

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS

### 5.1 OVERVIEW OF THE CHINESE ECONOMY

In 2005, China's real GDP achieved a growth of 11.3%. The rapid economic growth was enhanced by better efficiency and stable prices. In 2006, China's real GDP registered a growth of 12.7%. This was contributed by the fact that many of the sectors continued to experience growth, including investments in fixed assets, domestic spending, increased in foreign trading, expansion in the private sector and growth in household income.

In 2007, China's real GDP continued to expand by 14.2%. The Chinese economy maintained a good momentum characterised by rapid growth, improved economic structure, good efficiency and improved living standards despite the increasing uncertainties in the international economic and financial performance and rising inflationary pressure in China. Despite the global slowdown in 2008, China's real GDP grew by 9.6%, surpassing many more advanced economies like the United States, the United Kingdom and Japan which recorded real GDP of 0.0%, -0.1% and -1.2% respectively.

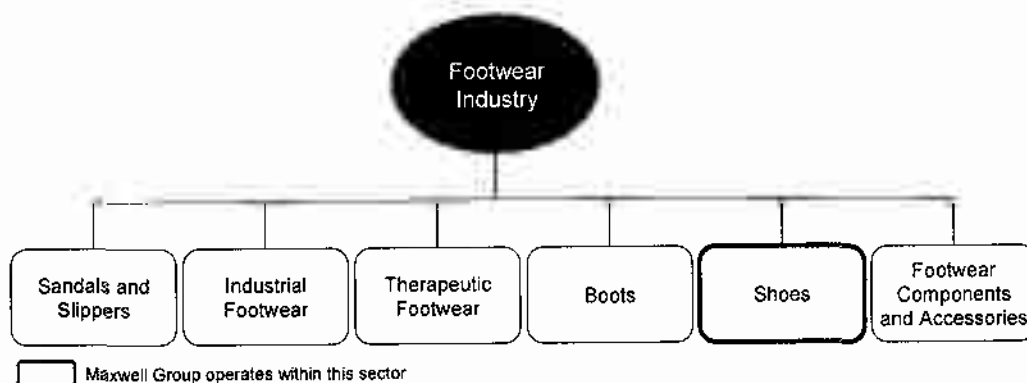
In 2009, in spite of the severe impact brought about by the global financial crisis, China continued to register real GDP growth of 9.1% while the real GDP growth for more advanced economies like the United States, United Kingdom and Japan in 2009 were -2.6%, -4.9% and -5.2% respectively. The Chinese Government's implementation of proactive fiscal policy and moderation of monetary policy helped to counter any negative impact on the economy and moved it towards a favourable direction. In the first three quarters of 2010, China's real GDP registered an estimated growth rate of 10.6% compared to the corresponding period in 2009.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.2 INDUSTRY OVERVIEW

#### 5.2.1 Structure of the Footwear Industry

In general, the footwear industry comprises six segments as depicted in the figure below:



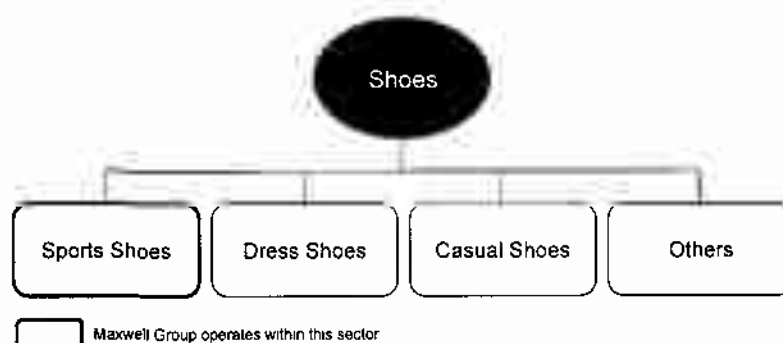
**Shoes** are a type of footwear commonly covering the foot and not extending beyond the ankle.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.2.2 Types of Shoes

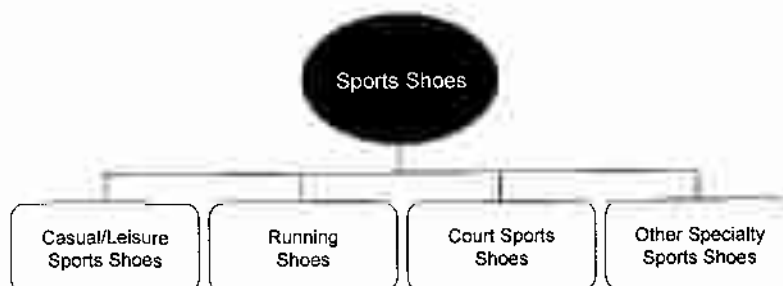
Shoes can be further categories as follows:



Our Group operates within the sports shoe sector of the Footwear Industry.

### 5.2.3 Types of Sports Shoes

Sports shoes are primarily protective footwear commonly made of soft and flexible material for the upper body and relatively harder materials for the soles. It is designed for sporting and physical activities and differs from dress shoe in construction, design and style.



Sports shoes are commonly used in sporting activities including:

- casual/leisure sports shoes for casual walking and outdoor activities such as hiking, trekking, climbing and caving;
- running shoes for running and training;
- court sports shoes for racquet and court sports such as tennis, badminton, squash, basketball, volleyball and others; and
- Other specialty sports shoes include shoes used for aerobic, ballet, skateboarding, bowling, golf, cycling and others.

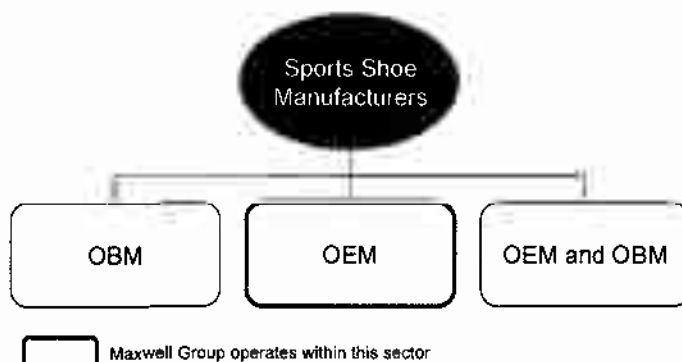
Our Group designs and manufactures various types of sports shoes including running shoes, court sports shoes (such as basketball shoes, volleyball shoes and badminton shoes), as well as casual/leisure sports shoes (such as casual walking sports shoes, and hiking shoes).

