

INDUSTRY OVERVIEW

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SOURCES OF INFORMATION

We commissioned Frost & Sullivan to conduct an analysis of the PRC footwear and menswear industries and other relevant economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of approximately RMB1,200,000 for the Frost & Sullivan Report, which we believe is in line with market rates. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent global consulting firm based in the United States with over 50 years of industry experience, and has over 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists worldwide.

The Frost & Sullivan Report includes both historical and forecast information on the PRC footwear market, the PRC menswear market and other relevant economic data. Frost & Sullivan undertook both primary and secondary independent research through various sources within the PRC footwear and menswear industries. Primary research involved interviewing leading industry participants in the PRC footwear and menswear industries and secondary research involved reviewing company reports, independent research reports and data from Frost & Sullivan's own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers. In the preparation of the Frost & Sullivan Report, Frost & Sullivan used secondary research as an initial research platform. Detailed telephone and face-to-face interviews were conducted with various manufacturers and distributors as the key methodologies used by Frost & Sullivan for obtaining information and data for the preparation of the Frost & Sullivan Report. Revenue, production volume and sales volume of our Group set out in the Frost & Sullivan report are based on unaudited management records of our Group.

The projections in the Frost & Sullivan Report relating to the PRC footwear and menswear markets are based on the following general bases and assumptions:

- the PRC economy is likely to maintain steady growth in the next decade with ongoing urbanization;
- the PRC social, economic and political environment is likely to remain stable in the foreseeable future, which will provide for the stable and healthy development of the PRC footwear and menswear industries; and
- market drivers such as continuous growing per capita disposable income and purchasing power of Chinese residents, improving urbanization rate, consumers' increasing brand awareness, improving retail channels are likely to stimulate the Chinese footwear and menswear markets further in the forecast period.

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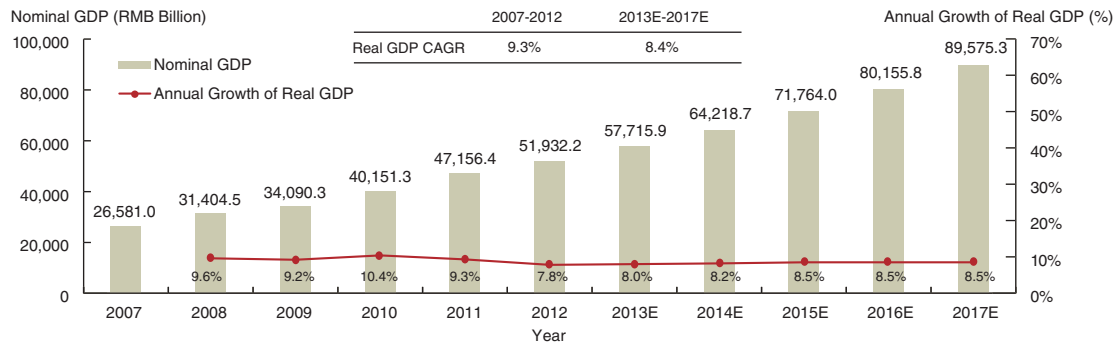
All statistics are based on information available as of the date of the Frost & Sullivan Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

RAPID GROWTH OF THE PRC ECONOMY, URBANIZATION AND INCREASING HOUSEHOLD INCOME

China's Economic Growth

China's economy has witnessed rapid growth since the economic reforms initiated by the PRC Government in the late 1970s. According to National Bureau of Statistics of China, China's nominal GDP grew from RMB26,581.0 billion in 2007 to RMB51,932.2 billion in 2012, representing a CAGR of 9.3% in terms of real GDP during the period. As a result of the global financial crisis originated in 2008, the growth rate of China's real GDP slowed down to 9.2% in 2009. However, it made a quick recovery in 2010 with a growth rate of 10.4%. According to Frost & Sullivan, China's nominal GDP is expected to further grow to RMB89,575.3 billion in 2017, representing a CAGR of 8.4% in terms of real GDP during the period from 2013 to 2017. The following chart illustrates the historical and projected growth of China's nominal GDP and real GDP growth from 2007 to 2017:

