from convertible redeemable preference shares, net of issue cost reflected the investment by HSBC Private Equity.

Net cash used in financing activities in the financial year ended March 31, 2006 was RMB691.6 million, primarily as a result of repayments of interest-bearing borrowings of RMB1,150.5 million, cash and cash equivalents deemed distributed to equity holders upon the Reorganization of RMB254.5

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million, dividends paid to Union Holdings of RMB106.6 million and dividends paid to equity holders of RMB102.5 million, which was partially offset by proceeds from interest-bearing borrowings of RMB886.0 million. The proceeds from bank borrowings were used as part of our working capital.

Net cash used in financing activities in the ten-month period ended March 31, 2005 was RMB87.9 million, primarily as a result of repayments of interest-bearing borrowings of RMB608.0 million and dividends paid to equity holders of RMB153.7 million, which was partially offset by proceeds from interest-bearing borrowings of RMB592.0 million and deemed contributions by equity holders on acquisition of Bosideng Corporation and its subsidiaries. The proceeds from bank borrowings were used as part of our working capital.

INDEBTEDNESS

Borrowings

The table below sets forth our borrowings as of the date indicated.

| | As of March 31, | | | As of July |
|--|-----------------|-----------|----------------|----------------|
| | 2005 | 2006 | 2007 | 31, 2007 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Secured bank loans — current | — | — | — | 150,000 |
| Unsecured bank loans — current | 314,500 | — | 240,000 | 339,361 |
| Kong Bo Investment | — | — | 395,940 | 378,685 |
| Shanghai Bosideng Holdings Group | — | — | 53,326 | 53,433 |
| | <u>314,500</u> | <u>—</u> | <u>689,266</u> | <u>921,479</u> |

As of July 31, 2007, which is the latest practicable date for determining our indebtedness, our total borrowings amounted to RMB921.5 million, which consisted of bank loans of RMB489.4 million and borrowings from Kong Bo Investment and Shanghai Bosideng Holdings Group. We had banking facilities in the aggregate amount of RMB1,092.0 million, which consisted of bank loans of RMB489.4 million and available banking facilities of RMB602.6 million. As of the Latest Practicable Date, we obtained additional bank loans of RMB1,004.7 million for working capital and general corporate purposes, on which interest is payable at rates between 5.6% and 6.5% per annum and repayable within one year.

The bank loans outstanding as of March 31, 2005 and 2007, which were all denominated in Renminbi and on which interest was payable at rates of 5.04% per annum and 5.52% per annum, respectively, were repayable within one year. The loan from Kong Bo Investment Limited as of March 31, 2007, which was denominated in US dollars and on which interest was payable at a rate of 2.0% per annum, was repayable on demand. The interest-free loan from Shanghai Bosideng Holdings Group, which was denominated in Renminbi, was repayable on demand.

The borrowings from Kong Bo Investment Limited and Shanghai Bosideng Holdings Group, companies controlled by Mr. Gao Dekang, were repaid in full in September 2007 and August 2007, respectively.

Bosideng Corporation, Shanghai Bosideng Holdings Group and Mr. Gao Dekang provided guarantees amounting to RMB190 million to secure our unsecured bank loans for the financial year ended March 31, 2007. These guarantees have been released.

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Contingent Liabilities

As of July 31, 2007, being the latest practicable date for determining our indebtedness, we did not have any material contingent liability or guarantees.

Our Directors confirm that, as of the Latest Practicable Date, there has been no material adverse change in our indebtedness or our contingent liabilities since July 31, 2007.

OPERATING LEASE COMMITMENTS

We lease certain warehouses, factory facilities and office premises under non-cancellable operating leases. Our future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | <u>As of March 31, 2005</u> (RMB'000) | <u>As of March 31, 2006</u> (RMB'000) | <u>As of March 31, 2007</u> (RMB'000) |
|---|--|--|--|
| Within 1 year | — | 3,764 | 9,674 |
| After 1 year but within 5 years | — | 3,344 | 5,220 |
| | <u>—</u> | <u>7,108</u> | <u>14,894</u> |

NET CURRENT ASSETS

We had net current assets of RMB720.7 million as at July 31, 2007, the details of which are set out in the following table.

| | <u>As of July 31, 2007</u> (RMB'000) (Unaudited) |
|--|--|
| Current assets | |
| Inventories | 887,071 |
| Trade and other receivables | 1,367,555 |
| Receivables due from related parties | 685,617 |
| Pledged bank deposits | 132,175 |
| Cash and cash equivalents | <u>303,592</u> |
| | <u>3,376,010</u> |
| Current liabilities | |
| Interest-bearing liabilities | 489,361 |
| Equity holder loans | 378,685 |
| Income tax payables | 69,670 |
| Trade and other payables | 1,612,421 |
| Payables due to related parties | <u>105,198</u> |
| | <u>2,655,335</u> |
| Net current assets | <u><u>720,675</u></u> |

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CAPITAL EXPENDITURES

We have funded our historical capital expenditures through internally generated cash and bank and other borrowings. The following table sets forth our capital expenditures for the periods indicated.

| | For the ten months ended March 31, 2005 <u>(RMB'000)</u> | For the year ended March 31, 2006 <u>(RMB'000)</u> | For the year ended March 31, 2007 <u>(RMB'000)</u> |
|-------------------------------------|--|---|---|
| Total capital expenditures. | <u>13,271</u> | <u>73,400</u> | <u>29,497</u> |

Capital expenditures for the year ended March 31, 2006 primarily related to Discontinued Operations.

INVENTORY ANALYSIS

The following table sets out a summary of our inventory balances as of the date indicated.

| | As of March 31, 2005 <u>(RMB'000)</u> | As of March 31, 2006 <u>(RMB'000)</u> | As of March 31, 2007 <u>(RMB'000)</u> |
|----------------------------|---|---|---|
| Raw Materials | 61,184 | 78,582 | 28,998 |
| Work in Progress | 18,914 | 31,771 | 21,878 |
| Finished Goods | <u>334,375</u> | <u>418,530</u> | <u>1,193,026</u> |
| | <u>414,473</u> | <u>528,883</u> | <u>1,243,902</u> |

The following table sets out the average inventory turnover days for the period indicated.

| | For the ten months ended March 31, 2005 <u></u> | For the year ended March 31, 2006 <u></u> | For the year ended March 31, 2007 <u></u> |
|--|---|--|--|
| Average inventory turnover (days) ⁽¹⁾ | <u>92</u> | <u>75</u> | <u>89</u> |

Note:

- (1) Average inventory equals inventory at the beginning of the period plus inventory at the end of the period divided by two. Average inventory turnover (days) equals average inventory divided by cost of sales and multiplied by the number of days in the relevant period.

Our inventory balances have generally increased from March 31, 2005 to March 31, 2007. The increase of our inventory balance from RMB528.9 million as of March 31, 2006 to RMB1,243.9 million as of March 31, 2007 was primarily attributable to (a) the overall increase in our business scale as evidenced by the growth in our sales revenue due to the increase in contributions from our “Kangbo” and “Bingjie” brands, the expansion of our sales force, enhancement of the efficiency of our distribution network and our increased advertising and promotion efforts, and (b) the unusually warm winter in 2006/2007 in the PRC, which led to an increase in the return of unsold goods from our third party distributors. The return of unsold goods from our third party distributors for the financial year ended March 31, 2007 amounted to approximately 4.5 million pieces of down apparel products,

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equivalent to 19.9% of the Group's total outright sales volume to third party distributors (prior to deducting the volume of outright sales returns) for the same period. Our average inventory days for the ten months ended March 31, 2005 and the financial year ended March 31, 2007 were affected by the warm winter seasons experienced in prior years.

Inventories are stated at the lower of cost or net realizable value. We estimate the net realizable value of our inventories based on our review with reference to the condition of the inventory, consumer taste, aging, seasonality and purchasing power of consumers. We prepare aging analysis of our finished goods at each balance sheet date. Based on the aging analysis, we prepare sales forecast detailing the estimated timing and quantities of each category of the products to be sold or used in the future. The categories of down apparels are analyzed by brand, the year of manufacture, style and design. We also prepare the estimated selling price for each category of products for different periods in which the products are expected to be sold based on the forecast. We estimate net realizable value based on the estimated selling price less estimated selling expenses. For the ten-month period ended March 31, 2005 and the financial year ended March 31, 2006, we recognized reversals of write-down of inventories to net realizable values in the amounts of RMB40.8 million and RMB23.5 million, respectively due to improved market conditions in the subsequent respective periods which resulted in higher net realizable value of down apparel inventories. In particular, for the year ended March 31, 2006, there was favorable market demand primarily due to the cold winter in the PRC for the 2005/2006 winter season and the effect of a sales incentive scheme initially introduced in 2004. For the financial year ended March 31, 2007, write-down of inventories to net realizable value of RMB256.6 million was recorded as the PRC experienced an unusually warm winter season during the 2006/2007 winter season.

Of the RMB1,243.9 million of inventory balance as of March 31, 2007, RMB737.9 million was stated at net realizable value. Based on the Group's unaudited consolidated management accounts for the period ended July 31, 2007, an amount of finished goods of approximately RMB646.4 million was subsequently sold up to July 31, 2007. Substantially all of these goods were sold at prices higher than their cost or net realizable value, whichever was lower, as at March 31, 2007. Our inventory balance as of July 31, 2007 amounted to RMB887.1 million. Our Directors are of the view that the write-down of inventories to net realizable value as of March 31, 2007 reflects the Company's best estimate and is sufficient.

TRADE RECEIVABLE ANALYSIS

Aging analysis of trade and bills receivable

The table below sets out an aging analysis of our third-party trade and bills receivables as of the balance sheet dates indicated.

| | <u>As of March</u> <u>31, 2005</u> <u>(RMB'000)</u> | <u>As of March</u> <u>31, 2006</u> <u>(RMB'000)</u> | <u>As of March</u> <u>31, 2007</u> <u>(RMB'000)</u> |
|--|---|---|---|
| Within 3 months | 210,765 | 196,961 | 719,936 |
| Over 3 months but less than 6 months | 40,115 | 29,188 | 69,842 |
| Over 6 months but less than 12 months | 3,539 | 8,474 | 12,328 |
| Over 12 months | <u>31,416</u> | <u>28,833</u> | <u>27,486</u> |
| | 285,835 | 263,456 | 829,592 |
| Less: Impairment of bad and doubtful receivables | <u>(4,094)</u> | <u>(3,783)</u> | <u>(14,979)</u> |
| | <u>281,741</u> | <u>259,673</u> | <u>814,613</u> |

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Of the RMB829.6 million of third-party trade and bills receivables as of March 31, 2007 (before impairment of bad and doubtful receivables), based on the Group's unaudited consolidated management accounts for the period ended July 31, 2007, an amount of third-party trade and bills receivables of approximately RMB501.8 million was subsequently settled up to July 31, 2007. Our third party trade and bills receivable as at July 31, 2007, being the latest practicable date for determining our indebtedness, was RMB1,103.6 million.

We typically allow a credit period ranging from 30 days to 90 days to our customers. The settlement terms of trade receivable and bills receivable range from 30 days to 90 days and 90 days to 180 days, respectively. Receivables from related parties are typically repayable on demand.

Turnover of trade and bills receivables

The following table sets out our average third-party trade and bills receivable turnover days for the periods indicated.

| | For the ten months ended March 31, 2005 | For the year ended March 31, 2006 | For the year ended March 31, 2007 |
|--|--|---|---|
| Average trade and bills receivables turnover (days) ⁽¹⁾ | <u>24</u> | <u>27</u> | <u>35</u> |

Note:

- (1) Average trade and bills receivables equals trade and bills receivable at the beginning of the period plus trade and bills receivables at the end of the period divided by two. Average accounts receivable turnover (days) equals average trade and bills receivables divided by sales revenue and multiplied by the number of days for the relevant period.

Our third-party trade and bills receivables are derived primarily from outright sales and consignment sales of our branded down apparel and, to a lesser extent, our OEM management business. Our average trade and bills receivable turnover days increased from 27 days for the year ended March 31, 2006 to 35 days for the year ended March 31, 2007, primarily due to a temporary extension of the credit period (primarily ranging from three to six months) to selected creditworthy customers to assist them with their cash flow as the unusually warm winter experienced in the year ended March 31, 2007 impacted the industry. The third-party trade receivables derived from these creditworthy customers outstanding as of March 31, 2007 amounted to approximately 4.6% of the Group's total revenue for that financial year. We do not currently expect to extend the credit period to our customers on an annual basis.

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TRADE PAYABLE ANALYSIS

Aging analysis of trade and bills payable

The normal credit period for trade payables generally ranges from 30 to 90 days. The settlement terms of trade payables and bills payables range from 30 days to 90 days and 120 days to 180 days, respectively. The aging analysis of trade and bills payables as of the respective dates is set out below:

| | <u>As of March 31, 2005</u> (RMB'000) | <u>As of March 31, 2006</u> (RMB'000) | <u>As of March 31, 2007</u> (RMB'000) |
|---|--|--|--|
| Within 3 months | 359,891 | 396,498 | 454,860 |
| Over 3 months but less than 6 months | 35,717 | 127,094 | 126,320 |
| Over 6 months but less than 12 months | 3,056 | 3,536 | 1,432 |
| Over 12 months | <u>10,354</u> | <u>8,521</u> | <u>9,668</u> |
| | <u>409,018</u> | <u>535,649</u> | <u>592,280</u> |

The following table sets out a summary of our trade and bills payables balance as of the respective balance sheet dates below as well as the average trade and bills payables turnover days for the periods indicated.

| | <u>For the ten months ended March 31, 2005</u> | <u>For the year ended March 31, 2006</u> | <u>For the year ended March 31, 2007</u> |
|--|--|--|--|
| Average trade and bills payable turnover (days) ⁽¹⁾ | <u>63</u> | <u>76</u> | <u>56</u> |

Note:

- (1) Average trade and bills payables equals trade and bills payables at the beginning of the period plus trade and bills payables at the end of the period divided by two. Average trade and bills payable turnover (days) equals average trade and bills payables divided by the cost of sales and multiplied by the number of days for the relevant period.

Our trade and other payables are derived primarily from payables relating to the purchase of raw materials. Our trade and other payables increased from March 31, 2005 to March 31, 2007. Average trade and bills payable turnover days decreased from 76 days for the financial year ended March 31, 2006 to 56 days for the financial year ended March 31, 2007 primarily due to the decrease in bills payable in the financial year ended March 31, 2007. Bills payable generally have a longer due date than trade payables. Average trade and bills payable turnover days increased to 76 days for the financial year ended March 31, 2006 from 63 days for the ten months ended March 31, 2005 primarily due to an increase in the use of bills payable in paying our material vendors.

RELATED PARTY TRANSACTIONS

For a description of the related party transactions between members of the Group and members of the Bosideng Group, see footnote 35 of Accountants' Report, Appendix IA to this prospectus.

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WORKING CAPITAL

Our Directors confirm that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus, taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations.

FINANCIAL INSTRUMENTS

We have not entered into any financial instruments for hedging purposes.

OFF-BALANCE SHEET TRANSACTIONS

Except for the commitments set forth above, we have not entered into any material off-balance sheet transactions or arrangements.

MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, which primarily consist of inflation risk, interest rate risk and foreign exchange risk.

Inflation Risk

Inflation in the PRC has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the Consumer Price Index was 1.2%, 3.9% and 1.8% for the years ended December 31, 2004, 2005 and 2006, respectively.

Interest Rate Risk

Our interest-bearing assets principally comprise cash and cash equivalents and pledged deposits. Cash and cash equivalents and pledged deposits mainly are comprised of cash at bank, with fixed interest rates of 0.72% per annum as of the respective balance sheet dates. Our exposure to changes in interest rates is primarily attributable to our interest-bearing borrowings. Our bank borrowings as of March 31, 2007 bears interest at a fixed rate of 5.52% and is repayable within one year. In addition, as of March 31, 2007, we had shareholder loans on which interest accrued at a fixed rate of 2.0% and which is repayable on demand. The fixed rate borrowings expose us to fair value interest-rate risk. We have not used any interest rate swaps to hedge our exposure to interest rate risk.

Foreign Exchange Risk

Our operating activities are primarily carried out in the PRC and our transactions are primarily denominated in Renminbi. A significant majority of our OEM management business is transacted in currencies other than Renminbi, principally US dollars.

We have not used any forward contracts, currency borrowings or other means to hedge our foreign currency exposure. The Renminbi has remained relatively stable during the ten-month period ended March 31, 2005 and the years ended March 31, 2006 and 2007 and, as a result, we consider that we do not have any material foreign exchange risk.

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DIVIDEND POLICY

After completion of the Global Offering, our shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of shareholders, as applicable. In addition, our Controlling Shareholders will be able to influence our dividend policy.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as some of our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

Subject to the above factors, we currently plan to pay annual dividends of not less than 30% of our consolidated profit attributable to shareholders beginning from the financial year ending March 31, 2008. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our Directors consider legal, fair and practicable.

Prior to the completion of the Reorganization (as detailed in the section headed “Our History and Structure” of this prospectus), dividends were declared by our subsidiaries to the then shareholders for the periods from April 1, 2004 to May 31, 2004 and June 1, 2004 to March 31, 2005, and two years ended March 31, 2007, which amounted to RMB333.2 million, nil, RMB103.0 million and RMB453.2 million, respectively. On August 28, 2007 and September 14, 2007, we declared dividends in an aggregate amount of approximately RMB467.4 million which were financed by our internal resources and bank borrowings and paid on September 17, 2007 to our then shareholders from our retained earnings for the financial year ended March 31, 2007. You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

DISTRIBUTABLE RESERVES

Our distributable reserves consist of share premium and retained earnings. Under the Cayman Companies Law, the share premium account is distributable to shareholders if immediately following the date on which we propose to distribute the dividend, we will be in a position to pay our debts as they fall due in the ordinary course of business. As of March 31, 2007, our reserves available for distribution to our shareholders was nil.

PROPERTY VALUATION

Sallmanns (Far East) Limited, an independent property valuer, has valued our property interests including land use rights as of July 31, 2007 at RMB0. The texts of its letter, summary of valuation and valuation certificates are set out in Appendix IV to this prospectus.

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PROFIT FORECAST FOR THE YEAR ENDING MARCH 31, 2008

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to the equity holders of the Company for the year ending March 31, 2008 will not be less than RMB950 million. Our business and operations are subject to strong seasonality and changes in markets where we sell our products. Our sales volumes during the third and fourth quarters of our financial year, which ends on March 31, are generally higher than sales volumes during the first and second quarters of our financial years. Please refer to the section headed “Risk Factors” and “Financial Information — Factors affecting our results of operations” in this prospectus for details. Due to strong seasonality of our business and operations, a substantial portion of our revenue and profit has historically been generated in the last eight months of the Group’s financial year which ends on March 31. For example, the unaudited net profit for the four months ended July 31, 2006 only accounted for approximately 8.0% of the full year net profit for the financial year ended March 31, 2007. Consistent with this pattern, a substantial portion of our forecast profit for the year ending March 31, 2008 is expected to be earned in the last eight months of the financial year. Our full year financial results for the financial year ending March 31, 2008 will be different from our forecast in the event that the actual circumstances during the forecast period, including but not limited to the general weather condition for the 2007/2008 winter in the PRC, are different from the bases and assumptions set out in Appendix III to this prospectus.

Forecast consolidated profit attributable
to the equity holders of the Company⁽¹⁾ not less than RMB950 million

Unaudited pro forma forecast
diluted earnings per Share⁽²⁾ not less than RMB0.121

Notes:

- (1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is based on the above forecast consolidated profit attributable to the equity holders of the Company for the year ending March 31, 2008 and assuming that a total of 7,870,000,000 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as of March 31, 2007 as if it had taken place on March 31, 2007.

FINANCIAL INFORMATION

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of March 31, 2007 or any future date following the Global Offering. It is prepared based on our combined net assets as of March 31, 2007 as set out in the accountants' report in Appendix IA to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountants' report in Appendix IA of this prospectus.

| | Combined net tangible assets attributable to equity holders of the Company as of March 31, 2007 | Estimated net proceeds from the Global Offering | Unaudited pro forma net tangible assets | Unaudited pro forma net tangible assets per Share |
|--|--|--|--|--|
| | RMB'000 | RMB'000 | RMB'000 | RMB |
| | <i>(Note 1)</i> | <i>(Note 2)</i> | | <i>(Note 3)</i> |
| Based on an offer price of HK\$2.56 per Share | 555,198 | 4,410,052 | 4,965,250 | 0.63 |
| Based on an offer price of HK\$3.28 per Share | 555,198 | 5,677,059 | 6,232,257 | 0.79 |

Notes:

1. The combined net tangible assets of the Group attributable to equity holders of the Company as of March 31, 2007 is extracted from the accountants' report as set out in Appendix IA to this Prospectus, which is based on the combined net assets of the Group attributable to the equity holders of the Company as of March 31, 2007.
2. The estimated net proceeds from the Global Offering are based on indicative offer prices of HK\$2.56 and HK\$3.28 per Share respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets against 7,870,000,000 Shares, assuming that the Global Offering has been completed on March 31, 2007 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.
4. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to March 31, 2007.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the Latest Practicable Date, there has been no material adverse change in our financial or trading position since March 31, 2007 (being the date of our latest audited combined financial results as set out in "Appendix IA — Accountants' Report of the Group").

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

See the section headed “Business — Our Strategy” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$5,225 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.92 per Share, being the midpoint of the offer price range stated in this prospectus. We intend to use these net proceeds for the following purposes:

- approximately 30% to 40% will be used for our expansion plans, both domestically and in overseas markets such as Russia, Canada and the United States (which include potential selective acquisitions, alliances, joint ventures and other strategic investments), including diversification into new product lines such as bedding products, home linen products, a selected range of non-down apparel products, and other products that are less sensitive to seasonality patterns;
- approximately 15% to 20% will be used to strengthen and expand our retail distribution network, of which approximately 12% to 15% of the net proceeds will be used to open new retail outlets, and approximately 3% to 5% of the net proceeds will be used to implement an ERP system;
- approximately 5% will be used for the continual implementation of our branding strategies;
- approximately 5% will be used for research, design and development including product design, development of new materials, and the establishment of a quality inspection center;
- approximately 20% to 30% will be used to repay existing bank borrowings detailed as follows:⁽¹⁾

| <u>Bank</u> | <u>Annual Interest Rate</u> | <u>Maturity</u> | <u>Amount (RMB in millions)</u> |
|---|-----------------------------|---------------------------------|---|
| Bank of Communications, Shanghai Branch | 5.6% | February to March 2008 | 300.0 |
| HSBC, Shanghai Branch | 5.7%–5.9% | November 2007 to August 2008 | 230.0 |
| DBS Bank Ltd., Hong Kong Branch ⁽²⁾ | 0.75% over LIBOR | November 2008 | 376.1 |
| Bank of Ningbo, Shanghai Branch . | 5.9% | February 2008 | 200.0 |
| Xiamen International Bank, Shanghai Branch | 5.9% | February 2008 | 150.0 |
| | | | 1,256.1 |

FUTURE PLANS AND USE OF PROCEEDS

Notes:

- (1) As of July 31, 2007 (which is the latest practicable date for determining our indebtedness) and as of the Latest Practicable Date, our total outstanding amount of bank borrowings amounted to approximately RMB489.4 million and RMB1,494.1 million, respectively. See the section headed “Financial Information — Indebtedness — Borrowings” for more details of the Group’s borrowings.
 - (2) This bank loan is used for the repayment of a loan due to a related party, Kong Bo Investment.
- the remaining amount of approximately not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the offer price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the offering of these additional Offer Shares of approximately HK\$799 million, after deducting the estimated underwriting fees and expenses payable by us and assuming the same midpoint of the estimated offer price range. The additional proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

Although from time to time, we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as of the Latest Practicable Date, we do not have any finalized understanding, commitments or agreements, and we have not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit them in short-term demand deposits and/or money market instruments.

The Selling Shareholder will be selling a portion of their Shares in the Global Offering. The net proceeds of the Global Offering to the Selling Shareholder (after deducting underwriting commissions and discretionary incentive fees and estimated expenses payable by the Selling Shareholder in connection with the Global Offering and assuming an Offer Price of HK\$2.92 per Share, being the midpoint of the proposed offer price range of HK\$2.56 to HK\$3.28 per Share) will be approximately HK\$336 million. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering.

UNDERWRITING

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited
Polaris Capital (Asia) Limited
China Everbright Securities (HK) Limited
Taifook Securities Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

We are offering the Hong Kong Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to purchase or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Placing Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI; or
 - (ii) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI; or

UNDERWRITING

- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Hong Kong or China, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI; or
- (vi) any change or prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in Hong Kong, China, the United States, the European Union (or any member thereof), the Cayman Islands or the BVI adversely affecting an investment in the Shares; or
- (vii) the commencement by any regulatory body or organization of any public action against a Director or any member of our Group or an announcement by any regulatory body or organization that it intends to take any such action; or
- (viii) any litigation or claim being threatened or instigated against any member of our Group,

and which, in any such case and in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (A) is or will be or may be adverse to, or prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or
- (B) has or will have or may have an adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering and/or the Global Offering to be performed or implemented as envisaged; or
- (C) makes or will or may make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

UNDERWRITING

- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect; or
 - (ii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission therefrom; or
 - (iii) any of the representations and warranties given by our Company, the Controlling Shareholders (other than Mr. Gao Xiaodong) or the Selling Shareholder in the Hong Kong Underwriting Agreement or the International Placing Agreement, as applicable, is (or would when repeated be) untrue or misleading; or
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of our Company pursuant to the indemnities given by us or the Controlling Shareholders (other than Mr. Gao Xiaodong) under the Hong Kong Underwriting Agreement; or
 - (v) any breach of any of the obligations or undertakings of our Company, the Controlling Shareholders (other than Mr. Gao Xiaodong) or the Selling Shareholder under the Hong Kong Underwriting Agreement or the International Placing Agreement, as applicable, which, in the sole and absolute discretion of the Joint Global Coordinators has a material adverse effect on the Global Offering; or
 - (vi) any material adverse change or prospective material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of our Group as a whole.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances which includes the issue of Shares pursuant to the Share Option Scheme.

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Joint Global Coordinators and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of our share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to

UNDERWRITING

receive, any such share capital or securities or any interest therein), or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise. Similar undertakings are expected to be given by us to the International Underwriters under the International Placing Agreement.

Each of the Controlling Shareholders, jointly and severally, have undertaken with the Joint Global Coordinators and the Hong Kong Underwriters that, except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, stock borrowing arrangements that may be entered into with the Stabilizing Manager or its agent, none of the Controlling Shareholders will, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), at any time:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause us to repurchase any of our share or debt capital or our other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein whether now owned or hereinafter acquired, owned directly by the Controlling Shareholders (including holding as a custodian) or with respect to which any of the Controlling Shareholders has beneficial ownership (collectively the “**Lock-up Shares**”) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

The initial lock-up period (the “**First Six-month Period**”) will commence on the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date. Additionally, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), the Controlling Shareholders will not enter into any of the foregoing transactions in clauses (i), (ii) or (iii) above or contract to or publicly announce any

UNDERWRITING

intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders will cease to be our controlling shareholder.

The Selling Shareholder intends to enter into the International Placing Agreement and undertake in favor of the Joint Global Coordinators and the International Underwriters, that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Selling Shareholder will not, without the prior written consent of the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the date of the International Placing Agreement up to and including the date falling six months after the Listing Date offer, pledge, charge, sell, lend, mortgage, assign, contract to sell or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, whether now owned or hereinafter acquired, owned directly by them (including holding as a custodian) or with respect to which they have beneficial ownership (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option, (i) it will not, at any time during the period commencing from the Listing Date and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) it will not, at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be our Controlling Shareholder.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder from using the shares owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Each of our Controlling Shareholders has further undertaken to the Hong Kong Stock Exchange that he/it will, within a period of 12 months from the Listing Date, immediately inform us and the Hong Kong Stock Exchange of:

- (a) any pledges or charges of any Shares or securities of the Company beneficially owned by he/it in favor of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of the Company so pledged or charged; and
- (b) any indication received by he/it, either verbal or written, from any pledgee or chargee of any Shares or other securities of the Company pledged or charged that any of such Shares or other share capital will be sold, transferred or disposed of.

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We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholder or their shareholders and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by any of our Controlling Shareholders or their respective shareholders.

Commissions and expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by the Company and the Selling Shareholder in relation to the new Shares to be issued in relation to the Global Offering and the Sale Shares to be offered in the Global Offering, respectively. Our Company and the Selling Shareholder may also in their respective sole discretion pay either or both of the Joint Global Coordinators an additional incentive fee of up to 1.0% in the aggregate of the sale proceeds of the offer of Shares offered by us and the offer of Sale Shares offered by the Selling Shareholder under the Global Offering.

The aggregate commissions (exclusive of any discretionary incentive fees), together with listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$235 million (assuming an Offer Price of HK\$2.92, which is the midpoint of the indicative offer price range and that the Over-allotment Option is not exercised) in total and are payable by us. The Selling Shareholder will pay commissions and incentive fees (if any), SFC transaction levy and Hong Kong Stock Exchange trading fee and buyers' and sellers' stamp duties in respect of the Sale Shares.

Underwriters' interest in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Placing Agreement and, if applicable, the stock borrowing arrangements that may be entered into between the Stabilizing Manager or its agent with any of our Controlling Shareholders, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sponsors' Independence

Each of Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

International Placing

International Placing Agreement

In connection with the International Placing, we, the Controlling Shareholders, the Selling Shareholder, the International Underwriters and the Joint Global Coordinators expect to enter into the International Placing Agreement. Under the International Placing Agreement, the International Underwriters to be named therein will severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares.

UNDERWRITING

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager or its agent, on behalf of the International Underwriters, at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Stabilizing Manager or its agent will have the right to require us to allot and issue up to an aggregate of 280,500,000 additional new Shares, representing in aggregate approximately 14.11% of the Offer Shares initially available under the Global Offering. These Shares will be sold or issued at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited are the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Joint Sponsors of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 198,800,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- the International Placing of 1,789,200,000 Shares (of which, 1,671,200,000 Shares are to be offered by us and 118,000,000 Shares are to be offered by the Selling Shareholder) subject to adjustment as mentioned below, in the United States with QIBs in reliance on Rule 144A, and outside the United States in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A, as well as to institutional and professional investors and other investors and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the section headed “— Pricing and Allocation”.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholder and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, October 4, 2007 and in any event, no later than Monday, October 8, 2007.

The Offer Price will be not more than HK\$3.28 per Offer Share and is expected to be not less than HK\$2.56 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with the consent of our Company and the Selling Shareholder) consider the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range inappropriate, the Joint Global Coordinators (on behalf of the Underwriters) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the

STRUCTURE OF THE GLOBAL OFFERING

decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Wednesday, October 3, 2007, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the Offering statistics as currently set out in the section headed “Summary” and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offering, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. The Offer Price, if agreed upon, will be fixed within such revised offer price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the offer price range as stated in this prospectus.

The Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Allocation of the Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, and the basis of allocations of the Hong Kong Public Offering Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares — VIII. Publication of Results; Despatch/Collection of Share Certificates and Refunds of Application Monies — Publication of results” from Wednesday, October 10, 2007.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (a) the granting by the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme;
- (b) the Offer Price being duly determined;
- (c) the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Placing Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Saturday, October 27, 2007, being the 30th day after the date of this prospectus. If for any reason, the Offer Price is not agreed by Monday, October 8, 2007 between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholder and us, the Global Offering will not proceed and will lapse. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares". In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 198,800,000 Shares at the Offer Price, representing approximately 10% of the 1,988,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent approximately 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allocated Offer Shares in the International Placing.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size): Pool A will be comprised of 99,400,000 Hong Kong Offer Shares and Pool B will be comprised of 99,400,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 99,400,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation and Clawback

The allocation of Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will be increased to 596,400,000, 795,200,000 and 994,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

The Offer Price will be not more than HK\$3.28 and is expected to be not less than HK\$2.56. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$3.28 per Share plus 1.0% brokerage fee, 0.004% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$3.28, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Offer Shares Offered

The number of Shares to be initially offered for subscription or sale under the International Placing will be 1,789,200,000 Shares (subject to adjustment and the Over-allotment Option), of which 1,671,200,000 Shares are to be issued by us and 118,000,000 Shares are to be offered for sale by the Selling Shareholder, representing approximately 90% of the Offer Shares under the Global Offering. The International Placing is subject to the Hong Kong Public Offering being unconditional.

Allocation

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the "book-building" process described in "Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base to the benefit of our Company and our Shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager or its agent on behalf of the International Underwriters at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Stabilizing Manager or its agent will have the right to require us to allot and issue up to an aggregate of 280,500,000 additional new Shares, representing in aggregate approximately 14.11% of the Offer Shares initially available under the Global Offering. These Shares will be sold or issued, at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allotments in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its Affiliates, up to 280,500,000 Shares from Kong Bo Investment pursuant to the stock borrowing arrangement (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option.

If such stock borrowing arrangement with Kong Bo Investment is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over-allocation in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Kong Bo Investment or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Shares subject to the Over-allotment Option have been issued. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Kong Bo Investment by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or its agent to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-

STRUCTURE OF THE GLOBAL OFFERING

allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 280,500,000 Shares, which is approximately 14.11% of the Offer Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- Morgan Stanley Asia Limited, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which Morgan Stanley Asia Limited, or any person acting for it, will maintain such a position;
- liquidation of any such long position by Morgan Stanley Asia Limited may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Friday, November 2, 2007, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 280,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Stabilizing Manager or its agent on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the

STRUCTURE OF THE GLOBAL OFFERING

International Placing, Morgan Stanley Asia Limited may borrow up to 280,500,000 Shares from Kong Bo Investment, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the stock borrowing arrangements. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Kong Bo Investment by the Joint Global Coordinators in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, October 11, 2007, it is expected that dealings in Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on Thursday, October 11, 2007.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters), the Selling Shareholder and us on the Price Determination Date.

We expect that we will, on or about Thursday, October 4, 2007, shortly after determination of the Offer Price, enter into the International Placing Agreement relating to the International Placing.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Placing Agreement are summarized in the section headed "Underwriting".

HOW TO APPLY FOR HONG KONG OFFER SHARES

There are two ways to make an application for the Hong Kong Offer Shares. You may either (i) use an Application Form; or (ii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC.

I. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address; and
- are outside the United States.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators, or our respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive of their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Placing Shares under the International Placing, but may not do both.

HOW TO APPLY FOR HONG KONG OFFER SHARES

II. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, the Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as "associate" is defined in the Listing Rules) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to collect Application Forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Thursday, September 27, 2007 until 12:00 noon on Wednesday, October 3, 2007 from:

**Any participant of
The Stock Exchange of Hong Kong Limited**

or

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

or

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

or

Polaris Capital (Asia) Limited
Unit 6503-06, 65th Floor
The Centre
99 Queen's Road Central
Hong Kong

or

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

or

Taifook Securities Group Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

| | <u>Branch Name</u> | <u>Address</u> |
|-------------------------|-------------------------------|--|
| Hong Kong Island | Hong Kong Office | 1 Queen's Road Central |
| | Pacific Place Branch | Shop 401, Pacific Place, 88 Queensway |
| | Des Voeux Road Central Branch | China Insurance Group Building, 141 Des Voeux Road Central |
| Kowloon | Mong Kok Branch | 673 Nathan Road, Mong Kok |
| | Amoy Plaza Branch | Shops G193-200 & 203, G/F, Amoy Plaza Phase II, 77 Ngau Tau Kok Road |
| New Territories | Mei Foo Sun Chuen Branch | 79, Broadway Stage 4, Mei Foo Sun Chuen |
| | Ocean Walk Branch | Shop Nos. 87-92, Ocean Walk, 168-236 Wu Chui Road, Tuen Mun |

or any of the following branches of **Hang Seng Bank Limited**:

| | <u>Branch Name</u> | <u>Address</u> |
|-------------------------|---------------------|---|
| Hong Kong Island | Head Office | 83 Des Voeux Road Central |
| | Wanchai Branch | 200 Hennessy Road |
| | Causeway Bay Branch | 28 Yee Wo Street |
| | North Point Branch | 335 King's Road |
| Kowloon | Tsimshatsui Branch | 18 Carnarvon Road |
| | Kwun Tong Branch | 70 Yue Man Square |
| | Kowloon Main Branch | 618 Nathan Road |
| | Hung Hom Branch | 21 Ma Tau Wai Road |
| New Territories | Shatin Branch | Shop 18 Lucky Plaza, Wang Pok Street, Shatin |
| | Tsuen Wan Branch | 289 Sha Tsui Road, Tsuen Wan |

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of **Bank of Communications Co., Ltd. Hong Kong Branch**:

| | Branch Name | Address |
|-------------------------|-----------------------------|---|
| Hong Kong Island | Hong Kong Branch | 20 Pedder Street, Central |
| | Central District Sub-Branch | G/F., 123–125A Des Voeux Road Central |
| | Wanchai Sub-Branch | 32–34 Johnston Road, Wanchai |
| | Taikoo Shing Sub-Branch | Shop 38, G/F., City Plaza 2, 18 Taikoo Shing Road |
| Kowloon | Hunghom Sub-Branch | 1–3A Tak Man Street, Whampoa Estate, Hunghom |
| | Wong Tai Sin Sub-Branch | Shops 127–129, 1/F Lung Cheung Mall, 136 Lung Cheung Road, Wong Tai Sin |
| | Tseung Kwan O Sub-Branch | Shops 253–255, Metro City Shopping Arcade, Phase I, Tseung Kwan O |
| New Territories | Sheung Shui Sub-Branch | Shops 1010–1014, G/F., Sheung Shui Centre Shopping Arcade, Sheung Shui |
| | Ma On Shan Sub-Branch | Shop 3038A, Level 3, Sunshine Plaza, Ma On Shan |
| | Shatin Sub-Branch | Shop No.193, Level 3, Lucky Plaza, 1–15 Wang Pok Street, Shatin |

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Thursday, September 27, 2007 until 12:00 noon on Wednesday, October 3, 2007 from:

- (1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) Your stockbrokers, who may have such application forms and this prospectus available.

HOW TO APPLY FOR HONG KONG OFFER SHARES

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

- (a) you confirm that you have only relied on the information and representations in this prospectus and the Applications Form in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (b) you agree that we, the Directors, the Selling Shareholder, the Joint Global Coordinators, the Underwriters and other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (c) you undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest for, applied for or taken up any of the International Placing Shares; and
- (d) you agree to disclose to our Company, the Selling Shareholder, our registrars, the receiving bankers, the Joint Global Coordinators and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

- (a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (i) the designated CCASS Participant or its authorized signatories must sign in the appropriate box; and
 - (ii) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (b) If the application is made by an individual CCASS Investor Participant:**
 - (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
 - (ii) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(c) If the application is made by a joint individual CCASS Investor Participant:

- (i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and
- (ii) the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Business Registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorized signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, we, the Joint Global Coordinators and the Joint Sponsors, as our agent, may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We, the Joint Global Coordinators and the Joint Sponsors, as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees does the following on behalf of each such person:
 - (i) agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Placing;
 - (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

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- (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- (vi) understands that the above declaration will be relied upon by us, our Directors, the Selling Shareholder and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- (vii) authorizes us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that neither our Company, our Directors, the Selling Shareholder, the Joint Global Coordinators, the Underwriters, the Joint Sponsors, or any of the parties involved in the Global Offering will have any liability for any such other information or representation;
- (x) agrees that our Company, the Selling Shareholder, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (xi) agrees to disclose that person's personal data to our Company, the Selling Shareholder, our registrar, receiving banker, the Joint Global Coordinators, the Underwriter and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable on or before October 10, 2007, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any

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person before October 27, 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before October 10, 2007 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering made by our Company;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- (xvi) agrees with our Company, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance and the Articles of Association; and
- (xvii) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, and the related brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

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- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Minimum application amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us, our registrars, receiving bankers, the Selling Shareholder, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, October 3, 2007 or such later time as described in the paragraph headed “IV. When May Applications Be Made — Effect of bad weather on the opening of the application lists” below.

