

### 13. INDEPENDENT INDUSTRY ASSESSMENT REPORT

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*(Prepared for inclusion in this Prospectus)*



#### **VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

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15 November 2010

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

Dear Sirs and Madam

#### **Independent Assessment of the Footwear Industry Focusing on Sports Shoes in China**

The following is an independent assessment of the footwear industry focusing on sports shoes in China prepared by Vital Factor Consulting Sdn Bhd for inclusion in the prospectus of Maxwell International Holdings Berhad (herein together with all or any one or more of its subsidiaries shall be referred to as Maxwell Group or the Group) in relation to its listing on the Main Market of Bursa Malaysia Securities Berhad.

#### **1. BACKGROUND**

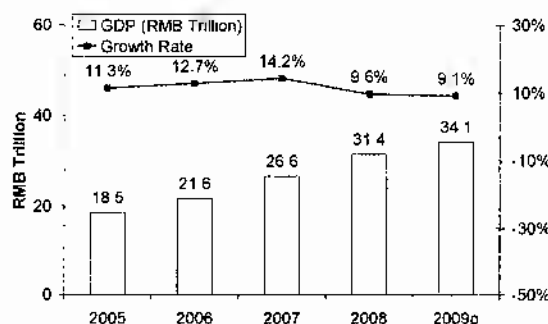
- Maxwell Group, through its wholly owned subsidiary Jinjiang Zhenxing Shoes Plastics Co Ltd, is primarily a manufacturing company specialising in the design and manufacturing of sports shoes. The Group manufactures sports shoes for third party brand owners.
- As design and manufacturing of sports shoes are the key business activities of the Group, the focus of this report is on the sports shoe market in China. All references to shoes in this report are for sports shoes, unless mentioned otherwise. This report refers to footwear for humans only.
- All figures converted from USD to RMB is based on an exchange rate of USD1 = RMB6.8259 as at 14 April 2010.

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**2. SOCIAL-ECONOMIC PERFORMANCE OF CHINA****2.1 Economic Performance**

- 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.



p = Preliminary

Source: National Bureau of Statistics of China

**Figure 1. Real GDP Growth in China**

- 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.

*(Source: The People's Bank of 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.

*(Sources: National Bureau of Statistics of China, Bureau of Economic Analysis of US Department of Commerce, Office for National Statistics, United Kingdom and Department of National Accounts, Economic and Social Research Institute of Cabinet Office, Government of Japan)*

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**2.2 Population**

- 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 (*Source: National Bureau of Statistics of China*). China's population represents a very large market for consumer goods and services. China, with its relatively strong GDP and per capita growth, combined with having the world's largest population, provides significant opportunities for companies that produce consumer goods and services for consumption in China.

**3. Global Economic Conditions**

- In 2009, the world output recorded a decline of 0.6% but is projected to rebound in 2010 to record a positive growth of 4.8%. The rebound was expected to be triggered by strong public policies across advanced and many emerging economies that had supported demand. Central banks reacted quickly during the global financial crisis including large interest rate cuts and unconventional measures to inject liquidity and to sustain credit. Governments also launched major fiscal stimulus programmes while at the same time supporting banks with guarantees and capital injections. These measures reduced uncertainties and increased confidence fostering an improvement in financial conditions.
- Although overall global economy strengthened during the first half of 2010, the global financial market declined during the second quarter of 2010, which were contributed by the sovereign debt markets. However, sound macroeconomic policy frameworks that were successfully implemented in many emerging and developing economies are expected to minimise the impact of negative macroeconomic conditions.
- In 2009, the real GDP of advanced economies (including United States, Euro zones, Japan, United Kingdom, Canada, and others) recorded a decrease of -3.2%, however it is projected to record a growth of 2.7% in 2010. In the emerging economies (including Asia, Africa, Central and Eastern Europe, Commonwealth of Independent States, Middle East and Western Hemisphere), real GDP growth is forecasted to reach almost 7.1% in 2010 compared to 2.5% in 2009. The rebound is expected to be driven by China, India and other emerging Asian economies. Policies implemented by emerging and developing economies, in response to the financial crisis have contributed to improved medium-term growth outlook. However, emerging and developing economies, especially those in Asia, remain dependent on demand from advanced economies.