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.2.4 Types of Sports Shoe Manufacturers

Sports shoe manufacturers can be further categorised as follows:



For sports shoes, there are many players competing in this segment. They comprise own brand manufacturers ("OBM"), contract manufacturers for third party brand owners (also known as OEM), or a combination of both.

Some contract manufacturers have in-house design capabilities to differentiate from other manufacturers that use designs provided by their principals. Our Group operates within the OEM sector and has in-house design capabilities.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5.3 FUTURE GROWTH

### 5.3.1 Industry Outlook

#### (i) General Overview

There are strong indications that economic conditions in China in 2010 will improve. This is supported by the following observations;

- While real GDP grew by 9.1% in 2009, which is low compared to 2007 at 14.2%, real GDP for 2010 is forecasted to be between 10% and 11%.
- Entrepreneur confidence has also improved by 43.7% between fourth quarter of 2008 and the third quarter of 2010.

Improved economic conditions combined with stronger entrepreneur confidence will help sustain operators within the footwear manufacturing industry including sports shoes.

**5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)****(ii) Economic Conditions in China relative to Global Conditions**

China's real GDP continues to be relatively more robust at 9.1% compared to the real GDP of some of the more advanced economies, for example:

- USA = -2.6% in 2009;
- UK = -4.9% in 2009; and
- Japan = -5.2% in 2009.

In 2010, China is forecasted to achieve a continuing growth of between 10% and 11% in real GDP. The economies of some of the more advanced countries are expected to rebound in 2010, and are forecasted to record positive real GDP growth, for example:

- USA = 2.6% in 2010;
- UK = 1.7% in 2010; and
- Japan = 2.8% in 2010.

As footwear, including sports shoes are regarded as necessity products, it is likely that consumer spending on these products will still continue.

A forecasted rebound in global economic conditions will continue to provide business opportunities and growth for footwear manufacturing industry including sports shoes that serve China and global markets.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

**(iii) Outlook of OBM and Contract Manufacturers**

The outlook of sports shoe manufacturers, including OBM and contract manufacturers in China is correlated to the general economic conditions in China as well as global economic conditions. This is relevant for sports shoe manufacturers that serve the local market in China and/or the export markets.

The forecasted real GDP growth of between 10% and 11% in China in 2010 is likely to have a positive impact on consumer spending and expenditure. Similarly there are signs of recovery in the global economies and this is reflected in the positive growth of real GDP in 2010 for consuming countries like the United States. This is likely to have a positive impact on all types of manufacturers in the sports shoe industry including OBM and contract manufacturers alike.

Generally, OBM has direct control over brand image, brand development, product quality, product design and pricing, time-to-market and as such, are not dependent on contract manufacturers. Investment in marketing and promotions are key in developing brand awareness, image and loyalty, which contributes to higher brand equity. A high brand equity would enable such manufacturers to command higher pricing for its products. Therefore OBM that invest significantly in marketing and promotions would be in a stronger position to increase brand awareness.

Contract manufacturers of sports shoes primarily service brand owners. They play a critical supporting role in the entire supply chain. Contract manufacturers undertake the physical manufacturing activities of sports shoes for brand owners, which in turn allow brand owners to focus on their core competencies in product and brand development, and marketing and promotions. Contract manufacturers that have their own in-house design capabilities are able to provide value-added services to brand owners.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

The continuing growth in China and the recovering global economies in 2010 would have a positive chain effect on both OBM and contract manufacturers alike.

### 5.3.2 Areas of Growth and Opportunities

#### (i) Product Diversification

Product diversification presents opportunities for manufacturers to enlarge their customer base and more importantly, enable them to minimise risk of over dependency on a narrow range of products.

Manufacturers who supply a diverse product range and applications are in a stronger position to sustain the business during the economic slowdown.

#### (ii) Export Markets

There are opportunities for manufacturers of sports shoes to expand into export markets.

- In 2009, the export value of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials grew by 4.2% to reach USD4.2 billion (equivalent to RMB28.4 billion).
- In 2009, China's export markets for sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics included, among others, the United States, Japan, Belgium, France, Hong Kong, Holland, Germany, the United Kingdom and Korea.

Exports into overseas countries will open up a larger market for sports shoe manufacturers in China.

#### (iii) China Market

There continues to be opportunities in the China market for sports shoes as indicated by the comparison of per capita expenditure of shoes in China to the United States:

- In 2009, per capita annual expenditure of footwear in the United States amounted to USD173.61 (equivalent to RMB1,185.04), which was approximately four times higher than China's per capita annual expenditure of footwear by urban households at RMB300.10.

As a country's per capita GDP increases, expenditure on shoes are likely to increase as shoes become fashion accessories to more affluent people in contrast to shoes being a functional item to protect the feet.

#### (iv) Use of New and Innovative Materials for Sports Shoes

Developments in materials for sports shoes have been very significant over the years, providing consumers with a wide range of materials to meet the functional, ergonomics and fashion requirements of sports shoes.

The development of materials have moved from the use of textile, leather and rubber to incorporate composite materials made from a combination of two or more materials, which exhibit different mechanical properties. The new and innovative materials are used to satisfy criteria such as strength and pliability, resistance to changes in shape and size, elasticity of materials and its ability to bend and flex under force and to regain its shape, density and weight of the material, and the cushioning system of sports shoes.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

As such, there are significant opportunities in the development of new or innovative materials for sports shoes to continuously create excitement and demand for sports shoes.

### (v) New Designs of Sports Shoes to Meet Changing Consumer Preferences

As sports shoes are regarded as fashion items, meeting changing consumer preferences are key to ensure sustainability and growth. As such, manufacturers that have in-house design capabilities are in a stronger position to react more promptly to changes in consumer preferences to address opportunities and growth.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5.4 INDUSTRY PLAYERS AND COMPETITION

### 5.4.1 Nature of Competition in the Industry

Manufacturers in the sports shoe industry in China face normal competitive conditions, which is similar to a free enterprise environment where there are no undue government regulations or licensing requirements. There are many manufacturers, who may enter and leave the industry with relative ease, and no one manufacturer is large enough to dictate product pricing. In such an environment, the industry is also subjected to normal supply and demand conditions moderated by the price mechanism. Manufacturers compete on products and services differentiations, and other factors of competition.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.4.2 Factors of Competition

As with most free enterprise environment, the factors that are used to compete and to differentiate one manufacturer from another include the following:

- quality of products and services;
- design and value-adding capabilities;
- research and development; and
- track record.