Nominal GDP and Real GDP Growth (China), 2007-2017E

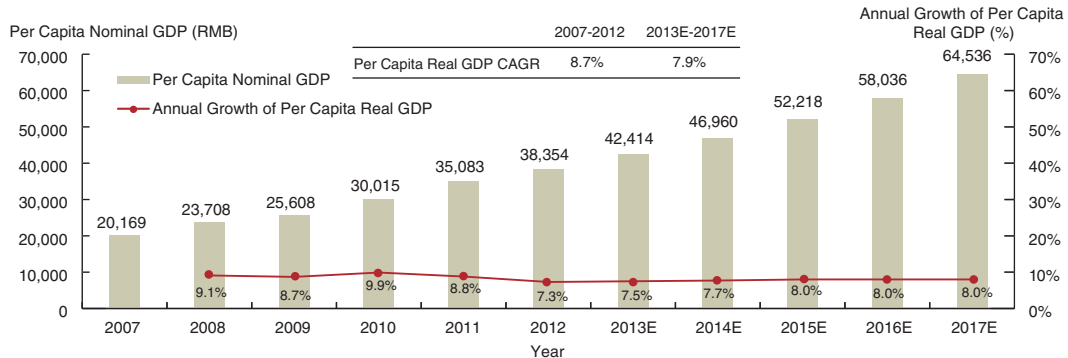


Source: National Bureau of Statistics of China; International Monetary Fund

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Along with strong GDP growth, China's nominal GDP per capita also experienced sustained growth, increasing from RMB20,169 in 2007 to RMB38,354 in 2012, representing a CAGR of 8.7% in terms of per capita real GDP. The International Monetary Fund forecasts China's per capita nominal GDP will reach RMB64,536 by 2017, with a CAGR of 7.9% in terms of per capita real GDP from 2013 to 2017. The following chart illustrates the historical and projected growth of China's nominal GDP per capita from 2007 to 2017:

Per Capita Nominal GDP and Real GDP Growth (China), 2007-2017E

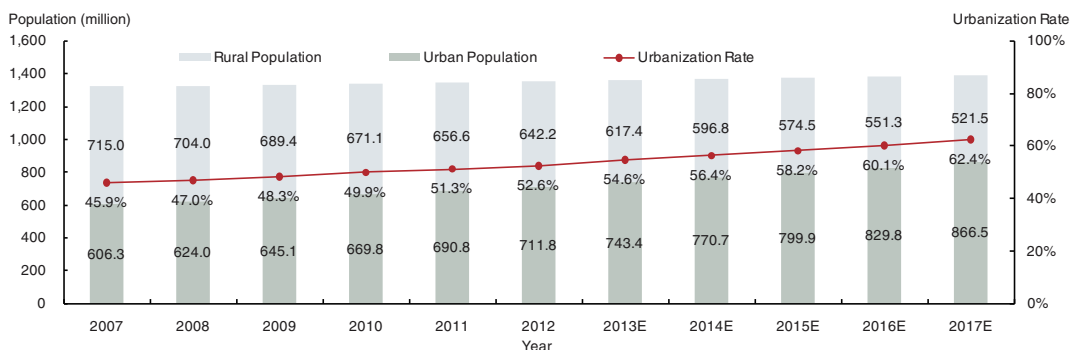


Source: National Bureau of Statistics of China; Frost & Sullivan

Accelerating Urbanisation Trend

Due to rapid economic development of the PRC and the influx of migrant workers from rural areas to developed cities, the PRC urban population has been increasing steadily. According to National Bureau of Statistics of China, the PRC urban population increased from approximately 606.3 million in 2007 to 711.8 million in 2012, representing a CAGR of 3.3%. Frost & Sullivan estimates that China's urban population is expected to maintain a CAGR of approximately 3.9% from 2013 to 2017 and reach approximately 866.5 million in 2017, with an urbanization rate of 62.4%. The following chart illustrates population growth and urbanization in China from 2007 to 2017:

Population and Urbanisation (China), 2007-2017E



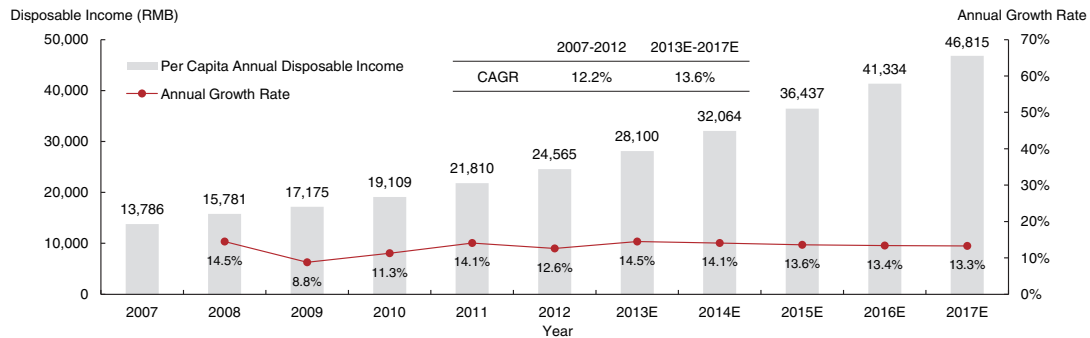
Source: National Bureau of Statistics of China, Frost and Sullivan