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IV. WHEN MAY APPLICATIONS BE MADE

Applications on **WHITE** or **YELLOW** Application Forms

Completed **WHITE** and **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Wednesday, October 3, 2007, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed under the section headed "II. Applying By Using an Application Form — Where to collect Application Forms" above at the following times:

| | | |
|-------------------------------------|---|--------------------------------|
| Thursday, September 27, 2007 | — | 9:00 a.m. to 4:30 p.m. |
| Friday, September 28, 2007 | — | 9:00 a.m. to 4:30 p.m. |
| Saturday, September 29, 2007 | — | 9:00 a.m. to 1:00 p.m. |
| Tuesday, October 2, 2007 | — | 9:00 a.m. to 4:30 p.m. |
| Wednesday, October 3, 2007 | — | 9:00 a.m. to 12:00 noon |

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, October 3, 2007.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until the closing of the application lists. No allotment of any of the Hong Kong Offer Shares will be made later than Wednesday, October 10, 2007.

Electronic Application Instructions to HKSCC via CCASS

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

| | | |
|-------------------------------------|---|--|
| Thursday, September 27, 2007 | — | 9:00 a.m. to 8:30 p.m.⁽¹⁾ |
| Friday, September 28, 2007 | — | 8:00 a.m. to 8:30 p.m.⁽¹⁾ |
| Saturday, September 29, 2007 | — | 8:00 a.m. to 1:00 p.m.⁽¹⁾ |
| Tuesday, October 2, 2007 | — | 8:00 a.m. to 8:30 p.m.⁽¹⁾ |
| Wednesday, October 3, 2007 | — | 8:00 a.m.⁽¹⁾ to 12:00 noon |

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, September 27, 2007 until 12:00 noon on Wednesday, October 3, 2007 (24 hours daily, except the last application day).

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The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Wednesday, October 3, 2007, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, October 3, 2007. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Wednesday, October 3, 2007 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this prospectus, such dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made in such event.

V. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications or suspect multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you

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or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering a **WHITE** or **YELLOW** Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to a **WHITE** or **YELLOW** Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or
- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC; or
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 99,400,000 Hong Kong Offer Shares, (being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering); or
- have indicated an interest for or have been or will be placed any of the International Placing Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

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“Statutory control” means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VI. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before October 10, 2007, unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before October 27, 2007, except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or our or their respective agents or nominees to reject or accept:

We, the Joint Global Coordinators or our or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

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(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Hong Kong Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Placing Shares. By filling in any of the Application Forms or submitting **electronic application instructions**, you agree not to apply for or indicate an interest for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- you apply for more than 99,400,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering);
- our Company believes that by accepting your application, we would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located;
- the Underwriting Agreements do not become unconditional; or
- the Hong Kong Underwriting Agreement and/or the International Placing Agreement are/is terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

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VII. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK\$3.28 per Hong Kong Offer Share. You must also pay a brokerage fee of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%. This means that for every board lot of 2,000 Hong Kong Offer Shares, you will pay approximately HK\$6,626.19. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for. You must pay the maximum offer price and related brokerage fee, SFC transaction levy, and the Hong Kong Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this prospectus.

If your application is successful, the brokerage fee will be paid to participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange, and the SFC transaction levy and Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy collected by the Hong Kong Stock Exchange on behalf of the SFC).

VIII. PUBLICATION OF RESULTS; DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

Publication of results

We expect to announce the Offer Price, the level of indication of interest in the International Placing, the basis of allotment of the Hong Kong Offer Shares, the results of applications under the Hong Kong Public Offering and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering no later than 9:00 a.m. on Wednesday, October 10, 2007 and in the manner specified below:

- on the website of the Hong Kong Stock Exchange (www.hkex.com.hk); and
- on the website of the Company for at least five consecutive days (www.bosideng.com).

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Offering, the level of applications of the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares will be published by us on Wednesday, October 10, 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

In addition, we expect to announce the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at www.iporeresults.com.hk on a 24-hour basis from 9:00 a.m. on Wednesday, October 10, 2007 to 12:00 midnight on Tuesday, October 16, 2007. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;

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- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, October 10, 2007 to Saturday, October 13, 2007; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, October 10, 2007 to Friday, October 12, 2007 at all the receiving bank branches and sub-branches at the addresses set out in the section headed “How to Apply for Hong Kong Offer Shares — II. Applying by Using an Application Form — Where to Collect Application Forms”.

Despatch/collection of share certificates and refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage fee, SFC transaction levy, and Hong Kong Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy, and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate. No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form, subject as mentioned below, in due course, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose share certificates will be deposited into CCASS as described below); and/or
- (b) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage fee at the rate of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your

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Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on or before Wednesday, October 10, 2007. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply by giving **electronic application instructions** to HKSCC, and your application is wholly or partially successful:

- (a) your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, October 10, 2007 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (b) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Offer Share paid on application, in each case including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, October 10, 2007. No interest will be paid thereon.

*If you apply using a **WHITE** Application Form:*

If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, October 10, 2007. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) within the time period specified for collection, they will be despatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your application forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus, or if your

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application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage fee, Hong Kong Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, October 10, 2007 by ordinary post and at your own risk.

*If you apply using a **YELLOW** Application Form:*

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Wednesday, October 10, 2007, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to announce the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Wednesday, October 10, 2007 in the manner described in the paragraph headed "VIII. Publication of Results; Despatch/Collection of Share Certificates and Refunds of Application Monies — Publication of results" above. You should check the results made available by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 10, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. You can also check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account, and the amount of refund monies (if any) credited to your designated bank account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your application forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage fee, Hong Kong Stock Exchange trading fee, SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, October 10, 2007 by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply through HKSCC Nominees

If you apply by giving **electronic instructions** through HKSCC Nominees, you should check the announcement made by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 10, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant (by using a **YELLOW** Application Form or giving **electronic instructions** to HKSCC Nominees), you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, October 10, 2007. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

Refund of application monies

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage fee of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Offer Share (excluding brokerage fee, SFC transaction levy, and Hong Kong Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage fee of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Wednesday, October 10, 2007 in accordance with the various arrangements as described above.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IX. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, October 11, 2007. The Shares will be traded in board lots of 2,000 each. The stock code of the Shares is 3998.

X. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

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The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

September 27, 2007

The Directors
Bosideng International Holdings Limited
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Bosideng International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the period from June 1, 2004 to March 31, 2005, and for each of the two years ended March 31, 2006 and 2007 (the "Relevant Period"), and the combined balance sheets of the Group as of March 31, 2005, 2006 and 2007 together with the notes thereto (the "Financial Information"), for inclusion in the Prospectus of the Company dated September 27, 2007 (the "Prospectus"). June 1, 2004 is the date on which the Group's current ultimate controlling equity holders, Mr. Gao De Kang and his family (the "Gao Family"), obtained a controlling interest in Bosideng Corporation Limited by Shares 波司登股份有限公司 ("Bosideng Corporation")* and its subsidiaries. The financial information relating to Bosideng Corporation and its subsidiaries before it came under the control of the Gao Family for the period from April 1, 2004 to May 31, 2004 is set out in Appendix IB to the Prospectus.

The Company was incorporated in the Cayman Islands on July 10, 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the subsidiaries set out in Section A.1 below.

As part of a group reorganization (the "Reorganization"), as detailed in the paragraph headed "Reorganization" in the section of "Our History and Structure" of the Prospectus, and in accordance with the Group's long term strategy of focusing on sourcing and distribution of down apparels and Original Equipment Manufacturer ("OEM") management, the Group discontinued its other operations including investment in an associate engaged in real estate development, investments in unlisted equity securities and other trading activities and also ceased its manufacturing operations. On March 31, 2006, the relevant legal entities which had assets and liabilities related to these other operations and manufacturing operations (the "Predecessor Entities"), details of which are set out in Section A.2

* Bosideng Corporation and its subsidiaries were principally engaged in sourcing, manufacturing and distribution of down apparels, and OEM management. Bosideng Corporation and its subsidiaries also have other operations including real estate development, investments in unlisted equity securities and other trading activities.

below, were deemed to be distributed to the Gao Family. After the Reorganization, the sourcing and distribution of down apparels and OEM management of the Group continue to be carried out by the companies now comprising the Group, details of which are set out in Section A.1 below.

The Company and Bosideng International Fashion Limited have adopted March 31 as their financial year end, while all other companies now comprising the Group and the Predecessor Entities which are established in the People's Republic of China (the "PRC") have a statutory financial year end date of December 31, as required by the PRC statutory reporting requirements.

The following statutory financial statements, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC, were audited during the Relevant Period by the respective statutory auditors as indicated below:

| <u>Name of company</u> | <u>Financial period</u> | <u>Auditors</u> |
|--|--|--|
| Bosideng Corporation. | Year ended December 31, 2004 | PriceWaterhouseCoopers Zhongtian CPAs Limited Company, registered in the PRC |
| | Year ended December 31, 2005 | Dahua Certified Public Accountants, registered in the PRC |
| Shanghai Bosideng International Fashion Co., Ltd.* | Year ended December 31, 2006 | Changxin Certified Public Accountants, registered in the PRC |
| Shanghai Bingjie Fashion Co., Ltd.* (formerly known as Shanghai Bosideng Fashion Co., Ltd.). | Year ended December 31, 2006 | Changxin Certified Public Accountants, registered in the PRC |
| Jiangsu Bosideng Down-Wear Ltd.. | From March 30, 2006 (date of incorporation) to December 31, 2006 | Changxin Certified Public Accountants, registered in the PRC |
| Shandong Bosideng Fashion Co., Ltd. | From May 17, 2006 (date of incorporation) to December 31, 2006 | Changxin Certified Public Accountants, registered in the PRC |
| Shanghai Shuangyu Fashion Co., Ltd. | From June 28, 2006 (date of incorporation) to December 31, 2006 | Changxin Certified Public Accountants, registered in the PRC |

As of the date of this report, save as described above, no audited statutory financial statements have been prepared for the Company, Bosideng International Fashion Limited and the companies now comprising the Group, as they were either dormant or incorporated/established shortly before March 31, 2007, or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation/establishment.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the unaudited management accounts of the Predecessor Entities and the companies now comprising the Group (as set out in Section A.1 of this report) for the Relevant Period (or where the companies were incorporated/established at a date later than June 1, 2004, for the period from their respective dates of

* These companies were private enterprises established in the PRC prior to January 1, 2006 and were not subject to statutory audit requirements. In 2006, these companies became foreign-invested enterprises and therefore are now subject to statutory audit requirements in the PRC.

incorporation/establishment to March 31, 2007) and on the basis set out in Section A, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate the unaudited management accounts in accordance with the accounting policies as set out in section C1 to conform with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and in compliance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. IFRSs include International Accounting Standards and their Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the Financial Information together with the notes thereto as set out in Section B to Section H below which give a true and fair view. The Financial Information and the notes thereto have been prepared based on the unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate.

The directors of the respective companies are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing the Financial Information and financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgments made by the directors of the Company in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to March 31, 2007.

Opinion

In our opinion, for the purpose of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results and combined cash flows for the Relevant Period and of the Group's combined state of affairs as of March 31, 2005, 2006 and 2007 and of the state of affairs of the Company as of March 31, 2007.

A. BASIS OF PRESENTATION

The results of the Predecessor Entities are included in the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group up to March 31, 2006, the date on which they were deemed distributed to the Gao Family, pursuant to the Reorganization mentioned above. Accordingly, the balance sheets of the Predecessor Entities are included in the combined balance sheet of the Group as of March 31, 2005 but are not included in the combined balance sheets of the Group as of March 31, 2006 and March 31, 2007.

Save for the above, the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group include the results of the companies now comprising the Group for the Relevant Period as if the current group structure had been in existence and remained unchanged throughout all periods referred to in this report. Save for the above, the combined balance sheets of the Group as of March 31, 2005, 2006 and 2007 have been prepared to present the state of affairs of the companies now comprising the Group as of the respective dates as if the current group structure had been in existence as of the respective dates.

Because the ultimate controlling equity holders which controlled the companies now comprising the Group and the Predecessor Entities since June 1, 2004 are the same before and after the Reorganization, the Financial Information has been prepared as a reorganization of business under common control. Accordingly, the relevant assets and liabilities of the companies comprising the Group are included in the Financial Information of the Group from the date when the entities first came under the control of the Gao Family, the Group's ultimate controlling equity holders, using the existing book values from the controlling equity holders' perspective.

All material intra-group transactions and balances have been eliminated on combination.

A.1 Companies now comprising the Group

At the date of this report, the Company has direct and indirect interests in the following subsidiaries, the particulars of which are set out below:

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|-------|---|--|--|----------|---|
| | | | | Direct | Indirect | |
| 1) Enterprise established outside the PRC | | | | | | |
| Bosideng International Fashion Ltd. 波司登國際服飾有限公司 | (i) | British Virgin Islands ("BVI") July 11, 2006 | US\$1/ US\$1 | 100% | — | Investment holding |
| 2) Wholly foreign owned enterprises established in the PRC | | | | | | |
| Shanghai Bosideng International Fashion Co., Ltd. 上海波司登國際服飾有限公司 | (ii) | the PRC June 23, 2005 | US\$29,300,000/ US\$40,000,000 | — | 100% | Sourcing and distribution of down apparels |
| 3) Sino-foreign equity joint venture enterprises established in the PRC | | | | | | |
| Shanghai Bingjie Fashion Co., Ltd. 上海冰潔服飾有限公司 | (iii) | the PRC April 21, 1999 | US\$10,000,000/ US\$10,000,000 | — | 100% | Sourcing and distribution of down apparels |
| Jiangsu Bosideng Down Wear Ltd. 江蘇波司登羽絨服裝有限公司 | (iii) | the PRC March 30, 2006 | US\$22,302,454/ US\$30,000,000 | — | 100% | Sourcing and distribution of down apparels/ OEM apparels |
| Shandong Bosideng Fashion Co., Ltd. 山東波司登服飾有限公司 | (iii) | the PRC May 17, 2006 | US\$30,000,000/ US\$30,000,000 | — | 100% | Sourcing and distribution of down apparels |
| Shanghai Shuangyu Fashion Co., Ltd. 上海雙羽服裝有限公司 | (iv) | the PRC June 28, 2006 | US\$10,000,000/ US\$10,000,000 | — | 100% | Sourcing and distribution of down apparels |
| 4) Domestic companies established in the PRC | | | | | | |
| Changshu Bosideng Advertising Co., Ltd. 常熟波司登廣告有限公司 | (v) | the PRC, September 12, 1996 | RMB500,000/ RMB500,000 | — | 100% | Advertisement agency |
| Zhengzhou Bosideng Trading Co., Ltd. 鄭州波司登貿易有限公司 | (v) | the PRC, October 9, 1998 | RMB550,000/ RMB550,000 | — | 100% | Distribution of down apparels |
| Jinan Bosideng Trading Co., Ltd. 濟南波司登貿易有限公司 | (v) | the PRC, October 19, 1998 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|---|------|--|---|--|----------|---|
| | | | | Direct | Indirect | |
| Shijiazhuang Bosideng Trading Co., Ltd. 石家莊波司登貿易有限公司 | (v) | the PRC, October 22, 1998 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Beijing Bosideng Trading Co., Ltd. 北京波司登貿易有限公司 | (v) | the PRC, October 26, 1998 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Changchun Bosideng Trading Co., Ltd. 長春波司登貿易有限公司 | (v) | the PRC, October 29, 1998 | RMB1,000,000/ RMB1,000,000 | — | 100% | Distribution of down apparels |
| Tianjin Bosideng Trading Co., Ltd. 天津波司登貿易有限公司 | (v) | the PRC, February 10, 1999 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Taiyuan Bosideng Trading Co., Ltd. 太原波司登貿易有限公司 | (v) | the PRC, October 16, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Urumchi Bosideng Trading Co., Ltd. 烏魯木齊波司登貿易有限公司 | (v) | the PRC, October 17, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Lanzhou Bosideng Trading Co., Ltd. 蘭州波司登貿易有限公司 | (v) | the PRC, October 25, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Wuhan Bosideng Trading Co., Ltd. 武漢波司登貿易有限公司 | (v) | the PRC, November 4, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Shanghai Kangbo International Trading Co., Ltd. 上海康波國際貿易有限公司 | (vi) | the PRC, November 6, 2000 | RMB6,000,000/ RMB6,000,000 | — | 90% | Import and export activities, including distribution of down apparels |
| Chengdu Bosideng Trading Co., Ltd. 成都波司登貿易有限公司 | (v) | the PRC, November 8, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Baotou Bosideng Trading Co., Ltd. 包頭波司登貿易有限公司 | (v) | the PRC, November 21, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Xian Bosideng Trading Co., Ltd. 西安波司登貿易有限公司 | (v) | the PRC, December 1, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|-------|---|--|--|----------|---|
| | | | | Direct | Indirect | |
| Hefei Bosideng Trading Co., Ltd. 合肥波司登貿易有限公司 | (v) | the PRC, December 12, 2000 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Shanghai Bosideng Fashion Design and Development Center Co., Ltd. 上海波司登服裝設計開發中心有限公司 | (vii) | the PRC, March 23, 2001 | RMB2,000,000/ RMB2,000,000 | — | 100% | Design and distribution of clothes |
| Haerbin Bosideng Trading Co., Ltd. 哈爾濱波司登雪中飛貿易有限公司 | (v) | the PRC, March 30, 2001 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Changshu Bosideng Import and Export Co., Ltd. 常熟波司登進出口有限公司 | (v) | the PRC, April 11, 2002 | RMB5,000,000/ RMB5,000,000 | — | 100% | Sourcing and distribution of OEM apparels |
| Liaoning Bosideng Trading Co., Ltd. 遼寧波司登貿易有限公司 | (v) | the PRC, September 3, 2002 | RMB5,000,000/ RMB5,000,000 | — | 100% | Distribution of down apparels |
| Nantong Bosideng Trading Co., Ltd. 南通波司登貿易有限公司 | (v) | the PRC, April 24, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Lianyungang Bosideng Trading Co., Ltd. 連雲港波司登貿易有限公司 | (v) | the PRC, April 25, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Changsha Bosideng Garment Trading Co., Ltd. 長沙波司登服飾貿易有限公司 | (v) | the PRC, April 25, 2006 | RMB510,000/ RMB510,000 | — | 100% | Distribution of down apparels |
| Wuxi Bosideng Trading Co., Ltd. 無錫波司登貿易有限公司 | (v) | the PRC, April 26, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Suqian Bosideng Trading Co., Ltd. 宿遷波司登貿易有限公司 | (v) | the PRC, April 26, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Anhui Wanbei Bosideng Trading Co., Ltd. 安徽皖北波司登貿易有限公司 | (v) | the PRC, April 26, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|------|---|--|--|----------|-------------------------------|
| | | | | Direct | Indirect | |
| Changzhou Xuezhongfei Trading Co., Ltd. 常州雪中飛貿易有限公司 | (v) | the PRC, April 28, 2006 | RMB600,000/ RMB600,000 | — | 100% | Distribution of down apparels |
| Hangzhou Bosideng Trading Co., Ltd. 杭州波司登貿易有限公司 | (v) | the PRC, April 28, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Cangzhou Bosideng Trading Co., Ltd. 滄州波司登貿易有限公司 | (v) | the PRC, April 28, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Langfang Bosideng Trading Co., Ltd. 廊坊市波司登貿易有限公司 | (v) | the PRC, April 29, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Huzhou Bosideng Trading Co., Ltd. 湖州波司登貿易有限公司 | (v) | the PRC, April 29, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Luoyang Bosideng Trading Co., Ltd. 洛陽波司登貿易有限公司 | (v) | the PRC, April 29, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Xinyu Bosideng Trading Co., Ltd. 新余市波司登貿易有限公司 | (v) | the PRC, April 29, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Dalian Bosideng Trading Co., Ltd. 大連波司登貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Yangzhou Bosideng Trading Co., Ltd. 揚州波司登貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Kuerle Bosideng Trading Co., Ltd. 庫爾勒波司登貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Zhengzhou Xuezhongfei Trading Co., Ltd. 鄭州雪中飛貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Zhumadian Bosideng Trading Co., Ltd. 駐馬店市波司登貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Ningbo Bosideng Trading Co., Ltd. 寧波波司登貿易有限公司 | (v) | the PRC, April 30, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|------|--|---|--|----------|-------------------------------|
| | | | | Direct | Indirect | |
| Changzhou Bosideng Trading Co., Ltd. 常州波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Nanjing Bosideng Trading Co., Ltd. 南京波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB550,000/ RMB550,000 | — | 100% | Distribution of down apparels |
| Taizhou Bosideng Trading Co., Ltd. 泰州波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB1,000,000/ RMB1,000,000 | — | 100% | Distribution of down apparels |
| Xinxiang Bosideng Trading Co., Ltd. 新鄉波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Chifeng Bosideng Trading Co., Ltd. 赤峰波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB1,010,000/ RMB1,010,000 | — | 100% | Distribution of down apparels |
| Anyang Bosideng Trading Co., Ltd. 安陽波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Qingdao Bosideng Trading Co., Ltd. 青島波司登貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Shenyang Xuezhongfei Trading Co., Ltd. 瀋陽雪中飛貿易有限公司 | (v) | the PRC, May 8, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Huaian Bosideng Trading Co., Ltd. 淮安市波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Zhangjiakou Bosideng Trading Co., Ltd. 張家口波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Handan Bosideng Trading Co., Ltd. 邯鄲波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Zhuzhou Bosideng Trading Co., Ltd. 株洲波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Weihai Bosideng Trading Co., Ltd. 威海波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|------|--|---|--|----------|-------------------------------|
| | | | | Direct | Indirect | |
| Yanji Bosideng Trading Co., Ltd. 延吉波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Maanshan Bosideng Trading Co., Ltd. 馬鞍山市波司登貿易有限公司 | (v) | the PRC, May 9, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Qinhuangdao Bosideng Trading Co., Ltd. 秦皇島波司登貿易有限公司 | (v) | the PRC, May 10, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Suzhou Bosideng Trading Co., Ltd. 蘇州波司登貿易有限公司 | (v) | the PRC, May 10, 2006 | RMB1,000,000/ RMB1,000,000 | — | 100% | Distribution of down apparels |
| Shangqiu Bosideng Trading Co., Ltd. 商丘波司登貿易有限公司 | (v) | the PRC, May 10, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Binzhou Bosideng Trading Co., Ltd. 濱州波司登貿易有限公司 | (v) | the PRC, May 10, 2006 | RMB1,000,000/ RMB1,000,000 | — | 100% | Distribution of down apparels |
| Yancheng Bosideng Trading Co., Ltd. 鹽城波司登貿易有限公司 | (v) | the PRC, May 11, 2006 | RMB1,000,000/ RMB1,000,000 | — | 100% | Distribution of down apparels |
| Xiangfan Bosideng Trading Co., Ltd. 襄樊波司登貿易有限公司 | (v) | the PRC, May 11, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Xian Xuezhongfei Trading Co., Ltd. 西安雪中飛貿易有限公司 | (v) | the PRC, May 12, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Chengdu Xuezhongfei Trading Co., Ltd. 成都雪中飛貿易有限公司 | (v) | the PRC, May 12, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Nanchang Bosideng Trading Co., Ltd. 南昌波司登貿易有限公司 | (v) | the PRC, May 12, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Guiyang Bosideng Trading Co., Ltd. 貴陽波司登貿易有限公司 | (v) | the PRC, May 15, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Baoding Bosideng Trading Co., Ltd. 保定波司登貿易有限公司 | (v) | the PRC, May 15, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

| Name of company | Note | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | Principal activities |
|--|------|---|--|--|----------|-------------------------------|
| | | | | Direct | Indirect | |
| Changchun Xuezhongfei Trading Co., Ltd. 長春雪中飛貿易有限公司 | (v) | the PRC, May 15, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Weifang Bosideng Trading Co., Ltd. 濰坊波司登貿易有限公司 | (v) | the PRC, May 15, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Zibo Bosideng Trading Co., Ltd. 淄博波司登貿易有限公司 | (v) | the PRC, May 15, 2006 | RMB600,000/ RMB600,000 | — | 100% | Distribution of down apparels |
| Yantai Bosideng Trading Co., Ltd. 煙臺波司登商貿有限公司 | (v) | the PRC, May 16, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Yinchuan Bosideng Trading Co., Ltd. 銀川波司登貿易有限公司 | (v) | the PRC, May 16, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Chongqing Bosideng Trading Co., Ltd. 重慶波司登貿易有限公司 | (v) | the PRC, May 16, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Jining Bosideng Trading Co., Ltd. 濟寧波司登貿易有限公司 | (v) | the PRC, May 16, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Linyi Bosideng Trading Co., Ltd. 臨沂波司登貿易有限公司 | (v) | the PRC, May 16, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Jiaozuo Bosideng Trading Co., Ltd. 焦作波司登貿易有限公司 | (v) | the PRC, May 18, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Jilin Bosideng Trading Co., Ltd. 吉林波司登貿易有限公司 | (v) | the PRC, May 18, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Jinzhou Bosideng Trading Co., Ltd. 錦州波司登貿易有限公司 | (v) | the PRC, May 18, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Tangshan Bosideng Trading Co., Ltd. 唐山波司登貿易有限公司 | (v) | the PRC, May 19, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |
| Taiyuan Xuezhongfei Trading Co., Ltd. 太原雪中飛貿易有限公司 | (v) | the PRC, May 22, 2006 | RMB500,000/ RMB500,000 | — | 100% | Distribution of down apparels |

Notes:

- (i) This entity is directly invested by the Company.
- (ii) This entity is invested by Bosideng International Fashion Ltd.
- (iii) These entities are invested by Shanghai Bosideng International Fashion Co., Ltd. (51%) and Bosideng International Fashion Ltd. (49%).
- (iv) This entity is invested by Shanghai Bosideng International Fashion Co., Ltd. (75%) and Bosideng International Fashion Ltd. (25%).
- (v) These entities are 100% invested by Jiangsu Bosideng Down-Wear Ltd.
- (vi) A 90% equity interest of Shanghai Kangbo was transferred from Bosideng Corporation to Shanghai Bingjie Fashion Co., Ltd. on June 14, 2007. The transfer is accounted for as an acquisition from entities under common control (refer to note 1 (d)(ii) in the summary of significant accounting policies of Section C).
- (vii) This entity is 100% invested by Shanghai Bosideng International Fashion Co. Ltd.
- (viii) The English translation of the names of the companies above is for reference only. The official names of the companies are in Chinese.

A.2 Predecessor Entities

Pursuant to the Reorganization, on March 31, 2006 the business operations, assets and liabilities of the Predecessor Entities which related to the sourcing and distribution of down apparels and OEM, were transferred to companies now comprising the Group as set out in Section A.1 above.

Particulars of the Predecessor Entities during the Relevant Period up to the Reorganization are set out below:

| <u>Name of company</u> | <u>Note</u> | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/ registered capital</u> | <u>Attributable equity interest held by the Gao Family</u> | <u>Principal activities</u> |
|---|----------------|---|--|--|--|
| Bosideng Corporation 波司登股份有限公司 | (a) | the PRC June 30, 1994 | RMB111,800,000/ RMB111,800,000 | 99.07% | Sourcing and distribution of down apparels |
| Changshu Zhengguanghe Drinking Water Co., Ltd. 常熟正廣和飲用水有限公司 | (b) (c) | the PRC, November 15, 1996 | RMB3,800,000/ RMB3,800,000 | 89.16% | Production of distilled drinking water |
| Jiangsu Xuezhongfei Apparels Manufacturing Co., Ltd. 江蘇雪中飛製衣有限公司 | (a) (c) | the PRC, September 24, 1997 | RMB2,000,000/ RMB2,000,000 | 99.07% | Sourcing and distribution of down apparels |
| Shenyang Bosideng Trading Co., Ltd. 瀋陽波司登貿易有限公司 | (a) (c) (d) | the PRC, October 8, 1998 | RMB500,000/ RMB500,000 | 99.07% | Distribution of down apparels |
| Shanghai Bosideng Trading Co., Ltd. 上海波司登貿易有限公司 | (b) (c) | the PRC, October 8, 1998 | RMB3,000,000/ RMB3,000,000 | 99.07% | Distribution of apparels |
| Changshu Bosideng Garment Co., Ltd. 常熟波司登製衣有限公司 | (b) (d) | the PRC, April 23, 1999 | RMB5,500,000/ RMB5,500,000 | 99.07% | Production of apparels |
| Changshu Bosideng Shirt Garment Co., Ltd. 常熟波司登襯衫製衣有限公司 | (b) (c) (d) | the PRC, January 5, 2000 | RMB1,500,000/ RMB1,500,000 | 99.07% | Production of apparels |
| Shanghai Bosideng Industry Co., Ltd. 上海波司登實業有限公司 | (b) (c) | the PRC, April 3, 2000 | RMB15,000,000/ RMB15,000,000 | 99.07% | Production of apparels |
| Changshu Bosideng Bedding Co., Ltd. 常熟波司登床上用品有限公司 | (b) (c) | the PRC, September 21, 2000 | RMB1,000,000/ RMB1,000,000 | 99.07% | Distribution of apparels |
| Heilongjiang Bosideng Trading Co., Ltd. 黑龍江波司登貿易有限公司 | (a) (c) (d) | the PRC, November 20, 2000 | RMB500,000/ RMB500,000 | 99.07% | Distribution of down apparels |
| Changshu Bingjie Garment Co., Ltd. 常熟冰潔製衣有限公司 | (b) (c) (d) | the PRC, November 15, 2000 | RMB500,000/ RMB500,000 | 99.07% | Production of apparels |

| <u>Name of company</u> | <u>Note</u> | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/ registered capital</u> | <u>Attributable equity interest held by the Gao Family</u> | <u>Principal activities</u> |
|--|-------------|---|--|--|--|
| Jiangsu Descente Co., Ltd. 江蘇迪桑特有限公司 | (b) (c) | the PRC, October 29, 2003 | US\$2,416,300/ US\$2,416,300 | 50.52% | Distribution of apparels |
| Shandong Kangbo Industry Co., Ltd. 山東康博實業有限公司 | (a) | the PRC, September 27, 2004 | RMB212,248,879/ RMB212,248,879 | 99.78% | Sourcing and distribution of down apparels |
| Shanghai Kangbo Feida Apparels Co., Ltd. 上海康博飛達服裝有限公司 | (a) (c) | the PRC, May 26, 2005 | RMB70,000,000/ RMB70,000,000 | 54.49% | Production of apparels |
| Jiangsu Bosideng Cashmere Garment Co., Ltd. 江蘇波司登羊絨服飾有限公司 | (b) (c) | the PRC, June 6, 2005 | RMB5,000,000/ RMB5,000,000 | 59.44% | Distribution of cashmere apparels |

Notes:

- (a) Subsequent to the transfer on March 31, 2006 of these entities' business operations, assets and liabilities which related to the sourcing and distribution of down apparels and OEM to companies now comprising the Group, these entities and their remaining assets and liabilities were retained by the Gao Family outside the Group and were therefore accounted for as a deemed distribution to the Gao Family on March 31, 2006, as part of the Reorganization.
- (b) These entities were not engaged in the business of down apparels and OEM and were retained by the Gao Family outside the Group. The results of these entities are presented as part of discontinued operations (refer to Section C note (4)) in the combined income statements. On March 31, 2006, the entire assets and liabilities of these entities were deemed to be distributed to the Gao Family as part of the Reorganization.
- (c) These entities were subsidiaries of Bosideng Corporation.
- (d) These entities have been deregistered/become dormant by March 31, 2007.
- (e) The English translation of the names of the companies above is for reference only. The official names of the companies are in Chinese.

B. FINANCIAL INFORMATION

1. COMBINED INCOME STATEMENTS

| | Section C Note | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|--|-------------------|--|--|--|
| Continuing operations | | | | |
| Revenue | | 2,509,297 | 3,698,641 | 5,632,967 |
| Cost of sales | | (1,703,047) | (2,281,600) | (3,645,509) |
| Gross profit | | 806,250 | 1,417,041 | 1,987,458 |
| Other income | 5 | 50,770 | 110,604 | 62,545 |
| Other expenses | | (7,336) | (2,210) | (17,612) |
| Distribution expenses | 6 | (385,163) | (691,151) | (1,091,761) |
| Administrative expenses | | (31,483) | (70,155) | (85,710) |
| Profit from operations | | 433,038 | 764,129 | 854,920 |
| Finance income | | 1,517 | 3,500 | 3,993 |
| Finance expenses | | (20,354) | (33,723) | (34,668) |
| Net financing expenses | 9 | (18,837) | (30,223) | (30,675) |
| Profit before income tax | | 414,201 | 733,906 | 824,245 |
| Income tax expense | 10(a) | (123,948) | (210,372) | (210,127) |
| Profit from continuing operations | | 290,253 | 523,534 | 614,118 |
| Discontinued operations | | | | |
| Loss from discontinued operations (net of income tax) | 4 | (33,422) | (16,636) | — |
| Profit for the period/year | | 256,831 | 506,898 | 614,118 |
| Attributable to: | | | | |
| Equity holders of the Group | | 252,579 | 500,786 | 617,593 |
| Minority interests | | 4,252 | 6,112 | (3,475) |
| Profit for the period/year | | 256,831 | 506,898 | 614,118 |
| Dividends | 13 | — | 103,029 | 453,160 |
| Basic earnings/(loss) per share (RMB) | 14 | 0.05 | 0.10 | 0.12 |
| From continuing operations (RMB) | | 0.06 | 0.10 | 0.12 |
| From discontinued operations (RMB) | | (0.01) | — | — |
| Diluted earnings/(loss) per share (RMB) | 14 | 0.05 | 0.10 | 0.11 |
| From continuing operations (RMB) | | 0.06 | 0.10 | 0.11 |
| From discontinued operations (RMB) | | (0.01) | — | — |

2. COMBINED BALANCE SHEETS

| | Section C Note | At March 31, | | |
|---|-------------------|------------------|------------------|------------------|
| | | 2005 RMB'000 | 2006 RMB'000 | 2007 RMB'000 |
| Non-current assets | | | | |
| Property, plant and equipment | 15 | 443,221 | 6,656 | 30,825 |
| Land use rights | 16 | 50,356 | — | — |
| Investment in equity accounted investees | 17 | 114,120 | — | — |
| Available-for-sale financial assets | 18 | 29,000 | — | — |
| Deferred tax assets | 19 | 23,570 | — | — |
| Total non-current assets | | <u>660,267</u> | <u>6,656</u> | <u>30,825</u> |
| Current assets | | | | |
| Inventories | 20 | 414,473 | 528,883 | 1,243,902 |
| Trade and other receivables | 21 | 457,616 | 403,831 | 896,158 |
| Receivables due from related parties | 35 | 34,200 | 313,635 | 468,885 |
| Pledged bank deposits | 22 | 17,551 | — | 7,048 |
| Cash and cash equivalents | 23 | 486,119 | 246,349 | 507,806 |
| Assets classified as held for sale | 24 | 140,141 | — | — |
| Total current assets | | <u>1,550,100</u> | <u>1,492,698</u> | <u>3,123,799</u> |
| Total assets | | <u>2,210,367</u> | <u>1,499,354</u> | <u>3,154,624</u> |
| Equity | | | | |
| Issued/combined capital | 25 | 120,408 | 5,400 | 5,797 |
| Reserves | 26 | 330,466 | 40,859 | 80,164 |
| Retained earnings | | 315,431 | 332,853 | 469,237 |
| Total equity attributable to equity holders of the Group | | 766,305 | 379,112 | 555,198 |
| Minority interests | | 28,518 | 600 | 16,086 |
| Total equity | | <u>794,823</u> | <u>379,712</u> | <u>571,284</u> |
| Non-current liabilities | | | | |
| Liability component of convertible redeemable preference shares | 28 | — | — | 127,189 |
| Total non-current liabilities | | — | — | 127,189 |
| Current liabilities | | | | |
| Interest-bearing borrowings | 29 | 314,500 | — | 240,000 |
| Equity holder loans | 30 | — | — | 395,940 |
| Income tax payables | 10(c) | 144,080 | 105,111 | 248,233 |
| Trade and other payables | 31 | 921,998 | 991,383 | 1,490,526 |
| Payables due to related parties | 35 | 34,966 | 23,148 | 81,452 |
| Total current liabilities | | <u>1,415,544</u> | <u>1,119,642</u> | <u>2,456,151</u> |
| Total liabilities | | <u>1,415,544</u> | <u>1,119,642</u> | <u>2,583,340</u> |
| Total equity and liabilities | | <u>2,210,367</u> | <u>1,499,354</u> | <u>3,154,624</u> |
| Net current assets | | <u>134,556</u> | <u>373,056</u> | <u>667,648</u> |
| Total assets less current liabilities | | <u>794,823</u> | <u>379,712</u> | <u>698,473</u> |

3. COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Issued/ combined capital RMB'000 (note 25) | Convertible preference shares RMB'000 (note 27) | Capital reserves RMB'000 | Statutory reserves RMB'000 (note 26(a)) | Translation reserves RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|--|---|--------------------------------|--|------------------------------------|------------------------------|---------------------------------|------------------|----------------------------------|----------------------------|
| Balance at June 1, 2004 | — | — | — | — | — | — | — | — | — | — |
| Deemed contribution by the Gao Family on acquisition of Bosideng Corporation (note 32) | 56,476 | — | — | 169,681 | — | — | 48,499 | 274,656 | 278,303 | 552,959 |
| Deemed contribution by the Gao Family on acquisition of minority interests of Bosideng Corporation (i) | 52,216 | — | — | 156,880 | — | — | 44,840 | 253,936 | (253,936) | — |
| Capital injections | 19,868 | — | — | — | — | — | — | 19,868 | 132 | 20,000 |
| Deemed distributions to the Gao Family (ii) | (8,152) | — | — | — | — | — | (26,582) | (34,734) | (233) | (34,967) |
| Profit for the period | — | — | — | — | — | — | 252,579 | 252,579 | 4,252 | 256,831 |
| Appropriation to reserves | — | — | — | 3,905 | — | — | (3,905) | — | — | — |
| Balance at March 31, 2005 | 120,408 | — | — | 330,466 | — | — | 315,431 | 766,305 | 28,518 | 794,823 |
| Capital injections | 2,992 | — | — | — | — | — | — | 2,992 | 8 | 3,000 |
| Capital injections by minority equity holders to subsidiaries | — | — | — | — | — | — | — | — | 33,500 | 33,500 |
| Profit for the year | — | — | — | — | — | — | 500,786 | 500,786 | 6,112 | 506,898 |
| Appropriation to reserves | — | — | — | 45,316 | — | — | (45,316) | — | — | — |
| Dividends | — | — | — | — | — | — | (100,165) | (100,165) | (2,864) | (103,029) |
| Deemed distributions to the Gao Family upon the Reorganization (note 26 (b)) | (118,000) | — | — | (334,923) | — | — | (337,883) | (790,806) | (64,674) | (855,480) |
| Balance at March 31, 2006 | 5,400 | — | — | 40,859 | — | — | 332,853 | 379,112 | 600 | 379,712 |
| Issuance of shares | 397 | — | — | — | — | — | — | 397 | — | 397 |
| Capital injections by minority equity holders to subsidiaries | — | — | — | — | — | — | — | — | 18,961 | 18,961 |
| Profit/(loss) for the year | — | — | — | — | — | — | 617,593 | 617,593 | (3,475) | 614,118 |
| Appropriation to reserves | — | — | — | 28,049 | — | — | (28,049) | — | — | — |
| Transaction costs for transfer of convertible preference shares between holders | — | — | — | — | — | (20,199) | — | (20,199) | — | (20,199) |
| Equity component of convertible redeemable preference shares (note 28) | — | — | 29,458 | — | — | — | — | 29,458 | — | 29,458 |
| Translation reserves | — | — | — | — | 1,997 | — | — | 1,997 | — | 1,997 |
| Dividends | — | — | — | — | — | — | (453,160) | (453,160) | — | (453,160) |
| Balance at March 31, 2007 | 5,797 | — | 29,458 | 68,908 | 1,997 | (20,199) | 469,237 | 555,198 | 16,086 | 571,284 |

- (i) In July 2004 and January 2005, the Gao Family acquired total additional equity interests of 45.26% in Bosideng Corporation from minority interest equity holders and contributed these to the Group.
- (ii) Shanghai Bosideng Holdings Group Co., Ltd. 上海波司登控股集團有限公司 (formerly known as “Dezhou Dekang Investment Co., Ltd.” 德州德康投資有限公司 or “Shanghai Bosideng Holdings Group”), a company controlled by the Gao Family, disposed of 7.5% equity interest in Bosideng Corporation to Shandong Kangbo Industry Co., Ltd, a fellow subsidiary of Bosideng Corporation. The transaction is accounted for as a deemed distribution to the Gao Family (refer to note 35(a)(i)).