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- Consumer prices of some of the selected countries from the advanced economies recorded a slow or negative growth in 2009, however it is projected to rebound in 2010 and achieve positive growth. The growth of consumer prices of some of the selected countries is as follows:

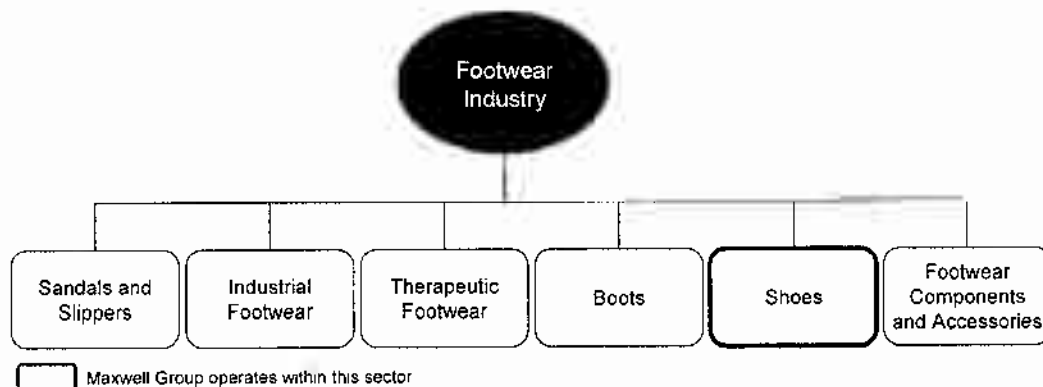
Country	Growth of Consumer Prices in 2009	Growth of Consumer Prices in 2010
United States	-0.3%	1.4%
Euro zone <sup>(1)</sup>	0.3%	1.6%
Japan	-1.4%	-1.0%
United Kingdom	2.1%	3.1%
Canada	0.3%	1.8%
Korea	2.8%	3.1%
Australia	1.8%	3.0%

*Note: (1) Include Germany, France, Italy, Spain, Netherlands, Belgium, Greece, Austria, Portugal, Finland, Ireland, Slovak Republic, Slovenia, Luxembourg, Cyprus and Malta.*

*(Source: Secondary Market Research undertaken by Vital Factor Consulting Sdn Bhd)*

**4. OVERALL INDUSTRY STRUCTURE****4.1 Structure of the Footwear Industry**

- In general, the Footwear Industry comprises six segments as depicted in the figure below:

**Figure 2. Structure of the Footwear Industry**

- Sandals** are a type of open footwear comprising a sole, which is fastened to the foot by straps or bands.
- Slippers** are a type of low footwear that can be slipped on or off easily.
- Industrial footwear** focuses on protecting the feet and providing safety for the wearer for use in a working environment.

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- **Therapeutic footwear** focuses on corrective and health promoting functions for the foot.
- **Boots** are a type of protective or fashionable footwear covering the foot, ankles, and also commonly extending beyond the ankles. Examples include dress boots, riding boots, ski boots and cowboy boots.
- **Shoes** are a type of footwear commonly covering the foot and not extending beyond the ankle. Examples include sports shoes (sometimes referred to as athletic shoes or sneakers), dress shoes, climbing shoes, clogs and loafers.
- **Components** of footwear include soles, heels and grommets (eyelets).
- **Accessories** of footwear include adornments, shoe polishes, shoehorn and others. Socks are commonly classified under apparel.

**4.2 Type of Shoes**

- Shoes can be further categories by the following:

**Figure 3. Types of Shoes**

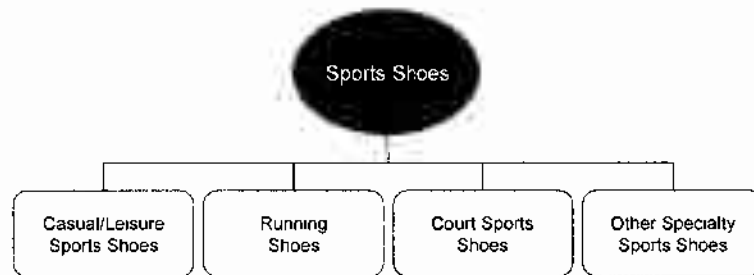
- Maxwell Group operates within the sports shoe sector of the Footwear Industry.