#### (i) Quality of Products and Services

Quality products and services are important to buyers and users, especially where there is a wide range of choices. Quality will also need to commensurate with price points, for example, good quality sports shoes may feature good cushioning system to give better shock absorption and to provide comfort for the feet, support and stability, which also limits excessive pronation to prevent injuries. Other product quality factors include flexural resistance, anti-yellowing for white coloured sports shoes, seam construction, adhesion strength, materials used, breathability, durability, weight and others. Manufacturers with stringent quality assurance programmes and certifications together with in-house quality tests and inspections will be in a better position to compete effectively and win new customers.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Our Group has always placed continuous emphasis on product quality where extensive quality checks are done on in-coming materials, through each level of the manufacturing process and the final products. Our Group's emphasis on quality management is attested by the fact that we have been awarded the Outstanding Enterprise in Regulated Quality Management by the Quanzhou Sub-centre of China Merchandise Trading Centre and Excellent Quality Unit Award by the Technology Supervisory Bureau of Jinjiang. Our subsidiary, Zhenxing Shoes is ISO 9001:2000 certified with quality management systems in place. The quality awards of our Group are endorsements of the quality assurance system that is in place for the manufacturing of sports shoes. This also provides customers with the assurance of our Group's product quality.

### (ii) Design and Value-adding Capabilities

Design of sports shoes requires a certain level of technical skills, expertise, and specialised systems, for example, the design phase would require experience, skills and expertise in conceptualising contemporary and attractive designs based on existing or emerging trends. These are then translated into shoe designs using computer aided design (CAD) system. This would allow the manufacturer to create two and three dimension computer generated solid state prototypes to facilitate the functional tests and dimensioning, scaling, and colour and material combinations and modifications, as well as analysing the movement, position and impact on certain parts of the sports shoes. Designing is essential as it affects the shoe style, ergonomics, function, durability and customer acceptance.

In addition, manufacturers that provide further value-adding including screen printing, embroidery and embossing services are in a better position to meet the requirements of customers. As such, a manufacturer of sports shoes with in-house design and value-adding capabilities would have an advantage in securing sales orders and providing customer convenience.

From that perspective, our Group has in-house design capabilities and facilities including CAD systems as well as design personnel. As at the LPD, we have 5 personnel primarily involved in the design of sports shoes. Furthermore, our Group is also equipped with in-house screen printing, embossing and embroidery facilities for the manufacturing of sports shoes.

### (iii) Research and Development

There are three main drivers of sports shoes that make research and development an important competitive factor, namely:

- Sports shoes are fashion items;
- Sports shoes provide support to the leg and protection for the feet; and
- Competition continuously place pressure on costs.

These three drivers, among others, have necessitated research and development of sports shoes. Research and development is essential in creating new designs and using new materials that meet customer needs for fashion, function, ergonomics and cost considerations. As such, sports shoe manufacturers with in-house research and development facilities and capabilities would be in a better position to continually develop better and more desirable products that meet the changing needs of customers.

In this respect, our Group has in-house D&D facilities and capabilities to meet customers' requirements.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### (iv) Track Record

Our Group has a track record of approximately 10 years in the manufacturing of sports shoes (since the commencement of the Group's manufacturing operations in China in 1999) and over the years, the Group has established itself as a manufacturer of sports shoes.

Manufacturers with established and proven track record are in a stronger position to compete effectively and more importantly, secure sales orders.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

### 5.4.3 Competitive Intensity

Competition among manufacturers of sports shoes within the footwear industry in China is based on the following observations:

- Competition primarily comes from other manufacturers of sports shoes in China, particularly in Jinjiang in the Fujian Province. This is because Jinjiang is regarded as the centre of footwear manufacturing in China, and our Group's manufacturing operations are located in Jinjiang. In Jinjiang, there are an estimated 3,000 shoe manufacturing companies producing an estimated 700 million pairs of shoes per year.
- Capital requirements for setting-up a small sized manufacturing facility cost about RMB20 million, including machinery and equipment, and working capital.
- Technical skills and knowledge also pose as barriers to entry, therefore reducing the competitive intensity.
- A relatively large and growing retailing market in China and export market for footwear including sports shoes would be able to accommodate a relatively large number of manufacturers of sports shoes in the industry. This may somewhat mitigate the competitive intensity.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.4.4 Players in the Industry

- As Jinjiang City within Fujian Province has approximately 3,000 shoe manufacturers, there is a wide spectrum of manufacturers ranging from cottage industry focusing on handmade shoes producing on a small scale basis up to larger manufacturers having many automated production lines producing a few million pairs of shoes annually. In addition, the large concentration of shoe manufacturers in Jinjiang City has also created many supporting industries including manufacturers of shoe parts, components and accessories, and suppliers of raw materials.
- The footwear industry in China is highly fragmented with many different forms of competition. Among others, these include different types of footwear such as sandals and slippers, industrial footwear, therapeutic footwear, boots, and shoes (including sports shoes, dress shoes, climbing shoes, and others).
- For sports shoes, there are many players competing in this segment. They comprise OBM, contract manufacturers for third party brand owners and a combination of both.



## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

- Of the OBM, some of the players include Li Ning Company Limited, ANTA Sports Products Limited, Xtep International Holdings Limited, China Sports International Limited, China Eratat Sports Fashion Limited, China Hongxing Sports Limited, Xidelang Holdings Ltd (Listed on Bursa Malaysia), and Xingquan International Sports Holdings Limited (Listed on Bursa Malaysia).
- In addition, China also has many operators undertaking manufacturing of sports shoes for third party brand owners, for example, some of the contract manufacturers for Nike in China include Yue Yuen Industrial (Holdings) Limited, Poh Chen Corporation, Chanrong Sports, Fujian Lifeng Footwear Co Ltd, Fujian San Feng Footwear Co Ltd, Xie Feng Footwear Co Ltd and Pegasus Footwear Co Ltd.
- Apart from our group, other contract manufacturers of sports shoes for third party brand names include Darong Shoe Co Ltd, Feng Tay Enterprise Co Ltd (Listed on Taiwan Stock Exchange), Fujian Changli Sports Products Co Ltd, Fujian Jinjiang Jialaimeng Shoes Plastics Co Ltd, Jinjiang Chendai Ailibao Shoes & Garments Co Ltd, Jinjiang GuangMing Shoes Co Ltd, Jinjiang Hengdali Footwear Co Ltd, Jinjiang Haomei Shoes Co Ltd, Jinjiang Liweng Shoes Co Ltd, Jinjiang Mingta Shoes & Plastics Co Ltd, Jinjiang Chendai Wudai Namfeng Leather Plastics Factory, Kingmaker Footwear Holdings Limited, KTP Holdings Limited, Shuaike Shoe Co Ltd and Symphony Holdings Limited.