4. COMBINED CASH FLOW STATEMENTS

| | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|--|--|--|--|
| Operating activities | | | |
| Profit for the period/year | 256,831 | 506,898 | 614,118 |
| Adjustments for: | | | |
| Income tax | 123,948 | 215,305 | 210,127 |
| Depreciation | 34,332 | 39,214 | 5,201 |
| Amortization of land use rights | 4,870 | 490 | — |
| Interest expenses | 17,850 | 24,646 | 24,724 |
| Interest income | (1,517) | (3,500) | (3,993) |
| Share of loss of equity accounted for investees | 1,388 | 538 | — |
| Dividend income from available-for-sale financial assets . . | (3,125) | (3,125) | — |
| (Reversal)/write down of inventories to net realizable value | (40,806) | (23,520) | 256,609 |
| Gains on disposal of land use rights | — | (4,339) | — |
| Net loss on disposal of property, plant and equipment | 7,336 | 2,210 | — |
| Government grants | (8,552) | (49,644) | (12,116) |
| Operating profit before changes in working capital | 392,555 | 705,173 | 1,094,670 |
| Decrease/(increase) in inventories | 245,808 | (121,797) | (737,103) |
| Increase in trade and other receivables | (131,787) | (120,541) | (654,808) |
| (Increase)/decrease in receivables due from related parties | (18,700) | (48,132) | 166,187 |
| Increase in trade and other payables | 242,865 | 292,372 | 214,983 |
| Increase in payables due to related parties | — | 11,000 | 58,304 |
| Cash generated from operating activities | 730,741 | 718,075 | 142,233 |
| Proceeds from government grants | 8,552 | 49,644 | 12,116 |
| Interest paid | (17,850) | (24,646) | (15,344) |
| Income tax paid | (40,482) | (72,851) | (73,524) |
| Net cash generated from operating activities | 680,961 | 670,222 | 65,481 |
| Investing activities | | | |
| Acquisition of property, plant and equipment | (13,271) | (73,400) | (29,497) |
| Acquisition of land use rights | (7,430) | (3,250) | — |
| Investment in available-for-sale financial assets | — | (22,860) | — |
| Investment to equity accounted investees | (115,508) | (25,000) | — |
| Loan to a third party (i) | — | (54,030) | — |
| Interest received | 1,517 | 3,500 | 3,993 |
| Proceeds from sale of property, plant and equipment | — | — | 127 |
| Dividend received | 3,125 | 3,125 | — |
| Decrease/(increase) in pledged bank deposits | 24,616 | (46,454) | (7,048) |
| Net cash used in investing activities | (106,951) | (218,369) | (32,425) |
| Financing activities | | | |
| Capital injections from equity holders | 19,868 | 2,992 | — |
| Capital injections from minority equity holders | 132 | 33,508 | 18,961 |
| Net cash advances to related parties | — | — | (555,565) |
| Cash and cash equivalents on deemed contribution by equity holders on acquisition of Bosideng Corporation and its subsidiaries (note 32) | 125,157 | — | — |
| Proceeds from interest-bearing borrowings and equity holder loans | 592,000 | 886,000 | 732,940 |
| Repayment of interest-bearing borrowings | (608,000) | (1,150,500) | (97,000) |
| Transaction costs for transfer of convertible preference shares between holders | — | — | (20,199) |

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|--|---|---|---|
| Proceeds from convertible bond, net of issue costs | — | — | 147,267 |
| Cash and cash equivalents deemed distributed to equity holders upon the Reorganization (<i>note 26(b)</i>) | — | (254,523) | — |
| Dividends paid to Union Holdings | (63,312) | (106,630) | — |
| Dividends paid to equity holders | <u>(153,736)</u> | <u>(102,470)</u> | <u>—</u> |
| Net cash (used in)/generated from financing activities . . . | (87,891) | (691,623) | 226,404 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | — | — | 1,997 |
| Net increase/(decrease) in cash and cash equivalents . . . | 486,119 | (239,770) | 261,457 |
| Cash and cash equivalents at the beginning of the period/ year | — | 486,119 | 246,349 |
| Cash and cash equivalents at the end of the period/year . | <u>486,119</u> | <u>246,349</u> | <u>507,806</u> |
| Supplemental disclosure of non-cash investing and financing transactions: | | | |
| Deemed contributions by equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) | <u>427,802</u> | <u>—</u> | <u>—</u> |
| Deemed distributions to equity holders (<i>note 26(b)</i>) | <u>34,967</u> | <u>600,957</u> | <u>—</u> |
| Purchase of inventories, set off against receivables due from related parties | <u>—</u> | <u>—</u> | <u>234,525</u> |
| Dividend payable, set off against receivables due from related parties | <u>—</u> | <u>—</u> | <u>166,900</u> |
| Receivable from disposal of land use rights (<i>note 24</i>) | <u>—</u> | <u>144,480</u> | <u>—</u> |

- (i) On April 20, 2005, Bosideng Corporation lent RMB54 million to Hangzhou Hualian Economic Development Co., Ltd, a subsidiary of China Union Holdings Limited. China Union Holdings Limited was the ultimate controlling equity holder of Bosideng Corporation prior to June 1, 2004. The loan has a fixed interest rate of 5.58% per annum and is due in three years. On March 31, 2006, this lending was deemed to be distributed to the Gao Family pursuant to the Reorganization.

C. NOTES TO THE FINANCIAL INFORMATION**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing this Financial Information, the Group has applied all new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for accounting periods beginning on April 1, 2006, as set out in note 1(w).

(b) Basis of measurement

The Financial Information is prepared on the historical cost basis except for compound financial instruments (see note 1(f)(ii)). It is presented in Renminbi ("RMB").

The methods used to measure fair values are discussed further in note 2.

(c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 36.

(d) Basis of combination**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

In the Company's balance sheet, investment in subsidiaries is stated at cost less any impairment losses. (see accounting policy (l))

(ii) Acquisition from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the equity holders that control the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group's controlling equity holders' consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of other reserve. Any cash paid for the acquisition is recognized directly in equity.

(iii) Associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The Financial Information includes the Group's share of the gain or loss of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in equity accounted investees, the carrying amount of that interest (including any long term investments) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investees.

(iv) Transactions eliminated on combination

Intra-group balances, transactions and any unrealized gains and losses arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(v) Transactions with minority interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly by subsidiaries, are presented in the combined balance sheet and combined statement of changes in equity, separately from equity attributable to the equity holders of the Group. Minority interests in the results of the Group are presented on the face of the combined income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Group.

Transactions with minority equity holders of the Group are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognized as reserve movement.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(e) Foreign currency**(i) Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The Financial Information is presented in RMB ("presentation currency").

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets

and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

(iii) *Financial statements of foreign operations*

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at the average exchange rates for the financial period and their balance sheets are translated at the exchange rates ruling at the balance sheet date. Exchange differences are recognized directly in equity.

(f) *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise available-for-sale financial assets, trade and other receivables, pledged bank deposits, cash and cash equivalents, interest-bearing borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or canceled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 1(q)(ii).

Available-for-sale financial assets

Investments in unlisted equity securities are classified as available-for-sale financial assets and recognized in the balance sheet at cost less impairment losses (see accounting policy (l)).

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) *Compound financial instruments*

Compound financial instruments issued by the Group comprise convertible redeemable preference shares that are redeemable on a specific date or at the option of the holders, and can be converted to share capital at the option of the holders. The number of shares to be issued does not vary with changes in their fair value. The compound financial instruments consist of a liability component, an equity component and an embedded derivative which is not closely related to the host contract.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and the embedded derivative. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of compound financial instruments is measured at amortized cost using the effective interest method, unless it is designated as being at fair value through profit or loss. The equity component of compound financial instruments is not remeasured subsequent to initial recognition.

The embedded derivative was initially recognised at fair value, which was evaluated by the Directors based on the likelihood at the inception date of whether the embedded derivative will be discharged (details of which are set out in note 28). The embedded derivative was subsequently discharged prior to the balance sheet date.

(iii) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

Convertible preference shares

Convertible preference shares are classified as equity as they are non-redeemable, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity. The convertible preference shares can be converted to share capital at the option of the holders, and the number of shares to be issued does not vary with changes in their fair value.

(g) Goodwill

All business combinations, other than combinations of entities under common control, are accounted for by applying the purchase method. Goodwill represents the excess between the cost of the acquisition over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquirees. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Goodwill is stated at cost less any accumulated impairment losses (see accounting policy (l)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(h) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (l)). Cost includes expenditures that are directly attributable to the acquisition of the asset. The costs of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

| | | |
|---|---------------------------|------------|
| — | Plant and buildings | 20 years |
| — | Machinery | 5–10 years |
| — | Motor vehicles and others | 5 years |

The residual value, if not insignificant, is reassessed annually.

(iv) Retirement and disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.

(v) Construction in progress

Construction in progress is stated at cost less impairment losses (see accounting policy (l)). Cost comprises direct costs of construction during the period of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(i) Land use rights

Land use rights represent lease prepayments paid to the PRC land bureau. Land use rights are carried at cost less accumulated amortization and impairment losses (see accounting policy (l)). Amortization is charged to the income statement on a straight-line basis over the respective periods of the rights which range from 45 years to 50 years.

(j) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes direct labor and an appropriate share of overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

(l) Impairment**(i) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill or intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(n) Employee benefits

(i) Short term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognized as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(o) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue**(i) Sales of goods**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns or allowances, trade discounts and volume rebates. Revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the customers. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing management involvement with the goods.

Sales of down apparels to distributors in the PRC and sales of OEM apparels overseas are recognized in accordance with the terms of delivery, provided the collectibility of sales proceeds is reasonably assured.

Sales of down apparels through department and retail stores are recognized at the time of sale to the retail end customers.

(ii) Provision of services

Fees from processing services (processing for domestic OEM customers) and import and export agency services rendered are recognized in the income statement as and when the services are performed.

(iii) Government grants

Unconditional discretionary government grants from the local Chinese government authorities are recognized in the income statement as other income on a cash receipt basis.

(iv) Royalty income

Royalties arising from the use by others of the Group's brands are recognized in other income on an accrual basis in accordance with the substance of the relevant agreement.

(q) Expenses**(i) Operating lease payments**

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the respective leases. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

(ii) Financial income and expenses

Finance income comprises interest income on cash deposits in bank, changes in fair value of financial assets at fair value through profit or loss and foreign currency gains that are recognized in profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expenses on borrowings, net of interest capitalised, changes in fair value of financial assets at fair value through profit or loss and foreign currency losses that are recognized in profit or loss. All borrowing costs are calculated using the effective interest rate method.

(iii) Borrowing costs

Interest payable on borrowings calculated using the effective interest rate method are expensed in the combined income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get it ready for its intended use or sale.

The capitalization of borrowing costs as part of the costs of the qualifying assets commences when expenditures for the assets are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the assets for their intended use or sales are in progress. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying assets ready for their intended use or sale are complete.

(r) Income tax

Income tax on the profit or loss during the Relevant Period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period or year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods or years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and the differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible redeemable preference shares and convertible preference shares.

(u) Related parties

For the purpose of the Financial Information, parties are considered to be related to an entity in the Group if the party has the ability, directly or indirectly, to control the entity or exercise significant influence over the entity in making financial and operating decisions, or vice versa, or where the entity and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant equity holders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the reporting format for the purposes of the Financial Information. No geographical segment information is separately presented as the Group's business segments are mainly managed and operated in the PRC. The major market of the Group's business segments is the PRC.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the combination process.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(w) New standards and interpretations not yet adopted

At the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period beginning on April 1, 2006 and which have not been adopted in preparing the Financial Information:

| | Effective for accounting period beginning on or after |
|--|--|
| Amendment to IAS 1, Presentation of financial statements: | |
| capital disclosures | January 1, 2007 |
| Amendment to IAS 23, Borrowing costs | January 1, 2009 |
| IFRS 7, Financial instruments: disclosures | January 1, 2007 |
| IFRS 8, Operating segments | January 1, 2009 |
| IFRIC 8, Scope of IFRS 2 Share-based payment | May 1, 2006 |
| IFRIC 9, Reassessment of embedded derivatives | June 1, 2006 |
| IFRIC 10, Interim financial reporting and impairment | November 1, 2006 |
| IFRIC 11, IFRS2 – Group and treasury share transaction | March 1, 2007 |
| IFRIC 12, Service concession arrangements | January 1, 2008 |
| IFRIC 13, Customer loyalty programmes | July 1, 2008 |
| IFRIC 14, IAS 19 — The limit on a defined benefit asset, minimum funding requirements and interaction | January 1, 2008 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of the Financial Information, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

2. DETERMINATION OF FAIR VALUES**(a) Convertible redeemable preference shares**

The liability component of the convertible redeemable preference shares is recognized initially at the fair value of a similar liability that does not have an equity conversion option, which is the present value of the contractually determined stream of future cashflows discounted at the market interest rate applicable to the Company.

(b) Investments in unlisted equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

3. REVENUE AND SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets, interest-bearing borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segment

The Group comprises the following main business segments:

- Down apparels. The down apparels segment carries on the business of sourcing and distributing down apparels.
- OEM. The OEM segment carries on the business of sourcing and distributing OEM apparels overseas and processing services in the PRC.

Other operations include investment in an associate, which is engaged in real estate development, investment in unlisted equity securities and other trading activities carried out by the Group. These other operations have been conducted by the Gao Family, and not by the Group following the Reorganization. Accordingly, they are classified as discontinued operations in the combined income statement for the period from June 1, 2004 to March 31, 2005 and for the year ended March 31, 2006 (see note 4).

Geographical segment

As the Group mainly operates in the PRC, no geographical segment information is presented.

For the period from June 1, 2004 to March 31, 2005

(a) Revenue and expenses

| | For the period from June 1, 2004 to March 31, 2005 | | | | | | |
|-------------------------------------|--|----------------|---------------------------------------|-----------------|------------------|--|--------------------------|
| | Down apparels | OEM | Other operations (discontinued) | Eliminations | Combined | Less other operations (discontinued) | Continuing operations |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total external revenues . . | 1,974,673 | 534,624 | 93,940 | — | 2,603,237 | (93,940) | 2,509,297 |
| Inter-segment revenues . . . | — | — | 26,539 | (26,539) | — | — | — |
| Total segment revenues . . | 1,974,673 | 534,624 | 120,479 | (26,539) | 2,603,237 | (93,940) | 2,509,297 |
| Segment results | 252,098 | 11,978 | (6,883) | — | 257,193 | (33,422) | 290,615 |
| Government grants | | | | | 8,552 | — | 8,552 |
| Unallocated expenses | | | | | (8,914) | — | (8,914) |
| Profit/(loss) for the period | | | | | 256,831 | (33,422) | 290,253 |

(b) Assets and liabilities

| | At March 31, 2005 | | | | |
|---|-------------------|-----------|---------------------------------------|-------------|--------------------|
| | Down apparels | OEM | Other operations (discontinued) | Elimination | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment assets | 1,447,032 | 339,765 | 285,479 | (19,438) | 2,052,838 |
| Investment in equity accounted investees | — | — | 114,120 | — | 114,120 |
| Unallocated assets | | | | | 43,409 |
| Total assets | | | | | 2,210,367 |
| Segment liabilities | (1,077,841) | (173,718) | (33,262) | 19,438 | (1,265,383) |
| Unallocated liabilities | | | | | (150,161) |
| Total liabilities | | | | | (1,415,544) |
| Capital expenditures incurred | 15,732 | 4,969 | — | — | 20,701 |

For the year ended March 31, 2006(a) *Revenue and expenses*

| | For the year ended March 31, 2006 | | | | | | Continuing operations RMB'000 |
|---|-----------------------------------|----------------|---------------------------------------|-----------------|------------------|--|----------------------------------|
| | Down apparels | OEM | Other operations (discontinued) | Eliminations | Combined | Less other operations (discontinued) | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Total external revenues . . . | 3,102,145 | 596,496 | 93,928 | — | 3,792,569 | (93,928) | 3,698,641 |
| Inter-segment revenues . . . | — | — | 26,309 | (26,309) | — | — | — |
| Total segment revenues . . . | 3,102,145 | 596,496 | 120,237 | (26,309) | 3,792,569 | (93,928) | 3,698,641 |
| Segment results | 439,183 | 12,701 | 10,015 | — | 461,899 | (16,636) | 478,535 |
| Government grants | — | — | — | — | 49,644 | — | 49,644 |
| Unallocated expenses | — | — | — | — | (4,645) | — | (4,645) |
| Profit/(loss) for the year . . . | | | | | 506,898 | (16,636) | 523,534 |

(b) *Assets and liabilities*

| | At March 31, 2006 | | | |
|---|-------------------|-----------|-------------|--------------------|
| | Down apparels | OEM | Elimination | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment assets | 857,238 | 342,690 | — | 1,199,928 |
| Unallocated assets | — | — | — | 299,426 |
| Total assets | | | | 1,499,354 |
| Segment liabilities | (1,004,385) | (115,257) | — | (1,119,642) |
| Unallocated liabilities | — | — | — | — |
| Total liabilities | | | | (1,119,642) |
| Capital expenditures incurred | 58,254 | 18,396 | — | 76,650 |

For the year ended March 31, 2007(a) *Revenue and expenses*

| | For the year ended March 31, 2007 | | |
|-------------------------------------|--|----------------|------------------|
| | Down apparels | OEM | Combined |
| | RMB'000 | RMB'000 | RMB'000 |
| Total segment revenues | <u>4,980,569</u> | <u>652,398</u> | <u>5,632,967</u> |
| Segment results | 564,179 | 51,422 | 615,601 |
| Government grants | | | 12,116 |
| Unallocated expenses | | | <u>(13,599)</u> |
| Profit for the year | | | <u>614,118</u> |

(b) *Assets and liabilities*

| | At March 31, 2007 | | |
|-------------------------------------|--------------------------|----------------|--------------------|
| | Down apparels | OEM | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Segment assets | 2,992,891 | 113,666 | 3,106,557 |
| Unallocated | | | <u>48,067</u> |
| Total assets | | | <u>3,154,624</u> |
| Segment liabilities | (1,936,330) | (60,859) | (1,997,189) |
| Unallocated | | | <u>(586,151)</u> |
| Total liabilities | | | <u>(2,583,340)</u> |
| Capital expenditures incurred | 29,497 | | 29,497 |

4. DISCONTINUED OPERATIONS

Discontinued operations represent investment in an associate engaged in real estate development, investments in certain unlisted equity securities and other miscellaneous trading activities conducted by the Group prior to the Reorganization. These operations are not related to the Group's down apparels and OEM management and were deemed distributed to the Gao Family by the Group upon the Reorganization on March 31, 2006. These operations are presented as discontinued operations and the comparative income statement has been restated to show the discontinued operations separately from continuing operations of the Group.

Profits/(loss) attributable to the discontinued operations is as follows:

| | Note | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 |
|--|-------|---|---|
| Results of discontinued operations | | | |
| Revenue | | 93,940 | 93,928 |
| Cost of sales | | <u>(112,443)</u> | <u>(97,707)</u> |
| Gross loss | | (18,503) | (3,779) |
| Other income | 5 | — | 4,339 |
| Distribution expenses | | (7,512) | (6,164) |
| Administrative expenses | | <u>(9,197)</u> | <u>(8,859)</u> |
| Loss from operations | | (35,212) | (14,463) |
| Share of loss of equity accounted investees | | (1,388) | (538) |
| Net finance income | 9 | <u>3,178</u> | <u>3,298</u> |
| Loss before income tax | | (33,422) | (11,703) |
| Income tax expense | 10(a) | <u>—</u> | <u>(4,933)</u> |
| Loss for the period/year | | <u><u>(33,422)</u></u> | <u><u>(16,636)</u></u> |
| Cash flows from discontinued operation | | | |
| Net cash from operating activities | | 115,776 | 22,151 |
| Net cash used in investing activities | | (119,887) | (56,761) |
| Net cash (used in) from financing activities | | <u>(3,000)</u> | <u>39,346</u> |
| Net cash (used in)/from discontinued operation | | <u><u>(7,111)</u></u> | <u><u>4,736</u></u> |

The carrying amounts of the assets and liabilities relating to the discontinued operations as of March 31, 2006, the date on which they were deemed to be distributed to the Gao Family, are disclosed in note 26(b).

5. OTHER INCOME

| | Note | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|--|------|--|--|--|
| Continuing operations | | | | |
| Royalty income | (i) | 42,218 | 60,960 | 50,429 |
| Government Grants | (ii) | <u>8,552</u> | <u>49,644</u> | <u>12,116</u> |
| | | 50,770 | 110,604 | 62,545 |
| Discontinued operations | | | | |
| Gain on sales of land use rights | | <u>—</u> | <u>4,339</u> | <u>—</u> |
| | | <u>50,770</u> | <u>114,943</u> | <u>62,545</u> |

(i) Royalty income arises from the use by others of the Group's brands.

(ii) The Group received unconditional discretionary grants amounting to RMB8,552,000, RMB49,644,000 and RMB12,116,000 for the period from June 1, 2004 to March 31, 2005 and the years ended March 31, 2006 and 2007 respectively from various local Chinese government authorities in recognition of the Group's contribution to the development of the local economies.

6. DISTRIBUTION EXPENSES

| | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|--|--|--|--|
| Advertising | 111,577 | 140,361 | 292,040 |
| Promotion | 30,313 | 89,145 | 280,421 |
| Concessionaire fees | 124,558 | 191,528 | 299,477 |
| Sales commission | 22,605 | 95,204 | 31,274 |
| Salary and welfare | 38,175 | 48,644 | 64,656 |
| Sales tax and surcharges | 14,048 | 22,736 | 9,769 |
| Entertainment and travelling | 12,000 | 32,664 | 46,832 |
| Rental | 7,268 | 9,377 | 12,952 |
| Others | <u>24,619</u> | <u>61,492</u> | <u>54,340</u> |
| Total | <u>385,163</u> | <u>691,151</u> | <u>1,091,761</u> |

7. PERSONNEL EXPENSES

| | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|---|--|--|--|
| Salaries, wages and other benefits | 91,842 | 99,638 | 81,851 |
| Contributions to defined contribution plans | <u>4,833</u> | <u>7,217</u> | <u>4,892</u> |
| | <u>96,675</u> | <u>106,855</u> | <u>86,743</u> |

Contributions made by the Group to pension funds are dealt with in the combined income statement when incurred. According to the respective pension fund regulations, the Group contributes to pension funds based on certain percentages of the average salary level according to the requirements of the various provinces in which its operations are located. The Group remits all pension fund contributions to the respective social security offices, which are responsible for the payment and liabilities relating to the pension funds. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

8. EXPENSES BY NATURE

The following expenses are included in cost of sales, distribution expenses, administrative expenses, other expenses and the results from discontinued operation.

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|--|---|---|---|
| Cost of inventories recognized as expenses included in | | | |
| cost of sales* | 1,856,296 | 2,402,827 | 3,388,900 |
| (Reversal)/write down of inventories to net realizable value . . . | (40,806) | (23,520) | 256,609 |
| Depreciation | 34,332 | 39,214 | 5,201 |
| Amortization of land use rights | 4,870 | 490 | — |
| Operating lease charges | 3,288 | 6,597 | 11,281 |
| Provision for bad and doubtful debts | 4,094 | 758 | 17,988 |
| Auditors' remuneration | 2,224 | 945 | 300 |

* During the period from June 1, 2004 to March 31, 2005, the years ended March 31, 2006 and 2007, cost of inventories includes staff costs of RMB59,459,000, RMB40,500,000 and RMB76,922,000, depreciation and amortization of RMB16,850,000, RMB24,011,000 and RMB826,000 respectively, which amounts are also included in the respective expenses disclosed above and in note 7.

9. NET FINANCING EXPENSES

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|---|---|---|---|
| Continuing operations | | | |
| Interest income on bank deposits | 1,517 | 3,500 | 3,993 |
| Finance income | 1,517 | 3,500 | 3,993 |
| Interest on convertible redeemable preference shares (<i>note 28</i>) | — | — | (9,380) |
| Interest expenses on interest-bearing borrowings and equity holder loans | (17,850) | (24,646) | (15,344) |
| Bank charges | (2,573) | (5,320) | (1,164) |
| Net foreign exchange gain/(loss) | 8 | (3,757) | (8,780) |
| Others | 61 | — | — |
| Finance expenses | (20,354) | (33,723) | (34,668) |
| Net financing expenses | (18,837) | (30,223) | (30,675) |
| Discontinued operations | | | |
| Dividend income from available-for-sale financial assets | 3,125 | 3,125 | — |
| Others | 53 | 173 | — |
| Finance income | 3,178 | 3,298 | — |

No interest was capitalised during the Relevant Period.

10. INCOME TAX EXPENSE

(a) Income tax in the combined income statement represents:

Continuing operations

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|--|---|---|---|
| Current tax expenses | | | |
| Provision for PRC income tax. | 85,574 | 203,014 | 210,127 |
| Deferred tax expenses | | | |
| Origination and reversal of temporary differences. | <u>38,374</u> | <u>7,358</u> | <u>—</u> |
| | <u>123,948</u> | <u>210,372</u> | <u>210,127</u> |

Discontinued operations

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|--|---|---|---|
| Current tax expenses | | | |
| Provision for PRC income tax. | — | 4,933 | — |
| Deferred tax expenses | | | |
| Origination and reversal of temporary differences. | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>—</u> | <u>4,933</u> | <u>—</u> |

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) Pursuant to the currently applicable income tax rules, PRC regulations and local income tax concessions granted, the companies now comprising the Group and the Predecessor Entities in the PRC are liable to PRC enterprise income tax at a rate of 33% during the Relevant Period, except for the following:

Shanghai Bosideng International Fashion Co., Ltd. ("SBIF"), established on June 23, 2005 as a PRC domestic company, was exempt from income tax during the period from July 1, 2005 to December 31, 2005 by the local tax authority. It became a foreign invested enterprise on September 14, 2006 when its equity interest was transferred to Bosideng International Fashion Ltd. and is entitled to a tax concession period in which it is fully exempted from PRC enterprise income tax for two years starting from its first tax profit making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years. Management has elected to treat the calendar year 2007 instead of 2006 as SBIF's first tax profit making year for tax purposes. Therefore, SBIF is subject to PRC enterprise income tax rates of 33% and 0% for the period from January 1, 2006 to December 31, 2006 and the period from January 1, 2007 to March 31, 2007 respectively.

Shanghai Bingjie Fashion Co. Ltd. ("SBF"), established on April 21, 1999 as a PRC domestic company, became a foreign invested enterprise on September 18, 2006 when its equity interest was transferred to SBIF and Bosideng International Fashion Ltd. It is therefore entitled to a tax concession period in which it is

fully exempted from PRC enterprise income tax for two years starting from its first tax profit making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years. Management has elected to treat the calendar year 2007 instead of 2006 as SBF's first tax profit making year for tax purposes. In addition, SBF obtained a preferential tax rate of 27% from the local tax authority for the period from November 1, 2006 to December 31, 2006. Therefore, SBF is subject to PRC enterprise income tax rates of 33%, 27% and 0% for the period from June 1, 2004 to October 31, 2006, the period from November 1, 2006 to December 31, 2006, and the period from January 1, 2007 to March 31, 2007 respectively.

Jiangsu Bosideng Down Wear Ltd. was established as a domestic enterprise on March 30, 2006. It became a foreign investment enterprise on September 7, 2006 and is entitled to a tax concession period in which it is fully exempted from PRC enterprise income tax for two years starting from its first profit making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years. Management has elected to treat the calendar year 2007 instead of 2006 to be the first profit making year for tax purposes. Therefore, Jiangsu Bosideng Down-Wear Ltd. is subject to PRC enterprise income tax rates of 33% and 0% for the period from March 30, 2006 to December 31, 2006 and the period from January 1, 2007 to March 31, 2007 respectively.

Shandong Bosideng Fashion Co., Ltd ("Shandong Bosideng"), established as a PRC domestic company on May 17, 2006, became a foreign investment enterprise on September 18, 2006 when its equity interest was transferred to SBIF and Bosideng International Fashion Ltd. Shandong Bosideng is therefore entitled to a tax concession period in which Shandong Bosideng is fully exempted from PRC enterprise income tax for two years starting from its profit making year, followed by a 50% reduction in the PRC enterprise income tax for the next three years. Management has elected to treat the calendar year 2007 instead of 2006 as the first tax profit making year of Shandong Bosideng for tax purpose. In addition, Shandong Bosideng obtained a preferential tax rate of 30% for the period from May 17, 2006 to December 31, 2006. Therefore, Shandong Bosideng is subject to PRC enterprise income tax rates of 30% and 0% for the period from May 17, 2006 to December 31, 2006, and the period from January 1, 2007 to March 31, 2007.

Domestic companies established in the PRC (refer to Section A.1 4) have obtained preferential income tax rates ranging from 18% to 33% from the respective local tax authorities.

(iii) New PRC tax law

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("the new tax law") which will take effect on January 1, 2008, when the current tax law will be abolished. The new tax law adopts a uniform tax rate of 25% for all enterprises including foreign investment enterprises and revokes the current tax exemption, reduction and protective treatments only applicable to foreign investment enterprises. The grandfathering treatment under the new law permits production foreign investment enterprises to continue to receive benefits of the tax holidays during a five year grandfathering period, the details of which have not been set out yet. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's financial statements when the implemented details are announced. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

Continuing operations

| | Period from June 1, 2004 to March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---|--|----------------|------------------------------|----------------|------------------------------|----------------|
| | | RMB'000 | | RMB'000 | | RMB'000 |
| Profit before income tax . . . | 100% | <u>414,201</u> | 100% | <u>733,906</u> | 100% | <u>824,245</u> |
| Income tax at the applicable PRC income tax rate of 33% | 33% | 136,686 | 33% | 242,189 | 33% | 272,001 |
| Effect of tax concessions . . | — | — | (12%) | (84,152) | (13%) | (112,501) |
| Non-taxable income | (5%) | (23,723) | (1%) | (8,683) | — | — |
| Non-deductible expenses . . | 1% | 6,660 | 5% | 33,766 | 2% | 25,922 |
| Tax losses not recognized as deferred tax assets . . | 1% | 5,687 | 4% | 27,455 | 3% | 25,192 |
| Others | — | <u>(1,362)</u> | — | <u>(203)</u> | — | <u>(487)</u> |
| Income tax expense | 30% | <u>123,948</u> | 29% | <u>210,372</u> | 25% | <u>210,127</u> |

Discontinued operations

| | Period from June 1, 2004 to March 31, 2005 | | Year ended March 31, 2006 | | Year ended March 31, 2007 | |
|---|--|-----------------|------------------------------|-----------------|------------------------------|----------|
| | | RMB'000 | | RMB'000 | | RMB'000 |
| Loss before income tax . . . | 100% | <u>(33,422)</u> | 100% | <u>(11,703)</u> | — | <u>—</u> |
| Income tax benefit at the applicable PRC income tax rate of 33% | 33% | (11,029) | 33% | (3,862) | — | — |
| Non-deductible expenses . . | (27%) | 8,983 | (66%) | 7,702 | — | — |
| Tax losses not recognized as deferred tax assets . . | (6%) | <u>2,046</u> | (9%) | <u>1,093</u> | — | <u>—</u> |
| Income tax expense | — | <u>—</u> | (42%) | <u>4,933</u> | — | <u>—</u> |

(c) Income tax payable in the combined balance sheet represents:

Continuing operations

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|---|---|---|---|
| PRC income tax | | | |
| Balance at beginning of the period/year | — | 144,244 | 105,111 |
| Deemed contribution by equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) . . | 98,912 | — | — |
| Provision for income tax for the period/year | 85,574 | 203,014 | 210,127 |
| Net payments during the period/year | (40,242) | (68,293) | (67,005) |
| Deemed distributions to equity holders (<i>note 26(b)</i>) | <u>—</u> | <u>(173,854)</u> | <u>—</u> |
| Income tax payable at the end of the period/year | <u>144,244</u> | <u>105,111</u> | <u>248,233</u> |

Discontinued operations

| | Period from June 1, 2004 to March 31, 2005 <u>RMB'000</u> | Year ended March 31, 2006 <u>RMB'000</u> | Year ended March 31, 2007 <u>RMB'000</u> |
|---|---|---|---|
| PRC income tax | | | |
| Balance at beginning of the period/year | — | (164) | — |
| Deemed contributions by equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) | 76 | — | — |
| Provision for income tax for the period/year | — | 4,933 | — |
| Net payments during the period/year | (240) | (4,558) | — |
| Deemed distributions to equity holders (<i>note 26(b)</i>) | <u>—</u> | <u>(211)</u> | <u>—</u> |
| Income tax recoverable at the end of the period/year . . . | <u>(164)</u> | <u>—</u> | <u>—</u> |

11. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

For the period from June 1, 2004 to March 31, 2005

| | Directors' fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Contribution to defined contribution schemes RMB'000 | Total RMB'000 |
|--|----------------------------|---|-------------------------------------|--|------------------|
| Executive directors | | | | | |
| Gao Dekang | — | 4,321 | — | 7 | 4,328 |
| Mei Dong | — | 260 | — | 6 | 266 |
| Gao Miaoqin | — | 260 | — | 10 | 270 |
| Kong Shengyuan | — | 260 | — | — | 260 |
| Huang Qiaolian | — | 260 | — | 3 | 263 |
| Wang Yunlei | — | — | — | — | — |
| Non-executive directors | | | | | |
| Shen Jingwu | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Dong Binggen | — | — | — | — | — |
| Jiang Hengjie | — | — | — | — | — |
| Wang Yao | — | — | — | — | — |
| Ngai Wai Fung | — | — | — | — | — |
| | — | 5,361 | — | 26 | 5,387 |

For the year ended March 31, 2006

| | Directors' fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Contribution to defined contribution schemes RMB'000 | Total RMB'000 |
|--|----------------------------|---|-------------------------------------|--|------------------|
| Executive directors | | | | | |
| Gao Dekang | — | 973 | — | 9 | 982 |
| Mei Dong | — | 313 | — | 7 | 320 |
| Gao Miaoqin | — | 313 | — | 10 | 323 |
| Kong Shengyuan | — | 313 | — | 25 | 338 |
| Huang Qiaolian | — | 313 | — | 5 | 318 |
| Wang Yunlei | — | 75 | — | 29 | 104 |
| Non-executive directors | | | | | |
| Shen Jingwu | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Dong Binggen | — | — | — | — | — |
| Jiang Hengjie | — | — | — | — | — |
| Wang Yao | — | — | — | — | — |
| Ngai Wai Fung | — | — | — | — | — |
| | — | 2,300 | — | 85 | 2,385 |

For the year ended March 31, 2007

| | Directors' fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Contribution to defined contribution schemes RMB'000 | Total RMB'000 |
|--|----------------------------|---|-------------------------------------|--|------------------|
| Executive directors | | | | | |
| Gao Dekang | — | 973 | — | 10 | 983 |
| Mei Dong | — | 563 | — | 8 | 571 |
| Gao Miaoqin | — | 313 | — | 10 | 323 |
| Kong Shengyuan | — | 313 | — | 39 | 352 |
| Huang Qiaolian | — | 313 | — | 6 | 319 |
| Wang Yunlei | — | 92 | — | 35 | 127 |
| Non-executive directors | | | | | |
| Shen Jingwu | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Dong Binggen | — | — | — | — | — |
| Jiang Hengjie | — | — | — | — | — |
| Wang Yao | — | — | — | — | — |
| Ngai Wai Fung | — | — | — | — | — |
| | <u>—</u> | <u>2,567</u> | <u>—</u> | <u>108</u> | <u>2,675</u> |

An analysis of directors' remuneration by the number of directors and remuneration range is set out below:

| | Period from June 1, 2004 to March 31, 2005 | Year ended March 31, 2006 | Year ended March 31, 2007 |
|--|---|---------------------------------|---------------------------------|
| Nil to RMB1,000,000 | 10 | 11 | 11 |
| RMB4,000,000 to RMB5,000,000 | <u>1</u> | <u>0</u> | <u>0</u> |
| | <u>11</u> | <u>11</u> | <u>11</u> |

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. Also there was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the 5 individuals with the highest emoluments during the Relevant Period, 4, 4 and 4 are directors whose emoluments are disclosed in note 11.

The aggregate of the emoluments in respect of the remaining highest paid employee during the Relevant Period are as follows:

| | <u>Period from June 1, 2004 to March 31, 2005</u> RMB'000 | <u>Year ended March 31, 2006</u> RMB'000 | <u>Year ended March 31, 2007</u> RMB'000 |
|---|--|---|---|
| Salaries, allowances and other benefits in kind | 260 | 312 | 353 |
| Contribution to defined contribution schemes | <u>6</u> | <u>8</u> | <u>8</u> |
| | <u>266</u> | <u>320</u> | <u>361</u> |

An analysis of their emoluments by number of employees and emolument range is set out below:

| | <u>Period from June 1, 2004 to March 31, 2005</u> | <u>Year ended March 31, 2006</u> | <u>Year ended March 31, 2007</u> |
|-------------------------------|---|--------------------------------------|--------------------------------------|
| Nil to RMB1,000,000 | <u>1</u> | <u>1</u> | <u>1</u> |

13. DIVIDENDS

Dividends payable to the equity holders of the Group attributable to the period/year:

| | <u>Period from June 1, 2004 to March 31, 2005</u> RMB'000 | <u>Year ended March 31, 2006</u> RMB'000 | <u>Year ended March 31, 2007</u> RMB'000 |
|---------------------|--|---|---|
| Dividends | <u>—</u> | <u>103,029</u> | <u>453,160</u> |

The directors consider that the dividends declared during the Relevant Period are not indicative of the future dividend policy of the Group.

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity holders of the Company during the Relevant Period and the 5,257,199,855 shares in issue, comprising 5,000,000,000 ordinary shares after share split and 257,199,855 shares issued pursuant to the capitalization issue as of the Prospectus date, as detailed in the paragraph headed Changes in Shares of Our Group set out in Appendix VIII to the Prospectus, as if the shares were outstanding throughout the entire Relevant Period.