**4.3 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.

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**Figure 4. Common Types of Sports Shoes**

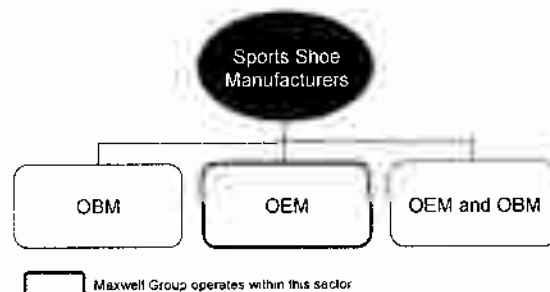
- Sports shoes are commonly used in sporting activities including:
  - casual/leisure sports shoes for casual walking and outdoor activities such as hiking, trekking, climbing and caving;
  - running shoes for running and training;
  - court sports shoes for racquet and court sports such as tennis, badminton,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

Sports shoes in this report does not include field sports shoes such as shoes used in soccer, baseball, softball, hockey, rugby, cricket, ski boots and other sports shoes that require special fittings like spikes or cleats, or professional sports shoes which requires special certification from the China government.

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

#### 4.4 Types of Sports Shoe Manufacturers

- Sports shoe manufacturers can be further categorised as follows:



**Figure 5. Types of Sports Shoe Manufacturers**

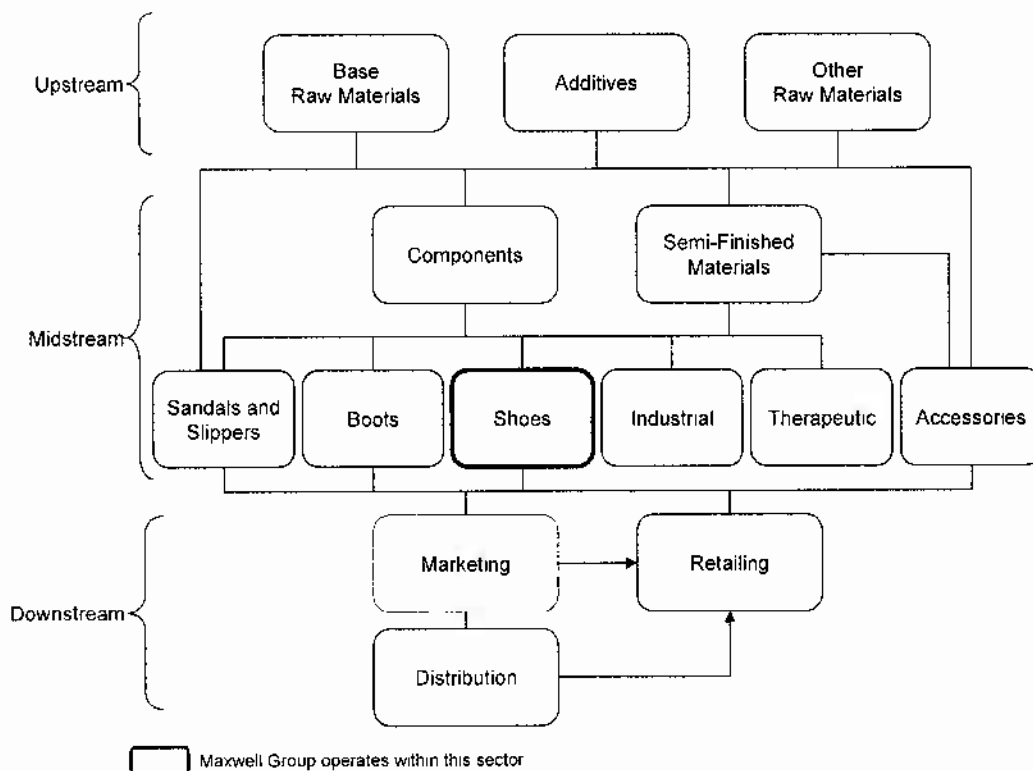
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- For sports shoes, there are many players competing in this segment. They comprise own brand manufacturers (OBM), contract manufacturers for third party brand owners (also known as original equipment manufacturers (OEM)), and a combination of both.
- Some contract manufacturers have in-house design capabilities to differentiate from other manufactures that use designs provided by their principals. Maxwell Group operates within the OEM sector and has in-house design capabilities.