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Growth in Per Capita Disposable Income

Continuing growth in the PRC economy and urbanization has driven strong growth in per capita disposable income for urban households. The per capita disposable income for urban households in China increased from approximately RMB13,786 in 2007 to approximately RMB24,565 in 2012, representing a CAGR of 12.2%. According to Frost & Sullivan, the per capita disposable income of urban households are expected to continue to grow at a CAGR of 13.6% from 2013 to 2017. The following chart illustrates the per capita annual disposable income of urban households in China from 2007 to 2017:

Per Capita Annual Disposable Income of Urban Households (China), 2007-2017E

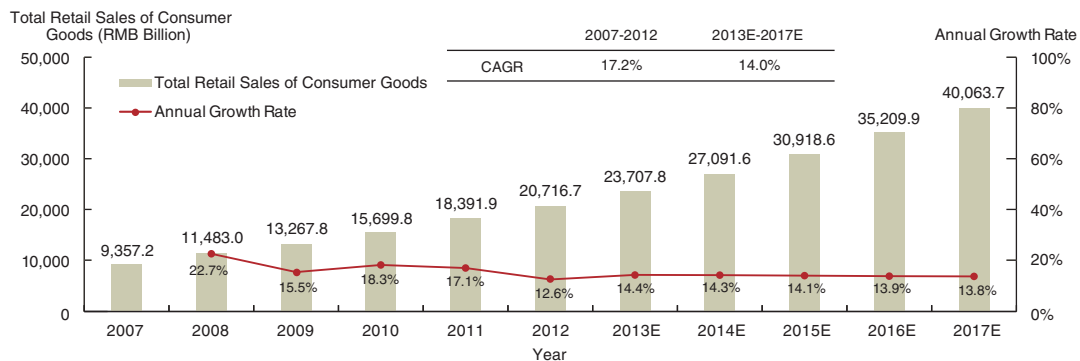


Source: National Bureau of Statistics of China, Frost & Sullivan

Strong Growth in the Retail Market

From 2007 to 2012, retail sales of consumer goods in the PRC experienced rapid growth as a result of the strong economic growth, accelerating urbanization and increasing purchasing power of urban households. Total retail sales of consumer goods in the PRC increased from RMB9,357.2 billion in 2007 to RMB20,716.7 billion in 2012, representing a CAGR of approximately 17.2%. According to Frost & Sullivan, the total value of retail sales of PRC consumer goods is projected to grow at a CAGR of 14.0% from 2013 to 2017 and is expected to reach RMB40,063.7 billion in 2017. The chart below sets out the historical and projected retail sales of consumer goods in the PRC from 2007 to 2017:

Total Retail Sales of Consumer Goods (China), 2007-2017E



Source: National Bureau of Statistics of China; Frost & Sullivan

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THE PRC FOOTWEAR MARKET

Market Segmentation of China's Footwear Market

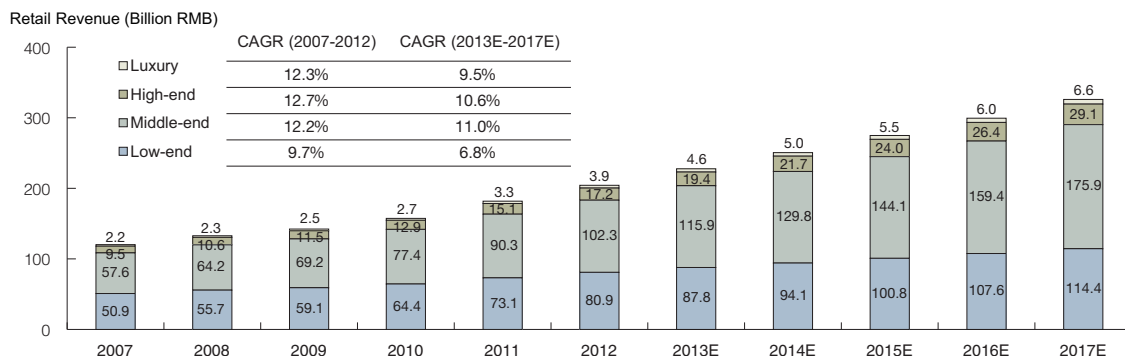
According to Frost & Sullivan, the PRC footwear market can be classified into three major categories: (i) sports footwear, which refers to the shoes specially designed and made for sports activities, including brands such as Nike and Adidas; (ii) men's and women's footwear, which refers to the footwear made to accompany menswear and women's dresses, excluding the above-mentioned sports footwear, including brands such as Belle, Aokang and Fuguiniao, among others; and (iii) children's shoes, which are shoes for children under the age of 15. Sports footwear, men's footwear, women's footwear and children's shoes accounted for 29.6%, 21.1%, 38.8% and 10.5% of the market share in terms of retail revenue for the year ended 31 December 2012, respectively.