*(Note: The above is not an exhaustive list and companies are listed in alphabetical order.)*

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.5 DEMAND CONDITIONS

#### 5.5.1 China

##### (i) Local Consumption

Between 2005 and 2009, the total retail sales of consumer goods in China grew at an average annual rate of 18.5%. In 2009, the total retail sales of consumer goods increased by 15.5% to reach RMB13.3 trillion.

Between 2004 and 2008, the retail value of clothing, shoes, hats and textiles grew at an average annual rate of 22.7%. In 2008, the retail value of such products increased by 24.8% to reach RMB377.6 billion.

Between 2004 and 2008, the retail value of shoes and hats (a sub-sector of clothing, shoes, hats and textiles) grew at an average annual rate of 22.5%. In 2008, the retail value of shoes and hats increased by 24.8% to reach RMB69.4 billion.

Between 2005 and 2009, per capita annual purchases of shoes by urban households in China grew at an average annual rate of 3.4%. In 2009, per capita annual purchases of shoes by urban households in China increased by 6.9% to reach 2.95 pairs.

Between 2005 and 2009, per capita annual consumption expenditure on shoes by urban households in China increased at an average annual rate of 14.2%. In 2009, per capita annual consumption expenditure on shoes by urban households in China grew by 11.0% to reach RMB300.10.

**5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)****(ii) Exports**

Between 2005 and 2009, the export value of footwear, gaiters and the like, and parts of such articles increased at an average annual rate of 10.1%. In 2009, the export value of such footwear declined by 5.7% to USD28.0 billion (equivalent to RMB191.2 billion).

Between 2005 and 2009, the export value of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 15.0%. In 2009, the export value of these types of shoes increased by 4.7% to reach USD4.1 billion (equivalent to RMB28.2 billion).

Between 2005 and 2009, the export quantity of shoes with outer of rubber or artificial plastic materials (including sports shoes) grew at an average annual rate of 6.3%. In 2009, the export quantity of these types of shoes increased by 3.1% to 1.4 billion pairs.

Between 2005 and 2009, the export value of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials increased at an average annual rate of 15.0%. In 2009, the export value of such footwear grew by 4.2% to reach USD4.2 billion (equivalent to RMB28.4 billion).

Between 2004 and 2008, the export quantity of footwear with outsoles of rubber, plastics, leather or composition leather and uppers of textile materials grew at an average annual rate of 10.9%. In 2008, the export quantity of this category decreased by 3.5% to 1.4 billion pairs.

Between 2005 and 2009, the export value of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) decreased at an average annual rate of 2.6%. In 2009, the export value of such footwear declined by 29.9% to USD768.5 million (equivalent to RMB5.2 billion). In 2009, China's export markets for these types of footwear include, among others, the United States, Japan, Belgium, France, Hong Kong, Holland, Germany, the United Kingdom, Korea, Brazil, Canada, Australia and Panama.

Between 2004 and 2008, the export quantity of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) increased at an average annual rate of 3.2%. However, in 2008, the export quantity of such footwear decreased by 2.6% to 133.0 million pairs.

Between 2005 and 2009, the export value of leather shoes increased at an average annual rate of 0.9%. In 2009, the export value of leather shoes decreased by 14.8% to USD8.4 billion (equivalent to RMB57.0 billion).

Between 2005 and 2009, the export quantity of leather shoes decreased at an average annual rate of 10.3%. In 2009, the export quantity of leather shoes declined by 21.6% to 882.4 million pairs.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.5.2 Global Demand

Between 2004 and 2008, the global consumption of footwear grew at an average rate of 2% per annum. The global consumption of footwear was estimated at 14 billion pairs in 2008.

In 2008, Asia represented the largest continent for consumption of footwear, which accounted for 45% of the global consumption of footwear, and consumption grew at an average annual rate of 3% between 2004 and 2008.

North and South America's consumption of footwear represented 25% of global consumption, while Europe represented 20% of global consumption of footwear in 2008.

Between 2004 and 2008, the North and South America's consumption of footwear grew at an average annual rate of 1%, while Europe's consumption of footwear grew at an average of 2% per annum.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.5.3 Demand Dependencies

#### (i) Other Selected Overseas Countries

Our Group's manufactured sports shoes are also exported indirectly to other regions including Europe, the United States and Asia. As such, demand dependencies will be based on the following factors impacting on the consumptions of sports shoes in the respective regions, including:

##### United States

- In 2007 and 2008, the United States' real GDP recorded a growth of 1.9% and 0.0% respectively, but recorded a drop of 2.6% in 2009.
- Consumer prices in the United States registered a growth of 3.8% in 2008 but decreased marginally by 0.3% in 2009.
- Per capita GDP in the United States experienced a marginal growth of 1.2% to USD47,155 in 2008 but recorded a drop of 2.6% in 2009.

##### Europe

- In 2007 and 2008, Central and Eastern Europe's real GDP registered growth of 5.5% and 3.1% respectively. In 2009, Central and Eastern Europe's real GDP recorded negative growth of 3.6%.
- The consumer price of Central and Eastern Europe recorded a growth of 8.1% in 2008 and grew by 4.7% in 2009.
- In 2008, per capita GDP of Central and Eastern Europe achieved a growth of 4.7% to reach USD14,346 and dropped by 3.4% in 2009.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### (ii) China Market

As our Group's market also cover China, demand dependencies will be based on factors impacting on the consumption of sports shoes in China including the following:

- Population growth in China;
- Growth in household disposable income; and
- Increase in consumption expenditure.

Between 2005 and 2009, the population of China increased at an average annual rate of 0.5%. In 2009, the population of China grew by 0.5% to reach 1.3 billion persons.