**5. Vertical Structure of the Footwear Industry**

- The Footwear Industry can also be vertically extended to include upstream, midstream and downstream activities. These are as depicted in the diagram below:

**Figure 6. Vertical Structure of the Footwear Industry**

- The footwear industry can be segmented into the following:
  - Upstream activities;
  - Midstream activities;
  - Downstream activities.

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- Maxwell Group is principally involved in midstream activities in the manufacturing of sports shoes.

**Upstream**

- Upstream activities primarily involve the supply of raw materials including:
  - Base raw materials for example natural rubber such as ribbed smoke sheer and pale crepe, synthetic rubber including styrene butadiene rubber (SBR), butadiene acrylonitrile, polychloroprene, polyisoprene and polybutadiene, leather (not commonly used for sports shoes), textiles (not commonly used for sports shoes), ethylene vinyl acetate copolymer (EVA), polyvinyl chloride (PVC) (not commonly used for sports shoes) polyurethane (PU), and thermoplastic rubber (TPR).
  - Additives are used to improve mechanical and physical properties, as well as appearance. Some examples of additives include fillers, pigments, accelerator, activator, antioxidant, plasticiser, blowing agent, stabiliser, vulcanising agent, dusting agent, catalyst, cross linking, chain extending agents, colorants, flame retardant and smoke suppressant.
  - Other raw materials include threads, adhesives, eyelets and other processing aids like lubricants used during compounding of base raw materials.

**Midstream**

- Midstream activities involve the manufacturing of footwear components such as soles, heels and grommets (eyelets) and manufacturing of semi-finished footwear materials such as semi-finished synthetic leather and textile cloth.
- Midstream activities also involve the manufacturing of finished products such as sandals, slippers, boots, shoes, industrial footwear, therapeutic footwear and footwear accessories.

**Downstream**

- Downstream activities involve marketing, distribution and retailing of footwear. Marketing and distribution activities are usually undertaken by brand owners, agents, importers, stockists and wholesalers.

**6. 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.



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**7. GOVERNMENT REGULATIONS, POLICIES AND INCENTIVES****7.1 Business Licence**

- Application for a business licence with the Administration for Industry and Commerce is required for establishing an enterprise in China.
- Maxwell Group's subsidiary has obtained the following business licence from the respective authorities in China:

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

**7.2 Environmental Regulations**

- As part of the manufacturing process for sports shoes, Maxwell 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.

**8. SUPPLY****8.1 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.

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- 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.

*(Source: National Bureau of Statistics of China and Council for Leather Exports of India)*

**8.2 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).
- 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: National Bureau of Statistics of China and China Customs)*

**9. 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;
  - 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;

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- Midsoles for sports shoes are commonly made of polymer based materials such as Phylon, Polyurethane (PU), Phylite and Ethylene-Vinyl Acetate copolymer (EVA).
- As the outsoles comes 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.

**9.1 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.

*(Source: National Bureau of Statistics of China)*

**9.2 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: China Customs and National Bureau of Statistics of China)*

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**10. DEMAND****10.1 China****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.

*(Source: National Bureau of Statistics of China)***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.

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- 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: National Bureau of Statistics of China and China Customs)*

**10.2 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.

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- 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: Secondary market research undertaken by Vital Factor Consulting Sdn Bhd)*

**11. DEMAND DEPENDENCIES****11.1 China Market**

- As Maxwell 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;
  - 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: National Bureau of Statistics of China)*

**11.2 Other Selected Overseas Countries**

- The 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.

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- 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: International Monetary Fund)***12. COMPETITION****12.1 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, manufacturers 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 product and service differentiations, and other factors of competition.