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

| Earnings/(loss) | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|---|---|--|--|
| Profit arising from continuing operations attributable to equity holders of the Company | 283,821 | 518,579 | 617,593 |
| Loss arising from discontinued operations attributable to equity holders of the Company | <u>(31,242)</u> | <u>(17,793)</u> | <u>—</u> |
| Earnings for the purpose of basic earnings per share, being profit for the period/year attributable equity holders of the Company | 252,579 | 500,786 | 617,593 |
| Effect of dilutive potential ordinary shares: | | | |
| Interest on convertible redeemable preference shares | <u>—</u> | <u>—</u> | <u>9,380</u> |
| Earnings for the purpose of diluted earnings per share. | <u>252,579</u> | <u>500,786</u> | <u>626,973</u> |
| | Period from June 1, 2004 to March 31, 2005 | Year ended March 31, 2006 | Year ended March 31, 2007 |
| Number of shares | Period from June 1, 2004 to March 31, 2005 | Year ended March 31, 2006 | Year ended March 31, 2007 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 5,257,199,855 | 5,257,199,855 | 5,257,199,855 |
| Effect of dilutive potential ordinary shares: | | | |
| Weighted average conversion number of Series A convertible redeemable preference shares calculated from the date of issuance (<i>note 28</i>) | — | — | 112,219,513 |
| Weighted average conversion number of Series B convertible preference shares calculated from the date of issuance (<i>note 27</i>) | <u>—</u> | <u>—</u> | <u>302,353,092</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>5,257,199,855</u> | <u>5,257,199,855</u> | <u>5,671,772,460</u> |
| | Period from June 1, 2004 to March 31, 2005 RMB | Year ended March 31, 2006 RMB | Year ended March 31, 2007 RMB |
| Basic earnings/(loss) per share | 0.05 | 0.10 | 0.12 |
| – from continuing operations | 0.06 | 0.10 | 0.12 |
| – from discontinued operations | (0.01) | — | — |
| Diluted earnings/(loss) per share | 0.05 | 0.10 | 0.11 |
| – from continuing operations | 0.06 | 0.10 | 0.11 |
| – from discontinued operations | (0.01) | — | — |

15. PROPERTY, PLANT AND EQUIPMENT

| | <u>Buildings</u> RMB'000 | <u>Plant and machinery</u> RMB'000 | <u>Motor vehicles and others</u> RMB'000 | <u>Construction in progress</u> RMB'000 | <u>Total</u> RMB'000 |
|---|-----------------------------|---|---|--|-------------------------|
| Cost | | | | | |
| Balance at June 1, 2004. | — | — | — | — | — |
| Deemed contribution by equity holders on acquisition of Bosideng Corporation and its subsidiaries (note 32) | 379,844 | 122,056 | 109,143 | 10,595 | 621,638 |
| Additions | 854 | 2,165 | 7,491 | 2,761 | 13,271 |
| Transfer | 4,071 | 6,011 | — | (10,082) | — |
| Disposals | (2,968) | (575) | (2,837) | (2,325) | (8,705) |
| Balance at March 31, 2005. | 381,801 | 129,657 | 113,797 | 949 | 626,204 |
| Additions | 23,710 | 757 | 22,477 | 26,456 | 73,400 |
| Transfer | 1,559 | 807 | — | (2,366) | — |
| Disposals | (1,115) | (3,077) | (74) | — | (4,266) |
| Deemed distributions to equity holders (note 26(b)) | (405,955) | (127,864) | (120,419) | (25,039) | (679,277) |
| Balance at March 31, 2006. | — | 280 | 15,781 | — | 16,061 |
| Additions | — | 6,649 | 22,848 | — | 29,497 |
| Disposals | — | — | (435) | — | (435) |
| Balance at March 31, 2007. | — | 6,929 | 38,194 | — | 45,123 |
| Depreciation | | | | | |
| Balance at June 1, 2004. | — | — | — | — | — |
| Deemed contribution by equity holders on acquisition of Bosideng Corporation and its subsidiaries (note 32) | (58,021) | (38,972) | (53,027) | — | (150,020) |
| Depreciation charge for the year | (13,852) | (9,492) | (10,988) | — | (34,332) |
| Disposals | 483 | 383 | 503 | — | 1,369 |
| Balance at March 31, 2005. | (71,390) | (48,081) | (63,512) | — | (182,983) |
| Depreciation charge for the year | (15,436) | (11,381) | (12,397) | — | (39,214) |
| Disposals | — | 934 | 7 | — | 941 |
| Deemed distributions to equity holders (note 26(b)) | 86,826 | 58,526 | 66,499 | — | 211,851 |
| Balance at March 31, 2006. | — | (2) | (9,403) | — | (9,405) |
| Depreciation charge for the year | — | (585) | (4,616) | — | (5,201) |
| Disposals | — | — | 308 | — | 308 |
| Balance at March 31, 2007. | — | (587) | (13,711) | — | (14,298) |
| Carrying amount | | | | | |
| At March 31, 2007 | — | 6,342 | 24,483 | — | 30,825 |
| At March 31, 2006 | — | 278 | 6,378 | — | 6,656 |
| At March 31, 2005 | 310,411 | 81,576 | 50,285 | 949 | 443,221 |

All plant and buildings are located in the PRC.

16. LAND USE RIGHTS

| | <u>RMB'000</u> |
|---|------------------|
| At June 1, 2004 | — |
| Deemed contributions by the equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) | 187,937 |
| Additions | 7,430 |
| Amortization charged for the period | (4,870) |
| Transfer to assets classified as held for sale (<i>note 24</i>) | <u>(140,141)</u> |
| At March 31, 2005 | <u>50,356</u> |
| Additions | 3,250 |
| Amortization charged for the year | (490) |
| Deemed distributions to the equity holders (<i>note 26(b)</i>) | <u>(53,116)</u> |
| At March 31, 2006 and 2007 | <u>—</u> |

17. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|----------------|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Cost of investment — Changshu Mingliu | 24,500 | — | — |
| Loans to Changshu Mingliu | 91,008 | — | — |
| Share of loss of equity accounted investees | <u>(1,388)</u> | <u>—</u> | <u>—</u> |
| | <u>114,120</u> | <u>—</u> | <u>—</u> |

Movement of investment in equity accounted investees

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|----------------|------------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Balance at beginning of the year/period | — | 114,120 | — |
| Additions | 115,508 | 25,000 | — |
| Share of loss of equity accounted investees | (1,388) | (538) | — |
| Deemed distributions to the equity holders (<i>note 26(b)</i>) | <u>—</u> | <u>(138,582)</u> | <u>—</u> |
| Balance at end of the year/period | <u>114,120</u> | <u>—</u> | <u>—</u> |

Changshu Mingliu Property Investment Co., Ltd. ("Changshu Mingliu") was incorporated in the PRC in September 2004. The registered and paid-up capital of Changshu Mingliu amounted to RMB98,000,000. Its principal activity is property development and sales. Bosideng Corporation injected cash of RMB24,500,000 representing 25% of the paid-in capital of Changshu Mingliu upon its establishment.

Loans to Changshu Mingliu represents the Group's proportional share of equity holders' loans, which are unsecured, interest free and has no fixed terms of repayment.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Balance as of March 31, | | | Ownership | | |
|--|-------------------------|---------|---------|-----------|------|------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | | | |
| Equity investments in unlisted companies | | | | | | |
| Jinan People Darunfa Commercial Co. Ltd. | (i) 25,000 | — | — | 25% | — | — |
| Changshu Rural Commercial Bank | 3,000 | — | — | 1% | — | — |
| Changshu Kuncheng High School | 1,000 | — | — | 6% | — | — |
| Sub-total | 29,000 | — | — | | | |
| Less: Impairment loss | — | — | — | | | |
| Total | 29,000 | — | — | | | |

- (i) According to the investment agreement between Bosideng Corporation and Jinan People Darunfa Commercial Co., Ltd., Bosideng Corporation was entitled to a fixed dividend of RMB2,645,000 per annum, and has no significant influence over Jinan People Darunfa Commercial Co., Ltd.'s operation.

Movement in available-for-sale financial assets

| | 2005 | 2006 | 2007 |
|--|---------|----------|---------|
| | RMB'000 | RMB'000 | RMB'000 |
| Balance at beginning of the year/period | — | 29,000 | — |
| Deemed contribution by equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) | 29,000 | — | — |
| Additions | — | 22,860 | — |
| Deemed distributions to the equity holders (<i>note 26(b)</i>) | — | (51,860) | — |
| Balance at end of the year/period | 29,000 | — | — |

19. DEFERRED TAX ASSETS

Recognized deferred tax assets

The breakdown of deferred tax assets and the movement in temporary differences during the period/year are as follows:

| | <u>Inventory provision</u> | <u>Accounts receivable provision</u> | <u>Tax loss Carry-forwards</u> | <u>Total</u> |
|---|--------------------------------|--|------------------------------------|-----------------|
| Balance at June 1, 2004. | — | — | — | — |
| Deemed contributions by the equity holders on acquisition of Bosideng Corporation and its subsidiaries (<i>note 32</i>) | 57,068 | 1,339 | 3,537 | 61,944 |
| (Charged)/credited to profit and loss. | <u>(34,906)</u> | <u>69</u> | <u>(3,537)</u> | <u>(38,374)</u> |
| Balance at March 31, 2005. | 22,162 | 1,408 | — | 23,570 |
| (Charged)/credited to profit and loss. | (7,762) | 404 | — | (7,358) |
| Deemed distributions to equity holders (<i>note 26(b)</i>) | <u>(14,400)</u> | <u>(1,812)</u> | <u>—</u> | <u>(16,212)</u> |
| Balance at March 31, 2006. | — | — | — | — |
| (Charged)/credited to profit and loss. | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Balance at March 31, 2007. | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

Unrecognized deferred tax asset

Deferred tax asset has not been recognized in respect of the following item:

| | <u>Period from June 1, 2004 to March 31, 2005 RMB'000</u> | <u>Year ended March 31, 2006 RMB'000</u> | <u>Year ended March 31, 2007 RMB'000</u> |
|---|---|--|--|
| Continuing operations | | | |
| Tax losses of subsidiaries and branches | <u>17,233</u> | <u>83,197</u> | <u>76,339</u> |

No deferred tax asset was recognized in respect of tax losses of certain subsidiaries and branches of the Predecessor Entities for the period from June 1, 2004 to March 31, 2005 and the year ended March 31, 2006 respectively, as these subsidiaries and branches were or are intended to be liquidated following the Reorganization. No deferred tax asset has been recognized in respect of tax losses of subsidiaries of the Group for the year ended March 31, 2007, as management consider that it is not probable that the entities concerned will generate sufficient future taxable profits against which the unused tax losses can be utilized. Tax losses can be carried forward for five years after the year of loss.

Discontinued operations

| | | | |
|--------------------------------------|--------------|--------------|----------|
| Tax losses of subsidiaries | <u>6,200</u> | <u>3,312</u> | <u>—</u> |
|--------------------------------------|--------------|--------------|----------|

These represent losses of subsidiaries included in discontinued operations for the period from June 1, 2004 to March 31, 2005 and the year ended March 31, 2006 respectively.

20. INVENTORIES

| | At March 31, | | |
|------------------------|----------------|----------------|------------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 61,184 | 78,582 | 28,998 |
| Work in progress | 18,914 | 31,771 | 21,878 |
| Finished goods | 334,375 | 418,530 | 1,193,026 |
| | <u>414,473</u> | <u>528,883</u> | <u>1,243,902</u> |

At March 31, 2005, 2006 and 2007, inventories carried at net realizable value amounted to RMB89,461,000, RMB116,683,000 and RMB737,870,000, respectively.

21. TRADE AND OTHER RECEIVABLES

| | At March 31, | | |
|--|----------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | 243,144 | 231,865 | 767,583 |
| Bills receivable | 38,597 | 27,808 | 47,030 |
| Third party other receivables | | | |
| Prepayments to materials and service suppliers | 163,784 | 112,575 | 41,520 |
| VAT recoverable | 3,074 | 2,479 | 18,464 |
| Deposits | 638 | — | 9,072 |
| Advances to employees | 6,509 | 24,133 | 8,374 |
| Others | 1,870 | 4,971 | 4,115 |
| | <u>457,616</u> | <u>403,831</u> | <u>896,158</u> |

All of the trade and other receivables are expected to be recovered within one year.

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. An aging analysis of trade and bills receivable of the Group is as follows:

| | At March 31, | | |
|--|----------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 3 months | 210,765 | 196,961 | 719,936 |
| Over 3 months but less than 6 months | 40,115 | 29,188 | 69,842 |
| Over 6 months but less than 12 months | 3,539 | 8,474 | 12,328 |
| Over 12 months | 31,416 | 28,833 | 27,486 |
| | 285,835 | 263,456 | 829,592 |
| Less: Impairment of bad and doubtful debts | (4,094) | (3,783) | (14,979) |
| | <u>281,741</u> | <u>259,673</u> | <u>814,613</u> |

22. PLEDGED BANK DEPOSITS

Bank deposits of RMB17,551,000, RMB nil, and RMB7,048,000 as of March 31, 2005, 2006 and 2007 respectively were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see note 31). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

23. CASH AND CASH EQUIVALENTS

| | At March 31, | | |
|--|-----------------------|-----------------------|-----------------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash at bank and on hand | 486,119 | 246,349 | 507,806 |
| Pledged bank deposits (<i>note 22</i>) | 17,551 | — | 7,048 |
| | <u>503,670</u> | <u>246,349</u> | <u>514,854</u> |
| Less: Pledged bank deposits | (17,551) | — | (7,048) |
| Cash and cash equivalents | <u><u>486,119</u></u> | <u><u>246,349</u></u> | <u><u>507,806</u></u> |

Cash at bank and cash in hand are denominated in:

| | At March 31, | | |
|---------------------------------|----------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| RMB | 429,187 | 213,050 | 460,163 |
| United States Dollars | 74,483 | 33,299 | 54,691 |
| | <u>503,670</u> | <u>246,349</u> | <u>514,854</u> |

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

24. ASSETS CLASSIFIED AS HELD FOR SALE

| | At March 31, | | |
|---------------------------|--------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Land use rights | 140,141 | — | — |

These land use rights are presented as held for sale as of March 31, 2005 following the decision of the Group's management to sell the land due to a change of strategy. The land use rights were sold in May 2005 for a consideration of RMB144,480,000.

25. ISSUED/COMBINED CAPITAL

For the purpose of the Financial Information, the issued/combined capital of the Group as of March 31, 2005 and 2006 represents the aggregate amount of the paid-in capital of all the entities now comprising the Group or the Predecessor Entities at the respective dates, after elimination of investments in subsidiaries. The issued/combined capital of the Group as of March 31, 2007 represents the issued capital of the Company of RMB397,000 and the 90% equity interest in the issued capital of Shanghai Kangbo International Trading Co., Ltd. of RMB6,000,000. On June 14, 2007, the 90% equity interest in Kangbo was transferred from Bosideng Corporation to the Group.

Other than the deemed contributions by the equity holders on June 1, 2004 (refer to note 32), the capital injections during the Relevant Period represent cash contributions.

26. RESERVES

(a) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the entities comprising the Group which are incorporated in the PRC. Transfers to the reserves were approved by the respective boards of directors.

(b) Deemed distributions to equity holders upon the Reorganization

Pursuant to the Reorganization, the following assets and liabilities of the Group were deemed to be distributed to the Gao Family on March 31, 2006.

| | <u>Discontinued operations</u> | <u>Other assets and liabilities</u> | <u>Total</u> |
|--|------------------------------------|---|----------------|
| Property, plant and equipment, net. | 30,777 | 436,649 | 467,426 |
| Land use rights. | — | 53,116 | 53,116 |
| Investment in equity accounted investees | 138,582 | — | 138,582 |
| Available-for-sale financial assets | 51,860 | — | 51,860 |
| Deferred tax assets | — | 16,212 | 16,212 |
| Non-trade receivable | — | 54,030 | 54,030 |
| Pledged deposits | — | 64,005 | 64,005 |
| Cash and cash equivalents | 15,531 | 238,992 | 254,523 |
| Trade and other receivables. | 295,190 | 24,731 | 319,921 |
| Receivables due from related parties | — | 68,123 | 68,123 |
| Inventories | 30,374 | 533 | 30,907 |
| Interest-bearing borrowings | — | (50,000) | (50,000) |
| Trade and other payables. | (81,810) | (35,106) | (116,916) |
| Payables due to related parties | — | (322,244) | (322,244) |
| Tax payable | (211) | (173,854) | (174,065) |
| | <u>480,293</u> | <u>375,187</u> | <u>855,480</u> |
| Net identifiable assets and liabilities. | | | |

Other assets and liabilities above relate to the down apparel manufacturing operations of the Group.

27. CONVERTIBLE PREFERENCE SHARES

Number of shares authorized and issued

| | <u>At March 31,</u> | | |
|---|---------------------|-------------|-------------|
| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Series B convertible preference shares ("the Series B Shares"), US\$0.0001 par value | — | — | 5,336 |

The movement in convertible preference shares is as follows:

| | RMB'000 |
|---|----------------|
| The Series B Shares issued on September 5, 2006 and balance at March 31, 2007 for a total consideration of US\$0.5336 | <u>—</u> |

The principal terms of these convertible preference shares include the following:

Conversion

Any holder of the Series B Shares shall have the right, but not obligation, at any time and from time to time, to convert any or all of the Series B Shares held by it, into such number of fully paid and ordinary shares of the Company at the then applicable conversion price. The Series B Shares shall convert into ordinary shares immediately prior to (and conditional upon the completion of) a Qualified IPO, as defined by the Company's articles of association. The conversion ratio in respect of any of the Series B Shares is subject to anti-dilutive adjustments from time to time as provided for in the Company's articles of association. As of the date of this prospectus, the Series B Shares are convertible into 530,571,532 ordinary shares.

Dividends

The Company may declare and pay annual dividends by using the profits of the Company available for distribution, provided that in relation to any financial year, the dividends distributed to the holder of the Series B Shares shall be non-cumulative and shall not exceed 5% of the investment amount of US\$50 million made by the holder of the Series B Shares.

28. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

Number of shares authorized and issued

| | At March 31, | | |
|--|---------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| Series A convertible redeemable preference shares ("the Series A Shares"), USD0.0001 par value. | — | — | 2,135 |

The movement in convertible redeemable preference shares is as follows:

| | Liability component RMB'000 | Equity component RMB'000 | Total RMB'000 |
|---|--|---|--------------------------|
| Series A preference shares issued and converted from a convertible bond (the "CB") on September 24, 2006 | 127,326 | 31,050 | 158,376 |
| Issue costs | (6,533) | (1,592) | (8,125) |
| Net proceeds received | 120,793 | 29,458 | 150,251 |
| Exchange realignment | (2,984) | — | (2,984) |
| Interest charged during the year | 9,380 | — | 9,380 |
| At March 31, 2007 | <u>127,189</u> | <u>29,458</u> | <u>156,647</u> |

On September 5, 2006, the Company issued a convertible bond (the "CB") with a principal amount of US\$20 million. The CB does not bear interest and is mandatorily convertible into 2,135 Series A Shares, if revised business licenses of the Company's PRC subsidiaries are issued within three months of the defined completion date of September 6, 2006. The CB is convertible at the holder's option if the revised business licenses of the PRC subsidiaries of the Company are not issued within three months of the completion date, and may be redeemed at the holder's option at the principal amount. On September 24, 2006, the CB was converted by the holder into 2,135 Series A Shares.

The principal terms of the Series A Shares include the following:

Conversion

Any holder of Series A Shares shall have the right, but not obligation, at any time and from time to time, to convert any or all of the Series A Shares held by it, into such number of fully paid and non-assessable ordinary shares of the Company at the then applicable conversion price. The Series A Shares shall convert into ordinary shares immediately prior to (and conditional upon the completion of) a successful Qualified IPO, as defined by the Company's articles of association. The conversion ratio in respect of any Series A Share is subject to anti-dilutive adjustments from time to time as provided for in the Company's articles of association. As of the date of this prospectus, the Series A Shares are convertible into 212,228,613 ordinary shares.

Redemption

At any time and from time to time after the fifth anniversary of the completion date of September 6, 2006, all, but not some only, of the Series A Shares may be redeemed at the election of the holder of Series A Shares at a price equal to the redemption price as defined below.

If any of the following accelerated redemption events shall occur, and the holder of the Series A Shares requests all, but not some only, of the Series A Shares to be redeemed by the Company, the Company shall redeem the Series A Shares at a redemption price equal to the redemption price:

- (a) material breach by parties other than the holder of Series A Shares;
- (b) if the audited net profit after tax of the Company for any financial year falls below US\$25 million;
- (c) if the Founding Equity holder, Mr. Gao Dekang, ceases to be employed by the Company or ceases to play an important managerial role in the Group; and
- (d) if any of the trademarks has not been transferred to the Group by the time set out in and in accordance with the Investment Agreement.

Redemption Price means an amount equal to US\$20 million plus the amount necessary to produce a compound annual return of 8% thereon (accrued daily on the basis of a 365 day year) calculated from the completion date up to the actual redemption payment date, less the cumulative amount of dividends declared and paid in respect of the Series A Shares being redeemed.

Dividends

The Company may declare and pay annual dividends by using the profits of the Company available for distribution provided that in relation to any financial year, the dividends distributed to the holder of the Series A Shares shall be non-cumulative and shall not exceed 5% of the investment amount of US\$20 million.

The net proceeds received from the issue of the CB, which was subsequently converted into Series A Shares, contain the following components that are required to be separately accounted for in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement":

- (a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the Relevant Period is calculated by applying effective interest rates of approximately 13.6% to the liability component, net of the issuance cost allocated, for the Relevant Periods since the convertible redeemable preference shares were issued.

- (b) Embedded derivative of a prepayment option that is contingent on whether the revised business license of the Company's PRC subsidiaries could be issued within 3 months of the Completion Date. This embedded derivative was discharged when the CB was converted into the Series A Shares. In the opinion of the directors of the

Company, the fair value of the embedded derivative at September 5, 2006 was nil as it was highly likely at the inception date that the revised business licenses of the company's PRC subsidiaries could be issued within 3 months subsequent to the Completion Date. This prepayment option expired upon the conversion from the CB to the Series A shares on September 24, 2006.

(c) Equity component represents the residual amount after deducting the fair value of the liability component.

29. INTEREST-BEARING BORROWINGS

| | At March 31, | | |
|--|--------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Unsecured bank loans-current | 314,500 | — | 240,000 |

The loans from bank as of March 31, 2005 and 2007, on which interest was payable at a rate of 5.04% per annum and 5.52% per annum respectively, were repayable within one year. Bosideng Corporation, Shanghai Bosideng Holdings Group and Mr. Gao provided guarantees amounting to RMB190,000,000 in favour of banks to secure the Group's bank loans (note 35) at March 31, 2007.

30. EQUITY HOLDER LOANS

| | At March 31, | | |
|--|--------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Kong Bo Investment Limited ("KBI") | — | — | 395,940 |

The equity holder loans as of March 31, 2007 amounting to US\$50,000,000 (equivalent to RMB395,940,000), on which interest is payable at a fixed rate of 2% per annum, is repayable on demand. The directors have confirmed that the equity holder loans was settled prior to listing.

31. TRADE AND OTHER PAYABLES

| | At March 31, | | |
|---|----------------|----------------|------------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | 125,768 | 211,249 | 542,280 |
| Bills payable | 283,250 | 324,400 | 50,000 |
| Other payables and accrued expenses | | | |
| Customer deposits | 168,611 | 149,330 | 358,442 |
| Accrued rebates and commissions | 45,376 | 131,811 | 128,128 |
| Accrued advertising expenses | 34,573 | 23,959 | 43,850 |
| Accrued payroll and welfare | 46,199 | 4,704 | 32,687 |
| Other levies payable | 9,697 | 10,003 | 3,610 |
| Other deposits | 8,965 | — | — |
| VAT Payable | 67,063 | 107,478 | — |
| Others | 24,704 | 28,449 | 42,108 |
| Dividend payable | 107,792 | — | 289,421 |
| | <u>921,998</u> | <u>991,383</u> | <u>1,490,526</u> |

All of the trade and other payables are expected to be settled within one year. The directors have confirmed that dividend payable was settled prior to listing.

Bills payable at March 31, 2005, 2006 and 2007 were secured by the Group's time deposits of RMB17,551,000, the equity holder's time deposits of RMB64,005,000 and the Group's time deposits of RMB7,048,000 as of March 31, 2005, 2006 and 2007 respectively (see note 22).

An aging analysis of trade and bills payables is set out below:

| | At March 31, | | |
|---|-----------------|-----------------|-----------------|
| | 2005 RMB'000 | 2006 RMB'000 | 2007 RMB'000 |
| Within 3 months | 359,891 | 396,498 | 454,860 |
| Over 3 months but less than 6 months | 35,717 | 127,094 | 126,320 |
| Over 6 months but less than 12 months | 3,056 | 3,536 | 1,432 |
| Over 12 months | 10,354 | 8,521 | 9,668 |
| | <u>409,018</u> | <u>535,649</u> | <u>592,280</u> |

32. BUSINESS COMBINATION

The fair value of the identifiable assets and liabilities acquired, together with the interests already held by the Gao Family prior to June 1, 2004, were accounted for as deemed contributions by the Gao Family to the Group for the period ended March 31, 2005.

Details of the assets and liabilities deemed contributed by the Gao Family to the Group were as follows:

| | <u>Recognized value on acquisition</u> RMB'000 |
|---|---|
| Property, plant and equipment | 471,618 |
| Land use rights | 187,937 |
| Available-for-sale financial assets | 29,000 |
| Deferred tax assets | 61,944 |
| Inventories | 619,475 |
| Trade and other receivables | 341,329 |
| Pledged bank deposits | 42,167 |
| Cash and cash equivalents | 125,157 |
| Interest-bearing borrowings | (330,500) |
| Income tax payable | (98,988) |
| Trade and other payables | (896,180) |
| Fair value of net identifiable assets | <u>552,959</u> |
| Cash and cash equivalents acquired | <u>125,157</u> |

The recognised value on acquisition was determined by the directors of the Group with reference to a valuation performed by an independent valuer.

33. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Cash is placed with a group of banks and financial institutions which management considers have good credit ratings. Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the balance sheet net of impairment losses.

At the balance sheet dates, the Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

(b) Interest rate risk

Cash and cash equivalents, pledged deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash and cash equivalents and pledged deposits comprise mainly cash at bank, with fixed interest rates of 0.72% per annum as of the respective balance sheet dates.

Details of the interest rates and repayment terms of the Group's interest-bearing borrowings are disclosed in note 29 and 30.

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United States Dollars.

(d) Fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, trade and other receivables, trade and other payables.

The carrying values approximate fair value because of the short maturities of these instruments.

- (ii) Interest-bearing borrowings

The carrying amount of bank loans approximates their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

- (iii) Convertible redeemable preference shares

The liability component of the convertible redeemable preference shares is recognized initially at the fair value of a similar liability that does not have an equity conversion option.

34. LEASE COMMITMENTS

Non-cancellable operating lease rentals are payable as follows:

| | At March 31, | | |
|---|--------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | — | 3,764 | 9,674 |
| After 1 year but within 5 years | — | 3,344 | 5,220 |
| | — | 7,108 | 14,894 |

The Group leases a number of warehouses, factory facilities and office premises under operating leases. The leases typically run for an initial period of between one and six years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

In addition to the above, the Group operates retail outlets under concessionaire arrangements. The concessionaire fees payable are based on a percentage of revenue and disclosed in note 6.

35. RELATED PARTY TRANSACTIONS

During the Relevant Period, transactions with the following parties are considered as related party transactions.

For the period from June 1, 2004 to March 31, 2005 and the year ended March 31, 2006

| Name of party | Relationship |
|---|--|
| Changshu Bosideng Garment Co., Ltd 常熟波司登服飾有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Dezhou Kangxin Industry Co., Ltd 德州康欣實業有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Jiangsu Bosideng Garment Co., Ltd 江蘇波司登製衣有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Jiangsu Kangbo Investment Co., Ltd 江蘇康博投資有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Shanghai Bosideng Holdings Group 上海波司登控股集團有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |

For the year from April 1, 2006 to March 31, 2007

| Name of party | Relationship |
|--|--|
| Changshu Bosideng Garment Co., Ltd 常熟波司登服飾有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Dezhou Kangxin Industry Co., Ltd 德州康欣實業有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Jiangsu Bosideng Garment Co., Ltd 江蘇波司登製衣有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Jiangsu Kangbo Investment Co., Ltd 江蘇康博投資有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Shanghai Bosideng Holdings Group 上海波司登控股集團有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Bosideng Corporation 波司登股份有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Shandong Kangbo Industry Co., Ltd. ("Shandong Kangbo") 山東康博實業有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Kong Bo Investment Limited ("KBI") 康博投資有限公司 | Equity holder of the Company |
| Kong Bo Development Co., Ltd. 康博發展有限公司 | Equity holder of the Company |
| Shandong Ru Shang Co., Ltd. 山東儒商有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |
| Smartland Children's Wear Co., Ltd. ("Smartland") 江蘇波司登智慧島童裝服飾有限公司 | Effectively controlled by the Gao Family, the controlling equity holder of the Group |

(a) Transactions with the equity holders of the Companies comprising the Group and the Predecessor Entities

For the period from June 1, 2004 to March 31, 2005

- (i) Shandong Kangbo acquired 7.5% of the equity interest in Bosideng Corporation from Shanghai Bosideng Holdings Group for a consideration amounting to RMB34,967,000, which was calculated based on 7.5% of the net asset value of Bosideng Corporation on May 31, 2004, as agreed between Shanghai Bosideng Holdings Group and Shandong Kangbo. This transaction is accounted for as a deemed distribution to the Gao Family (refer to note ii on IA-17).

For the year from April 1, 2005 to March 31, 2006

- (i) Bosideng Corporation paid an amount of RMB21,000,000 on behalf of Shanghai Bosideng Holdings Group to purchase an office building in 2006. This was deemed as distributed to the equity holders.
- (ii) Shanghai Bosideng Holdings Group charged a total management fee amounting to RMB10,000,000 to Bosideng Corporation in 2006, which was settled by March 31, 2006.
- (iii) Certain assets and liabilities were deemed distributed to the equity holders upon the Reorganization (note 26(b)).

For the year from April 1, 2006 to March 31, 2007

- (i) The Group borrowed a loan from equity holder KBI amounting to USD50 million (equivalent to RMB395,940,000), on which interest was accrued at a fixed rate of 2% per annum. Total interest charged for the year ended March 31, 2007 amounting to RMB4,512,000. The loan is repayable on demand (note 30).
- (ii) The Group borrowed an interest-free loan from Shanghai Bosideng Holdings Group amounting to RMB53,326,000 which is repayable on demand. The balance is included in "Payables due to related parties".
- (iii) Bosideng Corporation, Shanghai Bosideng Holdings Group and Mr. Gao provided guarantees amounting to RMB190,000,000 in favour of banks to secure the Group's bank loans (note 29).

(b) Transactions with fellow subsidiaries

| | Period from June 1, 2004 to March 31, 2005 RMB'000 | Year ended March 31, 2006 RMB'000 | Year ended March 31, 2007 RMB'000 |
|---|--|--|--|
| Sales of raw materials* | | | |
| Bosideng Corporation | — | — | 48,488 |
| Jiangsu Bosideng Garment Co., Ltd. | — | — | 891 |
| Smartland | — | — | 1,759 |
| Total | <u>—</u> | <u>—</u> | <u>51,138</u> |
| Purchase of raw materials* | | | |
| Bosideng Corporation | — | — | 245,117 |
| Total | <u>—</u> | <u>—</u> | <u>245,117</u> |
| Sales of down apparels* | | | |
| Bosideng Corporation | — | — | 3,113 |
| Total | <u>—</u> | <u>—</u> | <u>3,113</u> |
| Concessionaire fees** | | | |
| Shandong Ru Shang Co., Ltd. | — | — | 2,658 |
| Total | <u>—</u> | <u>—</u> | <u>2,658</u> |
| Purchase of down apparels* | | | |
| Jiangsu Bosideng Garment Co., Ltd. | — | — | 6,476 |
| Bosideng Corporation | — | — | 37,183 |
| Total | <u>—</u> | <u>—</u> | <u>43,659</u> |
| Rental expenses for lease of property, plant and equipment and land use rights** | | | |
| Bosideng Corporation | — | — | 5,964 |
| Shanghai Bosideng Holdings Group | — | — | 428 |
| Shandong Kangbo | — | — | 1,958 |
| Total | <u>—</u> | <u>—</u> | <u>8,350</u> |
| Royalty income** | | | |
| Bosideng Corporation | — | — | 1,000 |
| Changshu Bosideng Garment Co., Ltd. | 7,000 | 10,625 | 10,000 |
| Total | <u>7,000</u> | <u>10,625</u> | <u>11,000</u> |
| Processing fee** | | | |
| Bosideng Corporation | — | — | 226,828 |
| Smartland | — | — | 19,304 |
| Jiangsu Bosideng Garment Co. Ltd. | — | — | 8,513 |
| Shandong Kangbo | — | — | 11,033 |
| Total | <u>—</u> | <u>—</u> | <u>265,678</u> |
| Net cash advances* | | | |
| Bosideng Corporation | — | — | 555,565 |
| Total | <u>—</u> | <u>—</u> | <u>555,565</u> |

* These transactions with fellow subsidiaries represent transitional arrangements in connection with the Reorganization. Purchases and sales are primarily at costs of the products. The directors have confirmed that such transactions are non-recurring and will be discontinued prior to listing.

** The directors of the Company are of the opinion that these related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after listing of the Company's shares on the Stock Exchange.

(c) Balances with related parties

| | At March 31, | | |
|--|---------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables due from: | | | |
| Shanghai Bosideng Holdings Group | — | 1,764 | — |
| Changshu Bosideng Garment Co., Ltd. | 3,700 | 12,445 | 10,000 |
| Shandong Ru Shang Co., Ltd. | — | — | 47 |
| | <u>3,700</u> | <u>14,209</u> | <u>10,047</u> |
| Other receivables due from: | | | |
| Bosideng Corporation | — | 299,426 | 433,420 |
| Jiangsu Bosideng Garment Co., Ltd. | — | — | 19,299 |
| Kong Bo Development Ltd. | — | — | 4 |
| KBI | — | — | 382 |
| Smartland | — | — | 5,733 |
| Jiangsu Kangbo Investment Co., Ltd | 10,000 | — | — |
| Dezhou Kangxin Industry Co., Ltd. | 5,500 | — | — |
| Shanghai Bosideng Holdings Group | <u>15,000</u> | <u>—</u> | <u>—</u> |
| | <u>30,500</u> | <u>299,426</u> | <u>458,838</u> |
| Total receivables due from related parties | <u>34,200</u> | <u>313,635</u> | <u>468,885</u> |

All receivables due from related parties are collectible on demand. The directors have confirmed that other receivables due from related parties were settled prior to listing.

| | At March 31, | | |
|---|---------------|---------------|---------------|
| | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables due to: | | | |
| Bosideng Corporation | — | — | 16,257 |
| Shandong Kangbo | — | — | 11,394 |
| | <u>—</u> | <u>—</u> | <u>27,651</u> |
| Other payables due to: | | | |
| Bosideng Corporation | — | — | 475 |
| Shanghai Bosideng Holdings Group | <u>34,966</u> | <u>23,148</u> | <u>53,326</u> |
| | <u>34,966</u> | <u>23,148</u> | <u>53,801</u> |
| Total payables due to related parties | <u>34,966</u> | <u>23,148</u> | <u>81,452</u> |

All payables due to related parties are payable on demand. The directors have confirmed that other payables due to related parties were settled prior to listing.

36. ACCOUNTING ESTIMATES AND JUDGMENTS**(a) Useful lives of property, plant and equipment**

The management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature (such as the estimated timing of inventories to be used or sold and estimated selling price of inventories in accordance to the Group's sales and marketing strategies formulated with reference to the market and weather conditions as well as customer taste and purchasing power). They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations at each balance sheet date.

(c) Income tax

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

D. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as of March 31, 2007 to be KBI, which is incorporated in BVI.

E. SUBSEQUENT EVENTS

The following significant events took place subsequent to March 31, 2007:

1. Pre-listing share scheme

Pursuant to the written resolutions of the equity holders of the Company passed on June 14, 2007, the Company has conditionally adopted a share scheme. The principal terms of the share scheme are set out in section E of Appendix VIII to the Prospectus.

2. Share split and capitalization

According to the Board resolution dated September 14, 2007, each issued and unissued ordinary share of US\$1.00 each was sub-divided into 100,000 ordinary shares of US\$0.00001 each, resulting in the Company having an issued share capital of US\$50,000 divided into 5,000,000,000 ordinary shares of US\$0.00001 each. The Series A Shares and Series B Shares are therefore convertible into 212,228,613 and 530,571,532 ordinary shares respectively.

On September 14, 2007, the sum of US\$2,572.00 out of the Company's retained earnings was capitalized, and 257,199,855 ordinary shares were issued to Kong Bo Investment Limited, Kong Bo Development Limited and Gather Wealth Holdings Limited, with 251,675,202 ordinary shares issued to Kong Bo Investment Limited, 2,571,999 ordinary shares issued to Kong Bo Development Limited and 2,952,654 ordinary shares issued to Gather Wealth Holdings Limited.

3. Dividends

According to the Board resolutions dated August 28, 2007 and September 14, 2007, the Group declared dividends at an aggregate amount of approximately RMB467,435,000 to the then shareholders from retained earnings for the financial year ended March 31, 2007. Such dividends were fully paid on September 17, 2007.

F. BALANCE SHEET OF THE COMPANY

The particulars of the balance sheet of the Company at March 31, 2007 are set out below:

| | At March 31, 2007 |
|--|------------------------------|
| | RMB'000 |
| Investment in subsidiaries | 502,399 |
| Trade and other receivables | 867 |
| Cash and cash equivalents | 25,819 |
| Equity holder loans | (395,940) |
| Convertible redeemable preference shares | (127,189) |
| Trade and other payables | <u>(10,721)</u> |
| Net liabilities | <u><u>(4,765)</u></u> |

G. DIRECTORS' REMUNERATION

Save as disclosed in Section C note 11 above, no remuneration has been paid or is payable in respect of the Relevant Period by the Group to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of the Company's directors' remuneration payable for the year ending March 31, 2008 will be approximately RMB15,600,000 excluding management bonuses and allowances which are payable at the Company's discretion.

H. SUBSEQUENT ACCOUNTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to March 31, 2007.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

September 27, 2007

The Directors
Bosideng International Holdings Limited
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to 波司登股份有限公司 Bosideng Corporation Limited by Shares (“Bosideng Corporation”) and its subsidiaries (hereinafter collectively referred to as “BSD Group”) including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of BSD Group for the period from April 1, 2004 to May 31, 2004 (the “Relevant Period”), and the consolidated balance sheet of BSD Group as of May 31, 2004 together with the notes thereto (the “Financial Information”) for inclusion in the prospectus of Bosideng International Holdings Limited dated September 27, 2007 (“the Prospectus”). Mr. Gao De Kang and his family (the “Gao Family”) had a minority equity interest in BSD Group during the Relevant Period.

Bosideng Corporation was incorporated in the People’s Republic of China (the “PRC”) on June 30, 1994 as a domestic company with limited liability. Details of companies comprising BSD Group during the Relevant Period are set out in section A.

Pursuant to the reorganization of Bosideng International Holdings Limited and its subsidiaries (“the Reorganization”), as detailed in the paragraph headed “Reorganization” in the section of “Our History and Structure” of the Prospectus, the business operations of sourcing and distribution of down apparels and Original Equipment Manufacturer (“OEM”) management, which had been carried out by BSD Group, together with the relevant assets and liabilities, were transferred to subsidiaries of Bosideng International Holdings Limited (the “Company”) on March 31, 2006.

Bosideng Corporation and its subsidiaries have a statutory financial year end date of 31 December, as required by PRC statutory reporting requirements.

The statutory financial statements of Bosideng Corporation for the year ended December 31, 2004 were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC, and were audited by PriceWaterhouseCoopers Zhongtian Certified Public Accountants, registered in the PRC.

As of the date of this report, no audited financial statements have been prepared for the subsidiaries as set out in section A, as they are not subject to statutory audit requirements under the relevant rules and regulations in the PRC.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of Bosideng Corporation based on the unaudited management accounts of the companies comprising BSD Group (as set out in Section A of this report) for the Relevant Period, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate the unaudited management accounts in accordance with the accounting policies set out in section C1 to conform with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board and in compliance with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. IFRSs include International Accounting Standards and their Interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Bosideng Corporation are responsible for the preparation of the Financial Information together with the notes thereto as set out in Section B to Section D below which give a true and fair view. The Financial Information and the notes thereto have been prepared based on the unaudited management accounts of the companies comprising BSD Group, after making such adjustments as are appropriate.

The directors of the respective companies are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing the Financial Information and financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgments made by the directors of Bosideng Corporation in the preparation of the Financial Information, and of whether the accounting policies are appropriate to BSD Group’s circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of BSD Group's consolidated results and consolidated cash flows for the Relevant Period and of BSD Group's consolidated state of affairs as of May 31, 2004.