Between 2005 and 2009, annual per capita disposable income of urban households in China increased at an average annual rate of 13.1%. In 2009, annual per capita disposable income of urban households in China grew by 8.8% to reach RMB17,174.7.

Between 2005 and 2009, annual per capita consumption expenditure of urban households in China increased at an average annual rate of 11.5%. In 2009, annual per capita consumption expenditure of urban households in China grew by 9.1% to reach RMB12,264.6.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## 5.6 SUPPLY CONDITIONS

### 5.6.1 Supply

#### (i) Local Production

Between 2005 and 2009, the gross output value of the manufacture of textile wearing apparel, footwear and caps in China increased at an average annual rate of 20.4%. In 2009, the gross output value of such products grew by 10.7% to reach RMB1.0 trillion.

In 2007, China's production of footwear was about 10.2 billion pairs, accounting for approximately 60% of the global production of footwear in 2007.

The production statistics on rubber shoes include, among others, sports shoes but exclude professional sports shoes, which require special certification from the Government of China. Between 2004 and 2008, the production quantity of rubber shoes (including sports shoes) in China decreased at an average annual rate of 7.7%. However, in 2008, the production quantity of rubber shoes increased by 9.1% to reach 2.1 billion pairs.

Between 2004 and 2008, the production quantity of leather shoes in China increased at an average annual rate of 4.8%. In 2008, the production quantity of leather shoes grew by 2.7% to reach 3.3 billion pairs.

#### (ii) Imports

Between 2005 and 2009, the import value of footwear, gaiters and the like, and parts of such articles increased at an average annual rate of 12.9%. In 2009, the import value of such products declined by 13.3% to approximately USD880.0 million (equivalent to RMB6.0 billion).

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

Between 2005 and 2009, the import value of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials (including sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like) increased at an average annual rate of 50.4%. In 2009, the import value of such footwear declined by 9.7% to USD114.8 million (equivalent to RMB783.7 million).

Between 2005 and 2009, the import value of sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like with outsoles of rubber or plastics (a sub-sector of footwear with outsoles of rubber, plastics, leather or composition leather and upper of textile materials) increased at an average annual rate of 24.2%. In 2009, the import value of such footwear declined by 37.0% to USD10.2 million (equivalent to RMB69.6 million). In 2009, some of China's major sources of this type of footwear include Italy, Vietnam, Malaysia, Japan and Indonesia.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.6.2 Supply Dependencies – Raw Materials

The major raw materials used in the manufacture of sports shoes are as follows:

- shoe soles including insoles, midsoles and outsoles; and
- upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

There are many types of sports shoe soles depending on the application, technical requirements and cost considerations. Some examples include the following:

- insoles are commonly made from a mixture of cellulose material and rubber, woven materials mainly textile, microcellular polyurethane, non-woven materials, latex sponge and Ethylene-Vinyl Acetate copolymer (EVA) foam;
- Midsoles for sports shoes are commonly made of polymer based materials such as Phylon, Polyurethane (PU), Phylite and Ethylene-Vinyl Acetate copolymer (EVA); and
- As the outsoles come into contact with the ground, materials used are expected to be lightweight, durable, provides traction and highly abrasion resistant. Common materials that are used to make outsoles for sports shoes include various types of latex rubber and thermoplastic rubber.

#### (a) Production

Between 2005 and 2009, the gross industrial output value of the manufacture of plastics grew at an average annual rate of 21.3%. In 2009, the gross industrial output value of the manufacture of plastics increased by 10.8% to reach RMB1.1 trillion.

Between 2005 and 2009, the gross industrial output value of the manufacture of rubber grew at an average annual rate of 21.4%. In 2009, the gross industrial output value of the manufacture of rubber increased by 12.8% to reach RMB476.8 billion.

Between 2004 and 2008, the production of plastic products decreased at an average annual rate of 0.3%. However, in 2008, the production of plastic products increased by 12.4% to 37.1 million tonnes.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### (b) Imports

Between 2005 and 2009, the import value of rubber and plastics outsoles and heels decreased at an average annual rate of 8.5%. In 2009, the import value of such products declined by 16.9% to USD59.7 million (equivalent to RMB407.5 million). In 2009, some of China's major sources of rubber and plastic outer soles and heels include Taiwan, Korea, Vietnam, Japan, Italy, the United States and other overseas countries.

In 2009, the import value of rawhides and skins (other than fur skins) and leather decreased by 20.9% to USD4.5 billion (equivalent to RMB30.5 billion). Between 2005 and 2009, the import value of this category declined at an average annual rate of 1.9%.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5.7 ESTIMATED MARKET COVERAGE AND MARKET SHARE

### 5.7.1 Market Segmentation

There are approximately 3,000 footwear manufacturers in Jinjiang. Of these, approximately 80% are considered small scale manufacturers of footwear including manufacturers of footwear components and accessories. These small scale manufacturers of footwear generally refer to those that produce up to 500,000 pairs of footwear annually.

Virtually all of the small scale footwear manufacturers undertake OEM. The balance of approximately 20% are considered medium to large scale manufacturers, and of these approximately 10% undertake a combination of both OEM and OBM.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

It is not possible to segment the number of manufacturers that operate on a similar business model as Zhenxing Shoes due to limited data and information.

### 5.7.2 Market Size

#### (a) Production

In 2009, the market size of the footwear industry in China was estimated at **10 billion pairs** based on production.

In 2009, the market size of the rubber/plastic shoes (including sports shoes) industry in China was estimated at **2.3 billion pairs** based on production. Rubber/plastic shoes is a sub-sector of the total footwear industry in China.

#### (b) Wholesale Value

In 2009, the market size of the footwear industry in China was estimated at **RMB61 billion** based on wholesale value.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.7.3 Market Share

#### (a) Production

In 2009, our Group had a market share of approximately **0.1%** of the footwear industry in China based on the Group's production output of 6.2 million pairs of sports shoes.

In 2009, our Group had a market share of approximately **0.3%** of the rubber/plastic shoes (including sports shoes) industry in China based on the Group's production output of 6.2 million pairs of sports shoes.

#### (b) Wholesale Value

In 2009, our Group had a market share of approximately **1%** of the footwear industry in China based on wholesale prices.