**12.2 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;
  - track record.

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**12.3 Impact of Factors of Competition on Maxwell Group**

- **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.

Maxwell 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. The Group's emphasis on quality management is attested by the fact that the Group has 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. The Group, through its subsidiary, Jinjiang Zhenxing Shoes Plastics Co Ltd is ISO 9001:2000 certified with quality management systems in place. The quality awards of Maxwell 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 Maxwell Group's product quality.

- **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.



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From that perspective, the Group has in-house design capabilities and facilities including CAD systems as well as design personnel. As at 15 November 2010, Maxwell Group has five personnel primarily involved in the design of sports shoes. Furthermore, the Group is also equipped with in-house screen printing, embossing and embroidery facilities for the manufacturing of sports shoes.

- **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;
- 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, Maxwell Group has in-house design and development facilities and capabilities to meet customers' requirements.

- **Track Record**

Maxwell 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.

**12.4 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 Maxwell 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.

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- 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.

**12.5 Players in the Industry**

- Jinjiang City within the 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 own brand manufacturers, contract manufacturers for third party brand owners and a combination of both.
- Some of the own brand manufacturers 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).
- China also has many operators undertaking manufacturing of sports shoes for third party brand owners. As an 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.
- Some of the contract manufacturers of sports shoes for other 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 &

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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, Maxwell Group, Shuaike Shoe Co Ltd, and Symphony Holdings Limited.

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

**13. BARRIERS TO ENTRY****13.1 Set-up Costs**

- The barriers to entry into the manufacture of sports shoes within the Footwear Industry in China is moderate from the set-up cost perspective.
- The cost of setting-up a small scale manufacturing plant in China to produce sports shoes would be approximately RMB20 million (excluding land and building). This would include machinery and equipment incorporating sewing and stitching, cutting machinery and one line of assembly facilities, and working capital of three to four months' raw materials and finished products.

This size of establishment would be capable of producing approximately 370,000 pairs of sports shoes per year and the revenue generated is estimated at RMB20 million per year.

At this level of entry, which is small, the manufacturing plant is restricted in terms of capacity. Capital costs would start to escalate for those who want to generate a higher volume of output to achieve economies of scale. Larger operations are necessary to meet the demands in China and export markets. Smaller manufacturers would also find it difficult to compete with larger manufacturers, as they are able to fulfil larger volume orders within a shorter period of time.

**13.2 Technical Expertise**

- Technical skills and knowledge are required in the design, research and development, and manufacturing of sports shoes.
- Designs of sports shoes are essential as it covers functionality, ergonomics, style, aesthetics and ultimately customer acceptance. Larger and more established manufacturers are more likely to have in-house design capabilities compared to smaller manufacturers.

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- Technical skills to undertake research and development are also essential to keep ahead of the competition. This is particularly important in keeping up with fashion trends, improvements in ergonomic designs, biomechanical and kinetic adaptation, and using new and innovative materials to continuously come up with better and more desirable products.
- Manufacturing expertise such as those required in sewing, stitching, assembly and bonding also play major roles in ensuring products meet specified properties and features including cushioning, support and stability, anti-abrasion, anti-flex, anti-yellowing, breathability, weight, fitting, bursting strength and durability.
- Technical expertise in selecting the choice of raw materials, and using improved and innovative materials for sports shoes is also very important to the saleability of the product. This is due to the significant amount of development in materials used to provide better and sometimes cheaper materials for the manufacture of sports shoes.
- Sports shoes are used to perform physical sports activities, which are subjected to heavy duty use. As such, the overall function of the product is important, particularly in providing comfort, ergonomics and cushioning against the jarring impact of walking or running, support and stability to limit excessive pronation to prevent injuries, and the requirements for withstanding wear and tear due to the abrasive action of coming into direct contact with the ground.
- Technical expertise, skills and knowledge from design, manufacturing and use of raw materials are key in creating a quality and desirable product, and thus this would pose a barrier to entry for new entrants

**13.3 Track Record**

- Track record forms one of the barriers to entry for new entrants. It is unlikely that a new entrant without any track record will be able to compete effectively in the market particularly for the commercial market.
- A manufacturer with a track record as a reliable supplier of consistently high quality products would be in a significantly better position in winning sales compared to a new entrant.
- As such, track record would pose some barriers to entry for new entrants, as they may face some difficulties in gaining immediate access into the market.