A. COMPANIES COMPRISING BSD GROUP

The particulars of the companies comprising BSD Group are set out below:

| <u>Name of company</u> | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/registered capital</u> | <u>Attributable equity interest held by BSD Group %</u> | <u>Principal activities</u> |
|--|---|---|---|--|
| Changshu Bosideng Advertising Co., Ltd. 常熟波司登廣告有限公司. | the PRC, September 12, 1996 | RMB500,000/ RMB500,000 | 100% | Advertisement agency |
| Changshu Zhengguanghe Drinking Water Co., Ltd. 常熟正廣和飲用水有限公司. | the PRC, November 15, 1996 | RMB3,800,000/ RMB3,800,000 | 90% | Production of distilled drinking water |
| Jiangsu Xuezhongfei Apparels Manufacturing Co., Ltd. 江蘇雪中飛製衣有限公司. | the PRC, September 24, 1997 | RMB2,000,000/ RMB2,000,000 | 100% | Sourcing and distribution of down apparels |
| Shenyang Bosideng Trading Co., Ltd. 瀋陽波司登貿易有限公司. | the PRC, October 8, 1998 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Shanghai Bosideng Trading Co., Ltd. 上海波司登貿易有限公司. | the PRC, October 8, 1998 | RMB3,000,000/ RMB3,000,000 | 100% | Distribution of apparels |
| Zhengzhou Bosideng Trading Co., Ltd. 鄭州波司登貿易有限公司. | the PRC, October 9, 1998 | RMB550,000/ RMB550,000 | 100% | Distribution of down apparels |
| Jinan Bosideng Trading Co., Ltd. 濟南波司登貿易有限公司. | the PRC, October 19, 1998 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Shijiazhuang Bosideng Trading Co., Ltd. 石家莊波司登貿易有限公司. | the PRC, October 22, 1998 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Beijing Bosideng Trading Co., Ltd. 北京波司登貿易有限公司. | the PRC, October 26, 1998 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |

| <u>Name of company</u> | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/registered capital</u> | <u>Attributable equity interest held by BSD Group %</u> | <u>Principal activities</u> |
|---|---|---|---|--|
| Changchun Bosideng Trading Co., Ltd. 長春波司登貿易有限公司 | the PRC, October 29, 1998 | RMB1,000,000/ RMB1,000,000 | 100% | Distribution of down apparels |
| Tianjin Bosideng Trading Co., Ltd. 天津波司登貿易有限公司 | the PRC, February 10, 1999 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Shanghai Bingjie Fashion Co., Ltd. 上海冰潔服飾有限公司 | the PRC April 21, 1999 | US\$10,000,000/ US\$10,000,000 | 100% | Sourcing and distribution of down apparels |
| Changshu Bosideng Garment Co., Ltd. 常熟波司登製衣有限公司 | the PRC, April 23, 1999 | RMB5,500,000/ RMB5,500,000 | 100% | Production of apparels |
| Changshu Bosideng Shirt Garment Co., Ltd. 常熟波司登襯衫製衣有限公司 . | the PRC, January 5, 2000 | RMB1,500,000/ RMB1,500,000 | 100% | Production of apparels |
| Shanghai Bosideng Industry Co., Ltd. 上海波司登實業有限公司 | the PRC, April 3, 2000 | RMB15,000,000/ RMB15,000,000 | 100% | Production of apparels |
| Changshu Bosideng Bedding Co., Ltd. 常熟波司登床上用品有限公司 . | the PRC, September 21, 2000 | RMB1,000,000/ RMB1,000,000 | 100% | Distribution of apparels |
| Taiyuan Bosideng Trading Co., Ltd. 太原波司登貿易有限公司 | the PRC, October 16, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Urumchi Bosideng Trading Co., Ltd. 烏魯木齊波司登貿易有限公司 . | the PRC, October 17, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Lanzhou Bosideng Trading Co., Ltd. 蘭州波司登貿易有限公司 | the PRC, October 25, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Wuhan Bosideng Trading Co., Ltd. 武漢波司登貿易有限公司 | the PRC, November 4, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Shanghai Kangbo International Trading Co., Ltd. 上海康波國際貿易有限公司 . . . | the PRC, November 6, 2000 | RMB6,000,000/ RMB6,000,000 | 90% | Distribution of down apparels |

| <u>Name of company</u> | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/registered capital</u> | <u>Attributable equity interest held by BSD Group %</u> | <u>Principal activities</u> |
|--|---|---|---|-------------------------------------|
| Chengdu Bosideng Trading Co., Ltd. 成都波司登貿易有限公司 | the PRC, November 8, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Changshu Bingjie Garment Co., Ltd. 常熟冰潔製衣有限公司 | the PRC, November 15, 2000 | RMB500,000/ RMB500,000 | 100% | Production of apparels |
| Heilongjiang Bosideng Trading Co., Ltd. 黑龍江波司登貿易有限公司 | the PRC, November 20, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Xian Bosideng Trading Co., Ltd. 西安波司登貿易有限公司 | the PRC, December 1, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Baotou Bosideng Trading Co., Ltd. 包頭波司登貿易有限公司 | the PRC, November 21, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Hefei Bosideng Trading Co., Ltd. 合肥波司登貿易有限公司 | the PRC, December 12, 2000 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Shanghai Bosideng Fashion Design and Development Center Co., Ltd. 上海波司登服裝設計開發中心有限公司 | the PRC, March 23, 2001 | RMB2,000,000/ RMB2,000,000 | 100% | Design and distribution of apparels |
| Changshu Bosideng Import and Export Co., Ltd. 常熟波司登進出口有限公司 | the PRC, April 11, 2002 | RMB5,000,000/ RMB5,000,000 | 100% | OEM apparels |
| Haerbin Bosideng Xuezhongfei Trading Co., Ltd 哈爾濱波司登雪中飛貿易有限公司 | the PRC, March 30, 2001 | RMB500,000/ RMB500,000 | 100% | Distribution of down apparels |
| Liaoning Bosideng Trading Co., Ltd. 遼寧波司登貿易有限公司 | the PRC, September 3, 2002 | RMB5,000,000/ RMB5,000,000 | 100% | Distribution of down apparels |
| Jiangsu Descente Co., Ltd. 江蘇迪桑特有限公司 | the PRC, October 29, 2003 | USD2,416,300/ USD2,416,300 | 51% | Distribution of apparels |

Note: The English translation of the names of the companies above is for reference only. The official names of the companies are in Chinese.

B. FINANCIAL INFORMATION

1. Consolidated Income Statement

| | Section C Note | Period from April 1, 2004 to May 31, 2004 RMB'000 |
|-------------------------------------|-------------------|--|
| Revenue | | 46,688 |
| Cost of sales | | <u>(44,765)</u> |
| Gross profit | | 1,923 |
| Other income | 3 | 7,045 |
| Other expenses | | (453) |
| Distribution expenses | 4 | (24,596) |
| Administrative expenses | | <u>(24,273)</u> |
| Loss from operations | | <u>(40,354)</u> |
| Finance income | | 226 |
| Finance expenses | | <u>(3,820)</u> |
| Net financing expenses | 7 | <u>(3,594)</u> |
| Loss before income tax | | (43,948) |
| Income tax benefit | 8(a) | <u>3,350</u> |
| Loss for the period | | <u>(40,598)</u> |
| Attributable to: | | |
| Equity holders of BSD Group | | (39,528) |
| Minority interests | | <u>(1,070)</u> |
| Loss for the period | | <u>(40,598)</u> |
| Dividends | 11 | <u>333,219</u> |

2. Consolidated Balance Sheet

| | Section C Note | At May 31, 2004 RMB'000 |
|--|-------------------|-------------------------------|
| Non-current assets | | |
| Property, plant and equipment | 13 | 463,431 |
| Land use rights | 14 | 164,233 |
| Available-for-sale financial assets | 15 | 29,000 |
| Deferred tax assets | 16 | 61,944 |
| Total non-current assets | | 718,608 |
| Current assets | | |
| Inventories | 17 | 619,475 |
| Trade and other receivables | 18 | 341,329 |
| Pledged bank deposits | 19 | 42,167 |
| Cash and cash equivalents | 20 | 125,157 |
| Total current assets | | 1,128,128 |
| Total assets | | 1,846,736 |
| Equity | | |
| Share capital | 21 | 111,800 |
| Statutory reserves | 22 | 326,561 |
| Retained earnings | | 73,169 |
| Total equity attributable to equityholders of BSD Group | | 511,530 |
| Minority interest | | 9,538 |
| Total equity | | 521,068 |
| Current liabilities | | |
| Interest-bearing borrowings | 23 | 330,500 |
| Income tax payables | 8(c) | 98,988 |
| Trade and other payables | 24 | 896,180 |
| Total current liabilities | | 1,325,668 |
| Total equity and liabilities | | 1,846,736 |
| Net current liabilities | | 197,540 |
| Total assets less current liabilities | | 521,068 |

3. Consolidated Statement Of Changes In Equity

| | Issued capital RMB'000 (note 21) | Statutory reserves RMB'000 (note 22) | Retained earnings RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---------------------------------------|---|---|---------------------------------|------------------|----------------------------------|-------------------------|
| Balance at April 1, 2004 . . . | 111,800 | 326,561 | 445,916 | 884,277 | 10,608 | 894,885 |
| Loss for the period | — | — | (39,528) | (39,528) | (1,070) | (40,598) |
| Dividends | — | — | (333,219) | (333,219) | — | (333,219) |
| Balance at May 31, 2004 . . . | 111,800 | 326,561 | 73,169 | 511,530 | 9,538 | 521,068 |

4. Consolidated Cash Flow Statement

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|---|--|
| Operating activities | |
| Loss before taxation | (43,948) |
| Adjustments for: | |
| Depreciation | 6,865 |
| Amortization of land use rights | 95 |
| Interest expenses | 3,014 |
| Interest income | (226) |
| Write down of inventories to net realizable value | 2,792 |
| Net loss on disposal of property, plant and equipment | <u>453</u> |
| Operating loss before changes in working capital | (30,955) |
| Increase in inventories | (21,614) |
| Decrease in trade and other receivables | 243,853 |
| Increase in trade and other payables | <u>(231,013)</u> |
| Cash used in operating activities | (39,729) |
| Interest paid | (3,014) |
| Income tax paid | <u>(27,492)</u> |
| Net cash used in operating activities | (70,235) |
| Investing activities | |
| Acquisition of property, plant and equipment | (6,768) |
| Proceeds from disposal of property, plant and equipment | 2,677 |
| Investment in available-for-sale financial assets | (25,000) |
| Acquisition of land use right | (1,300) |
| Interest received | 226 |
| Decrease in pledged bank deposits | <u>18,093</u> |
| Net cash used in investing activities | (12,072) |
| Financing activities | |
| Proceeds from interest-bearing borrowings | 24,500 |
| Repayment of interest-bearing borrowings | (7,560) |
| Dividends paid | <u>(38,978)</u> |
| Net cash used in financing activities | (22,038) |
| Net decrease in cash and cash equivalents | (104,345) |
| Cash and cash equivalents at the beginning of the period | <u>229,502</u> |
| Cash and cash equivalents at the end of the period | <u><u>125,157</u></u> |

C. NOTES TO THE FINANCIAL INFORMATION**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing this Financial Information, BSD Group has applied all the new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for accounting periods beginning on April 1, 2006, as set out in note 1(s).

(b) Basis of measurement

The Financial Information is prepared on the historical cost basis. It is presented in Renminbi ("RMB").

(c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 27.

(d) Basis of consolidation**(i) Subsidiaries**

Subsidiaries are entities controlled by Bosideng Corporation. Control exists when Bosideng Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, transactions and any unrealized gains and losses arising from intra-group transactions, are eliminated in full in preparing the Financial Information. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of BSD Group's interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(iii) Transactions with minority interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by BSD Group, whether directly or indirectly by subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity

attributable to the equity holders of BSD Group. Minority interests in the results of BSD Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of BSD Group.

Transactions with minority equity holders of BSD Group are at book value and classified as equity transactions. Accordingly, when BSD Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognized as reserve movement.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against BSD Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, BSD Group's interest is allocated all such profits until the minority's share of losses previously absorbed by BSD Group has been recovered.

(e) Foreign currency

(i) *Functional and presentation currency*

The Financial Information is presented in RMB, which is BSD Group's functional currency.

(ii) *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RMB at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

(f) Financial instruments

Non-derivative financial instruments comprise available-for-sale financial assets, trade and other receivables, pledged bank deposits, cash and cash equivalents, interest-bearing borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if BSD Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if BSD Group's contractual rights to the cash flows from the financial assets expire or if BSD Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that BSD Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if BSD Group's obligations specified in the contract expire or are discharged or canceled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of BSD Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 1(o)(ii).

Available-for-sale financial assets

Investments in unlisted equity securities are classified as available-for-sale financial assets and recognized in the balance sheet at cost less impairment losses (see accounting policy (j)).

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)). Cost includes expenditures that are directly attributable to the acquisition of the asset. The costs of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

BSD Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to BSD Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

| | | |
|---|---------------------------|------------|
| — | Plant and buildings | 20 years |
| — | Machinery | 5–10 years |
| — | Motor vehicles and others | 5 years |

The residual value, if not insignificant, is reassessed annually.

(iv) Retirement and disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.

(v) Construction in progress

Construction in progress is stated at cost less impairment losses (see accounting policy (j)). Cost comprises direct costs of construction during the period of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(h) Land use rights

Land use rights represent lease prepayments paid to the PRC land bureau. Land use rights are carried at cost less accumulated amortization and impairment losses (see accounting policy (j)). Amortization is charged to the income statement on a straight-line basis over the respective periods of the rights which range from 45 years to 50 years.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes direct labor and an appropriate share of overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment**(i) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

(ii) Non-financial assets

The carrying amounts of BSD Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill or intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(l) Employee benefits

(i) Short term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the period or year in which the associated services are rendered by employees of BSD Group.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognized as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(m) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where BSD Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with BSD Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit and loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 1(m)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon BSD Group under the guarantee, and (ii) the amount of that claim on BSD Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e., the amount initially recognized, less accumulated amortization.

(ii) Other provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when BSD Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue**(i) Sales of goods**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns or allowances, trade discounts and volume rebates. Revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the customers. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing management involvement with the goods.

Sales of down apparels to distributors in the PRC and sales of OEM apparels overseas are recognized in accordance with the terms of delivery, provided the collectibility of sales proceeds is reasonably assured.

Sales of down apparels through department and retail stores are recognized at the time of sale to the retail end customers.

(ii) Provision of services

Fees from processing services (processing for domestic OEM customers) and import and export agency services rendered are recognized in the income statement as and when the services are performed.

(iii) Interest income

Interest income is recognized in the income statement as it accrues, using the effective interest method.

(iv) Royalty income

Royalties arising from the use by others of BSD Group's brands are recognized in other income on an accrual basis in accordance with the substance of the relevant agreement.

(o) Expenses**(i) Operating lease payments**

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the respective leases. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

(ii) Financial income and expenses

Finance income comprises interest income on cash deposits in bank, changes in fair value of financial assets at fair value through profit or loss and foreign currency gains that are recognized in profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expenses on borrowings, net of interest capitalised, changes in fair value of financial assets at fair value through profit or loss and foreign currency losses that are recognized in profit or loss. All borrowing costs are calculated using the effective interest rate method.

(p) Income tax

Income tax on the profit or loss during the Relevant Period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period or year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods or years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and the differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Related parties

For the purpose of the Financial Information, parties are considered to be related to an entity in BSD Group if the party has the ability, directly or indirectly, to control the entity or exercise significant influence over the entity in making financial and operating decisions, or vice versa, or where the entity and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant equity holders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of BSD Group where those parties are individuals, post-employment benefit plans which are for the benefit of employees of BSD Group or of any entity that is a related party of BSD Group.

(r) Segment reporting

A segment is a distinguishable component of BSD Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with BSD Group's internal financial reporting system, BSD Group has chosen business segment information as the reporting format for the purposes of the Financial Information. No geographical segment information is separately presented as BSD Group's business segments are mainly managed and operated in the PRC. The major market of BSD Group's business segments is the PRC.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(s) New standards and interpretations not yet adopted

At the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period beginning on April 1, 2006 and which have not been adopted in preparing the Financial Information:

| | <u>Effective for accounting period beginning on or after</u> |
|---|--|
| Amendment to IAS 1, Presentation of financial statements: | |
| capital disclosures | January 1, 2007 |
| Amendment to IAS 23, Borrowing costs | January 1, 2009 |
| IFRS 7, Financial instruments: disclosures | January 1, 2007 |
| IFRS 8, Operating segments | January 1, 2009 |
| IFRIC 8, Scope of IFRS 2 Share-based payment | May 1, 2006 |
| IFRIC 9, Reassessment of embedded derivatives | June 1, 2006 |
| IFRIC 10, Interim financial reporting and impairment | November 1, 2006 |
| IFRIC 11, IFRS2 — Group and treasury share transaction | March 1, 2007 |
| IFRIC 12, Service concession arrangements | January 1, 2008 |
| IFRIC 13, Customer loyalty programmes | July 1, 2008 |
| IFRIC 14, IAS 19 — The limit on a defined benefit asset, minimum funding requirements and interaction | January 1, 2008 |

BSD Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of the Financial Information, BSD Group believes that the adoption of them is unlikely to have a significant impact on BSD Group's results of operations and financial position.

2. REVENUE AND SEGMENT REPORTING

Segment information is presented in respect of BSD Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects BSD Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets, interest-bearing borrowings and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segment

BSD Group comprises the following main business segments:

- Down apparels. The down apparels segment carries on the business of sourcing and distributing down apparels in the PRC.
- OEM. The OEM segment carries on the business of sourcing and distributing OEM apparels overseas and processing services in the PRC.

Other operations primarily include other trading activities carried out by BSD Group.

Geographical segment

As BSD Group mainly operates in the PRC, no geographical segment information is presented.

(a) Revenue and expenses

| | For the period from April 1, 2004 to May 31, 2004 | | | | |
|--------------------------------------|---|-----------------|----------------|----------------|------------------------|
| | Down | OEM | Other | Eliminations | Consolidated |
| | apparels | | operations | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total external | | | | | |
| revenues | 8,183 | 17,351 | 21,154 | — | 46,688 |
| Inter-segment revenues | — | — | 5,234 | (5,234) | — |
| Total segment | | | | | |
| revenues | <u>8,183</u> | <u>17,351</u> | <u>26,388</u> | <u>(5,234)</u> | <u>46,688</u> |
| Segment result | (21,893) | (20,138) | (1,917) | — | (43,948) |
| Income tax benefit | — | — | — | — | 3,350 |
| Loss for the period | | | | | <u>(40,598)</u> |

(b) Assets and liabilities

| | At May 31, 2004 | | | | |
|--|-----------------|---------|------------|--------------|-------------------------|
| | Down | OEM | Other | Eliminations | Total |
| | apparels | | operations | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment assets | 1,309,912 | 270,617 | 241,740 | (23,384) | 1,798,885 |
| Unallocated assets | | | | | 47,851 |
| Total assets | | | | | <u>1,846,736</u> |
| Segment liabilities | 780,911 | 145,854 | 93,910 | (23,384) | 997,291 |
| Unallocated liabilities | | | | | 328,377 |
| Total liabilities | | | | | <u>1,325,668</u> |
| Capital expenditures incurred | 6,768 | — | 26,300 | — | 33,068 |

3. OTHER INCOME

| | Period from April 1, 2004 to May 31, 2004 RMB'000 |
|--------------------------|---|
| Royalty income | <u>7,045</u> |

Royalty income arises from the use by third parties of BSD Group's brands.

4. DISTRIBUTION EXPENSES

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|------------------------------------|--|
| Advertising | 9,278 |
| Promotion | 3,628 |
| Concessionaire fees | 769 |
| Salary and welfare | 3,965 |
| Sales tax and surcharges | 570 |
| Entertainment and travelling | 2,056 |
| Rental | 782 |
| Others | 3,548 |
| | <u>24,596</u> |

5. PERSONNEL EXPENSES

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|---|--|
| Salaries, wages and other benefits | 12,227 |
| Contributions to defined contribution plans | 1,267 |
| | <u>13,494</u> |

Contributions made by BSD Group to pension funds are dealt with in the consolidated income statement when incurred. According to the respective pension fund regulations, BSD Group contributes to pension funds based on certain percentages of the average salary level according to the requirements of the various provinces in which its operations are located. BSD Group remits all pension fund contributions to the respective social security offices, which are responsible for the payment and liabilities relating to the pension funds. BSD Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

6. EXPENSES BY NATURE

The following expenses are included in cost of sales, distribution expenses, administrative expenses, and other expenses.

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|---|--|
| Cost of inventories recognized as expenses included in cost of sales* | 41,973 |
| (Reversal)/write down to inventories to net realizable value | 2,792 |
| Depreciation | 6,865 |
| Amortization of land use rights | 95 |
| Operating lease charges on premises | 671 |
| Auditors' remuneration | 2,925 |

* Cost of inventories includes RMB6,884,000 staff costs, RMB5,089,000 depreciation expenses and amortization of land use rights, which amounts are also included in the respective expenses disclosed above and in note 5.

7. NET FINANCING EXPENSES

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|--|--|
| Interest income on bank deposits | 226 |
| Finance income | 226 |
| Interest expenses on bank borrowings | (3,014) |
| Bank charges | (800) |
| Others | (6) |
| Finance expenses | <u>(3,820)</u> |
| Net finance expenses | <u>(3,594)</u> |

No interest was capitalized during the Relevant Period.

8. INCOME TAX

(a) Income tax in the consolidated income statement represents:

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|---|--|
| Current tax expenses | |
| Provision for PRC income tax | 1,108 |
| Deferred tax | |
| Origination and reversal of temporary differences | <u>(4,458)</u> |
| Income tax benefit in consolidated income statement | <u>(3,350)</u> |

Pursuant to the applicable income tax rules, Bosideng Corporation and its subsidiaries are liable to PRC enterprise income tax at a rate of 33% during the Relevant Period.

(b) Reconciliation between income tax benefit and accounting loss at applicable tax rates:

| | | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|--|-------|--|
| Loss before taxation | 100% | <u>(43,948)</u> |
| Income tax benefit at the applicable tax rate of 33% | 33% | (14,503) |
| Effect of tax concessions | — | (34) |
| Non-deductible expenses | (10%) | 4,524 |
| Tax losses not recognized as deferred tax assets | (14%) | 6,157 |
| Others | (1%) | <u>506</u> |
| Income tax benefit | 8% | <u>(3,350)</u> |

(c) Income tax payable in the consolidated balance sheet represents:

| | Period from April 1, 2004 to May 31, 2004 <u>RMB'000</u> |
|---|--|
| PRC income tax | |
| Balance at beginning of the period | 125,372 |
| Provision for PRC income tax. | 1,108 |
| Net payments during the period | <u>(27,492)</u> |
| Income tax payable at the end of the period | <u>98,988</u> |

9. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

For the period from April 1, 2004 to May 31, 2004

| | <u>Directors' fees</u> RMB'000 | <u>Salaries, allowances and other benefits in kind</u> RMB'000 | <u>Discretionary bonuses</u> RMB'000 | <u>Contribution to defined contribution schemes</u> RMB'000 | <u>Total</u> RMB'000 |
|--|-----------------------------------|---|---|--|-------------------------|
| Executive directors | | | | | |
| Gao Dekang | — | 162 | — | 1 | 163 |
| Mei Dong | — | 52 | — | 1 | 53 |
| Gao Miaoqin | — | 52 | — | 2 | 54 |
| Kong Shengyuan | — | 52 | — | — | 52 |
| Huang Qiaolian | — | 52 | — | — | 52 |
| Wang Yunlei | — | — | — | — | — |
| Non-executive directors | | | | | |
| Shen Jingwu | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Dong Binggen | — | — | — | — | — |
| Jiang Hengjie | — | — | — | — | — |
| Wang Yao | — | — | — | — | — |
| Ngai Wai Fung | — | — | — | — | — |
| | <u>—</u> | <u>370</u> | <u>—</u> | <u>4</u> | <u>374</u> |

An analysis of directors' remuneration by the number of directors and remuneration range is set out below:

| | Period from April 1, 2004 to May 31, 2004 <u>11</u> |
|---------------------------|---|
| Nil to RMB1,000,000 | <u>11</u> |

During the Relevant Period, no amount was paid or payable by BSD Group to the directors or any of the 5 highest paid individuals set out in note 10 below as an inducement to join or upon joining BSD Group or as compensation for loss of office. Also there was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

10. FIVE HIGHEST PAID INDIVIDUALS

Of the 5 individuals with the highest emoluments during the Relevant Period, 4 are directors whose emoluments are disclosed in note 9.

The aggregate of the emoluments in respect of the remaining highest paid employee during the Relevant Period are as follows:

| | Period from April 1, 2004 to May 31, 2004 |
|---|--|
| | RMB'000 |
| Salaries, allowances and other benefits in kind | 50 |
| Contribution to defined contribution schemes | <u>1</u> |
| | <u><u>51</u></u> |

An analysis of their emoluments by number of employees and emolument range is set out below:

| | Period from April 1, 2004 to May 31, 2004 |
|-------------------------------|--|
| | RMB'000 |
| Nil to RMB1,000,000 | <u><u>1</u></u> |

11. DIVIDENDS

Dividends payable to the equity holders of BSD Group declared during the period:

| | Period from April 1, 2004 to May 31, 2004 |
|---------------------|--|
| | RMB'000 |
| Dividends | <u><u>333,219</u></u> |

The directors consider that the dividends declared during the Relevant Period are not indicative of the future dividend policy of BSD Group.

12. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Motor vehicles and others | Construction in progress | Total |
|---|------------------|--------------------------------|--|-------------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost | | | | | |
| Balance at April 1, 2004 | 368,979 | 122,050 | 108,922 | 9,862 | 609,813 |
| Additions | 2,678 | 6 | 674 | 3,410 | 6,768 |
| Disposals | — | — | (453) | (2,677) | (3,130) |
| Balance at May 31, 2004 | 371,657 | 122,056 | 109,143 | 10,595 | 613,451 |
| Depreciation and impairment losses | | | | | |
| Balance at April 1, 2004 | (55,334) | (37,172) | (50,649) | — | (143,155) |
| Depreciation charge for the period | (2,687) | (1,800) | (2,378) | — | (6,865) |
| Balance at May 31, 2004 | (58,021) | (38,972) | (53,027) | — | (150,020) |
| Carrying amount | | | | | |
| At May 31, 2004 | <u>313,636</u> | <u>83,084</u> | <u>56,116</u> | <u>10,595</u> | <u>463,431</u> |

(i) All plant and buildings are located in the PRC.

14. LAND USE RIGHTS

| | RMB'000 |
|--|----------------|
| At April 1, 2004 | 163,028 |
| Additions | 1,300 |
| Amortization charge for the period | (95) |
| At May 31, 2004 | <u>164,233</u> |

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | At May 31, 2004 | |
|--|------------------------|------------------|
| | Balance | Ownership |
| | RMB'000 | |
| Equity investments in unlisted companies | | |
| Jinan People Darunfa Commercial Co. Ltd. (i) | 25,000 | 25% |
| Changshu Rural Commercial Bank | 3,000 | 1% |
| Changshu Kuncheng High School | 1,000 | 6% |
| Sub-total | 29,000 | |
| Less: Impairment loss | — | |
| Total | <u>29,000</u> | |

- (i) According to the investment agreement between Bosideng Corporation and Jinan People Darunfa Commercial Co., Ltd., Bosideng Corporation was entitled to a fixed dividend of RMB2,645,000 per annum, and has no significant influence over Jinan People Darunfa Commercial Co., Ltd.'s operation.

16. DEFERRED TAX ASSETS

Recognized deferred tax assets

The breakdown of deferred tax assets and the movement in temporary differences during the period are as follows:

| | <u>Inventory provision</u> RMB'000 | <u>Accounts receivable provision</u> RMB'000 | <u>Tax loss carry- forwards</u> RMB'000 | <u>Total</u> RMB'000 |
|---------------------------------------|---|---|--|-------------------------|
| Balance at April 1, 2004 | 56,147 | 1,339 | — | 57,486 |
| Credited to profit and loss | <u>921</u> | <u>—</u> | <u>3,537</u> | <u>4,458</u> |
| Balance at May 31, 2004 | <u>57,068</u> | <u>1,339</u> | <u>3,537</u> | <u>61,944</u> |

Unrecognized deferred tax asset

Deferred tax asset has not been recognized in respect of the following item:

| | <u>April 1, 2004 to May 31, 2004</u> RMB'000 |
|---|---|
| Tax losses of subsidiaries and branches | <u>18,658</u> |

No deferred tax asset has been recognized in respect of tax losses of certain subsidiaries and branches of BSD Group as management consider that it is not probable that the entities concerned will generate sufficient future taxable profits against which the unused tax losses can be utilized.

17. INVENTORIES

| | <u>At May 31, 2004</u> RMB'000 |
|----------------------------|---------------------------------------|
| Raw materials | 48,176 |
| Work in progress | 42,782 |
| Finished goods | 509,972 |
| Others | <u>18,545</u> |
| | <u>619,475</u> |

As of May 31, 2004, inventories carried at net realizable value amounted to RMB11,229,000.

18. TRADE AND OTHER RECEIVABLES

| | At May 31, 2004 RMB'000 |
|-------------------------------------|--|
| Third party trade receivables | 86,970 |
| Bills receivable | 27,320 |
| Third party other receivables | |
| Prepayment to suppliers | 180,401 |
| Other advances | 606 |
| Advances to employees | 5,329 |
| Others | 40,703 |
| | <u>341,329</u> |

All of the trade and other receivables are expected to be recovered within one year.

BSD Group normally allows a credit period ranging from 30 days to 90 days to its customers. An aging analysis of trade and bills receivable of BSD Group is as follows:

| | At May 31, 2004 RMB'000 |
|--|--|
| Within 3 months | 97,526 |
| Over 3 months but less than 6 months | 3,271 |
| Over 6 months but less than 12 months | 10,826 |
| Over 12 months | 6,755 |
| | <u>118,378</u> |
| Less: Impairment of bad and doubtful debts | (4,088) |
| | <u>114,290</u> |

19. PLEDGED BANK DEPOSITS

Bank deposits of RMB42,167,000 as of May 31, 2004 were pledged to banks as security for certain of BSD Group's banking facilities in relation to bills payable (see note 24). The pledged bank deposits were released upon the expiry of the relevant banking facilities.

20. CASH AND CASH EQUIVALENTS

| | At May 31, 2004 RMB'000 |
|---------------------------------------|--|
| Cash at bank and on hand | 125,157 |
| Pledged bank deposits (note 19) | 42,167 |
| | <u>167,324</u> |
| Less: Pledged bank deposits | (42,167) |
| Cash and cash equivalents | <u>125,157</u> |

Cash at bank and cash on hand are denominated in:

| | At May 31, 2004 RMB'000 |
|---------------------------------|-------------------------------|
| RMB | 143,401 |
| United States Dollars | <u>23,923</u> |
| | <u>167,324</u> |

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

21. ISSUED CAPITAL

The issued capital of Bosideng Corporation as of May 31, 2004 was fully paid up.

22. STATUTORY RESERVES

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the entities comprising BSD Group which are incorporated in the PRC. Transfers to the reserves were approved by the respective boards of directors.

23. INTEREST-BEARING BORROWINGS

| | At May 31, 2004 RMB'000 |
|--|-------------------------------|
| Unsecured bank loans-current | <u>330,500</u> |

The loans from bank as of May 31, 2004, on which interest was payable at a fixed rate of 5.2% per annum, were repayable within one year.

24. TRADE AND OTHER PAYABLES

| | At May 31, 2004 RMB'000 |
|---|-------------------------------|
| Trade payables | 171,195 |
| Bills payable | 130,500 |
| Other payables and accrued expenses | |
| Customer deposits | 97,346 |
| Accrued rebates and commissions | 3,417 |
| Accrued advertisement expenses | 13,837 |
| Accrued payroll and welfare | 84,830 |
| Other deposits | 3,800 |
| VAT payable | 5,749 |
| Other levies payable | 7,241 |
| Others | 53,425 |
| Dividends payable | <u>324,840</u> |
| | <u>896,180</u> |

All of the trade and other payables are expected to be settled within one year.

Bills payable at May 31, 2004 were secured by BSD Group's time deposits of RMB42,167,000 (see note 19).

An aging analysis of trade and bills payables is set out below:

| | At May 31, 2004 RMB'000 |
|---|-------------------------------|
| Within 3 months | 250,834 |
| Over 3 months but less than 6 months | 18,826 |
| Over 6 months but less than 12 months | 19,200 |
| Over 12 months | 12,835 |
| | <u>301,695</u> |

25. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and foreign currency risks arises in the normal course of BSD Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. BSD Group does not require collateral in respect of financial assets.

Cash is placed with a group of banks and financial institutions which management considers have good credit ratings. Credit risk on trade and other receivables has already been taken into account as trade and other receivables are shown in the balance sheet net of impairment losses.

At the balance sheet date, BSD Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(b) Interest rate risk

Cash and cash equivalents, pledged deposits and interest-bearing borrowings are the major types of BSD Group's financial instruments subject to interest rate risk. Cash and cash equivalents and pledged deposits comprise mainly cash at bank, with fixed interest rates of 0.72% per annum as of May 31, 2004.

Details of the interest rates and repayment terms of BSD Group's interest-bearing borrowings are disclosed in note 23.

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

BSD Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United States Dollars.

(d) Fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, trade and other receivables, trade and other payables.

The carrying values approximate fair value because of the short maturities of these instruments.

- (ii) Interest-bearing borrowings

The carrying amount of bank loans approximates their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

26. LEASE COMMITMENTS

BSD Group's total future minimum lease payments under non-cancellable operating leases in respect of properties were payable as follows:

| | At May 31, 2004 RMB'000 |
|---|--|
| Within 1 year | 3,288 |
| After 1 year but within 5 years | <u>7,105</u> |
| | <u><u>10,393</u></u> |

BSD Group leases a number of warehouses, factory facilities and office premises under operating leases. The leases typically run for an initial period of between one and six years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

In addition to the above, BSD Group operates retail outlets under concessionaire arrangements. The concessionaire fees payable are based on a percentage of revenue.

27. ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Useful lives of property, plant and equipment

The management determines the estimated useful lives of and related depreciation charges for BSD Group's property, plant and equipment. These estimates are based on historical experience of the actual useful lives of assets of similar nature and functions. They could change significantly as a result of significant technical innovations and/or competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are shorter than previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. These estimates are made based on the current market conditions and the historical experience of distributing and selling products of similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. Management reassesses the estimations at each balance sheet date.

(c) Income tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. BSD Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be

recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Impairment for bad and doubtful debts

BSD Group estimates impairment losses for bad and doubtful debts resulting from the inability of customers to make the required payments. BSD Group bases the estimates on the aging of the accounts receivable balances, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs could be higher than estimated.

D. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of BSD Group as of May 31, 2004 to be China Union Holdings Limited, which is incorporated in the PRC.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The information sets out in this Appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants as set out in Appendices IA and IB to this prospectus, and is included herein for information only.

A. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma statement of our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as of March 31, 2007 as if it had taken place on March 31, 2007.

The unaudited pro forma statement of net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of March 31, 2007 or any future date following the Global Offering. It is prepared based on our combined net assets as of March 31, 2007 as set out in the accountants' report in Appendix IA, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the accountants' reports as set out in Appendices IA and IB of this prospectus.

| | Combined net tangible assets attributable to equity holders of the Company as of March 31, 2007 | Estimated net proceeds from the Global Offering | Unaudited pro forma net tangible assets | Unaudited pro forma net tangible assets per Share |
|--|--|--|---|--|
| | RMB'000 (Note 1) | RMB'000 (Note 2) | RMB'000 | RMB (Note 3) |
| Based on an offer price of HK\$2.56 per Share | 555,198 | 4,410,052 | 4,965,250 | 0.63 |
| Based on an offer price of HK\$3.28 per Share | 555,198 | 5,677,059 | 6,232,257 | 0.79 |

Notes:

1. The combined net tangible assets of the Group attributable to equity holders of the Company as of March 31, 2007 is extracted from the Group's audited financial statements included in the accountants' report as set out in Appendix IA to this prospectus.
2. The estimated net proceeds from the Global Offering are based on indicative offer prices of HK\$2.56 and HK\$3.28 per Share respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.
3. The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 7,870,000,000 Shares are in issue assuming that the Global Offering has been completed on March 31, 2007 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.
4. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2007.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

Forecast consolidated profit attributable
to the equity holders of the Company⁽¹⁾ not less than RMB950 million

Unaudited pro forma forecast
diluted earnings per Share⁽²⁾ not less than RMB0.121

Notes:

- (1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is based on the above forecast consolidated profit attributable to the equity holders of the Company for the year ending March 31, 2008 and assuming that a total of 7,870,000,000 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

C. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

September 27, 2007

The Directors
Bosideng International Holdings Limited
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited

Dear Sirs,

We report on the unaudited pro forma financial information (“Unaudited Pro Forma Financial Information”) of Bosideng International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out in Appendix II to the prospectus dated September 27, 2007 (“the Prospectus”), which has been prepared by the Directors for illustrative purposes, to provide information about how the Global Offering of the Company’s shares might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Part (A) and Part (B) of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standards on Investment Circular Reporting Engagements 300 “Accountants’ Report on Pro Forma Financial Information in Investment Circulars” issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of

- the financial position of the Group as of March 31, 2007 or any future date; or
- the earnings per share of the Group for the year ending March 31, 2008 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

You may find our forecast profits attributable to equity holders of our Company for the year ending March 31, 2008 in the section entitled “Financial Information — Profit Forecast For the Year Ending March 31, 2008” in this prospectus.

BASES AND ASSUMPTIONS

We have prepared our forecast profits attributable to equity holders of our Company for the year ending March 31, 2008 on the basis of our unaudited management accounts for the four months ended July 31, 2007 and a forecast of our consolidated results for the remaining eight months of the year ending March 31, 2008. Our profit forecast has been presented on a basis consistent in all material respects with the accounting policies normally adopted by us as summarized in the Accountants’ Reports in Appendix IA to this prospectus. We have made the following principal assumptions in the preparation of our profit forecast:

- There will be no material changes in existing political, legal, fiscal, market or economic conditions in the PRC or any other countries or territories in which the Group currently operates or which are otherwise material to the Group’s income.
- There will be no changes in policies, legislation, regulations, or practices in the PRC or any other countries or territories in which the Group operates or has arrangements or agreements which may adversely affect the Group’s business or operations.
- There will be no material changes in the bases or rates of taxation or the policies with respect to imposition of such taxation, in the countries or territories in which the Group operates.
- There will be no material changes in the rates of inflation, interest, or foreign currency exchange from those presently prevailing in the countries, regions, or industries applicable to the business activities of the Group.
- The general weather condition for the 2007/2008 winter in the PRC will not be materially more adverse (i.e., warmer) to the business operations of the Group than that for the 2006/2007 winter season.
- The Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in the Prospectus.
- The Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.
- No further equity capital will be raised by the Company during the forecast period.

LETTER FROM OUR AUDITORS AND REPORTING ACCOUNTANTS

The following is the text of the letters received by the Directors from the Company's auditors and reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus in connection with the profit forecast.



KPMG
8th Floor,
Prince's Building
10 Chater Road
Central
Hong Kong

September 27, 2007

The Directors
Bosideng International Holdings Limited
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast consolidated profit attributable to equity holders of Bosideng International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending March 31, 2008 (the "Forecast"), for which the Directors of the Company (the "Directors") are solely responsible, as set out in the section headed "Financial Information" in the prospectus of the Company dated September 27, 2007 (the "Prospectus").

The Forecast has been prepared by the Directors based on the unaudited consolidated results of the Group for the four-month period ended July 31, 2007 and a forecast of the consolidated results of the Group for the remaining eight months ending March 31, 2008.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions adopted by the Directors as set out in Section "Bases and Assumptions" of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated September 27, 2007, the text of which is set out in Appendix IA to the Prospectus.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus by the Joint Sponsors in connection with the profit forecast of the Group for the year ending March 31, 2008.

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

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

September 27, 2007

The Directors
Bosideng International Holdings Limited

Dear Sirs,

We refer to the forecast consolidated net profit attributable to the shareholders of Bosideng International Holdings (the "Company") and its subsidiaries for the year ending March 31, 2008 (the "Forecast") as set out in the prospectus issued by the Company dated September 27, 2007 (the "Prospectus").

The Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the unaudited management accounts of the Company and its subsidiaries (collectively the "Group") for the four months ended July 31, 2007 and a forecast of the results of the Group for the remaining eight months ending March 31, 2008.

We have discussed with you the bases made by the Directors of the Company as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated September 27, 2007 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Henry Chen
Managing Director

For and on behalf of
Morgan Stanley Asia Limited
Terence Keyes
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as of July 31, 2007 of the property interests of the Group. As described in section "Documents Available for Inspection" in Appendix IX, a copy of the full valuation report will be made available for public inspection.