In particular, men's and women's footwear can be further categorized into (i) formal footwear, which is the footwear wore on formal occasions, typically leather shoes dressed with suits for men and mid-heel shoes that cover both toes and heels for women (excluding boots and sandals); (ii) sports casual footwear, which refers to footwear attached with supplementary sports function or design, and wore for daily casual activities that are different from specialized sports footwear; and (iii) business casual footwear are shoes designed for social and informal business occasions, which are more casual than formal leather shoes. Men's business casual footwear products are typically casual style leather shoes, and unlike formal footwear, they do not need to have heels and generally have wider toe boxes. Women's business casual footwear consist of a wider range of products, including, among others, boots, sandals, flats, low heel shoes (less than 3 centimeters) and high heel shoes (more than 5 centimeters).

According to Frost & Sullivan, the men's and women's footwear market in the PRC can be divided into four tiers based on price range: low-end, middle-end, high-end and luxury. Low-end, middle-end, high-end and luxury footwear accounted for 39.6%, 50.1%, 8.4% and 1.9% of the market share in terms of retail revenue for the year ended 31 December 2012, respectively. The prices for these categories are as follows:

- low-end – less than RMB300 per pair;
- middle-end – between RMB300 and RMB1,000 per pair (RMB1,000 included);
- high-end – between RMB1,000 and RMB2,000 per pair (RMB2,000 included); and
- luxury – above RMB2,000 per pair.

As consumption levels have increased in recent years, demand for middle to high-end and even luxury footwear has steadily increased. The following table sets forth the breakdown of retail revenue of men's and women's footwear by price from 2007 to 2017.



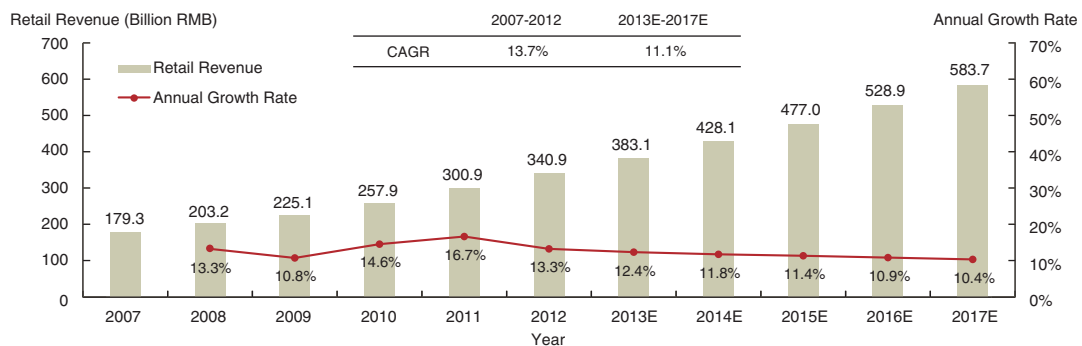
Source: Frost & Sullivan

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Size and Growth of China's Footwear Market

The PRC footwear market expanded rapidly during the period between 2007 and 2012 and total revenue from footwear retail sales grew from RMB179.3 billion in 2007 to RMB340.9 billion in 2012, representing a CAGR of 13.7%. This was driven by robust consumer spending and strong demand from all tiers of cities. According to Frost & Sullivan, retail sales of footwear in the PRC are expected to increase even further between 2013 and 2017 and are estimated to reach approximately RMB583.7 billion in 2017, representing a CAGR of 11.1% during the period. The chart below illustrates the historical and projected retail sales of footwear in the PRC from 2007 to 2017:

Footwear Market Retail Revenue (China), 2007-2017E



Source: Frost & Sullivan

Furthermore, consistent with the increase in footwear consumption of urban consumers and rising urbanization, per capita footwear consumption in China has increased steadily from RMB135.7 in 2007 to RMB251.8 in 2012, representing a CAGR of 13.2%. With sustained economic growth and expected strong consumer spending, Frost & Sullivan estimates that per capita footwear consumption in China is likely to reach RMB420.9 by 2017, representing a CAGR of 10.6% from 2013 to 2017.

Key Market Drivers and Restraints

China's footwear market is impacted by the following factors: (i) the continued growth of per capita disposable income and purchasing power of the PRC residents; (ii) increasing urbanization rate; (iii) rising brand awareness among consumers and (iv) the improvement and diversification of retail sales channels. According to Frost & Sullivan, with the growth of per capita disposable income and purchasing power, per capital spending on footwear for urban households has also increased from RMB242.6 in 2007 to RMB402.7 in 2012 and is expected to sustain. Urban households are more sensitive to fashion and style and are more aware of footwear brands. As their purchasing power increases, consumers weigh more on on brand, design and comfort. This stimulates consumer spending on more branded footwear. In addition, footwear is currently sold in almost all retail channels in China, including department stores, specialty stores, supermarkets and online retailers, among others. The improvement and diversification of modern retailers provides a significant boost to the growth of the footwear market as it helps brand owners to penetrate into Tier 2 and Tier 3 cities and rural areas.