**13.4 Product Quality**

- Quality is a critical factor in ensuring the ability to continually secure sales in the sports shoes industry. The success of a manufacturer would depend on its ability to meet the quality standards and expectations of consumers and commercial customers.

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- As with most consumer items, proven fashion trends, ergonomic designs and durability of products are also important. There is also an expectation that the products are subjected to continuous vigorous action and significant wear and tear, while at the same time provide comfort, safety and protection to the feet.
- As such, manufacturers that have stringent quality assurance programmes in place with compliance to standards are important factors in securing sales orders. Manufacturers that able to continuously meet quality expectations of customers are in a stronger position to compete effectively.

**14. RELIANCE ON AND VULNERABILITY TO 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;
  - 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 Maxwell 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.

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- 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.

*(Source: National Bureau of Statistics of China)*

- 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: National Bureau of Statistics of China and China Customs)*

**15. INDUSTRY OUTLOOK****15.1 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%. *(Source: National Bureau of Statistics of China and Secondary Market Research undertaken by Vital Factor Consulting Sdn Bhd)*
  - Entrepreneur confidence has also improved by 43.7% between fourth quarter of 2008 and the third quarter of 2010 *(Source: National Bureau of Statistics of China)*
- Improved economic conditions combined with stronger entrepreneur confidence will help sustain operators within the footwear manufacturing industry including sports shoes.

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**15.2 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;
  - Japan = -5.2% in 2009

*(Source: National Bureau of Statistics of China, Bureau of Economic Analysis of US Department of Commerce, Office for National Statistics, United Kingdom and Department of National Accounts, Economic and Social Research Institute of Cabinet Office, Government of Japan)*

- 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;
  - Japan = 2.8% in 2010.

*(Source: Secondary Market Research undertaken by Vital Factor Consulting Sdn Bhd)*

- 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.

**15.3 Outlook of Original Brand Manufacturers and Contract Manufacturers of Sport Shoes**

- The outlook of sports shoes 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.

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- Generally OBM have 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.
- 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.

**16. THREATS AND RISKS ANALYSIS****16.1 Dependency on Supply of Raw and Semi-Finished Materials**

- The manufacture of sports shoes is ultimately dependent on the availability of major raw materials including semi-finished materials such as shoe soles, textile materials, plastic and composition of synthetic materials. Shortage in the supply of one of these major materials may lead to a disruption in the manufacturing operations.

**Mitigating Factors**

- Generally, manufacturers of sports shoes source most of their materials from suppliers and manufacturers in China. In 2009, there were an estimated 32,412 enterprises operating in the manufacture of textiles, 19,894 enterprises operating in the manufacture of plastics and 4,720 enterprises operating in the manufacture of rubber in China. (Source: National Bureau of Statistics of China)
- In addition, these materials are widely produced and can be sourced from overseas countries, if required. Therefore, any possible interruptions in the supply are minimised.



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**16.2 Fluctuation in Prices of Raw Materials and Petroleum**

- Petroleum products are the major feedstock for plastic resins and synthetic rubber used in the manufacture of shoe soles and the upper part of sports shoes. Thus, the prices of plastic based materials and synthetic rubber are therefore dependent on the price of petroleum.
- In some situations, increases in the price of raw materials are not easily passed onto customers. This could have an impact on margins. Alternatively, if the increase in cost is passed onto customers, the manufacturer may not be price competitive.

**Mitigating Factors**

- Manufacturers with strong financial strength may be able to purchase and maintain stocks of key raw materials to create some cushion against price fluctuations, especially in the short term.
- In addition, as these raw materials are commodities and therefore subjected to world prices, all manufacturers that use these materials are affected equally.

**16.3 Global Financial Crisis**

- Any prolonged and/or widespread downturn such as those of the recent global financial turmoil has affected China and the global economies. Shoes are consumer-based products and any downturn in the economy is likely to impact on consumer spending and confidence.
- A slowdown in China and global economies is likely to reduce demand for a wide range of products, including sports shoes, which would have an impact on manufacturers within the sports shoe industry.