*(Note: The term "footwear" covers all types of footwear including sandals, slippers, industrial footwear, therapeutic footwear, boots and shoes. Our Group focuses only on sports shoes.)*

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## 5.8 GOVERNMENT LAW AND REGULATIONS

### 5.8.1 Business Licence

Application for a business licence with the Administration for Industry and Commerce is required for establishing an enterprise in China.

Our subsidiary, Zhenxing Shoes has obtained the following business licence from the respective authorities in China:

By subsidiary	Issuing Authority	Descriptions	Validity Period
Zhenxing Shoes	Quanzhou Administration for Industry and Commerce	Manufacturing of Shoes	23 June 1999 until 23 June 2029

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

### 5.8.2 Environmental Regulations

As part of the manufacturing process for sports shoes, our Group creates wastes in the form of off-cuts mainly during the construction of the bottom part of the shoe. The wastes are collected and then sent to the waste collection centre.

However, these are bulk wastes, which do not have a significant impact on the environment as long as they are properly disposed.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*

## 5.9 SUBSTITUTE PRODUCTS

Generally, there are no direct substitutes for sports shoes. The alternative is not to use these products at all or use other forms of footwear such as sandals and dress shoes, industrial footwear to serve as sports shoes, however these are not practical substitutes.

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor Consulting Sdn Bhd)*

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.10 VULNERABILITY AND RELIANCE ON IMPORTS

Generally, manufacturers of sports shoes in China source a significant proportion of their raw materials and components locally in China. Some of the major raw materials used in the manufacture of sports shoes include:

- shoe soles including insoles, midsoles and outsoles; and
- upper materials including those made of leather, composition of leather, textile materials, as well as plastics and synthetic materials.

Shoe soles and upper materials represent the major raw materials of our Group's total purchases. The Group sources all of its shoe soles and upper materials from suppliers in China.

Raw materials in the forms of shoe soles and semi-finished materials that made of leather, textile, plastics and synthetic materials can be sourced in China. This is supported by the following observations in China:

- In 2009, there were an estimated 19,894 enterprises operating in the manufacture of plastics. The gross industrial output value of the manufacture of plastics increased by 10.8% to reach RMB1.1 trillion in 2009.
- In 2009, there were an estimated 4,720 enterprises operating in the manufacture of rubber. The gross industrial output value of the manufacture of rubber increased by 12.8% to reach RMB476.8 billion in 2009.
- In 2008, the production of plastic products increased by 12.4% to 37.1 million tonnes. Manufacturers can source plastic products from various locations within China including Guangdong, Zhejiang, Shandong, Jiangsu, Liaoning, Hebei, Anhui, Fujian, Henan, Sichuan and others.
- In 2009, there were an estimated 32,412 enterprises in the manufacture of textiles. The gross industrial output value of manufacture of textiles increased by 7.4% to reach RMB2.3 trillion in 2009.
- In 2009, the gross industrial output value of manufacture of leather, fur, feather and related products increased by 9.4% to reach RMB642.6 billion.

Nevertheless, China also imports raw materials to meet its overall manufacturing needs:

- In 2009, the import value of rubber and plastics outsoles and heels declined by 16.9% to USD59.7 million (equivalent to RMB407.5 million). In the same year, China imported its rubber and plastic outer soles and heels from Taiwan, Korea, Vietnam, Japan, Italy, the United States and other overseas countries.
- In 2009, the import value of rawhides and skins (other than fur skins) and leather decreased by 20.9% to USD4.5 billion (equivalent to RMB30.5 billion).
- In 2009, the import value of textile and textile articles decreased by 12.8% to USD21.8 billion (equivalent to RMB148.7 billion).
- In 2009, the import value of plastics and articles amounted to USD48.5 billion (equivalent to RMB331.2 billion).

*(Source: Independent Assessment of the Footwear Industry focusing on Sports Shoes in China, prepared by Vital Factor)*



## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.11 ADDITIONAL INFORMATION ON SELECTED COMPANIES IN THE FOOTWEAR INDUSTRY

#### China Footwear Companies Listed On Bursa Securities

For reference and information only, we have set out below, the additional information of some of the China based footwear companies listed on Bursa Securities ("**Local Companies**"). Please note however, that the Local Companies may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. These information serve only as a reference, and may not be exhaustive. Ratio computations are based on the formulae or assumptions highlighted in the notes accompanying the table below.

	Maxwell	K-Star Sports Limited ("K-Star") <sup>(1)</sup>	XiDeLang Holdings Ltd ("XiDeLang") <sup>(1)</sup>	Xingquan International Sports Holdings Limited ("Xingquan") <sup>(1)</sup>
<b>Brief Information</b>				
Principal activities	Design and manufacturing of sport shoes on an OEM and ODM basis	Design, manufacture and distribution of sports footwear under its own brand as well as OEM and ODM for international sports brands	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment	Manufacturing of shoe soles and sport shoes, and sales of shoe soles, sports shoes, apparels and accessories
Proprietary brands	None	Dixing/K-Star	XiDeLang	Addnice
OEM/ODM brands	Many brands including renowned brands like Yonex, Diadora and Kappa	Umbro, Diadora, Kappa, Le Coq Sportif, Die Wilden Kerle, Canguro, Cosby and Bridgestone	N/A	FILA, J'Hayber, Bulldozer, Spalding, Eksis, Prince and Lotto
% OEM/ODM in terms of revenue for the FYE 31 December 2009	100%	23.1%	-	<sup>(12)</sup> 5.40%
<b>IPO Information</b> <sup>(1)</sup>				
Date of listing	-	4-Jun-10	11-Nov-08	10-Jul-09
3 years aggregate PAT (RM'million)	128.0	102.0	86.19	135.5
IPO price (RM)	0.54	2.15	0.58	2.1
Number of shares (million)	400.0	88.8	400.0	307.3
Market capitalization upon listing (RM'million)	216.0	190.9	232.0	645.3
PE Multiple <sup>(2)</sup>	3.5	4.2	4.8	7.1
NTA per share (RM)	0.5	1.8	0.4	0.7
<b>Latest financial</b> <sup>(3)</sup>				
FYE	31 December 2009	31 December 2009	31 December 2009	30 June 2009
Revenue (RM'million)	301.0	294.5	384.9	435.2
GP (RM'million)	89.9	71.8	119.2	159.0
PBT (RM'million)	82.3	61.3	94.8	110.8
PAT after minority interest (RM'million)	61.2	45.5	68.2	92.2
Shareholders' Equity (RM' million)	151.1	237.9	173.0	120.7
GP margin (%) <sup>(4)</sup>	29.9	24.4	31.0	36.5
PBT margin (%) <sup>(5)</sup>	27.3	20.8	24.6	25.5
PAT margin (%) <sup>(6)</sup>	20.3	15.5	17.7	21.2
Current ratio (times) <sup>(7)</sup>	3.7	3.1	1.8	1.8
Gearing ratio (times) <sup>(8)</sup>	0.05	0.09	0.24	0.26
Trade receivables turnover period (days) <sup>(9)</sup>	98	80	<sup>(9)</sup> 54	65
Trade payables turnover period (days) <sup>(10)</sup>	38	16	<sup>(10)</sup> 56	88
Inventory turnover period (days) <sup>(11)</sup>	4	13	<sup>(11)</sup> 26	23