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Frost & Sullivan expects that branded footwear manufacturers such as Belle International and us are likely to benefit from the overall growth of the PRC footwear market.

The growth of China's footwear market is also affected by several key market constraints, such as increasing labor costs and raw material prices, restricted innovative capabilities of local brands, potential capacity surplus for non-branded manufacturers and slow reaction to changing market trends. Footwear manufacturing is a labor intensive industry. According to Frost & Sullivan, China's labor cost has gradually increased in recent years as minimum wages in general have increased along with the price of raw materials. While branded footwear manufacturers have already established substantial development capabilities, other local PRC footwear manufacturers in general lack innovative design and efficient production capability. According to Frost & Sullivan, total production capacity in China for footwear making amounts to around 17.0 billion pairs, with annual production of around 14.0 billion in 2012, and a utilisation rate of approximately 80%. Large overseas and domestic demand of footwear has brought capacity expansion in recent years, and if the rapid increase of capacity maintains, there could be potential risks of over capacity. However, as branded footwear manufacturers usually have better performance, brand reputation and strong sales channels, the risks mostly will pose threats to small and medium footwear producers with no self-owned brands, and has less impact for branded manufacturers. Furthermore, to maintain competitiveness, footwear manufacturers must react quickly to market changes and take measures to implement effective product design, manufacturing and sales strategies. This requires a comprehensive information management system, which, according to Frost & Sullivan, is currently insufficient in the PRC footwear market.

Key Barriers to Entry

The major barriers to entry for new entrants to the PRC footwear market include a lack of brand recognition, inferior design capabilities, inadequate distribution channels and limited product and brand offerings. In general, according to Frost & Sullivan, well-branded companies possess superior brand position, product quality, design, technology, management and after-sales services, which allow them to maintain and expand their consumer base. These advantages make it difficult for new market entrants to compete with already established brands. Advanced design capability and technology are crucial to ensure quality and comfort of the footwear products and maintain competitiveness in the fast changing retail sector. A wide and well-balanced sales network is a key factor in capturing market share, attracting targeted customers and increasing brand awareness. Large and established footwear brands can often utilise multi-brand strategies to segmentize the market by price, style and consumer age, among others, in order to meet the various demands from a wider range of consumers.

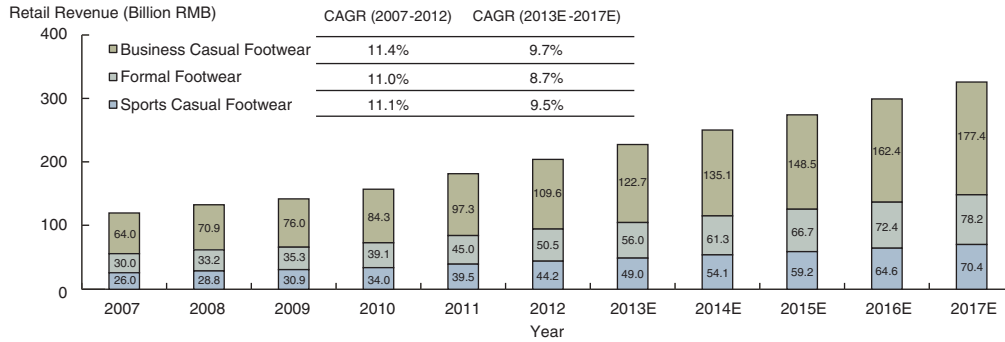
Men's and Women's Footwear Market

According to Frost & Sullivan, formal footwear, business casual footwear and sports casual footwear accounted for 24.7%, 53.7% and 21.6%, respectively of the total revenue for the men's and women's footwear industry in 2012. The rapid growth of the PRC economy has made a significant contribution to the growing commercial activities in all aspects of consumer life, including the consumption of formal footwear and business casual footwear. According to Frost & Sullivan, the retail revenue for business casual footwear in particular is likely to increase. It estimates business casual footwear will further increase from RMB122.7 billion in 2013 to RMB177.4 billion in 2017, representing a CAGR of 9.7%, which is faster than that of formal footwear and sports casual footwear. The following chart

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illustrates the historical and projected revenue breakdown of men's and women's footwear in terms of category from 2007 and 2017:

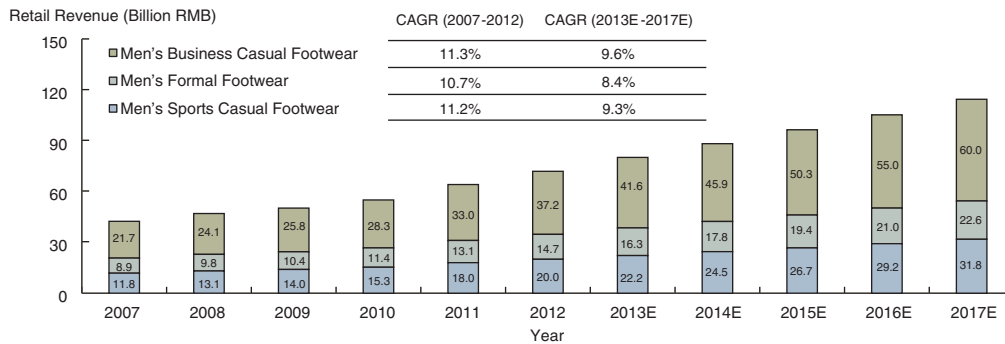
Retail Revenue of Men's and Women's Footwear Breakdown by Category (China), 2007-2017



Source: Frost & Sullivan

According to Frost & Sullivan, the influence of a business casual culture from the Europe and the U.S. has led Chinese male consumers to focus more on business casual activities, and as a result, increase their spending on men's business casual footwear. Frost & Sullivan estimates that the retail revenue of men's business casual footwear is likely to increase from RMB41.6 billion in 2013 to RMB60.0 billion in 2017, representing a CAGR of 9.6%, outperforming men's formal footwear and men's sports casual footwear.

Retail Revenue of Men's Footwear Breakdown by Category (China), 2007-2017

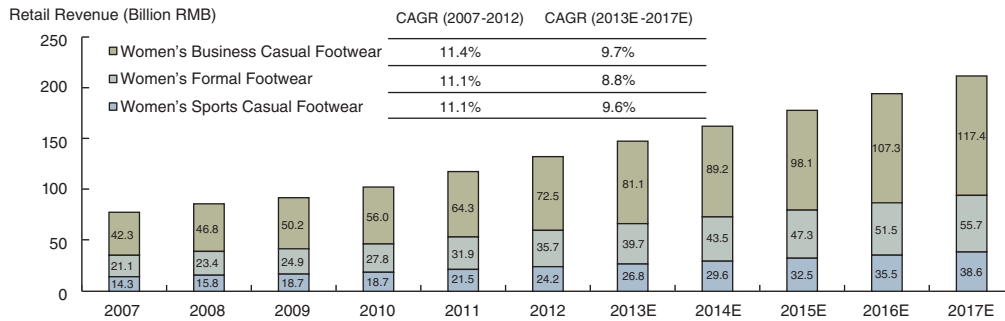


Source: Frost & Sullivan

According to Frost & Sullivan, women's footwear can be categorised into women's formal footwear, women's business casual footwear and women's sports casual footwear, which accounted for 27.0%, 54.8% and 18.2%, respectively, of the total women's footwear in terms of retail revenue for the year ended 31 December 2012. PRC female consumers, who have been gradually influenced by the business casual cultures from Europe and the U.S., have increased the expenditure on women's business casual footwear. According to Frost & Sullivan, the retail revenue of women's business casual footwear is likely to increase from RMB81.1 billion in 2013 to RMB117.4 billion in 2017, representing a CAGR of 9.7%, which will be faster than the increase in women's formal footwear and women's sports casual footwear markets.

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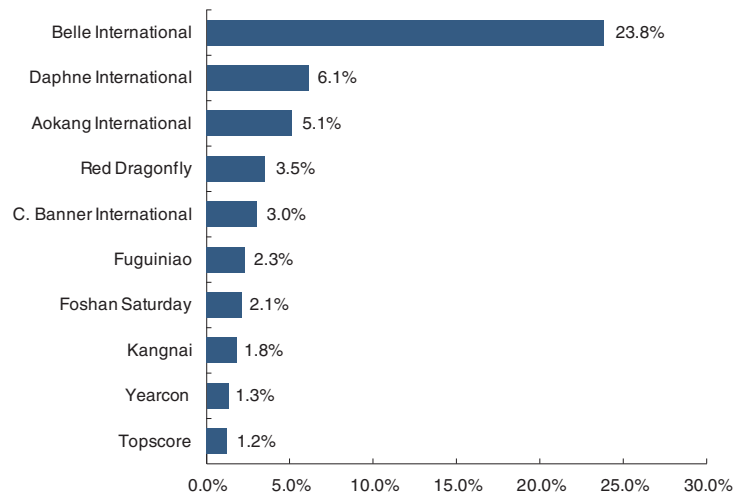
Retail Revenue of Women's Footwear Breakdown by Category (China), 2007-2017