**Mitigating Factors**

- As shoes are regarded as necessity products, it is likely that consumer spending on these products will still continue, albeit at a lower expenditure level during an economic slowdown.
- In 2009, China experienced a real GDP growth of 9.1% and is forecasted to grow between 10% and 11% in 2010. In contrast, many advanced economies experienced negative GDP growth in 2009. However, the economies of some of the more advanced countries are expected to rebound in 2010, and are forecasted to record positive real GDP growth. (Source: *National Bureau of Statistics of China and Secondary Market Research undertaken by Vital Factor Consulting Sdn Bhd*). As such, China and other economies are expected to perform better in 2010 compared to 2009.

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- Manufacturers with strong product quality, financial stability, and a diverse range of products and designs would be in a better position to withstand a slowdown in China and global economies.

**17. AREAS OF GROWTH AND OPPORTUNITIES****17.1 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.

**17.2 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.

*(Source: China Customs)*

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

**17.3 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. *(Source: National Bureau of Statistics of China and Secondary Market Research undertaken by Vital Factor Consulting Sdn Bhd)*

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- 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.

**17.4 Building Brand Equity**

- Branding and development of brand equity are important in the sports shoes industry for own brand manufacturers who wish to command a premium for their products. Apart from product design and quality, branding is important in enabling manufacturers to distinguish themselves from competitors and to cultivate customer loyalty.
- There are opportunities for manufacturers in China to build strong brand equity by focusing on marketing and brand development.

**17.5 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.
- 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.

**17.6 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.

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**18. CRITICAL SUCCESS FACTORS**

Critical success factors for manufacturers in the Sports Shoe Industry in China include the following

- **Diverse Range of Products:** Manufacturers with a diverse range of products are in a better position to provide convenience to their customers through a one-stop centre concept for sports shoes including casual sports shoes, running shoes and court sports shoes and others.
- **In-house Design Centre** is a critical success factor that enables manufacturers to create innovative and contemporary designs to meet changing consumer preferences. Having in-house design capabilities and facilities also enable manufacturers to react quickly to changing market forces and consumer preferences.
- **Commitment to High Quality:** To ensure optimal performance and reliability of products, manufacturers must commit to high product quality. Manufacturers of sports shoes who adopt stringent controls in their manufacturing processes with recognised quality accreditations and awards to reflect their commitment to product quality and excellence are in a better position to garner customer loyalty.
- **Established Track Record:** The sports shoes market in China is a competitive industry with many manufacturers. This is particularly true in Jinjiang within the Fujian province in China where there are an estimated 3,000 manufacturers of footwear. As such, a reputable track record is relevant to manufacturers whose customers are intermediaries.
- **Financial Stability:** In manufacturing, financial stability will ensure uninterrupted supply to customers. In addition, a financially strong manufacturer would be in a better position to upgrade its manufacturing capabilities, if necessary, to keep abreast with technology, changes in production or to meet demand for increased capacity.

**19. MARKET SEGMENTATION, SIZE AND SHARE****19.1 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.

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- 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: Market research undertaken by Vital Factor Consulting Sdn Bhd)*

**19.2 Market Size****Production**

- In 2009, the market size of the footwear industry in China was estimated at **10 billion pairs** based on production. *(Source: China Leather Industry Association)*
- 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. *(Source: National Bureau of Statistics of China and computed by Vital Factor Consulting Sdn Bhd)*

**Wholesale Value**

- In 2009, the market size of the footwear industry in China was estimated at **RMB61 billion** based on wholesale value. *(Source: National Bureau of Statistics of and computed by Vital Factor Consulting Sdn Bhd)*

**19.3 Market Share****Production**

- In 2009, Maxwell 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, Maxwell 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.

**Wholesale Value**

- In 2009, Maxwell 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. Maxwell Group focuses only on sports shoes.)*

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Vital Factor Consulting Sdn Bhd had prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wai Ling', with a stylized flourish at the end.

Wong Wai Ling  
Director