#### Notes:-

- 1) Extracted from the prospectuses of K-Star, XiDeLang and Xingquan, respectively
- 2) The PE Multiple was based on the enlarged issue paid-up capital and net EPS upon listing.
- 3) Extracted from K-Star's prospectus dated 11 May 2010 and latest annual reports of XiDeLang and Xingquan, where applicable
- 4) GP margin = (GP / Revenue) x 100%
- 5) PBT margin = (PBT / Revenue) x 100%
- 6) PAT margin = (PAT / Revenue) x 100%
- 7) Current ratio = Current Assets / Current Liabilities
- 8) Gearing ratio = Total interest-bearing borrowings / Shareholders' Equity
- 9) Trade receivables turnover period = (Average year-end trade receivables balances / revenue) x 365 days. However, XiDeLang's trade receivables turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available.
- 10) Trade payables turnover period = (Average year-end trade payable balances / cost of sales) x 365 days. However, XiDeLang's trade payables turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available.
- 11) Inventory turnover = (Average year-end inventory balances / cost of sales) x 365 days. However, XiDeLang's inventory turnover was computed based on the closing balance as at 31 December 2009 as the data as at 31 December 2008 is not available
- 12) For six (6) months period ended 31 December 2009 as disclosed in the Xingquan's prospectus.

**5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

Based on the list of Local Companies, management observes the following:

- a) Maxwell's revenue, GP, PBT and PAT are within the range of the Local Companies.
- b) The GP margin of the Local Companies ranged from approximately 24.4% to 36.5%. Maxwell recorded a GP margin of 29.9%. The reason for the varying GP margin is due to various company specific factors, however, it should be noted that in general, the selling prices and the cost of sales for these Local Companies differ from Maxwell in that all of these Local Companies have their own brand and possess different production capabilities. Unlike Maxwell, some of these companies also sell sports apparel and shoe soles, and are involved in brand management.
- c) Maxwell recorded a good PBT margin and PAT margin. The differences in PBT and PAT margins are mainly due to amongst other factors, differences in the scale of operations and business model. Maxwell does not incur any significant cost for advertising and promotional activities as it does not have its own brand, and is not involved in the management of retail outlets.
- d) Maxwell has a healthy current ratio and gearing ratio. Please refer to **Section 7.5** of this Prospectus for further details on our liquidity and working capital position.
- e) Maxwell's trade receivables turnover period and trade payables turnover period are within Maxwell's normal credit period/term. Please refer to **Section 7.5.10** of this Prospectus for further details on our receivables and payables turnover analysis.
- f) Maxwell has low inventory turnover period. Please refer to **Section 7.5.10** of this Prospectus for further details on our inventory turnover period analysis.

**Overseas Public Listed Footwear Companies**

For reference and information only, we have set out below, the additional information of some of the overseas public listed companies principally engaged in manufacturing of sports shoes for third party brand names ("**Overseas Companies**"). Please note however, that the Overseas Companies (which may not be exhaustive) may not be directly comparable due to various factors which include amongst others the composition of the business, scale of operations, business model, management expertise and experience, and other relevant factors. These information serve only as a reference, and may not be exhaustive. Ratio computations are based on the formulae or assumptions as highlighted in the notes accompanying the table below.

	Listed Exchange	FYE	Revenue (RM mil)	GP (RM mil)	PBT (RM mil)	PAT (RM mil)	(2) GP margin (%)	(3) PBT margin (%)	(4) PAT margin (%)
Maxwell	-	31.12.09	301	90	82	61	29.9	27.3	20.3
	-	31.12.08	218	62	56	42	28.5	25.6	19.3
Feng Tay Enterprise Co Ltd	TWSE	31.12.09	2,754	639	252	215	23.2	9.1	7.8
		31.12.08	2,812	510	129	114	18.1	4.6	4.1
Pou Chen Corporation	TWSE	31.12.09	21,337	5,240	1,592	1,539	24.6	7.5	7.2
		31.12.08	21,548	4,953	1,252	1,154	23.0	5.8	5.4
KTP Holdings Limited	HKSE	31.3.09	202	17	10	1	8.4	4.9	0.5
		31.3.10	57	3	7	7	5.3	12.3	12.3
Pegasus International Holdings Ltd	HKSE	31.12.09	334	54	4	3	16.2	1.2	0.9
		31.12.08	465	75	6	5	16.1	1.3	1.1
Symphony Holdings Limited	HKSE	31.12.09	723	141	12	8	19.5	1.7	1.1
		31.12.08	830	114	-94	-93	13.7	-11.3	-11.2
Yue Yuan Industrial (Holdings) Ltd	HKSE	30.9.09	15,746	4,025	1,475	1,450	25.6	9.4	9.2
		30.9.08	15,441	3,736	1,618	1,538	24.2	10.5	10.0

**5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

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

**Notes:-**

- 1) Source: Companies' annual report
- 2) GP margin = GP / Revenue
- 3) PBT margin = PBT / Revenue
- 4) PAT margin = PAT / Revenue
- 5) Currency conversion used were as follows:
  - USD1=RM3.1385 as at the LPD
  - TWD100=RM10.3359 as at the LPD
  - HKD100=RM40.4837 as at the LPD

Based on the list of Overseas Companies, management observes the following:

- a) Maxwell's revenue, GP, PBT and PAT are within the range of the Overseas Companies.
- b) For the latest financial year end, the Overseas Companies recorded a GP margin ranging from approximately 8.4% to 25.6%. Maxwell recorded a GP Margin of 29.9% for the FYE 2009.