Competitive Landscape

The PRC footwear market is fragmented. According to Frost & Sullivan, in 2012, the top ten men's and women's footwear companies had total retail revenue of approximately RMB52.8 billion, representing approximately 50.2% of the total market for branded footwear. However, among them, only Belle International enjoyed a market share larger than 10%. In 2012, we ranked sixth in the PRC branded footwear market in terms of retail revenue with a market share of 2.3%. The following chart illustrates the market share by retail revenue in the footwear market by brands in 2012:

Top 10 Footwear Companies' Market Share in Branded Footwear Market (China), 2012

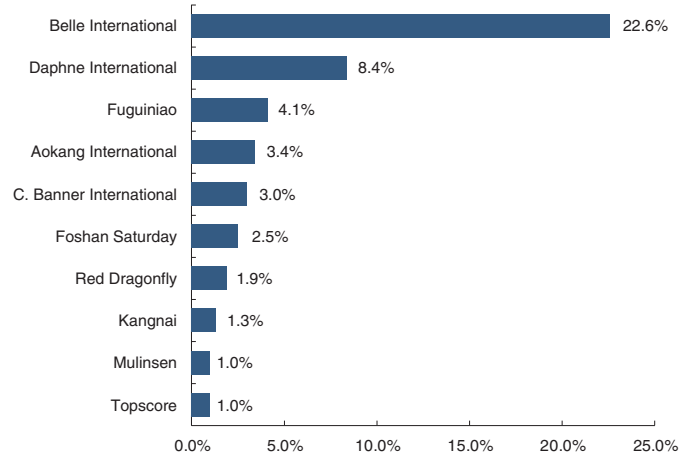


Source: Frost & Sullivan

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With respect to business casual footwear market, in 2012, the top ten manufacturers had total retail revenue of RMB24.3 billion, representing 49.3% of the total revenue for the branded business casual footwear market. Our business casual footwear products generated retail revenue of RMB2,004.5 million in 2012 and were ranked third with a market share of 4.1%. The following chart illustrates the market share by retail revenue in the business casual footwear market by brands in 2012:

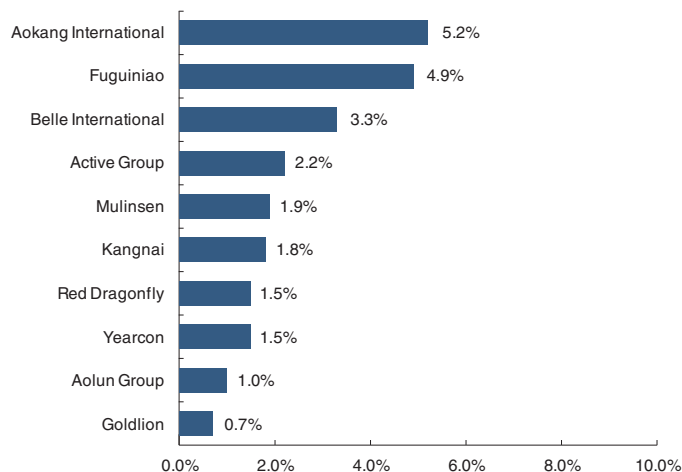
Top 10 Business Casual Footwear Companies' Market Share in Branded Business Casual Footwear Market (China), 2012



Source: Frost & Sullivan

With respect to men's business casual footwear, in 2012, the top ten manufacturers had total retail revenue of RMB4.0 billion, representing 24.0% of the total revenue for the branded men's business casual footwear market. Our men's business casual footwear products generated retail revenue of RMB814.9 million in 2012 and we ranked second with a market share of 4.9%. The following chart illustrates the market share by retail revenue in the men's business casual footwear market by brands in 2012:

Top 10 Men's Business Casual Footwear Companies' Market Share in Branded Mens' Business Casual Footwear Market (China), 2012



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Compared with our major competitors in the men's and women's formal, business casual and sports casual footwear segments, our footwear products are generally priced middle to high end. In formal and business casual footwear segments, we mainly target working and professional class of consumers who pursue higher quality of life. Our target customers are younger and fashionable consumers in sports casual footwear segment. As we use genuine leather as a key raw material, we believe our footwear products are of good quality. In terms of the size of our operations, we are one of the leading companies in business casual footwear segment, with a retail sales of RMB2,004.5 million. In addition, we are considered to be a mid- to large-sized company in the formal and sports casual footwear segments compared to our competitors. We focus on, and are strong in, branded business casual footwear market and ranked as the third largest manufacturer in the PRC with a market share of 4.1% in terms of retail revenue for the year ended 31 December 2012. In branded formal and sports casual sectors, which are not our key markets, we had 1.0% and 0.4% market share, respectively, in terms of retail revenue for the year ended 31 December 2012.