Sallmanns



Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

September 27, 2007

The Board of Directors
Bosideng International Holdings Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Bosideng International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as of July 31, 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have attributed no commercial value to the property interests which are rented by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

As of the date of valuation, the Group rented 102 properties with an aggregate gross floor area of approximately 105,438.44 sq.m. in the PRC, of which 98 properties are used for office and warehousing purposes and 4 properties are used for product display and sales uses. We have categorized the property interests into 5 sub-groups according to their locations. The property interests of each sub-group are located in a region comprising various provinces, autonomous regions or directly administered municipalities in the PRC. In addition, the Group rented a unit with a gross floor area of approximately 81.48 sq.m. in Hong Kong.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited except for those in respect of which a waiver has been applied in respect of Rule 19.10(6) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

As the Company is in compliance with paragraph 3(b) of Practice Note 16 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the Company is not required under the Listing Rules to include the full details of the individual leased properties from the valuation certificates in our valuation report in this prospectus. A summary of these property interests is included in the Summary of Values and the Valuation Certificates for Leased Properties contained herein.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including tenancy agreements and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisors — Chen & Co. Law Firm, concerning the validity of the Group's titles to the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I: Property interests rented and occupied by the Group in the PRC

| No. | Property | Capital value in existing state as of July 31, 2007 RMB |
|-------------------|---|---|
| 1. | 30 properties located in Beijing, Hebei Province, Shandong Province and Tianjin of the Bohai Rim of the PRC | No commercial value |
| 2. | 35 properties located in Shanghai, Jiangsu Province and Zhejiang Province of the Yangtze River Delta Region of the PRC | No commercial value |
| 3. | 17 properties located in Anhui Province, Henan Province, Hubei Province, Hunan Province and Jiangxi Province of the Central Region of the PRC | No commercial value |
| 4. | 13 properties located in Gansu Province, Guizhou Province, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Shanxi Province, Shanxi Province, Sichuan Province, Xinjiang Uigur Autonomous Region and Chongqing of the Western Region of the PRC | No commercial value |
| 5. | 7 properties located in Heilongjiang Province, Jilin Province and Liaoning Province of the Northeastern Region of the PRC | No commercial value |
| Sub-total: | | <u>Nil</u> |

Group II: Property interest rented and occupied by the Group in Hong Kong

| No. | Property | Capital value in existing state as of July 31, 2007 RMB |
|---------------------|---------------------------------|---|
| 6. | A property located in Hong Kong | No commercial value |
| Sub-total: | | <u>Nil</u> |
| Grand-total: | | <u>Nil</u> |

VALUATION CERTIFICATE

Group I: Property interests rented and occupied by the Group in the PRC

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as of July 31, 2007</u> RMB |
|-----------------|--|---|---|
| 1. | <p>30 properties located in Beijing, Hebei Province, Shandong Province and Tianjin of the Bohai Rim of the PRC</p> <p>The properties comprise 30 buildings and units completed between 1977 and 2006.</p> <p>The properties have an aggregate gross floor area of approximately 34,177.85 sq.m.</p> <p>The properties are leased from various independent third parties and 2 connected parties (the "Lessors") for various terms with the latest expiry date on May 17, 2026.</p> | <p>The properties are currently occupied by the Group for office, warehousing, product display and sales.</p> | <p>No commercial value</p> |

Notes:

1. Pursuant to various Tenancy Agreements entered into between the subsidiaries of the Company (the "Lessees") and various independent third parties, 28 buildings and units with an aggregate gross floor area of approximately 18,502.55 sq.m. are leased to the Lessees for various terms with the latest expiry date on April 15, 2016 at a total annual rent of RMB2,645,264.92.
2. Pursuant to 2 Tenancy Agreements entered into between 2 subsidiaries of the Company (the "Lessees") and 2 connected parties of the Company, 2 properties with an aggregate gross floor area of approximately 15,675.3 sq.m. are leased to the Lessees for different terms with the latest expiry date on May 17, 2026 at a total annual rent of RMB2,171,109.09.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - (i) For the above properties, the lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities for 28 properties with a total gross floor area of approximately 32,315.85 sq.m. The relevant Tenancy Agreements are valid, binding and enforceable under the PRC Laws.
 - (ii) For the remaining 2 properties with a total gross floor area of approximately 1,862 sq.m., for which the lessors have not provided relevant Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities, the Tenancy Agreements may not be valid, binding and enforceable under the PRC Laws. The lessors of 2 properties have provided the confirmation letter which undertake to assume all the loss of the Group arising from any defect of not providing the Building Ownership Certificate or the registration in local authorities.

VALUATION CERTIFICATE

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as of July 31, 2007</u> RMB |
|---|--|---|---|
| 2. 35 properties located in Shanghai, Jiangsu Province and Zhejiang Province of the Yangtze River Delta Region of the PRC | <p>The properties comprise 35 buildings and units completed between 1975 and 2006.</p> <p>The properties have an aggregate gross floor area of approximately 54,166.6 sq.m.</p> <p>The properties are leased from various independent third parties and 10 connected parties (the "Lessors") for various terms with the latest expiry date on July 31, 2026.</p> | The properties are currently occupied by the Group for office and warehousing purposes. | No commercial value |

Notes:

1. Pursuant to various Tenancy Agreements entered into between the subsidiaries of the Company (the "Lessees") and various independent third parties, 25 buildings and units with an aggregate gross floor area of approximately 14,017.92 sq.m. are leased to the Lessees for various terms with the latest expiry date on June 30, 2026 at a total annual rent of RMB2,894,357.72.
2. Pursuant to 10 Tenancy Agreements entered into between 6 subsidiaries of the Company (the "Lessees") and 4 connected parties of the Company, 10 properties with an aggregate gross floor area of approximately 40,148.68 sq.m. are leased to the Lessees for various terms with the latest expiry date on July 31, 2026 at a total annual rent of RMB6,210,698.80.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - (i) For the above properties, the Lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities for 33 properties with a total gross floor area of approximately 53,066.6 sq.m. The relevant Tenancy Agreements are valid, binding and enforceable under the PRC Laws.
 - (ii) For the remaining 2 properties with a total gross floor area of approximately 1,100 sq.m., for which the Lessors have not provided relevant Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities, the Tenancy Agreements may not be valid, binding and enforceable under the PRC Laws. The lessors of the property have provided the confirmation letters which undertake to assume all the loss of the Group arising from any defect of not providing the Building Ownership Certificate or the registration in local authorities.

VALUATION CERTIFICATE

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as of July 31, 2007</u> RMB |
|--|---|--|---|
| 3. 17 properties located in Anhui Province, Henan Province, Hubei Province, Hunan Province and Jiangxi Province of the Central Region of the PRC | <p>The properties comprise 17 buildings and units completed between 1969 and 2004.</p> <p>The properties have an aggregate gross floor area of approximately 6,859.73 sq.m.</p> <p>The properties are leased from various independent third parties (the "Lessors") for various terms with the latest expiry date on November 15, 2009.</p> | The properties are currently occupied by the Group for office, warehousing, product display and sales. | No commercial value |

Notes:

1. Pursuant to various Tenancy Agreements entered into between the subsidiaries of the Company (the "Lessees") and various independent third parties, 17 buildings and units with an aggregate gross floor area of approximately 6,859.73 sq.m. are leased to the Lessees for various terms with the latest expiry date on November 15, 2009 at a total annual rent of RMB879,880.00.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - (i) For the above properties, the Lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities for 17 properties with a total gross floor area of approximately 6,859.73 sq.m. The relevant Tenancy Agreements are valid, binding and enforceable under the PRC Laws.

VALUATION CERTIFICATE

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as of July 31, 2007</u> RMB |
|-----------------|--|--|--|
| 4. | <p>13 properties located in Gansu Province, Guizhou Province, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Shanxi Province, Shanxi Province, Sichuan Province, Xinjiang Uigur Autonomous Region and Chongqing of the Western Region of the PRC</p> | <p>The properties comprise 13 buildings and units completed between 1981 and 2004.</p> <p>The properties have an aggregate gross floor area of approximately 4,897.85 sq.m.</p> <p>The properties are leased from various independent third parties (the "Lessors") for various terms with the latest expiry date on October 20, 2010.</p> | <p>The properties are currently occupied by the Group for warehousing, product display and sales.</p> <p>No commercial value</p> |

Notes:

1. Pursuant to various Tenancy Agreements entered into between the subsidiaries of the Company (the "Lessees") and various independent third parties, 13 buildings and units with an aggregate gross floor area of approximately 4,897.85 sq.m. are leased to the Lessees for various terms with the latest expiry date on October 20, 2010 at a total annual rent of RMB500,975.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - (i) For the above properties, the Lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities for 12 properties with a total gross floor area of approximately 3,985.85 sq.m. The relevant Tenancy Agreements are valid, binding and enforceable under the PRC Laws.
 - (ii) For the remaining 1 property with a gross floor area of approximately 912 sq.m., for which the lessor has not provided relevant Building Ownership Certificate and/or the property owner's consent to sublease or registration in local authorities, the Tenancy Agreement may not be valid, binding and enforceable under the PRC Laws. The lessor of the property has provided the confirmation letter which undertake to assume all the loss of the Group arising from any defect of not providing the Building Ownership Certificate or the registration in local authorities.

VALUATION CERTIFICATE

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as of July 31, 2007</u> RMB |
|--|--|--|---|
| 5. 7 properties located in Heilongjiang Province, Jilin Province and Liaoning Province of the Northeastern Region of the PRC | <p>The properties comprise 7 buildings and units completed between 1997 and 2006.</p> <p>The properties have an aggregate gross floor area of approximately 5,336.41 sq.m.</p> <p>The properties are leased from various independent third parties (the "Lessors") for various terms with the latest expiry date on December 31, 2008.</p> | The properties are currently occupied by the Group for warehousing, product display and sales. | No commercial value |

Notes:

1. Pursuant to various Tenancy Agreements entered into between the subsidiaries of the Company (the "Lessees") and various independent third parties, 7 buildings and units with an aggregate gross floor area of approximately 5,336.41 sq.m. are leased to the Lessees for various terms with the latest expiry date on December 31, 2008 at a total annual rent of RMB1,470,936.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the properties issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - (i) For the above properties, the Lessors have provided the Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities for 4 properties with a total gross floor area of approximately 1,304.04 sq.m. The relevant Tenancy Agreements are valid, binding and enforceable under the PRC Laws.
 - (ii) For the remaining 3 properties with a total gross floor area of approximately 4,032.37 sq.m., for which the Lessors have not provided relevant Building Ownership Certificates and/or the property owner's consent to sublease or registration in local authorities, the Tenancy Agreements may not be valid, binding and enforceable under the PRC Laws. Among them, the lessors of 2 properties have provided the confirmation letters which undertake to assume all the loss of the Group arising from any defect of not providing the Building Ownership Certificate or the registration in local authorities.

VALUATION CERTIFICATE

GROUP II: Property interest rented and occupied by the Group in Hong Kong

| <u>Property</u> | <u>Description and tenure</u> | <u>Particulars of occupancy</u> | <u>Capital value in existing state as at July 31, 2007</u> RMB |
|------------------------------------|---|---|---|
| 6. A property located in Hong Kong | <p>The property comprises a unit completed in about 1987.</p> <p>The property has a gross floor area of approximately 81.48 sq.m.</p> <p>The property is leased from an independent third party for a term of 3 years commencing from June 18, 2007 and expiring on June 17, 2010 at a monthly rent of HK\$39,699 exclusive of government rates, management fees, air-conditioning charges and other outgoings.</p> | The property is currently occupied by the Group for office purpose. | No commercial value |

Notes:

1. The registered owner of the property is Chinese Estates (Harcourt House) Limited vide Memorial No. UB3667998 dated April 12, 1988.
2. The property is subject to a Deed of Mutual Covenant and Management Agreement vide Memorial No. UB6033913 dated June 8, 1994.
3. Pursuant to a Tenancy Agreement dated July 13, 2007, the property is rented to Bosideng International Holdings Limited.

OVERVIEW

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC. The establishment and operations of such subsidiaries shall comply with the laws and regulations in respect of:

- incorporation and corporate governance, including, without limitation, the PRC Company Law (中國公司法), Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), The PRC Law on Wholly Foreign-owned Enterprises (中國外資企業法) and The PRC Law on Sino-foreign Equity Joint Venture (中國中外合資經營企業法);
- the ascription and utilization of property in relation to the subsidiaries are required to be in accordance with, including, without limitation, the Property Law of the PRC (物權法);
- authorizing agents to carry out civil acts on our behalf shall be in compliance with the PRC General Principles of the Civil Law (中華人民共和國民法通則);
- ensuring that its business scope is in compliance with industrial policies stipulated in the Guidance Catalogue of Industries for Foreign Investment (amended in 2004) (外商投資產業指導目錄2004年修訂);
- carrying out foreign exchange, shareholder loans, dividend distribution, outward remittance and overseas investment under current accounts and capital accounts in accordance with the Foreign Exchange Control Regulations of the PRC (外匯管理條例), Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment and other related laws and regulations (結匯、售匯及付匯管理條例);
- paying tax and filing tax returns applicable to the Group in accordance with the relevant tax rates and regulations of the PRC Law on Income Tax of Foreign Invested Enterprises and Foreign Enterprises (外商投資企業和外國企業所得稅法), PRC Law on Income Tax of Enterprises (企業所得稅法), PRC Provisional Regulations on Business Tax (營業稅暫行條例), PRC Provisional Regulations on Land Value-added Tax (土地增值稅暫行條例), PRC Provisional Regulations on Value-added Taxes (增值稅暫行條例) and other related laws and regulations;
- the Group's outsourced manufacturing shall pay attention to the environmental protection measures in compliance with the PRC Environmental Protection Law (環境保護法), PRC Air Pollution Prevention Law (大氣污染防治法), PRC Water Pollution Prevention Law (水污染防治法) and other related environmental laws and regulations;
- the quality of products sold by the Group and related liabilities shall comply with the PRC Product Quality Law (產品質量法) and the PRC Law on the Protection of the Rights and Interests of Consumers (消費者權益保護法) and PRC Anti-unfair Competition Law (反不正當競爭法); and
- the Group's trademark management and protection of the right to exclusive use of registered trademarks and licensing of registered trademarks are required to be in accordance with the PRC Trademark Law (商標法), Provisions on Recognition and Protection of Well-known Trademarks (馳名商標認定和保護規定), the Interpretation of the Supreme Court of the PRC on relevant issues Concerning trial related to trademark civil cases (最高人民法院關於審理商標民事糾紛案件適用法律若干問題的解釋), the PRC Copyright Law (著作權法) and the Measures for Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法).

A summary of the abovementioned laws and regulations applicable to the Group is set out below.

COMPANY LAW

The establishment and operation of corporate entities in China is governed by the PRC Company Law, which was promulgated by the Standing Committee of the National People's Congress (NPC) on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004, and October 27, 2005.

The PRC Company Law generally governs two types of companies — limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to the amount of registered capital they have contributed.

The amendments to the PRC Company Law adopted in October 2005 seek to reform various aspects of the 1993 PRC Company Law and simplify the establishment and operation of companies incorporated in the PRC by lowering capitalization requirements, increasing shareholder and creditor protection, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises is permitted, and the PRC Company Law shall apply to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

PROPERTY LAW

On March 16, 2007, the Fifth Meeting of the Tenth NPC promulgated the PRC Property Law (the "**Property Law**"). Pursuant to the Property Law, property rights are the exclusive rights which directly dominate a specific property, which include ownership, usufruct rights and security rights to the property. Any creation, modification, transfer or termination of any right in immovable properties shall become effective upon registration according to law. Any creation or transfer of any right in movable properties shall become effective upon delivery except as otherwise provided by law. Any creation, modification, transfer or termination of any right in respect of ship, aircraft and motor vehicle without registration will not prevail over the rights of any bona fide third party. Any creation, modification, transfer or termination of any property right resulting from the legal documents of the People's Courts or arbitration commissions, or the expropriation decisions made by the people's governments, shall become binding as from the date of their coming into effect. All lawful properties of the State, collectives and individuals are protected by law, and no entities or individuals may embezzle, encroach upon or destroy such properties. The State implements the system of compensated use of natural resources. The term of valid construction land use rights in respect of residential houses may be extended automatically upon expiry of such term. The Property Law also makes specific regulations on land contractual operation right, construction land use right, residential land use right, right of easement and various security rights. The Property Law will come into force on October 1, 2007.

CIVIL LAW

On April 12, 1986, the Fourth Meeting of the Sixth NPC promulgated the PRC General Principles of the Civil Law (the "**Civil Law**"). Pursuant to the Civil Law, individuals and legal entities may authorise agents to act on their behalf within the agents' scope of authority. The principal shall bear all liabilities as a result of the agents' acts so incurred.

M&A PROVISIONS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “**M&A Provisions**”), promulgated by the Ministry of Commerce, China Securities Regulatory Commission (CSRC), State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce “SAIC” and State Administration of Foreign Exchange “SAFE” on August 8, 2006, and effective as of September 8, 2006, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities in a domestic non-foreign-invested enterprise or to subscribe to the increased capital of a domestic company and thereafter change the domestic company into a foreign-invested enterprise, or if foreign investors establish a foreign-invested enterprise and purchase and operate the assets of a domestic non-foreign-invested enterprise by the agreement of that enterprise, or if foreign investors purchase the assets of a domestic non-foreign-invested enterprise by agreement and use this asset investment to establish a foreign-invested enterprise and operate the assets.

FOREIGN INVESTMENT REGULATIONS

The establishment, operation and management of a foreign-owned enterprise is governed by the PRC Law on Wholly Foreign-owned Enterprises, which was promulgated on April 12, 1986 and amended on October 31, 2000, and similarly the establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters of a sino-foreign equity joint venture is governed by the PRC Law on Sino-foreign Equity Joint Venture, which was promulgated on July 8, 1979, amended on April 4, 1990 and amended on March 15, 2001 for the second time.

The Guidance Catalogue of Industries for Foreign Investment (amended in 2004) (the “**Catalogue**”) promulgated by the Ministry of Commerce and National Development and Reform Commission on November 30, 2004 contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry. Investments in the PRC conducted by foreign investors, Wholly Foreign-owned Enterprises (WFOEs) and Sino-foreign Equity Joint Venture (JVs) shall comply with this Catalogue, including obtaining approval with commerce authorities of different levels.

FOREIGN EXCHANGE REGULATION

The Group’s PRC subsidiaries are subject to PRC rules and regulations on currency conversion. Pursuant to the Foreign Exchange Management Regulations of the PRC issued by the State Council which took effect on April 1, 1996 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment which took effect on July 1, 1996, foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. Details are set out in the section headed “Distribution and remittance of dividends” under “Shareholder Loans, Dividend Distribution and Outward Remittance For Foreign Invested Enterprises” below.

If foreign invested enterprises require foreign exchange services for transactions relating to current account items, they may, without approval of SAFE, effect payment from their exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. If such enterprises need foreign exchange services for the distribution of dividends to their foreign shareholders, they may, on the strength of a board resolution authorizing the distribution of dividends or any other relevant documents, effect payment from their foreign exchange accounts and make such payments at the designated foreign exchange bank.

However, convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contributions, is still subject to restriction, and prior approval from SAFE or its relevant branches must be sought.

On July 21, 2005, the People's Bank of China (PBOC) declared that the regulated exchange price of USD to RMB was changed from 1:8.27 to 1:8.11 and the fixed RMB-USD exchange system was replaced by the floating exchange system based on market supply and demand and under strict administration. PBOC will announce the closing price of a foreign currency such as the US dollar traded against RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against RMB on the following working day. The daily trading price of the US dollar against RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of 0.3% around the central parity published by PBOC, while the trading prices of non-US dollar currencies against RMB will be allowed to move within a certain band announced by PBOC. PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation. PBOC is responsible for maintaining a stable RMB exchange rate at an adaptive and equilibrium level based on market conditions with reference to a basket of currencies. On September 23, 2005, the Chinese Government widened the daily trading band for RMB against non-US dollar currencies to the range of 3% for inter-bank spot foreign exchange market to improve the flexibility of the new foreign exchange system. It was declared by PBOC that since May 21, 2007, the daily trading price of the US dollar against RMB in the inter-bank spot foreign exchange market will be allowed to enlarge floatation scope within a band of 0.5% around the central parity published by PBOC instead of band of 0.3%.

SHAREHOLDER LOANS, DIVIDEND DISTRIBUTION AND OUTWARD REMITTANCE FOR FOREIGN INVESTED ENTERPRISES

Shareholder loans

In accordance with PRC laws and regulations regarding foreign exchange control, foreign investors must apply to the foreign exchange administration departments for foreign loan registration and foreign exchange settlement, if they intend to provide shareholder loans to foreign invested enterprises established in the PRC.

The aggregate amount of long and medium-term non-RMB loans, short-term non-RMB loans and RMB loans guaranteed by overseas institutions must be limited to the difference between the total investment amount and the registered capital of the foreign invested enterprise as approved by the relevant examination and approval authority. Each foreign invested enterprise may borrow foreign loans as long as the total sum of these loans remains within such permitted level. The total investment amount of each foreign invested enterprise must be approved by the relevant examination and approval authority. If the total investment amount is exceeded without the approval from the aforesaid authority, the foreign exchange authorities may refuse registration of non-RMB loans or foreign exchange settlements falling outside the permitted level. If the non-RMB loans exceed the permitted level, the foreign invested enterprise must inform the original examination and approval authority and obtain approval for an increase in the total investment amount. The foreign exchange authorities typically grant foreign invested enterprises a grace period of three months. Once the grace period lapses, the foreign exchange authorities may send written notices requiring the "excess" capital to be returned as remitted.

The borrowers shall, within 15 days following the formal signature of loan contracts, handle the registration procedures at the local foreign exchange authorities in order to obtain the Registration Certificate of Foreign Loans. In the case of registered foreign loans, the debtors can repay the loans through their own foreign exchange funds or by purchasing foreign exchange with RMB upon approval of the foreign exchange administration authority. When the borrowers obtain foreign loans, they shall

open and maintain a special foreign exchange account with the Bank of China or other banks approved by SAFE. If the borrowers fail to obtain the said certificate as required, it will not be able to open such an account and it will not be able to make remittances.

Distribution and remittance of dividends

Under the PRC Law on Foreign Invested Enterprises promulgated on October 31, 2000, as revised, the PRC Law on Sino-foreign Equity Joint Venture promulgated on July 1, 1979, as revised, and the implementing rules, foreign invested enterprises may distribute profits following the payment of income taxes as specified by the PRC tax laws and shall not distribute dividends unless they have contributed to reserve funds and the workers' rewards and benefit funds and/or expansion fund and have set off financial losses during the previous accounting years. The contribution rate of reserve funds shall be no less than 10% of the after-tax profit. The undistributed profits during the past accounting years can be distributed together with the profits available for distribution during the current accounting year.

The after-tax profits of foreign invested enterprises, if authorized by the board of directors, may be remitted overseas as dividends to equity holders. Such remittances do not require approval of the administration departments of foreign exchange.

In accordance with relevant PRC laws and regulations, the investors or equity purchasers of foreign invested enterprises shall distribute their incomes according to the proportion of their contribution to the registered capital of the foreign invested enterprise.

Foreign exchange registration relating to overseas special purpose vehicles and investing back in China by domestic residents

The Circular of SAFE Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicles and Investing Back in China by Domestic Residents was issued by SAFE on October 21, 2005, and effective as of November 1, 2005. Under this Circular:

- PRC domestic residents who plan to establish or control an overseas special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority;
- PRC domestic residents who have contributed their assets or shares of a domestic enterprise into overseas special purpose vehicles, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas special purpose vehicles with the local foreign exchange authority; and
- PRC domestic residents who are the shareholders of overseas special purpose vehicles are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

ENVIRONMENTAL REGULATION

The PRC Environmental Protection Law adopted on December 26, 1989 by the NPC Standing Committee establishes the legal framework on environmental protection. The administration department of environmental protection of the State Council implements unified supervision and

management of the national environmental protection work, and establishes the national standards for pollutant discharge, while the environmental protection bureaus at or above the county level are responsible for the environmental protection work within their respective jurisdictions.

The PRC Air Pollution Prevention Law, adopted on April 29, 2000 by the NPC Standing Committee, is effective as of September 1, 2000. According to this law, the environmental protection authorities above the county level can regulate the prevention of air pollution. The environmental protection department of the State Council formulates the national air environmental quality standards and the local provincial governments formulate the local standards if there are no applicable national air environmental quality standards. The local provincial governments can also delineate more specific local standards.

Enterprises which emit smoke into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds the national or local air environmental quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at the county level can impose a penalty upon such enterprises.

The PRC Water Pollution Prevention Law was adopted on May 15, 1996 by the NPC Standing Committee. According to this law, the environmental protection department of the State Council governs the national waste discharge standards and the local provincial governments promulgate more specific local waste discharge standards. The discharge of waste must comply with both the national and local waste discharge standards.

Enterprises which discharge waste into water must pay a treatment fee. If the waste discharged exceeds the national or local waste discharge standards, the relevant enterprises must pay a higher waste treatment fee. The environmental protection department has the right to order the enterprises which severely pollute water to correct their actions by reducing their waste discharge within a stipulated time period or order the enterprises to stop production or be closed.

PRODUCT QUALITY LAW

The principal law governing product liability is the PRC Product Quality Law (the “Product Quality Law”), which was promulgated on February 22, 1993 and amended on July 8, 2000. Pursuant to the Product Quality Law, a seller shall have the following obligations:

- a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of such stock;
- measures shall be adopted to keep products for sale in good quality;
- lose-effect and defective or deteriorated products shall not be sold;
- products must be sold with labels that comply with the relevant provisions;
- the seller must not forge the origin of a product or falsely use the name and address of another producer;
- of the seller must not forge or falsely use another producer’s authentication marks, marks of famous/premium brand names or other product quality marks; and
- the seller must not mix impurities or imitations into products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

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

CONSUMER PROTECTION LAW

The PRC Consumer Protection Law, adopted on October 31, 1993 by the NPC Standing Committee and effective on January 1, 1994, sets out standards of behaviour which business operators must observe in their dealings with consumers, including the following:

- goods and services must comply with the PRC Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- to provide consumers with true information and advertising concerning goods and services, and to provide true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- to issue purchase or service vouchers to consumers in accordance with relevant national regulations or business practices or upon request of a consumer;
- to ensure the quality, functionality, applications and duration of use of the goods or services under normal use and to ensure that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;
- to properly perform responsibilities for guaranteed repair, replacement and return or other liabilities in accordance with national regulations or any agreement with the consumer; and
- not to set unreasonable or unfair terms for consumers or exclude themselves from civil liabilities for undermining the legal rights and interests of consumers by means such as standard contracts, circulars, announcements and shop notices.

Violations of the above Consumer Protection Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

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

COMPETITION LAW

Pursuant to the PRC Competition Law promulgated on September 2, 1993 and effective on December 1, 1993, business operators may not engage in the following improper market activities to undermine their competitors:

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

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

INTELLECTUAL PROPERTY RIGHTS

China has adopted legislations governing intellectual property rights, including copyrights, trademarks and domain names. China is a member to main international conventions on intellectual property rights and became a member to the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. China is also a member to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the World Copyright Treaty, the Madrid Agreement Concerning the International Trademark Registration of Marks and the Patent Cooperation Treaty.

Trademark Regulations

The PRC Trademark Law was adopted on August 23, 1982, amended for the first time on February 22, 1993, and amended for the second time on October 27, 2001 by the NPC Standing Committee. This law seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators.

Under this law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and

- causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any of the abovementioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be held by law to be responsible for liabilities as follows. The registrant of that trademark or the interested persons may bring a suit before a people's court by requesting the administrative department for industry and commerce to handle the matter. If the administrative department for industry and commerce concludes that an infringement is constituted, it may order an immediate stop to the infringement, and may confiscate or destroy the infringing commodities, or may impose a fine in the sum of up to 3 times the illegal profits obtained or an amount not more RMB100,000 in the event that the illegal profits can not be determined. If a party disagrees with this handling decision, it may bring a suit before a people's court within 15 days from the day of receiving the notification of handlings according to the Administrative Procedure Law of the PRC. If, at the expiration of such a period, the infringer has neither brought a lawsuit nor performed the decision after the period expires, the administrative department may apply to the people's court for compulsory enforcement of its order.

The administrative department for industry and commerce handling the case may, upon the request of a party, conduct mediation over the amount of compensation for the infringement of the right to exclusive use of the trademark. If the mediation has failed, the party may bring a suit before a people's court according to the Civil Procedure Law of the PRC. The amount of compensation for infringing the right of exclusive use of a trademark shall be the profits obtained from the infringement during the period of infringement, or the losses suffered by the infringed party arising from infringement during the period of infringement. If it is difficult to determine the profits obtained from the infringement referred to in the preceding paragraph, or it is difficult to determine the losses arising from the infringement that were suffered by the infringed, the court shall determine a compensation of an amount not more than RMB500,000 in accordance with the circumstances of the infringement.

Also, under this law, a trademark registrant may, by concluding a trademark licensing contract, authorize another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor's registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used.

Well-known Trademark Provisions

The Provisions on Recognition and Protection of Well-known Trademark, promulgated by SAIC on April 17, 2003, and effective as of June 1, 2003, mainly stipulate the recognition procedure by competent authorities and ways for protection of well-known trademarks. Well-known trademarks are recognized case by case by (i) the Trademark Review and Adjudication Board under the State Administration For Industry and Commerce during the registration procedure; (ii) the Trademark Office during administration actions; or (iii) people's courts during litigation.

Pursuant to the Interpretation of the Supreme Court of the PRC on relevant issues concerning trials related to trademark civil cases, the copying, imitation or translation of a well-known trademark of others, or the usage of a main part of the well-known trademark in a different or dissimilar commodity, and misleading the public and leading to possible damage to the interests of the registrant of that well-known trademark, constitute an infringement upon the right to exclusive use of a registered trademark.

Copyright Law Provisions

The principal regulations governing the copyright are the Copyright Law of the PRC (the Copyright Law), which was promulgated by NPC on September 7, 1990 and amended on October 27, 2001, the Implementation Rules of the Copyright Law (2002 Revision), which was promulgated by the

State Council on August 2, 2002 and came into effect on September 15, 2002, and the Regulations on the Protection of Computer Software, which was promulgated by the State Council on December 20, 2001 and came into effect on January 1, 2002. Computer software, including the computer programs and related documentation, as one type of copyrightable work, is under protection of the Copyright Law. Copyright is automatically granted once the works are completed and registration of copyright works is voluntary. The rights of authorship alteration and integrity of an author shall be unlimited in time. The protection period of right of publication and other rights is lifetime of the author and 50 years from the death of the author if the author is an individual. Where the copyright belongs to legal entity or another organization, or in respect of a service work where the legal entity or organization enjoys the copyright (except the right of authorship), the protection period of publication and other rights is 50 years from the date of first publication. No protection will be granted if a copyrightable work of or another organization has not been published within 50 years after it is completed.

Domain Names Provisions

The principal regulations governing domain names are the Measures for Administration of Domain Names for the Chinese Internet, which was promulgated by the Ministry of Information and Industry on November 5, 2004 and came into effect on December 20, 2004, and the Measures on Domain Name Dispute Resolution (2006 Revision), which was promulgated by the Chinese Internet Network Infrastructure Center on February 14, 2006 and came into effect on March 17, 2006. The Measures for Administration of Domain Names for the Chinese Internet regulates the registration of domain names with the affix '.cn' and domain names in Chinese, and domain name disputes shall submitted domain name dispute resolution institutions authorized by the Chinese Internet Network Information Center.

Set out below is a summary of certain provisions of the Memorandum of Association and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 10, 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Companies Law”). The Memorandum of Association and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum of Association states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum of Association with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles of Association were adopted on September 10, 2007. The following is a summary of certain provisions of the Articles of Association:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum of Association and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and the Memorandum of Association and Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles of Association and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles of Association or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles of Association, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles of Association, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles of Association. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject

as otherwise provided by the Articles of Association, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles of Association, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph

shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles of Association.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Cayman Companies Law and the Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles of Association may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles of Association state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to amend the Articles of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so canceled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting

two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles of Association, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorized representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles of Association, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles of Association) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles of Association), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles of Association), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles of Association (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles of Association, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles of Association) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles of Association; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles of Association), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20)% in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles of Association) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles of Association), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles of Association).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles of Association and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20)% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20)% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles of Association), unless the register is closed in accordance with the Articles of Association.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles of Association the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be

distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles of Association) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles of Association), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles of Association) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles of Association provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles of Association includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition,

section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Special resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

(k) Subsidiary owning shares in parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles of Association.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Cayman Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75)% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90)% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IX to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

The following discussion is a summary of certain anticipated tax consequences of our operations and of an investment in the shares under Cayman Islands tax laws, Hong Kong tax laws and PRC tax laws. The discussion does not deal with all possible tax consequences relating to the Company's operations or to an investment in the Shares. In particular, the discussion does not address the tax consequences under state, local and other (e.g., non-Hong Kong, non-Cayman Islands, non-Chinese) tax laws. Accordingly, each prospective investor should consult his or her tax advisor regarding the tax consequences of an investment in the Shares. The discussion is based upon law and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change.

CAYMAN ISLANDS TAXATION

Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of our Company or by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for our Company is for a period of twenty years from July 25, 2006.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

PRC TAXATION

Enterprise income tax

Under the PRC Law on Income Tax of Foreign Invested Enterprises and Foreign Enterprises adopted by the National People's Congress ("NPC") on April 9, 1991 and the implementation rules applicable to those foreign invested enterprises, each foreign invested enterprise usually attracts an income tax rate of 33% for their domestic and overseas incomes and if it is engaged in manufacturing with an operating period of more than a decade, it will further be exempted from enterprise income taxes for two years beginning from their first profitable year, and be entitled to a 50% reduction of enterprise income taxes for the following three years.

On March 16, 2007, the Fifth Meeting of the Tenth NPC promulgated the PRC Enterprise Income Tax Law (the “Income Tax Law”). According to the Income Tax Law, which will become effective from January 1, 2008, the income tax for both domestic companies and foreign invested enterprises will be levied at the uniform rate of 25% except for certain income tax deductions prescribed by the Income Tax Law. However, the Income Tax Law develops some transitional preferential measures for enterprises established before the promulgation of the Income Tax Law which enjoy low tax rates or regular tax reduction and exemption treatments under the current tax laws and administrative regulations. According to these transitional measures, such enterprises, pursuant to the regulations of the State Council, will continue to enjoy a gradually increasing transitional income tax rate within five years after the Income Tax Law becomes effective. Enterprises entitled to enjoy regular tax reduction and exemption treatments under the current income tax laws may continue to enjoy remaining incentives in accordance with the requirements and period specified by the current income tax laws. However, for enterprises that have not made any profits and thus not enjoyed such preferential treatments, the period for enjoying preferential treatments shall be calculated from the year in which the Income Tax Law becomes effective.

Business tax

Under the PRC Provisional Regulations on Business Tax issued by the State Council, which took effect on January 1, 1994, and the implementation rules, business tax is levied on all enterprises and individuals that provide taxable services, assign intangible assets or sell real property in the PRC. The tax rate ranges from 3% to 20% depending on the type of services provided. The assignment of intangible assets and the sale of buildings and other attachments to land attract a tax rate of 5% of the turnover of the enterprise.

Enterprises are required to pay tax to the relevant local tax authorities where they are located.

Land value-added tax

Under the PRC Provisional Regulations on Land Value-added Tax and the implementation rules issued by the State Council, which took effect on January 1, 1994, land value-added tax applies to both domestic and foreign investors, whether they are corporate entities or individuals. The tax is payable by the taxpayer on the balance of the income derived from the transfer of land use rights, buildings or premises, or related facilities on such land, buildings or premises, less allowable deductions. The tax is progressive and ranges from 30% to 60% of the appreciation value (i.e. the aforesaid balance), depending on the appreciation value as compared with the “allowable deduction”.

Value-added tax

In accordance with the PRC Provisional Regulations on Value-added Tax issued by the State Council, which took effect on January 1, 1994, and the implementation rules, enterprises selling commodities, providing services such as processing, maintenance, import and export of cargoes must pay value-added taxes. The value-added taxes in the PRC are calculated at 13% or 17% of the whole prices for goods sold (depending on the actual type of goods), or 17% of service charges collected. The value-added taxes involved in the prices or expenses shall not be included.

Dividends from our China operations

Under current PRC tax laws, regulations and rulings, dividends from our operations in China paid to us are currently exempt from any PRC withholding or income tax.

Dividends paid by the Company to its overseas investors

The company is not incorporated in the PRC. Under current PRC law, even though we have significant operating subsidiaries in the PRC, the distribution of its dividends to its overseas investors such as yourself is not currently subject to PRC tax. However, if you are a PRC mainland citizen, you shall be subject to the PRC individual income tax at a rate of 20% as you are liable for PRC tax for your global income under the current PRC law.

Transfer or disposition of our Shares

As we are not incorporated in the PRC, under current PRC law, any transfer or disposition of our shares by an overseas investor such as yourself may or may not trigger PRC tax liabilities. However, if you are a PRC mainland citizen, you shall be subject to the PRC individual income tax at a rate of 20% as you are liable for PRC tax for your global income under the current PRC law.

HONG KONG TAXATION**Dividends**

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on individuals at a maximum rate of 16.0%.

Gains from sales of the shares effected on the Hong Kong Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

No stamp duty will be levied on the transfer of shares that are registered on a share register outside Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 10, 2006 under the Cayman Companies Law. Our registered address is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. We have registered a place of business in Hong Kong at Room 1703A, 17/F Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong and have been registered as an oversea company under Part XI of the Hong Kong Companies Ordinance. Ms. Lo Ka Wai, Claudia has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its registered place of business in Hong Kong set out above. As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law are set out in Appendix VI to this prospectus.

2. Changes in share capital of our Group***The Company***

As of the date of our incorporation, the authorized share capital of the Company was US\$100, divided into 100 shares of par value of US\$1.00 each. The following sets out the changes in the Company's share capital since the date of its incorporation:

- (a) on July 10, 2006, 1 ordinary share of US\$1.00 was allotted and issued credited as fully paid to Codan Trust Company (Cayman) Limited as the initial subscriber, which was transferred to Kong Bo Investment on the same date;
- (b) on July 10, 2006, 95 ordinary shares of US\$1.00 each were allotted and issued credited as fully paid to Kong Bo Investment as the initial subscriber;
- (c) on July 10, 2006, 2 ordinary shares of US\$1.00 each were allotted and issued credited as fully paid to Kong Xin Investment Limited as the initial subscriber, which were transferred to Kong Bo Investment on July 30, 2006;
- (d) on July 10, 2006, 1 ordinary share of US\$1.00 was allotted and issued credited as fully paid to Kong Bo Development as the initial subscriber;
- (e) on July 10, 2006, 1 ordinary share of US\$1.00 was allotted and issued credited as fully paid to Kong Xin Development Limited as the initial subscriber, which was transferred to Kong Bo Investment on July 30, 2006;
- (f) on September 5, 2006, 49,401 and 499 ordinary shares of US\$1.00 each were allotted and issued credited as fully paid to Kong Bo Investment and Kong Bo Development, respectively;
- (g) on September 5, 2006, 5,336 Series B shares of US\$0.0001 each were allotted and issued credited as fully paid to Kong Bo Investment, which were transferred to Olympics Investment on September 22, 2006 in consideration of the waiver by Olympics Investment of the repayment of a US\$50 million loan owed by Kong Bo Investment to Olympics Investment;

- (h) on September 22, 2006, 2,135 Series A shares of US\$0.0001 each were allotted and issued credited as fully paid to Olympics Investment;
- (i) on September 14, 2007, each issued and unissued ordinary share of US\$1.00 each was sub-divided into 100,000 ordinary shares of US\$0.00001 each, resulting in the Company having an issued share capital of US\$50,000.7471 divided into 5,000,000,000 ordinary shares of US\$0.00001 each, 2,135 Series A Shares of US\$0.0001 each and 5,336 Series B Shares of US\$0.0001 each;
- (j) on September 14, 2007, the sum of US\$2,572.00 out of the Company's retained earnings was capitalized, and 257,199,855 ordinary shares were issued to Kong Bo Investment Limited, Kong Bo Development Limited and Gather Wealth Holdings Limited, with 251,675,202 ordinary shares issued to Kong Bo Investment Limited, 2,571,999 ordinary shares issued to Kong Bo Development Limited and 2,952,654 ordinary shares issued to Gather Wealth Holdings Limited; and
- (k) on September 14, 2007, the authorized share capital was amended by way of special resolution of members to US\$200,000 divided into 20,000,000,000 Shares, 2,135 Series A Shares and 5,336 Series B Shares.

Upon the Global Offering becoming a qualified IPO (as defined in the Investment Agreement), the Series A Shares and Series B Shares will be mandatorily converted into ordinary Shares of the Company immediately prior to this Global Offering based on an adjusted conversion price of US\$0.0942379998 (for the Series A Shares) and US\$0.0942379999 (for the Series B Shares), after adjusting for the subdivision and capitalization of the Shares. Following such conversion, the 2,135 Series A Shares will be converted to 212,228,613 Shares and the 5,336 Series B Shares will be converted to 530,571,532 Shares. The Global Offering and the proposed listing of our Company on the Hong Kong Stock Exchange is a qualified IPO for the purposes of the Investment Agreement.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued, our authorized share capital upon completion of the Global Offering will be US\$200,000 divided into 20,000,000,000 Shares.