The reason for the varying GP Margin is due to various company specific factors. However, in general, the selling prices and production cost for these Overseas Companies differ from Maxwell in that most of these Overseas Companies have amongst others, a larger scale of operations, have a longer listed track record, sell different brands, have different production capabilities and have manufacturing facilities in various countries and locations.

- c) Maxwell recorded good PBT and PAT margins. The varying PBT and PAT margins was mainly due to amongst other factors, differences in operating cost structure, expenses and taxation rates as a result of scale of operations and operating across different geographical locations.

**Qualifications:-**

- a. Most of the information set out in **Section 5.11, Section 6.8 and Section 7.5.10** in relation to other companies other than Maxwell are extracted from the prospectuses, annual reports and/or other publicly available information. No independent verification have been conducted to confirm the accuracy of the contents of these information, save and except for the accuracy of such extraction.
- b. Some of the information are extracted from different financial periods and may not provide accurate reference between these companies.
- c. The various information set out in relation to other companies involving in the shoe manufacturing industry are inserted for reference purposes only and should not be construed expressly or impliedly to be an attempt to rank and rate the business and financial performance of the respective companies. The readers should seek their own independent professional advice in the interpretation of these data and information. We do not take any responsibility for the decision or action of readers relying on the data and information of other companies in this section and the readers should check the original source of information with the respective companies.
- d. Any information set out herein relating to other companies are not to be construed expressly or impliedly as an investment advice in the purchase or sale of the shares in the respective companies. The readers should make their own independent verification, assessment and decision in relation to the investment decision.
- e. Some of the ratios set out above involve computation using certain formulae, and there may be more than one formulae which can be used for computation of the same, and the different application of the formulae can give rise to different results. As such, the readers should consider and seek their own professional consultation in arriving at their own interpretation and conclusion on these ratios.
- f. Some of the ratios set out above are also made based on various assumptions. Any variation of these assumptions may give rise to different interpretation and understanding of the performance of the respective companies. These assumptions may also be incomplete and may not reflect the actual financial, business, economic performance of the respective companies.
- g. Most of the Overseas Companies operate in more than one business sector; under different business condition, scale of operations, business model, jurisdiction and governing laws, cost and salary structure, management expertise, geographical location, and other factors which we are not fully aware of and may be inaccurate, inconclusive to refer to these information.

## 5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)

### 5.12 OUR GROUP'S PROSPECTS AND FUTURE PLANS

Our strategy and future plans for the growth and expansion of our business is described below: -

#### (i) Expansion of production capacity and upgrading of existing production facilities

Currently, we have four (4) production lines, which in aggregate have a production capacity of approximately 8 million pairs of sports shoes per annum. We also outsource some of our sports shoe orders to external contract manufacturers to meet increasing orders.

We intend to acquire four (4) new production lines together with other new machineries which include sewing machines, roller machines, cutting machines and grinding machines. With the four additional production lines, we estimate that our production capacity will increase from approximately 8 million pairs of sports shoe per annum to approximately 16 million pairs of sports shoe per annum operating on a two-shift basis. We intend to install the four (4) new production lines together with new machineries at a new factory to be constructed within two (2) years. The new factory is targeted to be located at Nei Keng County (内坑镇), Jinjiang city, which is in line with Jinjiang city's government development master plan to centralise and relocate all existing manufacturing facilities near the city centre to a new township area. However, as at the LPD, the details of the development master plan have yet to be finalized. We intend to build the new factory with an estimated production floor area of approximately 50,000 sq m. The estimated cost for the construction of the new factory is approximately RMB75 million. The construction of the new factory as well as the purchase of the land will be funded from internally generated funds and/or bank borrowings. In the event that we are unable to complete the construction within two (2) years after the Listing, we will identify other suitable locations for the installation of the four (4) new production lines and other new machineries for the expansion of our production capacity.

In addition to the expansion of our production capacity, we also intend to upgrade our existing production facilities through the purchase of new machineries and equipment which include lasting machines, moulding and embossing machines, sewing and embroidery machines, mixing mills and trimming machines. In particular, the replacement of machineries used for our two older existing production lines.

We intend to utilise approximately RM12.0 million of the net proceeds from the IPO for the expansion of our production capacity and upgrading of existing production facilities.

#### (ii) Strengthen our D&D capabilities and expansion of product range

In order to maintain our competitiveness, we intend to increase our product design from the current average of 1,000 designs per annum to approximately 1,500 designs per annum. To complement the increase in our production capacity, we will also increase the D&D staff headcount from the current 30 staff to approximately 40 staff by 2012 (which includes the recruitment of 2 experienced sports shoe designers). We will continue to strengthen our D&D capabilities through training of our D&D staff, and investing in additional advanced equipment and machinery to facilitate D&D works including upgrade of the current information system with advance functionality and computer-aided design (CAD) platforms. We intend to focus our D&D initiatives on extending our product range to create quality products and use of new and innovative materials for sports shoes to meet the increasing demands and changing needs of our customers.

We intend to utilise approximately RM6.0 million of the net proceeds from the IPO to increase our product D&D efforts.

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**5. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (Cont'd)**

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**(iii) Increase sales and marketing activities for our sports shoes**

For our sports shoe business, we believe that there are still significant opportunities to further penetrate both the local market and the export market as well as expand our sales and distribution network.

To this end, we intend to recruit more experienced marketing and sales personnel to better serve our existing customers or increase our presence in markets which we currently do not have a strong presence. We also intend to upgrade our website to a higher level of efficiency in order to facilitate better communication with our customers. Lastly, we will participate in more transnational trade fairs such as Haerbin border trade fair (哈尔滨边贸会) and other international trade fairs in Russia and Europe to increase our exposure and establish new contacts in various regions.

**(iv) Expansion of our business through acquisitions, joint ventures and/or strategic alliances**

We intend to expand our business through acquisitions, joint ventures or form strategic alliances with companies which we believe are complementary to our business. Such acquisitions, joint ventures or strategic alliances would bring about an expanded network of customers and/or an increase in our production capacity.

Currently, we do not have concrete plans with any party for acquisitions, joint ventures or strategic alliances. Should such opportunities arise, we will, where necessary, seek approval from our shareholders and/or the relevant authorities as required by the relevant rules and regulations.

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