Save as disclosed in this Appendix, there has been no alteration in the Company's share capital since the date of our incorporation.

Our subsidiaries

Our subsidiaries are referred to in the Accountants' Report as set out in Appendix IA to this prospectus. The following alterations in the share capital (or registered capital, as the case maybe) of our subsidiaries have taken place within the two years preceding the date of this prospectus:

Bosideng BVI

- On July 11, 2006, Bosideng BVI was established in BVI as a BVI business company limited by shares and 1 ordinary share without par value was allotted and issued credited as fully paid to our Company.

Bosideng International Fashion

- On June 23, 2005, Bosideng International Fashion was established by Dezhou De Kang Investment Co., Ltd. (the company name was subsequently changed to Shanghai Bosideng Holdings Group) (10%) and Shandong Kangbo Industry Co., Ltd. (90%) under the name “Shanghai Kangbo Fashion Co., Ltd.” in Shanghai, PRC as a limited liability company with a registered capital of RMB5,000,000, and the registered capital was fully paid up;
- On August 31, 2005, the registered capital of Bosideng International Fashion was increased from RMB5,000,000 to RMB30,000,000, and the registered capital was fully paid up;
- On May 17, 2006, Shanghai Bosideng Management Co., Ltd. (originally named Dezhou De Kang Investment Co., Ltd.; the company name was later changed into Shanghai Bosideng Holdings Group) acquired 90% shareholding from Shandong Kangbo Industry Co., Ltd. and became the sole shareholder of Bosideng International Fashion;
- On September 14, 2006, in connection with the investment by HSBC Private Equity in our Company, Bosideng International Fashion increased its registered capital from RMB30,000,000 to US\$40,000,000 which was subscribed by Bosideng BVI, Shanghai Bosideng Holdings Group transferred 100% of the shareholding in Bosideng International Fashion to Bosideng BVI, and consequently, Bosideng International Fashion was converted to a wholly foreign owned company. Pursuant to this capital increase, as of October 26, 2006, the paid in registered capital of Bosideng International Fashion was increased to US\$29,300,000, and the remaining amount of its registered capital is to be fully paid off by September 14, 2008. Our PRC legal counsel, Chen & Co. Law Firm, has confirmed that the timing and method of contribution of the registered capital of Bosideng International Fashion are in compliance with applicable PRC laws.

Shanghai Bingjie

- On April 21, 1999, Shanghai Bingjie was established by Jiangsu Kangbo Group Co., Ltd. (the company name was later changed to Bosideng Corporation) (57%) and Changshu Kangbo Clothing Factory (43%) in Shanghai, PRC as a limited liability company with a registered capital of RMB3,500,000, and the registered capital was fully paid up;
- On June 29, 2001, Changshu Kangbo Clothing Factory transferred 10% of the shareholding in Shanghai Bingjie to Jiangsu Xuezhongfei, and transferred 33% of the shareholding in Shanghai Bingjie to Jiangsu Kangbo Group Co., Ltd., following which Jiangsu Kangbo Group Co., Ltd. and Jiangsu Xuezhongfei held 90% and 10% shareholding in Shanghai Bingjie respectively;

- On June 30, 2006, Shanghai Bingjie increased its registered capital from RMB3,500,000 to RMB10,000,000, which was subscribed by Bosideng International Fashion. Following this increase of registered capital, Bosideng International Fashion, Bosideng Corporation and Jiangsu Xuezhongfei each held 65%, 31.5% and 3.5% shareholding in Shanghai Bingjie, respectively;
- On July 27, 2006, after a transfer of registered capital in Shanghai Bingjie by each of Bosideng Corporation and Jiangsu Xuezhongfei to Bosideng International Fashion, and Shanghai Bingjie became 100% owned by Bosideng International Fashion;
- On September 18, 2006, in connection with the investment from HSBC Private Equity in our Company, Shanghai Bingjie increased its registered capital from RMB10,000,000 to US\$10,000,000 and was converted into a Sino-foreign equity joint venture company, with 51% shareholding held by Bosideng International Fashion and 49% shareholding held by Bosideng BVI. The increased registered capital was fully paid up.

Jiangsu Bosideng

- On March 30, 2006, Jiangsu Bosideng was established by Bosideng Corporation in Jiangsu, PRC as a limited liability company with a registered capital of RMB68,000,000, and the registered capital was fully paid up;
- On May 22, 2006, Bosideng Corporation transferred 100% of the shareholding in Jiangsu Bosideng to Bosideng International Fashion;
- On September 7, 2006, in connection with the investment by HSBC Private Equity in our Company, the registered capital of Jiangsu Bosideng was increased from RMB68,000,000 to US\$30,000,000, and Jiangsu Bosideng was converted into a Sino-foreign equity joint venture company, with 51% of its shareholding held by Bosideng International Fashion, and 49% of its shareholding held by Bosideng BVI. Pursuant to this capital increase, as of November 10, 2006, the paid in registered capital of Jiangsu Bosideng was increased to approximately US\$22,302,454, and the remaining amount of its registered capital is to be fully paid off by September 7, 2008. Our PRC legal counsel, Chen & Co. Law Firm, has confirmed that the timing and method of contribution of the registered capital of Jiangsu Bosideng are in compliance with applicable PRC laws.

Shandong Bosideng

- On May 17, 2006, Shandong Bosideng was established by Shanghai Bosideng Investment & Development Co., Ltd. (the company name was later changed into Bosideng International Fashion) in Dezhou, PRC as a limited liability company with a registered capital of RMB10,000,000, and the registered capital was fully paid up;
- On September 18, 2006, in connection with the investment in the Company by HSBC Private Equity, Shandong Bosideng increased its registered capital from RMB10,000,000 to US\$30,000,000 and was converted into a Sino-foreign

equity joint venture company, and owned by Bosideng International Fashion (51%) and Bosideng BVI (49%). As of November 14, 2006, the increased registered capital was fully paid up.

Shanghai Shuangyu

- On June 28, 2006, Shanghai Shuangyu was established by Bosideng International Fashion (63%), Shanghai Kangbo Feida (25%) and Changshu Bingxu (12%) in Shanghai, PRC as a limited liability company with a registered capital of RMB10,000,000 and the registered capital was fully paid up;
- On September 15, 2006, in connection with the investment by HSBC Private Equity in our Company, Shanghai Shuangyu increased its registered capital from RMB10,000,000 to US\$10,000,000 and was converted into a Sino-foreign equity joint venture company. Following this conversion, Shanghai Shuangyu was owned by Bosideng International Fashion (51%), Bosideng BVI (25%), Shanghai Kangbo Feida (16.22%) and Changshu Bingxu (7.78%). The increased registered capital was fully paid up;
- On July 11, 2007, Bosideng International Fashion acquired the entire shareholding in Shanghai Shuangyu owned by Changshu Bingxu (as to 7.78%) and Shanghai Kangbo Feida (as to 16.22%), pursuant to which Shanghai Shuangyu became an indirect wholly-owned subsidiary of the Company.

Bosideng Design Center

- On March 23, 2001, Bosideng Design Center was established by Bosideng Corporation (80%) and Changshu Kangbo Clothing Factory (20%) in Changshu, PRC as a limited liability company with a registered capital of RMB2,000,000, and the registered capital was fully paid up;
- On June 28, 2001, Changshu Kangbo Clothing Factory transferred its shareholding in Bosideng Design Center to Bosideng Corporation (10%) and Jiangsu Xuezhongfei (10%);
- On July 28, 2006, Bosideng International Fashion acquired 90% shareholding in Bosideng Design Center from Bosideng Corporation and 10% shareholding from Jiangsu Xuezhongfei, and became the sole shareholder of Bosideng Design Center.

Bosideng Advertising

- On September 12, 1996, Bosideng Advertising was established by Bosideng Corporation (70%) and Mr. Tang Jiankang (30%) in Changshu, PRC as a limited liability company with a registered capital of RMB500,000, and the registered capital was fully paid up;
- On June 13, 2001, Mr. Tang Jiankang transferred his 20% shareholding in Bosideng Advertising to Bosideng Corporation;

- On October 15, 2004, Mr. Tang Jiankang transferred his remaining 10% shareholding in Bosideng Advertising to Ms. Xu Aihong;
- On July 27, 2006, Jiangsu Bosideng acquired 90% shareholding in Bosideng Advertising from Bosideng Corporation and 10% shareholding from Ms. Xu Aihong, and became the sole shareholder of Bosideng Advertising.

Sales Companies Owned by Jiangsu Bosideng

- In April and May of 2006, Jiangsu Bosideng acquired and established 74 regional sales companies in areas throughout the PRC, including but not limited to Beijing, Changchun, Tianjin, Chengdu, Wuhan, Xi'an, Ningbo and Hangzhou. (See the Accountant's Report as set out in Appendix 1A to this prospectus for a complete list of these 74 sales companies.)

Bosideng Import and Export

- On April 11, 2002, Bosideng Import and Export was established by Bosideng Corporation (70%) and Jiangsu Xuezhongfei (30%) in Changshu, PRC as a limited liability company with a registered capital of RMB5,000,000, and the registered capital was fully paid up;
- On July 27, 2006, Jiangsu Bosideng acquired 70% shareholding in Bosideng Import and Export from Bosideng Corporation and 30% shareholding from Jiangsu Xuezhongfei, and became the sole shareholder of Bosideng Import and Export.

Shanghai Kangbo

- On November 6, 2000, Shanghai Kangbo was established by Bosideng Corporation (90%) and Shanghai International Bidding Company (10%) in Pudong Shanghai, PRC as a limited liability company with a registered capital of RMB6,000,000, and the registered capital was fully paid up;
- On August 22, 2007, Shanghai Bingjie acquired 90% shareholding in Shanghai Kangbo from Bosideng Corporation at the consideration of RMB5,500,000 which represented a premium on the audited net asset value in 2006;

Save as disclosed in this prospectus, there has been no other alteration in the share capital of our subsidiaries in the two years preceding the date of this prospectus.

3. Written resolutions of our shareholders

Pursuant to the written resolutions passed by our Shareholders on September 10, 2007, it was resolved, among other things:

- (a) our Company approved and adopted its new Articles of Association, the terms of which are summarized in Appendix VI to this prospectus;

- (b) subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus being fulfilled or waived:
- (1) the Global Offering and the Directors were authorized to allot and issue, and to approve the transfer of, such number of Shares in connection with the Global Offering and any exercise of the Over-allotment Option as they are fit, on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;
 - (2) conditional further on the Listing Committee of the Hong Kong Stock Exchange granting approval of our Share Option Scheme, the rules of our Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorized, at their sole discretion, to make such further changes to our Share Option Scheme as requested by the Hong Kong Stock Exchange and which they deem necessary and/or desirable and at their absolute discretion to grant options to subscribe for Shares thereunder up to the limits referred to in our Share Option Scheme and or allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under our Share Option Scheme and to take all such action as they consider necessary, desirable or expedient to implement or give effect to our Share Option Scheme, subject to the conditions therein;
 - (3) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or pursuant to the exercise of any subscription rights which may be granted under our Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association) with an aggregate nominal value of not more than the sum of:
 - 20% of the aggregate nominal value of our Share capital in issue immediately following the completion of the Global Offering but before any exercise of the Over-allotment Option; and
 - the aggregate nominal value of the Share capital of our Company repurchased by us (if any);
 - (4) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase Shares to be listed on the Hong Kong Stock Exchange with a total nominal value of not more than 10% of the aggregate nominal value of the Company’s Share capital in issue immediately following the completion of the Global Offering but before any exercise of the Over-allotment Option; and
 - (5) the general unconditional mandate as mentioned in paragraph (3) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (4) above.

Each of the general mandates referred to in paragraphs (3), (4) and (5) above will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles of Association; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting.

4. The Reorganization

In 2006, the members of our Group underwent the Reorganization to rationalize the business and the structure of our Group in connection with the investment from HSBC Private Equity and in anticipation of the Global Offering. For information relating to our Reorganization, please see the section headed “Our History and Structure — Reorganization”.

Following the Reorganization, our Company became the ultimate holding company of our principal operating subsidiaries.

5. Repurchases of our own securities

This section includes information relating to the repurchase of our Shares, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant Legal and Regulatory Requirements

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Hong Kong Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our Shareholders in a general meeting.

(b) Shareholder Approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On September 10, 2007, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Hong Kong Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual shareholders' general meeting, (ii) the date by which our next shareholders' general meeting is required by applicable laws and our Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our Shareholders in a general meeting (the “Relevant Period”).

(c) *Source of Funds*

Our repurchase of the Shares listed on the Hong Kong Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Hong Kong Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange. Subject to the foregoing, we may make repurchases with funds which would otherwise be available for dividend or distribution or out of an issue of new Shares for the purpose of the repurchase.

(d) *Reasons for Repurchases*

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of our shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

(e) *Funding of Repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association and Articles of Association and the Listing Rules.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) *Share Capital*

The exercise in full of the current repurchase mandate, on the basis of 7,870,000,000 Shares in issue immediately after the Global Offering (without taking into account the exercise of the Over-allotment Option), could accordingly result in up to 787,000,000 Shares being repurchased by us during the Relevant Period.

(g) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, our Memorandum of Association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No connected person as defined by the Listing Rules has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

- (a) an equity transfer agreement dated April 28, 2006 entered into between Shanghai Bosideng Enterprise Management Co., Ltd. (which name was subsequently changed to Shanghai Bosideng Holdings Group) and Shandong Kangbo Industry Co., Ltd., whereby Shandong Kangbo Industry Co., Ltd. agreed to transfer 90% equity interest in the registered capital of Bosideng International Fashion to Shanghai Bosideng Enterprise Management Co., Ltd. at the consideration of RMB27,000,000;
- (b) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Taiyuan Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (c) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Xi'an Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (d) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Baotou Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, at an aggregate consideration of RMB500,000 based on the value of the registered capital;

- (e) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Lanzhou Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (f) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Urumchi Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (g) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Chengdu Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, at an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (h) an equity transfer agreement dated April 2, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Hefei Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (i) an equity transfer agreement dated April 6, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Shijiazhuang Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB500,000 based on the value of the registered capital;
- (j) an equity transfer agreement dated April 20, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 40% equity interest in Haerbin Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB200,000;
- (k) an equity transfer agreement dated April 20, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 60% equity interest in Haerbin Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB300,000;
- (l) an equity transfer agreement dated April 20, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 90% equity interest in Wuhan Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB450,000 based on the value of the registered capital;

- (m) an equity transfer agreement dated April 20, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 10% equity interest in Wuhan Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB50,000 based on the value of the registered capital;
- (n) an equity transfer agreement dated April 25, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 90% equity interest in Changchun Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB900,000;
- (o) an equity transfer agreement dated April 25, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 10% equity interest in Changchun Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB100,000;
- (p) an equity transfer agreement dated April 25, 2006 entered into among Bosideng Corporation, Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Bosideng Corporation and Jiangsu Xuezhongfei agreed to transfer a 90% and a 10% equity interest in Liaoning Bosideng Trading Co., Ltd. to Jiangsu Bosideng, respectively, for an aggregate consideration of RMB5,000,000;
- (q) an equity transfer agreement dated April 30, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 90% equity interest in Tianjin Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB450,000;
- (r) an equity transfer agreement dated April 30, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 10% equity interest in Tianjin Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB50,000;
- (s) an equity transfer agreement dated May 8, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 90% equity interest in Zhengzhou Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB495,000 based on the value of the registered capital;
- (t) an equity transfer agreement dated May 8, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 10% equity interest in Zhengzhou Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB55,000 based on the value of the registered capital;
- (u) an equity transfer agreement dated May 10, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 80% equity interest in Beijing Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB400,000 based on the value of the registered capital;
- (v) an equity transfer agreement dated May 10, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 20% equity interest in Beijing Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB100,000 based on the value of the registered capital;

- (w) an equity transfer agreement dated May 16, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer a 90% equity interest in Jinan Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB450,000;
- (x) an equity transfer agreement dated May 16, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer a 10% equity interest in Jinan Bosideng Trading Co., Ltd. to Jiangsu Bosideng for a consideration of RMB50,000;
- (y) an equity transfer agreement dated May 22, 2006 entered into between Bosideng Corporation and Shanghai Bosideng Investment & Development Co., Ltd. (which name was subsequently changed to Bosideng International Fashion), whereby Bosideng Corporation agreed to transfer 100% equity interest in Jiangsu Bosideng to Shanghai Bosideng Investment & Development Co., Ltd. at the consideration of RMB68,000,000 based on the value of the registered capital;
- (z) an employee secondment agreement dated July 1, 2006 entered into between Shanghai Shuangyu and Shanghai Kangbo Feida, whereby Shanghai Kangbo Feida seconded a certain number of employees to Shanghai Shuangyu from July 1, 2006 to June 30, 2007;
- (aa) an equity transfer agreement dated July 13, 2006 entered into between Shanghai Bosideng Investment & Development Co., Ltd. (which name was subsequently changed to Bosideng International Fashion) and Jiangsu Xuezhongfei, whereby Jiangsu Xuezhongfei agreed to transfer 3.5% equity interest in Shanghai Bingjie to Shanghai Bosideng Investment & Development Co., Ltd. at the consideration of RMB350,000 based on the value of the registered capital;
- (bb) an equity transfer agreement dated July 13, 2006 entered into between Shanghai Bosideng Investment & Development Co., Ltd. (which name was subsequently changed to Bosideng International Fashion) and Bosideng Corporation, whereby Bosideng Corporation agreed to transfer 31.5% equity interest in Shanghai Bingjie to Shanghai Bosideng Investment & Development Co., Ltd. at the consideration of RMB3,150,000 based on the value of the registered capital;
- (cc) an equity transfer and capital increase agreement dated July 16, 2006 entered into between Shanghai Bosideng Holdings Group and Bosideng BVI, whereby Shanghai Bosideng Holdings Group agreed to transfer 100% equity interest in the registered capital of Bosideng International Fashion to Bosideng BVI at the consideration of RMB53,500,000 based on the appraised value, and Bosideng BVI agreed to subscribe for the increased registered capital of Bosideng International Fashion in the amount of approximately US\$36,250,000;
- (dd) a capital increase agreement dated July 16, 2006 entered into between Bosideng International Fashion and Bosideng BVI regarding increase of the registered capital in Jiangsu Bosideng from RMB68,000,000 to US\$30,000,000, whereby Bosideng International Fashion obtained 51% shareholding in Jiangsu Bosideng by subscribing for US\$6,800,000 of the increased capital, and Bosideng BVI obtained 49% shareholding in Jiangsu Bosideng by subscribing for US\$14,700,000 of the increased capital;

- (ee) an equity transfer and capital increase agreement dated July 16, 2006 entered into between Bosideng International Fashion and Bosideng BVI, whereby Bosideng International Fashion agreed to transfer 49% equity interest in Shanghai Bingjie to Bosideng BVI at the consideration of RMB8,330,000 based on the appraised value, and Bosideng International Fashion and Bosideng BVI subscribed for US\$4,462,500 and US\$4,287,500 of the increased capital respectively;
- (ff) a capital increase agreement dated July 16, 2006 entered into among Bosideng International Fashion, Bosideng BVI, Shanghai Kangbo Feida and Changshu Bingxu regarding increase of the registered capital in Shanghai Shuangyu from RMB10,000,000 to US\$10,000,000, whereby Bosideng International Fashion, Bosideng BVI, Shanghai Kangbo Feida and Changshu Bingxu subscribed for US\$4,312,500, US\$2,500,000, US\$1,309,100, and US\$628,400 of the increased capital and obtained 51%, 25%, 16.22%, 7.78% shareholding in Shanghai Shuangyu respectively;
- (gg) a capital increase agreement dated July 16, 2006 entered into between Bosideng International Fashion and Bosideng BVI regarding increase of the registered capital in Shandong Bosideng from RMB10,000,000 to US\$30,000,000, whereby Bosideng International Fashion and Bosideng BVI subscribed for US\$14,050,000 and US\$14,700,000 of the increased capital and obtained 51% and 49% shareholding in Shandong Bosideng respectively;
- (hh) an equity transfer agreement dated July 18, 2006 entered into between Jiangsu Bosideng and Bosideng Corporation, whereby Bosideng Corporation agreed to transfer 90% equity interest in Bosideng Advertising to Jiangsu Bosideng at the consideration of RMB450,000;
- (ii) an equity transfer agreement dated July 18, 2006 entered into between Jiangsu Bosideng and Ms. Xu Aihong, whereby Ms. Xu Aihong agreed to transfer 10% equity interest in Bosideng Advertising to Jiangsu Bosideng at the consideration of RMB50,000;
- (jj) an equity transfer agreement dated July 18, 2006 entered into between Bosideng Corporation and Jiangsu Bosideng, whereby Bosideng Corporation agreed to transfer 70% equity interest in Bosideng Import and Export to Jiangsu Bosideng at the consideration of RMB3,500,000;
- (kk) an equity transfer agreement dated July 18, 2006 entered into between Jiangsu Xuezhongfei and Jiangsu Bosideng, whereby Jiangsu Xuezhongfei agreed to transfer 30% equity interest in Bosideng Import and Export to Jiangsu Bosideng at the consideration of RMB1,500,000;
- (ll) an equity transfer agreement dated July 20, 2006 entered into between Bosideng Corporation and Bosideng International Fashion, whereby Bosideng Corporation agreed to transfer 90% equity interest in Bosideng Design Center to Bosideng International Fashion at the consideration of RMB1,800,000 based on the value of the registered capital;

- (mm) an equity transfer agreement dated July 20, 2006 entered into between Jiangsu Xuezhongfei and Bosideng International Fashion, whereby Jiangsu Xuezhongfei agreed to transfer 10% equity interest in Bosideng Design Center to Bosideng International Fashion at the consideration of RMB200,000 based on the value of the registered capital;
- (nn) a Trademark and Domain Name Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Bosideng Corporation, whereby Bosideng Corporation agreed to assign 305 trademarks/trademark applications and 29 domain names to Bosideng International Fashion at no consideration, and a Trademark and Domain Name License Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Bosideng Corporation, whereby Bosideng Corporation agreed to exclusively license these 305 trademarks/trademark applications and 29 domain names to Bosideng International Fashion on a royalty free basis;
- (oo) a Trademark Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Dezhou Kangxin Investment Co., Ltd., whereby Dezhou Kangxin Investment Co., Ltd. agreed to assign 2 trademarks to Bosideng International Fashion at no consideration, and a Trademark License Agreement dated July 30, 2006 between Bosideng International Fashion and Dezhou Kangxin Investment Co., Ltd., whereby Dezhou Kangxin Investment Co., Ltd. agreed to exclusively license these 2 trademarks to Bosideng International Fashion on a royalty free basis;
- (pp) a Trademark Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Jiangsu Kangbo Investment Co., Ltd. at no consideration, whereby Jiangsu Kangbo Investment Co., Ltd. agreed to assign 80 trademarks/trademark applications to Bosideng International Fashion at no consideration, and a Trademark License Agreement dated July 30, 2006 between Bosideng International Fashion and Jiangsu Kangbo Investment Co., Ltd., whereby Jiangsu Kangbo Investment Co., Ltd. agreed to exclusively license these 80 trademarks/trademark applications to Bosideng International Fashion on a royalty free basis;
- (qq) a Trademark Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Jiangsu Xuezhongfei at no consideration, whereby Jiangsu Xuezhongfei agreed to assign 19 trademarks/trademark applications to Bosideng International Fashion, and a Trademark License Agreement dated July 30, 2006 between Bosideng International Fashion and Jiangsu Xuezhongfei, whereby Jiangsu Xuezhongfei agreed to exclusively license these 19 trademarks/trademark applications to Bosideng International Fashion on a royalty free basis;
- (rr) a Trademark Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Mr. Gao Dekang, whereby Mr. Gao Dekang agreed to assign 39 trademarks/trademark applications, at no consideration to Bosideng International Fashion and a Trademark License Agreement dated July 30, 2006 between Bosideng International Fashion and Mr. Gao Dekang, whereby Mr. Gao Dekang agreed to exclusively license these 39 trademarks/trademark applications to Bosideng International Fashion on a royalty-free basis;

- (ss) a Trademark Assignment Agreement dated July 30, 2006 entered into between Bosideng International Fashion and Shanghai Kangbo Feida, whereby Shanghai Kangbo Feida agreed to assign 7 trademarks to Bosideng International Fashion at no consideration, and a Trademark License Agreement dated July 30, 2006 between Bosideng International Fashion and Shanghai Kangbo Feida, whereby Shanghai Kangbo Feida agreed to exclusively license these 7 trademarks to Bosideng International Fashion on a royalty-free basis;
- (tt) the Investment Agreement;
- (uu) the Shareholders' Agreement;
- (vv) a company shareholder loan agreement dated July 30, 2006 entered into among Kong Bo Investment, the Company and Olympics Investment (as amended on September 5, 2006) whereby Kong Bo Investment extended to the Company a loan equal to US\$50,000,000 at an interest rate of 2% per annum, and the repayment date was varied depending on different circumstances;
- (ww) a security assignment agreement (Deed) dated July 30, 2006 entered into among Kong Bo Investment, Olympics Investment and the Company (as amended on September 5, 2006), whereby Kong Bo Investment assigned its rights under and proceeds in respect of the company shareholder loan to Olympics Investment as continuing security for the payment and discharge of the secured obligations;
- (xx) a guarantee dated July 30, 2006 signed by the Company (as amended on September 5, 2006), whereby the Company (as the guarantor) undertakes to pay Olympics Investment (as the guarantee) on its demand if Kong Bo Investment (as the principal) fails to fulfil its obligations under the relevant loan agreement, the investment agreement or the company shareholder loan agreement;
- (yy) an equipment transfer agreement dated August 1, 2006 entered into between Bosideng International Fashion and Bosideng Corporation, whereby Bosideng Corporation transferred the clothing quality inspection equipment to Bosideng International Fashion at the transfer price (tax excluded) of RMB412,792.35 based on the net book value of the equipment;
- (zz) an equipment transfer agreement dated August 1, 2006 entered into between Shanghai Shuangyu and Shanghai Kangbo Feida, whereby Shanghai Kangbo Feida transferred clothing design, quality inspection and manufacturing equipment to Shanghai Shuangyu at the transfer price (tax excluded) of RMB1,050,542.1 based on the net book value of the equipment;
- (aaa) a loan agreement dated August 24, 2006 entered into between Bosideng International Fashion and Shanghai Bosideng Holdings Group, whereby Shanghai Bosideng Holdings Group extended to Bosideng International Fashion an interest-free RMB loan equivalent to US\$6,700,000;

- (bbb) an inventory transfer agreement dated September 4, 2006 entered into between Bosideng International Fashion and Jiangsu Xuezhongfei, whereby Jiangsu Xuezhongfei would transfer a batch of the inventory relating to “Snow Flying” down apparel as of December 31, 2006 to Bosideng International Fashion at the transfer price (tax excluded) based on the book value of the inventory;
- (ccc) an inventory transfer agreement dated September 4, 2006 entered into between Jiangsu Bosideng and Bosideng Corporation, whereby Bosideng Corporation would transfer a batch of the inventory relating to “Bosideng” down apparel as of December 31, 2006 to Jiangsu Bosideng at the transfer price (tax excluded) based on the book value of the inventory;
- (ddd) an inventory transfer agreement dated September 4, 2006 entered into between Shanghai Shuangyu and Shanghai Kangbo Feida, whereby Shanghai Kangbo Feida would transfer a batch of the inventory relating to “Shangyu” and “Shuangyu” down apparel as of December 31, 2006 to Shanghai Shuangyu at the transfer price (tax excluded) based on the book value of the inventory;
- (eee) an escrow agreement dated September 5, 2006 entered into among the Company, Olympics Investment (as the investor), and The Hongkong and Shanghai Banking Corporation Limited (as the escrow agent);
- (fff) an equity transfer agreement dated May 18, 2007 entered into among Shanghai Kangbo Feida, Changshu Bingxu and Bosideng International Fashion, whereby Shanghai Kangbo Feida and Changshu Bingxu agreed to transfer 16.22% and 7.78% equity interest in Shanghai Shuangyu to Bosideng International Fashion at the consideration of RMB18,000,000 and RMB8,700,000, respectively, which represented a premium on the audited net asset value in 2006;
- (ggg) a trademark assignment agreement dated June 13, 2007 entered into between Bosideng (US) Co., Ltd. and Bosideng International Fashion, whereby Bosideng (US) Co., Ltd. agreed to assign one trademark application to Bosideng International Fashion at no consideration;
- (hhh) a Trust Deed dated June 14, 2007 entered into among Kong Bo Investment, Olympics Investment, Company and HSBC Trustee (Hong Kong) Limited for the trust arrangement in relation to the Share Scheme (as amended by an Amendment to the Trust Deed dated September 14, 2007);
- (iii) an equity transfer agreement dated June 16, 2007 entered into between Bosideng Corporation and Shanghai Bingjie, whereby Bosideng Corporation agreed to transfer 90% equity interest in Shanghai Kangbo to Shanghai Bingjie at the consideration of RMB5,500,000;
- (jjj) a domain name assignment agreement dated June 16, 2007 entered into between Bosideng Corporation and Bosideng International Fashion, whereby Bosideng Corporation agreed to assign 36 domain names to Bosideng International Fashion at no consideration;

- (kkk) a trademark assignment agreement dated June 18, 2007 entered into between Bosideng Corporation and Bosideng International Fashion, whereby Bosideng Corporation agreed to assign 49 trademarks to Bosideng International Fashion at no consideration;
- (III) a deed of non-competition dated September 15, 2007 entered into between Mr. Gao Dekang and the Company, whereby Mr. Gao Dekang has given the Company certain non-competition undertakings referred in the paragraph headed “Non-competition Undertaking” under the section headed “Relationship with Our Controlling Shareholders and Connected Transactions”;
- (mmm) a deed of indemnity dated September 15, 2007 and entered into among Mr. Gao Dekang, Ms. Mei Dong, Mr. Gao Xiaodong, Kong Bo Investment, Kong Bo Development and the Company, whereby Mr. Gao Dekang, Ms. Mei Dong, Mr. Gao Xiaodong, Kong Bo Investment and Kong Bo Development have undertaken to give certain indemnities in favor of the Company containing, among other things, the estate duty and taxation indemnities;
- (nnn) the Hong Kong Underwriting Agreement;
- (ooo) a placing agreement dated September 21, 2007 entered into by and among Cenwise Investment Limited, Goldman Sachs (Asia) L.L.C., Morgan Stanley Asia Limited and us in relation to the placement and allocation of our Shares for the aggregate subscription price of US\$25,000,000;
- (ppp) a placing agreement dated September 21, 2007 entered into by and among China Life Insurance Company Limited, Goldman Sachs (Asia) L.L.C., Morgan Stanley Asia Limited and us in relation to the placement and allocation of our Shares for the aggregate subscription price of US\$25,000,000;
- (qqq) a placing agreement dated September 21, 2007 entered into by and among Chow Tai Fook Nominee Limited, Goldman Sachs (Asia) L.L.C., Morgan Stanley Asia Limited and us in relation to the placement and allocation of our Shares for the aggregate subscription price of US\$25,000,000;
- (rrr) a placing agreement dated September 21, 2007 entered into by and among Equity Advantage Limited, Goldman Sachs (Asia) L.L.C., Morgan Stanley Asia Limited and us in relation to the placement and allocation of our Shares for the aggregate subscription price of US\$25,000,000; and
- (sss) a placing agreement dated September 21, 2007 entered into by and among Li Ka Shing Foundation Limited, Goldman Sachs (Asia) L.L.C., Morgan Stanley Asia Limited and us in relation to the placement and allocation of our Shares for the aggregate subscription price of US\$25,000,000.

2. Intellectual property rights


As of the Latest Practicable Date, our Group has registered/ has applied for the registration of the following intellectual property rights.

A. Trademarks

As of the Latest Practicable Date, we have maintained international registrations of our trademarks in approximately 50 countries and regions, as well as individual registrations in 23 countries and regions.

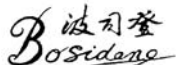
(a) *PRC registered trademarks and trademark applications assigned to our Group/ applied by our Group*

Pursuant to certain agreements dated July 30, 2006 relating to the assignment of trademarks entered into by each of the relevant trademark owners or applicants and Bosideng International Fashion, 318 PRC registered trademarks and 136 trademark applications have been assigned to Bosideng International Fashion, a member of our Group. Bosideng International Fashion has the exclusive right of use with respect to these registered trademarks from the date the trademark assignment is approved by the Trademark Office and is published in the Trademark Gazette as required under PRC Law. As a transitional arrangement, Bosideng International Fashion entered into certain agreements relating to the license of the trademarks with the relevant trademark owner or applicant on July 30, 2006, pursuant to which Bosideng International Fashion is granted an exclusive and royalty-free license to the relevant trademarks until the full title and rights relating to the relevant trademark is finally vested in it.

Our brand “ ” used on down apparel was accredited with the status of “China Well-known Trademark” by the PRC Trademark Office on December 29, 1999.

(i) *PRC registered trademarks which have already been assigned to our Group*

Among the 318 registered trademarks assigned to our Group, the trademarks “Bosideng”, “Snowflying”, “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” have been registered under Class 25 (relating to clothing, footwear and headgear) which are material to our branded down apparel business, and the remaining trademarks having pronunciation, logos or patterns which are identical or similar to these trademarks have been registered under all other classes to prevent any third party from registering or using trademarks which are identical or similar to our trademarks. The table below sets out the list of trademarks “Bosideng”, “Snowflying”, “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” registered under Class 25 which are material to our branded down apparel business.

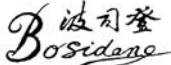


| <u>Trademark</u> | <u>Registration Number</u> | <u>Class</u> | <u>Valid Term</u> |
|---|----------------------------|--------------|---------------------------------------|
|  | 805604 | 25 | January 7, 2006 to January 6, 2016 |

| Trademark | Registration Number | Class | Valid Term |
|---|---------------------|-------|--|
|  | 1365852 | 25 | February 21, 2000 to February 20, 2010 |
| BOSIDENG | 1016064 | 25 | May 28, 1997 to May 27, 2007 |
|  | 614198 | 25 | October 10, 2002 to October 9, 2012 |
| 康博 KangBo | 2014119 | 25 | June 7, 2003 to June 6, 2013 |
|  | 2014122 | 25 | August 28, 2003 to August 27, 2013 |
| 雪中飞 | 1939230 | 25 | September 28, 2005 to September 27, 2015 |
|  | 1761776 | 25 | May 7, 2002 to May 6, 2012 |
|  | 1939223 | 25 | February 7, 2004 to February 6, 2014 |
| 冰洁 Bingjie | 1941078 | 25 | June 14, 2003 to June 13, 2013 |
|  | 3319375 | 25 | July 21, 2006 to July 20, 2016 |
|  | 137581 | 25 | March 1, 2003 to February 28, 2013 |
|  | 3461718 | 25 | June 7, 2005 to June 6, 2015 |
|  | 302335 | 25 | October 30, 1997 to October 29, 2007 |
| SHUANG YU | 3461717 | 25 | June 7, 2005 to June 6, 2015 |

(ii) PRC trademark applications assigned to our Group/applied by our Group

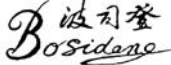
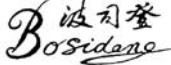
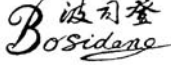
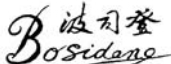
Among the 136 trademark applications assigned to Bosideng International Fashion, a member of our Group, the applications for trademarks “Bosideng”, “Snowflying”, “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” have been filed under Class 25 (relating to clothing, footwear and headgear) which are material to our branded down apparel business, and the remaining applications for trademarks which have pronunciation, logos or patterns which are identical or

similar to these trademarks have been filed for registration under relevant classes to prevent any third party from registering or using trademarks which are identical or similar to our trademarks. Bosideng International Fashion also applied for registration of four trademarks. The table below sets out the list of trademark applications for “Bosideng”, “Snowflying”, “Kangbo”, “Bingjie”, “Shangyu” and “Shuangyu” to be registered under Class 25 which are material to our branded down apparel business.

| Trademark | Application Number | Class | Application Date |
|---|--------------------|-------|------------------|
|  | 3828051 | 25 | December 3, 2003 |
|  | 4954234 | 25 | October 20, 2005 |
| BSD | 3831069 | 25 | December 5, 2003 |
| 雪中飞 | 4954235 | 25 | October 20, 2005 |
|  | 4629740 | 25 | April 27, 2005 |

(b) *Trademarks/trademark applications registered in territories other than PRC assigned to our Group*



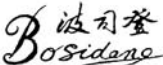
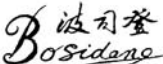

Bosideng International Fashion, a member of our Group entered into license and assignment agreements with Bosideng Corporation and Bosideng (US) Co., Ltd. to acquire the following trademarks/trademark applications subject to successful registration of the change of registrant with the trademark registration authority in the relevant territory:

| Trademark | Territory | Registration Number | Class | Term |
|---|----------------------------|---------------------|--------|--|
|  | International Registration | 672223 | 25 | April 15, 1997 to April 15, 2017 |
|  | International Registration | 867455 | 24, 26 | August 29, 2005 to August 29, 2015 |
|  | International Registration | 872114 | 24, 25 | August 29, 2005 to August 29, 2015 |
| BOSDON | International Registration | 870676 | 25 | November 21, 2005 to November 21, 2015 |
|  | Peru | 41439 | 25 | November 26, 1997 to November 26, 2007 |

| Trademark | Territory | Registration Number | Class | Term |
|---|---|---------------------|--------|--|
|  | Australia | 950815 | 25 | April 15, 2003 to April 15, 2013 |
|  | Australia | 737212 | 25 | June 19, 1997 to June 19, 2007 |
|  | Mexico | 580369 | 25 | July 2, 1997 to July 2, 2007 |
|  | New Zealand | 278663 | 25 | June 23, 2004 to June 23, 2014 |
|  | Saudi Arabia | 445/53 | 25 | January 30, 1997 to January 30, 2017 |
|  | Kuwait | 33354 | 25 | September 26, 1997 to September 26, 2017 |
|  | Thailand | Kor78241 | 25 | September 2, 1997 to September 2, 2007 |
| 波司登 | Japan | 4213192 | 25 | November 20, 1998 to November 20, 2008 |
|  | Canada | TMA507.917 | 25 | February 11, 1999 to February 11, 2014 |
|  | United States of America | 2835783 | 25 | April 27, 2004 to April 27, 2014 |
|  | United States of America | 2,248,979 | 25 | June 1, 1999 to June 1, 2009 |
|  | Korea | 459419 | 25, 45 | November 25, 1999 to November 25, 2009 |
|  | African Intellectual Property Rights Organization | 38305 | 25 | September 5, 1997 to September 5, 2007 |
|  | Indonesia | 446964 | 25 | October 28, 1998 to October 28, 2008 |

| Trademark | Territory | Registration Number | Class | Term |
|---|------------|---------------------|-------|--|
|  | Brazil | 820346373 | 25 | October 17, 2000 to October 17, 2010 |
|  | Panama | 9619201 | 25 | September 18, 1998 to September 18, 2008 |
|  | Singapore | T01/123871 | 25 | August 10, 2001 to August 10, 2011 |
|  | Singapore | T97/07694Z | 25 | June 28, 1997 to June 28, 2007 |
| CAMPOS 康博 | France | 3079833 | 25 | January 31, 2001 to January 31, 2011 |
|  | Korea | 532618 | 25 | October 16, 2002 to October 16, 2012 |
|  | Philippine | 124996 | 25 | November 13, 2003 to November 13, 2023 |
|  | Sri Lanka | 83957 | 25 | July 10, 1997 to July 10, 2007 |
|  | Taiwan | 1023797 | 25 | November 16, 2002 to November 15, 2012 |
|  | Hong Kong | 200405648 | 20 | September 13, 2002 to September 13, 2009 |
|  | Hong Kong | 200405694 | 24 | September 13, 2002 to September 13, 2009 |
|  | Hong Kong | 200405649 | 25 | September 13, 2002 to September 13, 2009 |
|  | Hong Kong | 200408218 | 35 | September 13, 2002 to September 13, 2009 |

| Trademark | Territory | Registration Number | Class | Term |
|-----------|-----------|---------------------|-------|--|
| | Hong Kong | 200408448 | 25 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 200408449 | 35 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 2004B08450 | 25 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 2004B08451 | 35 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 200408452 | 25 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 200408453 | 35 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 300005273 | 25 | April 11, 2003 to April 13, 2013 |
| | Hong Kong | 200500562 | 20 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 200500563 | 24 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | 199804760 | 25 | June 23, 1997 to June 23, 2014 |
| | Hong Kong | 200500564 | 25 | September 13, 2002 to September 13, 2009 |
| | Hong Kong | BO8571/1999 | 25 | June 23, 1997 to June 23, 2014 |
| | Hong Kong | 200500565 | 35 | September 13, 2002 to September 13, 2009 |

| Trademark | Territory | Registration Number | Class | Term |
|---|--------------------------|--------------------------|------------|---|
|  | Hong Kong | 300462889 | 18, 24, 26 | July 22, 2005 to July 21, 2015 |
|  | Taiwan | 1232702 | 25 | October 16, 2006 to October 15, 2016 |
|  | India | 746695 | 25 | June 24, 1997 to June 24, 2007 |
|  | Canada | TMA675,513 | 25 | October 23, 2006 to October 23, 2021 |
|  | United States of America | 78343970 (serial number) | 25 | December 21, 2003 (filing date of trademark applications) |

B. Domain Names

We entered into license and assignment agreements to acquire the following domain names subject to successful registration of the change of registrant with the China Internet Network Information Center and Internet Corporation for Assigned Names and Numbers:

(a) *International domain name (see note below):*

| No. | Domain name | Term |
|-----|-----------------|--------------------------------------|
| 1. | bosideng.com | April 15, 1997 to April 16, 2015 |
| 2. | bosideng.net | May 16, 2002 to May 16, 2010 |
| 3. | xuezhongfei.com | August 12, 1998 to August 11, 2010 |
| 4. | xuezhongfei.net | May 16, 2002 to May 16, 2010 |
| 5. | snowflying.net | April 7, 2005 to April 7, 2015 |
| 6. | 波司登.net | January 17, 2006 to January 17, 2008 |
| 7. | 雪中飞.net | January 17, 2006 to January 17, 2008 |
| 8. | 康博.net | January 17, 2006 to January 17, 2008 |
| 9. | 康博.com | January 17, 2006 to January 17, 2008 |

(b) *Chinese domain name (see note below):*

| No. | Chinese Website | Term |
|-----|-----------------|-----------------------------------|
| 1. | bosideng.cn | April 16, 2003 to April 16, 2010 |
| 2. | bsd.cn | March 17, 2003 to March 17, 2008 |
| 3. | xuezhongfei.cn | April 16, 2003 to April 16, 2008 |
| 4. | xzf.cn | March 17, 2003 to March 17, 2008 |
| 5. | snowflying.cn | March 29, 2005 to March 29, 2010 |
| 6. | bingfei.cn | March 29, 2005 to March 29, 2010 |
| 7. | bingjie.cn | March 29, 2005 to March 29, 2010 |
| 8. | kangbo.cn | March 17, 2003 to March 17, 2008 |
| 9. | 波司登.cn | November 6, 2000 to June 22, 2008 |
| 10. | 冰洁.cn | June 30, 2003 to June 29, 2008 |
| 11. | 冰飞.cn | June 30, 2003 to June 29, 2008 |
| 12. | 冰洁.中国 | June 30, 2003 to June 29, 2008 |
| 13. | 冰飞.中国 | June 30, 2003 to June 29, 2008 |

Note:

Save for “bosideng.com”, the remaining domain names are not accessible on the internet as at the date of the prospectus. We have applied for registration of these non-accessible domain names as a defensive measure to prevent third parties from registering and/or using these domain names relating to our brands for illegitimate purposes or other purposes that may dilute or jeopardize our brands (such as cybersquatting).

(c) *General website:*

| No. | General Website | Term |
|------------|------------------------|--|
| 1. | 波司登 | August 3, 2001 to April 28, 2012 |
| 2. | 雪中飞 | December 9, 2001 to January 8, 2012 |
| 3. | 康博 | December 9, 2001 to January 8, 2012 |
| 4. | 冰洁 | December 11, 2001 to January 10, 2012 |
| 5. | 冰飞 | December 12, 2001 to January 11, 2012 |
| 6. | 上羽 | June 20, 2007 to June 20, 2009 |
| 7. | bosideng | August 4, 2001 to March 30, 2015 |
| 8. | kangbo | March 25, 2005 to March 25, 2015 |
| 9. | xuezhongfei | March 25, 2005 to March 25, 2015 |
| 10. | snowflying | March 25, 2005 to March 25, 2015 |
| 11. | bingjie | March 25, 2005 to March 25, 2015 |
| 12. | bingfei | March 25, 2005 to March 25, 2015 |
| 13. | 中国波司登 | November 29, 2005 to November 29, 2015 |
| 14. | 中国雪中飞 | November 28, 2005 to November 28, 2015 |
| 15. | 中国康博 | November 28, 2005 to November 28, 2015 |
| 16. | 中国冰洁 | November 28, 2005 to November 28, 2015 |
| 17. | 中国冰飞 | November 28, 2005 to November 28, 2015 |
| 18. | 中国天羽 | November 28, 2005 to November 28, 2015 |
| 19. | 中国上羽 | December 5, 2005 to December 5, 2015 |
| 20. | 中国双羽 | December 5, 2005 to December 5, 2015 |
| 21. | 羽绒服网 | November 28, 2005 to November 28, 2012 |
| 22. | 中国羽绒服装名城 | December 5, 2005 to December 5, 2015 |

(d) *MOBI Domain Name:*

| No. | MOBI Domain Name | Term |
|------------|-------------------------|--|
| 1. | Bosidengmobi.mobi | December 13, 2006 to December 13, 2011 |
| 2. | kangbodm.mobi | December 13, 2006 to December 13, 2011 |
| 3. | snowflying.mobi | December 13, 2006 to December 13, 2011 |
| 4. | bsdwm.mobi | December 13, 2006 to December 13, 2011 |
| 5. | Bosidengdm.mobi | December 13, 2006 to December 13, 2011 |
| 6. | bsdmbi.mobi | December 13, 2006 to December 13, 2011 |
| 7. | symobi.mobi | December 13, 2006 to December 13, 2011 |
| 8. | cnbosideng.mobi | December 13, 2006 to December 13, 2011 |
| 9. | shuangyu.mobi | December 11, 2006 to December 11, 2011 |
| 10. | tianyu.mobi | December 11, 2006 to December 11, 2011 |
| 11. | bingfei.mobi | December 13, 2006 to December 13, 2011 |

(e) *Chinese website actual name:*

| No. | General Website Actual Name | Term |
|-----|-----------------------------|----------------------------------|
| 1. | 波司登 | March 21, 2004 to March 21, 2019 |
| 2 | 冰洁 | March 21, 2004 to March 21, 2019 |
| 3 | 冰飞 | March 21, 2004 to March 21, 2019 |
| 4 | 康博 | March 21, 2004 to March 21, 2019 |

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF AND EXPERTS**1. Disclosure of Interests**

Immediately following completion of the Global Offering and on the assumption that (i) the Over-allotment Option has not been exercised, (ii) all outstanding Series A Shares and Series B Shares have been fully converted to Shares, (iii) the Put Option has not been exercised by Olympics Investment, and (iv) the Performance Adjustment Option has not been exercised, the interests of the Directors and chief executive of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Hong Kong Stock Exchange once the Shares are listed will be as follows:

| <u>Name of Shareholder</u> | <u>Nature of interest</u> | <u>Number and class of securities (Note 1)</u> | <u>Approximate percentage of interest in our Company immediately after the Global Offering (Note 2)</u> |
|----------------------------|---|--|---|
| Mr. Gao Dekang | Interest of a controlled corporation (Note 3) | 5,144,275,202 Shares (L) | 65.37% |
| Ms. Mei Dong | Interest of controlled corporation (Note 4) | 52,571,999 Shares (L) | 0.67% |

Notes:

- (1) The letters "L" and "S" denote the person's long position and short position in such Shares, respectively.
- (2) Assuming the Over-allotment Option is not exercised.
- (3) Mr. Gao Dekang is the beneficial owner of 95% of the issued share capital of Kong Bo Investment and is deemed to be interested in the number of Shares held by Kong Bo Investment.
- (4) Ms. Mei Dong beneficially owns the entire issued share capital of Kong Bo Development and is deemed to be interested in the number of Shares held by Kong Bo Development.

2. Substantial shareholders

So far as our Directors are aware, immediately following completion of the Global Offering and on the assumption that (i) the Over-allotment Option has not been exercised, (ii) all outstanding Series A Shares and Series B Shares have been fully converted to Shares, (iii) the Put Option has not been exercised by Olympics Investment, and (iv) the Performance Adjustment Option has not been exercised, the following persons (who is neither our Director nor chief executive) will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

| <u>Name of Shareholder</u> | <u>Nature of interest</u> | <u>Number and class of securities (Note 1)</u> | <u>Approximate percentage of interest in our Company immediately after the Global Offering (Note 2)</u> |
|--|-----------------------------|--|---|
| Kong Bo Investment | Corporate interest | 5,144,275,202 Shares (L) | 65.37% |
| Mr. Gao Xiaodong | Deemed interest (Note 3) | 5,144,275,202 Shares (L) | 65.37% |
| Olympics Investment | Corporate interest (Note 4) | 616,151,953 Shares (L) | 7.83% |
| HSBC Private Equity | Corporate interest (Note 4) | 616,151,953 Shares (L) | 7.83% |
| Solandra Investments Limited | Corporate interest (Note 4) | 616,151,953 Shares (L) | 7.83% |
| HSBC Entities | Corporate interest (Note 5) | 616,151,953 Shares (L) | 7.83% |

Notes:

- (1) The letter “L” denotes the person’s long position in such Shares.
- (2) Assuming the Over-allotment Option is not exercised.
- (3) Mr. Gao Xiaodong is the beneficial owner of 5% of the issued share capital of Kong Bo Investment and is deemed to be interested in the number of Shares held by Kong Bo Investment (as Mr. Gao Xiaodong, together with his father, Mr. Gao Dekang, are entitled to exercise or control the exercise of the voting power of Kong Bo Investment at the Company’s general meeting).
- (4) Olympics Investment is the wholly-owned subsidiary of HSBC Private Equity. Solandra Investments Limited owns 33.8% of the shareholding interests of HSBC Private Equity. Solandra Investments Limited is an indirect wholly-owned subsidiary of its ultimate holding company, HSBC Holdings plc. Each of HSBC Private Equity and Solandra Investments Limited is deemed to be interested in the Shares held by Olympics Investment.

- (5) This refers to the shareholding of each of the HSBC Entities, which comprise The Hongkong and Shanghai Banking Corporation Limited, HSBC Asia Holdings B.V., HSBC Asia Holdings (UK), HSBC Holdings B.V. and HSBC Finance (Netherlands), each of which are deemed to be interested in the Shares held by Olympics Investment. Olympics Investment is the wholly-owned subsidiary of HSBC Private Equity. Solandra Investments Limited owns 33.8% of the shareholding interests of HSBC Private Equity. Solandra Investments Limited is directly wholly-owned by The Hongkong and Shanghai Banking Corporation Limited, which is directly wholly-owned by HSBC Asia Holdings B.V., a direct wholly-owned subsidiary of HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is in turn directly wholly-owned by HSBC Holdings B.V., which is directly wholly-owned by HSBC Finance (Netherlands), a direct wholly-owned subsidiary of HSBC Holdings plc.

3. Particulars of service contracts

Each of Mr. Gao Dekang, Ms. Mei Dong, Ms. Gao Miaoqin, Dr. Kong Shengyuan, Ms. Huang Qiaolian and Ms. Wang Yunlei, being all of our executive Directors, has entered into a service contract with our Company for an initial term of three years commencing from the Listing Date, unless terminated by not less than three calendar months' notice in writing served by either party on the other, provided that the Director shall not resign during the first 12 months of the contract. The aggregate annual salary of the six executive directors is RMB4,980,000.

Each of Mr. Shen Jingwu, Mr. Dong Binggen, Mr. Jiang Hengjie, Mr. Wang Yao and Mr. Ngai Wai Fung, being our non-executive and independent non-executive Directors, has entered into a letter of appointment with our Company on September 15, 2007. Each letter of appointment is for an initial term of three years commencing from the Listing Date. The aggregate annual fees payable to our non-executive and independent non-executive Directors under the letters of appointment is RMB1,670,000.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation).

4. Fees or commissions received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue of sale of any capital of any member of our Group from our Group within the two years preceding the date of this prospectus.

D. DISCLAIMERS

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed;
- (b) none of our Directors nor any of the parties listed in the paragraph headed “Consents” in the section headed “Other Information” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “Consents” in the section headed “Other Information” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (d) save for the Underwriting Agreements, none of the parties listed in the paragraph headed “Consents” in the section headed “Other Information” of this Appendix:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribed for our securities;
- (e) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (f) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (g) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (h) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (i) we have no outstanding convertible debt securities;

- (j) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (k) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company;
- (l) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this prospectus to any of our promoters nor is any such securities or amount or benefit intended to be paid or allotted or given; and
- (m) none of the Directors or their associations has any interest in our five largest suppliers or our top five business customers.

E. SHARE SCHEME

The following is a summary of the principal terms of the Share Scheme adopted by a resolution of our Board on June 14, 2007. The Share Scheme is not subject to the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Scheme is to attract and retain skilled and experience personnel, to incentivize them to remain with the Company, and to motivate them to strive for the future development and expansion of the business of the Group, by providing them with the opportunity to acquire equity interests in the Company. As of the date of this prospectus, no rights to the Shares that have been granted pursuant to the Share Scheme have vested. The estimated expense arising from the Share Scheme for the year ending March 31, 2008 is expected to be less than RMB26 million.

Under the Share Scheme, Kong Bo Investment and Olympics Investment (the “**Grantors**”) contributed and transferred 574 ordinary shares of US\$1.00 each of the Company (prior to any sub-division of the share capital of the Company) and 87 Series A Shares respectively (the “**Scheme Shares**”) to Gather Wealth Holdings Limited, a wholly owned subsidiary of HSBC Trustee (Hong Kong) Limited (the “**Trustee**”), the trustee of the Scheme Shares appointed pursuant to the Trust Deed.

All the Series A Shares will be mandatorily converted into Shares immediately prior to the Global Offering. Subsequent to such conversion, the Trustee will hold 69,000,846 Shares immediately after completion of the Global Offering (representing 0.88% of the Company’s issued share capital of the Company based on the following assumption: (i) the Over-allotment Option has not been exercised, (ii) all outstanding Series A Shares and Series B Shares have been fully converted to Shares, (iii) the Put Option has not been exercised by Olympics Investment, and (iv) the Performance Adjustment Option has not been exercised. The Trustee shall hold and deal with all the Scheme Shares in accordance with the directions of the Company, acting upon the instructions of the Award Committee. The Award Committee shall determine which employees, consultants, management members and Directors of the Company (the “**Beneficiaries**”) are entitled to the Scheme Shares and how many Scheme Shares they are each entitled to and will be granted (the “**Award Shares**”). The Award Committee shall comprise of two members, of which each of the Grantor has a right to appoint a member. However, if Olympics Investment ceases to own any Shares in the Company, an independent non-executive Director of the Company determined by the Board will be appointed as the other member of the Award Committee in lieu of the one appointed by Olympics Investment. All decisions of the Award Committee shall be made by the unanimous votes of all its members.

An offer to grant Shares shall be made by notice of award, specifying the number of Shares proposed to be granted and the applicable terms and conditions relating to the grant. The Beneficiary shall accept the offer within fifteen days, and if the Award Committee does not receive a reply from the Beneficiary within fifteen days, the grant of Shares will automatically lapse. Upon acceptance of the grant of Shares by the Beneficiary, the Award Committee shall provide the Trustee with the following:

- (a) a copy of the notice of award executed by the Company;
- (b) a copy of the notice of acknowledgement executed by the relevant Beneficiary; and
- (c) a specimen signature of the relevant Beneficiary duly certified.

The Award Committee may from time to time, by giving written notice to the Beneficiary with a copy to the Trustee, vary the terms of the grant of Shares which have been accepted by a Beneficiary (including the number of Shares granted to such Beneficiary) if the Award Committee, acting fairly and reasonably, determines by unanimous vote that there has been a gross underperformance or underachievement by a Beneficiary of the performance targets. However, the Award Committee has no right to change or reduce the number of Shares granted if the Shares are already vested or transferred to the Beneficiary.

For grants proposed to be made to Beneficiaries who are our Director, chief executive or substantial shareholder of the Company, or any of their respective associates, must be previously approved by the independent non-executive Directors of the Company (excluding any independent non-executive Director of the Company who is a Beneficiary). If the grants proposed to be made to such Director, chief executive or substantial shareholder of the Company, or their respective associates, would result in the 12-month period up to and including the date of the proposed grant representing in aggregate over 1% of the Shares in issue as of the date of the proposed grant, the grant must be approved by the shareholders in general meeting (excluding any Director who is both our shareholder and the proposed grantee of the Shares). Any vote taken at such meeting must be taken on a poll. Any decisions and determinations of the Award Committee made under the Share Scheme are final and conclusive.

No Shares shall be granted under the Share Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirement of the Listing Rules. In particular, no Shares shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period and the deadline for us to publish an announcement of our results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

The Scheme Shares granted to each Beneficiary shall vest on the dates set out below (each a Vesting Date) in the respective proportions set out below:

| <u>Vesting Date</u> | <u>Percentage of Award Shares Vesting</u> |
|--|---|
| First Anniversary of Listing Date | 25.0% |
| Second Anniversary of Listing Date | 35.0% |
| Third Anniversary of Listing Date | 40.0% |

The Beneficiaries shall be notified in writing as soon as possible after any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company that would result in the number of Shares granted being altered as a result of it.

The Beneficiaries shall be entitled to sell or dispose of the Scheme Shares granted to them after each Vesting Period, by giving written instructions to the Trustee.

Upon the vesting of the Scheme Shares under the Share Scheme, each Beneficiary will be entitled to all voting rights and rights to participate in dividends and other distributions in respect of the Shares under the grant. The Trustee shall exercise the voting rights in respect of any vested Scheme Shares held for and on behalf of a Beneficiary in accordance with the relevant Beneficiary's instructions from time to time. The Trustee to the order of the Beneficiary shall hold all dividends and other distributions in respect of the vested Scheme Shares.

During the life of the Share Scheme, the maximum number of Shares to be granted to the Beneficiaries under the terms of the Share Scheme shall be limited as follows:

- (a) during the period commencing from the Listing Date and the ending on the date of the first annual general meeting of the Company thereafter, 2% of the Company's issued share capital as of the Listing Date; and
- (b) during the period between one annual general meeting and the subsequent annual general meeting, 2% of the Company's issued share capital as of the date of the earlier annual general meeting.

The Share Scheme will have a life of 3 years from the Listing Date after which no further grants of Shares shall be made under the Share Scheme.

The Share Scheme will automatically terminate upon the earlier of:

- (a) on December 31, 2009, the following conditions are not fulfilled:
 - (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares which may be issued pursuant to the grant of Shares under the Share Scheme and
 - (ii) the commencement of dealings in the Shares on the Stock Exchange; or
- (b) Olympics Investment elects to redeem the Series A Shares held by it.

Upon the termination of the Share Scheme, the unawarded or unappropriated (i.e. awarded but unvested) Scheme Shares then held by the Trustee shall be transferred back to the Grantors in accordance with the Contribution Ratios as defined under the Share Scheme.

If a Beneficiary ceases, for whatever reason, to be an employee or consultant of the Company or any of its subsidiaries prior to the time all its Award Shares have become vested, then all unvested Award Shares of the Beneficiary shall be forfeited automatically on the date of cessation of employment and the Beneficiary shall have no right, claim, interest or remedy with respect of the unvested Award Shares.

F. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme, conditionally approved by a resolution of the shareholders passed on September 10, 2007 and adopted by a resolution of the board on September 15, 2007. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivise them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in our Company.

2. Who may join:

- (a) The board may, at its absolute discretion, offer any employee, management member or director of our Company, or any of our subsidiaries and third party service providers options (Options) to subscribe for shares on the terms set out in the Share Option Scheme.
- (b) Options granted to Directors or substantial shareholders:
 - (i) Any Options to be granted to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) shall be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the Options).
 - (ii) Without prejudice to the generality of sub-paragraph (b)(i) above, if any Options to be granted to a substantial shareholder or independent non-executive Director of our Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of all the Options granted and to be granted (including Options exercised, canceled and outstanding) to such person in the period of 12 months up to and including the date of the grant:
 - representing in aggregate over 0.1% of the shares in issue; and
 - having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000,

the further grant of Options must be approved by our Shareholders in general meeting. We must send a circular to our shareholders containing such information as required under Rule 17.04 of the Listing Rules. All our connected persons shall abstain from voting in favor at such general meeting, and any vote taken at such meeting must be taken on a poll.

3. Maximum number of shares

- (a) The maximum number of shares in respect of which Options may be granted under the Share Option Scheme when aggregated with the maximum number of shares in respect of which options may be granted under any other scheme involving the issue or grant of options over shares or other securities by us or any of our subsidiaries (the Maximum Number of shares) shall not exceed 10% of our issued share capital on the Listing Date (such 10% limit representing 787,000,000 shares assuming that the Over-allotment Option has not been exercised). Options lapsed in accordance with the terms of the Option Scheme shall not be counted for the purpose of calculating the 10% limit.
- (b) The maximum number of shares may, with the approval of our Shareholders, be “refreshed” from time to time as required up to a maximum of 10% of our issued share capital as of the date of the Shareholders’ approval. Options previously granted under the Share Option Scheme or any other scheme, including options outstanding, canceled or lapsed in accordance with the relevant scheme or exercised options, shall not be counted for the purpose of calculating the limit to be refreshed.
- (c) We may obtain a separate approval from our Shareholders to grant Options which will result in the number of shares in respect of all the Options granted under the Share Option Scheme and all the options granted under any other scheme exceeding 10% of our issued share capital, provided that such Options are granted only to employees and third party service providers specifically identified by us before the separate approval of our shareholders is sought.
- (d) The maximum number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our issued share capital from time to time.
- (e) No Option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our Shareholders is obtained.

4. Grant of Options

- (a) The period within which the Options must be exercised will be specified by us at the time of grant, and must expire no later than 10 years from the date of grant of the Option (being the date on which the board makes a written offer of grant of the Option to the relevant proposed beneficiary) unless the Company obtains separate shareholder approval in relation to such grant.
- (b) An offer of grant of an Option shall be made by letter to the proposed beneficiary, who may appoint a nominee to hold any Options granted on his or her behalf, specifying the number of Options comprised in the Option proposed to be granted and the applicable terms and conditions relating to the Options. These terms and conditions may include provisions as to the performance conditions which must be satisfied before the Option can be exercised, the minimum period for which an Option must be

held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the board may determine. The proposed beneficiary is required to accept the offer and undertake (for itself and, if applicable, on behalf of any nominee of the proposed beneficiary) to hold the Option on the terms and conditions of the grant and, upon receipt by our board of such acceptance, together with the payment of HK\$1.00 by way of consideration, the Option shall be deemed to have been granted, to and accepted by, the proposed beneficiary (an Option holder) and to have taken effect.

- (c) The Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period and the deadline for us to publish an announcement of our results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

5. Minimum holding period and vesting

- (a) The Share Option Scheme does not contain any minimum period(s) for which an Share Option must be held before it can be exercised. However, at the time of grant of the Options, we may specify any such minimum period(s).
- (b) The Options granted will be subject to vesting periods of up to five years, which will vary from Option holder to Option holder. Upon the expiry of the vesting period, the shares will become vested and the Option holders will become entitled to exercise the Options in accordance with the terms of the Share Option Scheme.

6. Performance targets

The Share Option Scheme does not contain any performance target(s) which must be achieved before the Options can be exercised in whole or in part. At the time of grant of the Options, we may specify any performance target(s).

7. Amount payable for Options

The amount payable on acceptance of an option is HK\$1.00.

8. Exercise price

The amount payable for each share to be subscribed for under an Option upon exercise shall be determined by the board and notified to a proposed beneficiary at the time of offer of the Option and shall be not less than the higher of:

- (a) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant, which must be a business day;

- (b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and
- (c) the nominal value of the shares.

9. Voting and other rights

No voting rights shall be exercisable and no dividends shall be payable in respect of Options that have not been exercised.

10. Rights on death

If an Option holder dies and none of the events which would be a ground for termination of his employment or his services engagement under sub-paragraph (17)(c) or (17)(f) respectively below has occurred, the legal personal representative(s) of the Option holder shall be entitled within a period of 12 months from the date of death (or such longer period as the board may determine) to exercise the Option up to his entitlement (to the extent not already exercised).

11. Rights on ceasing to be an employee

- (a) If the Option holder ceases to be an employee for any reason other than his death or the termination of his employment on one or more of the grounds specified in subparagraph (11)(b) or (17)(c) below, the Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf) may exercise the Option up to the Option holder's entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with us or any of our relevant subsidiary, whether salary is paid in lieu of notice or not.
- (b) If the Option holder ceases to be an employee by reason of ill-health, injury or disability not attributable to his own misconduct or redundancy (as defined in the Employment Ordinance (Chapter 57 of the Laws of Hong Kong)), retirement, agreement with the board or transfer of business in relation to which the employee was engaged to a company outside our Group and none of the events which would be a ground for termination of his employment under subparagraph (17)(c) below has occurred, the Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf) may exercise the Option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of six months following the date of such cessation, which date shall be the last actual working day with us or our relevant subsidiary, whether salary is paid in lieu of notice or not.

12. Rights on ceasing to be a third party service provider

- (a) If the Option holder ceases to be a third party service provider under a fixed term contract by reason of termination or expiry of the term of the relevant fixed term contract without any extension or renewal by us or our relevant subsidiary for reasons other than (1) on one or more of the grounds specified in sub-paragraph (17)(f) or (2) on his death, the Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf) may exercise the Option up to his entitlement at the date of

cessation (to the extent not already exercised) within the period of nine months (or such longer period as the board may determine) following the date of such cessation, which date shall be the date of expiry of the relevant fixed term contract.

- (b) If the Option holder ceases to be a third party service provider not under any fixed term contract, by reason of the Option holder ceasing to provide any further advisory or consultancy or other kind of services, support, assistance or contribution to us or our relevant subsidiary as may be determined by the board and notified to such third party service provider in writing within three months after the provision of its last services, support, assistance or contribution to us or our relevant subsidiary for reasons other than (1) on one or more of the grounds specified in sub-paragraph (17)(f), or (2) on his death, the Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf) may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) within the period of nine months (or such other period as the board may determine) following the date of such cessation, which date shall be the date of the written notification to the third party service provider.

13. Rights on general offer

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) we shall use our best endeavors to procure that such offer is extended to all the Option holders (or, if applicable, the Option holder's nominee on the option holder's behalf, or his legal personal representative(s)) on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, our Shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes effective, or becomes or is declared unconditional, the Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes effective, or becomes or is declared unconditional.

14. Rights on a voluntary winding-up

In the event of an effective resolution being passed for the voluntary winding-up of our Company or an order of the court is made for the winding-up of our Company, we shall give notice thereof (winding-up notice) to all Option holders (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)) on the same day as such resolution is passed or order is made. The Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)) may by notice in writing to us within 30 days after the date of the winding-up notice elect to be treated as if the Option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the Option holder's notice, such notice to be accompanied by a remittance of the aggregate subscription price for the shares in respect of which the notice is for the full amount n the option holder (or, if applicable, the option holder's nominee on the option given, whereupon or his legal personal representative(s)) will be entitled to receive out of the assets holder's behalf, liquidation *pari passu* with the holders of shares such sum as would have been received in respect of the shares the subject of such election.

15. Rights on schemes of compromise or arrangement

If, pursuant to the Hong Kong Companies Ordinance, a compromise or arrangement between our Company and our Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or our amalgamation with any other company or companies, we shall give notice thereof to all Option holders (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)), together with a notice of the existence of the provisions of this paragraph (15), on the same date as it despatches to each member or creditor of our Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Option holder (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)) shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all Options holders (or, if applicable, the Option holder's nominee on the Option holder's behalf or his legal personal representative(s)) to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and terminate. The Directors shall endeavour to procure that the shares issued as a result of the exercise of Options under this paragraph (15) shall for the purposes of such compromise or arrangement form part of our issued share capital on the effective date thereof and that such shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of Option holders (or, if applicable, the Option holder's nominee on the Option holder's behalf, or his legal personal representative(s)) to exercise their respective Options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by us and no claim shall lie against us or any of our officers for any loss or damage sustained by any Option holder as a result of the aforesaid suspension.

16. Life of Share Option Scheme

Unless otherwise terminated by our Board or our Shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional in accordance with paragraph (24) below, after which no further options will be granted or offered, but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Option granted prior to the expiry of this 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

17. Lapse of Share Option Scheme

An option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the period for exercise of the Option;
- (b) 12 months (or such longer period as the board may determine) after the death of the Option holder;
- (c) an Option holder ceasing to be an employee of us or any of our subsidiaries on the ground of:
 - the option holder's misconduct;
 - the Option holder being convicted of any criminal offence involving his integrity or honesty; or
 - the Option holder's employer being entitled to summarily terminate his employment at common law or pursuant to his contract of employment;
- (d) six months after the Option holder ceases to be an employee of us or any of our subsidiaries by reason of:
 - retirement;
 - redundancy;
 - ill health or disability; or
 - a transfer of business and the employee is transferred to a company outside our Group;
- (e) three months after the termination of the Option holder's employment with us or any of our subsidiaries for reasons other than the reasons specified in sub-paragraphs (17)(c) and (17)(d) above;
- (f) the date on which:
 - the contract between the third party service provider and us or our relevant subsidiary is terminated, where such contract is terminated by reason of breach of contract on the part of the third party service provider; or
 - the third party service Provider appears either unable to pay or have no reasonable prospect to be able to pay debts, or had become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted or has been convicted or any criminal offence involving integrity or honesty, provided that whether any one or more of the events specified above occur in relation to a third party service provider shall, in its reasonable opinion, be solely and conclusively determined the board;

- (g) nine months (or such longer period as the board may determine) after the Option holder ceases to be a third party service provider by reason of:
- for a third party service provider under a fixed term contract, termination or expiry of the term of the relevant fixed term contract without any extension or renewal by us or our relevant subsidiary for reasons other than those specified in sub-paragraph (17)(f) above or on his death; or
 - for a third party service provider not under any fixed term contract, ceasing to provide any further advisory or consultancy or other kind of services, support, assistance or contribution to us or our relevant subsidiary as may be determined by the board and notified to such third party service provider in writing within three months after the provision of its last service, support, assistance or contribution to us or our relevant subsidiary for reasons other than those specified in sub-paragraph (17)(f) above or on his death;
- (h) in the case of any takeover, scheme of compromise or arrangement or voluntary winding up, the expiry of the periods of notice as specified in the Share Option Scheme, provided that in the case of a scheme of compromise or arrangement, the proposed compromise or arrangement becomes effective;
- (i) save as otherwise provided in paragraph (14) above, the date of commencement of the winding-up of our Company; or
- (j) any breach of the provision described in paragraph (22) below.

18. Adjustment

In the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction of our share capital while any option remains exercisable, but excluding, for the avoidance of doubt, any alteration in our capital structure as a result of an issue of shares as consideration in a transaction to which we are a party, our auditors or the financial advisor engaged by us for such purpose shall determine what adjustment is required to be made to the subscription price, the number of shares to be issued on exercise of the Options (or any combination of the foregoing), provided that any such adjustments give the Option holder the same proportion of our equity capital and no adjustment may be made to the extent that shares would be issued at less than their nominal value. Any adjustment made to the exercise price of and/or the number of shares subject to options to be granted under the Share Option Scheme will be made in compliance with applicable requirements under Chapter 17 of the Listing Rules and any applicable guidance and/or interpretation thereof issued by the Hong Kong Stock Exchange from time to time. In particular, we will comply with applicable requirements set out in the Supplemental Guidance on Listing Rule 17.03(13) and the Note immediately thereafter issued by the Hong Kong Stock Exchange on September 5, 2005.

19. Cancellation of options not exercised

Any options granted but not exercised may be canceled if the Option holder (or, if applicable, the option holder's nominee on the option holder's behalf or his legal personal representative(s)) so agrees and new options may be granted to the same Option holder (or, if

applicable, the Option holder's nominee on the Option holder's behalf or his legal personal representative(s)) provided such Options fall within the limits specified in paragraph (3) above and are otherwise granted in accordance with the terms of the Share Option Scheme.

20. Ranking of shares

The shares to be allotted and issued to an Option holder upon the exercise of an option shall be subject to all the provisions of our articles of association for the time being in force and will rank *pari passu* with the fully paid shares in issue on the date the name of the option holder (or the Option holder's nominee, if applicable) is registered on our register of members. Prior to the Option holder (or the Option holder's nominee, if applicable) being registered on our register of members, the Option holder shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company), in respect of the shares to be issued upon the exercise of the Option.

21. Termination

We, by ordinary resolution of our Shareholders, or the Board, may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

22. Transferability

The Options are personal to the Option holders and are not transferable, except for the transmission of an Option on the death of an Option holder to his personal representative(s) on the terms of the Share Option Scheme. This does not prevent a grantee from nominating an entity to hold his Options on his behalf, provided that the grantee shall undertake to ensure that such nominee shall hold the Options on the terms on which they are granted and to be bound by the provisions of the Share Option Scheme.

23. Amendment

Subject to the terms set out in the paragraph below, the Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Option holder at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Option holders, and no changes to the authority of the directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of our shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by our shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

24. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the Listing Committee of the Hong Kong Stock Exchange granting approval of the listing of, and permission to deal in, the shares which may be issued pursuant to the exercise of Options under the Share Option Scheme; and
- (b) the commencement of dealings in the shares on the Hong Kong Stock Exchange.

If any of the above conditions are not satisfied on or before December 31, 2007 (or such later date as the board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option the listing of shares Option Scheme.

G. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into a deed of indemnity in favour of the Group (being a material contract referred to in the paragraph headed “Summary of material contracts” of this Appendix) to provide the following indemnities in favour of the Group. Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

Under the deed of indemnity, amongst others, the Indemnifiers will jointly and severally indemnify each of the members of the Group against (a) taxation falling on any member of the Group resulting from or by reference to any income, profits or gains accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Global Offering becomes unconditional; (b) any costs, expenses and operating and business losses arising from the relocation of the business or assets from any property leased, rented, occupied in the event any member of the Group is not being permitted to use or occupy or being evicted from such property due to the relevant leases not being legal or enforceable on or before the date when the Global Offering becomes unconditional; (c) any costs, expenses and operating and business losses arising from any business disruption attributable to, or failure of compliance with relevant PRC laws and regulations by, individual distributors under the Group’s direct supervision who have not completed the requisite business and tax registration requirements. The Indemnifiers further jointly and severally undertake to indemnify each of the members of the Group on demand against any of the foregoing losses, damages, costs or expenses.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Group; and (b) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority coming into force after the date on which the Global Offering becomes unconditional or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the date on which the Global Offering becomes unconditional with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, the BVI or the PRC.

2. Litigation

Save and except as disclosed in the section headed “Business — Legal Proceedings” in this prospectus, we are not aware of any other litigation or arbitration proceedings pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operation.

3. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$28,800 and are payable by our Company.

4. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Hong Kong Companies Ordinance) who have given their opinions or advice in this prospectus are as follows:

| Name | Qualifications |
|-----------------------------|---|
| Goldman Sachs (Asia) L.L.C | Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| Morgan Stanley Asia Limited | Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| KPMG | Certified public accountants |
| Sallmanns (Far East) Ltd. | Property valuers |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| Chen & Co. Law Firm | PRC legal advisors |

5. Consents

Each of the Joint Sponsors, KPMG as our independent auditors, Sallmanns (Far East) Ltd. as our property valuers, Conyers Dill & Pearman as our legal advisors on Cayman Islands law and Chen & Co. Law Firm as our legal advisors on PRC law has given and has not withdrawn its respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

7. Exemptions under the Companies Ordinance

Since our leased properties in the PRC are operating leases, we have relied on section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice 2001 (the “**Exemption Notice**”) for an exemption from strict compliance with paragraph 34(2) of Part II of the Third Schedule to the Companies Ordinance in relation to the disclosure requirements of our leased property interests in the PRC in the valuation report included in this prospectus on the grounds that we have complied with the conditions set out in section 6(3) of the Exemption Notice including, amongst others: (1) a full valuation report complying with all the requirements of paragraph 34(2) of Part II of the Third Schedule to the Companies Ordinance being made available for inspection in accordance with the paragraph headed “Documents Available for Inspection” in Appendix IX to this prospectus; and (2) a summary valuation report of all our property interests prepared on the basis of the full valuation report is included in Appendix IV to this prospectus. The leased properties which are subject to this exemption are used by the Group for office, warehousing, and sales and distribution uses.

8. Waiver from compliance with the Listing Rules

Pursuant to Rule 19.10(6) of the Listing Rules, certified English translations of documents mentioned in paragraph 53 of Part A of Appendix 1 to the Listing Rules offered for public inspection must be made available. These documents include the full valuation report relating to the property interests of the Group. The Group has a large number of leased properties (amounting to an aggregate of 102). In addition, substantially all of the leased properties of the Company are located in the PRC and consequently the underlying valuation and title information is in Chinese. As such, the translation of this full valuation report into the English language will be unduly burdensome, onerous, time-consuming and costly to us. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has agreed to grant, a waiver from strict compliance from Rule 19.10(6) of the Listing Rules in relation to the translation of this full valuation report, subject to the following conditions:

- (i) a full valuation report in Chinese complying with all the requirements under the Listing Rules and paragraph 34 of Part II of the Third Schedule to the Companies Ordinance will be made available for inspection in accordance with Appendix IX — “Documents Delivered and Available for Inspection” to this prospectus; and
- (ii) a summary valuation of all property interests of the Group, as set out in Appendix IV to this prospectus, has been included in this prospectus.

We are of the view that this waiver from the Hong Kong Stock Exchange would not prejudice the interests of the investing public on the grounds mentioned above.

9. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Exemption Notice.

10. Particulars of the Selling Shareholder

Olympics Investment is a limited liability company incorporated under the laws of the Cayman Islands on October 25, 2005 whose registered office is at HSBC Finance Services (Cayman) Limited, Strathvale House, North Church Street, P.O. Box 1109, George Town, Grand Cayman, Cayman Islands, and is a wholly-owned subsidiary of HSBC Private Equity.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE** and **YELLOW** Application Forms; (ii) the statement of adjustments relating to the accountants' report prepared by KPMG, (iii) copies of each of the material contracts referred to in paragraph (k) of this Appendix, (iv) the written consents referred to in paragraph (l) of this Appendix and (v) details of our Selling Shareholder, including the address and other information required by Section 342C of the Hong Kong Companies Ordinance.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Freshfields Bruckhaus Deringer at 11th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants' reports prepared by KPMG, the texts of which are set out in Appendices IA and IB and the related statement of adjustments;
- (c) the audited financial statements as have been prepared for the companies comprising our Group for the period from April 1, 2004 to May 31, 2004, the period from June 1, 2004 to March 31, 2005, and the two financial years ended March 31, 2007;
- (d) the letter in relation to unaudited pro forma financial information, the text of which is set out in Appendix II;
- (e) the letters in relation to the profit forecast, the texts of which are set out in Appendix III;
- (f) the letter, summary of values and valuation certificates relating to our property interests prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix IV;
- (g) the full valuation report relating to the property interests of the Group in compliance with the Listing Rules and paragraph 34(2) of Part II of the Third Schedule of the Companies Ordinance;
- (h) the PRC legal opinions issued by Chen & Co. Law Firm, our legal advisors on PRC law in respect of our general matters and property interests and taxation matters of the Group;
- (i) the letter prepared by Conyers Dill & Pearman, our special legal counsel on Cayman law, summarizing certain aspects of the Cayman Islands Companies Law referred to in Appendix VI;
- (j) the Cayman Companies Law;
- (k) the material contracts referred to in paragraph B1 of Appendix VIII;
- (l) the written consents referred to in paragraph G5 of Appendix VIII;
- (m) the rules of the Share Option Scheme; and
- (n) statement of particulars of the Selling Shareholder.