Our Key Competitive Advantages

According to Frost & Sullivan, the key advantages of our Fuguiniao brand comparing to our competitors include:

- *Excellent design, quality and comfort for our Fuguiniao branded footwear.* We focus on quality and design as a priority. To further improve the quality of our products and enhance our research and development capabilities, we established an R&D center in Dongguan in March, 2012;
- *Leading business casual footwear brand in China.* We achieved substantial market share in the business casual footwear segment as we ranked third in this segment behind Belle International and Daphne International; and
- *Strong brand awareness leads to penetration in the men's business casual wear market.* The men's business casual wear market has tremendous potential with over RMB100 billion in retail revenue in 2012. We have gradually penetrated the men's business casual wear segment by leveraging our experience and brand awareness of our business casual footwear.

Sales Channel Analysis

Currently, PRC footwear products are sold in almost all retail channels in China, including department stores, specialty stores, supermarkets and online retailers, among others. Department stores were by far the largest retail revenue contributor in 2012 with 41.5% of the market share. This is primarily due to branded footwear companies focusing more on establishing counters and shop-in-shops in department stores for brand marketing and product promotion. Specialty stores were the second largest revenue source in 2012 with 29.0% of the market share, which were widely found in large and small cities, particularly Tier 3 cities. Supermarkets and online stores make up approximately 17.8% of the market share in terms of revenue in 2012, followed by others at 11.7%.

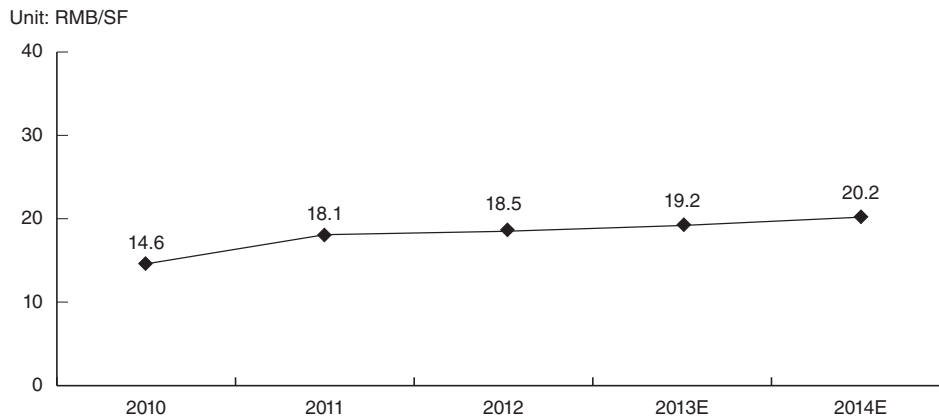
Historical and Expected Trend of the Market Prices of the Key Raw Materials

According to Frost & Sullivan, apart from PU leather for low end footwear making, natural leather is the main raw material for footwear production. Amongst natural leather, yellow cattle leather contributed most for its smooth and soft surface. Normally, branded footwear manufacturers choose yellow cattle top leather as their key raw materials due to its great quality.

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From 2010 to 2012, the industry average price of yellow cattle top leather increased from RMB14.6 per square feet in 2010 to RMB18.5 per square feet in 2012 due to reasons like increasing downstream demand, growing labor costs, inflation, higher waste treatment costs, etc. Frost & Sullivan expects that the price of yellow cattle top leather is likely to increase with a CAGR of around 4.0 to 5.0 percent to the year 2014. The following chart illustrates the historical and expected trend of the market prices of the key raw materials for footwear:

Domestic Market Price of Yellow Cattle Leather, 2010-2014



Note: The prices are tax excluded

Source: Frost & Sullivan

THE PRC MENSWEAR INDUSTRY

Menswear Market Segments

According to Frost & Sullivan, the PRC menswear market can be classified into four major categories: (i) formal wear (clothing suitable for formal social occasions such as weddings, formal dinners or business meetings); (ii) business casual wear (clothing designed for business occasions and workplaces but look more casual than formal wear); (iii) fashion casual wear, developed for casual and non-formal occasions, combining brand-specific styles with latest fashion design); and (iv) other menswear (includes wholesale casual wear, outdoor clothing, denim wear and accessories). Formal menswear, business casual menswear, fashion casual menswear and other menswear accounted for 31.4%, 31.1%, 16.5% and 21.0% of the market share in terms of retail revenue for the year ended 31 December 2012, respectively.

According to Frost & Sullivan, menswear market in the PRC can be divided into four tiers based on price range: low end, middle end, high end and luxury. Low end, middle end, high end and luxury menswear accounted for 39.1%, 43.0%, 7.3% and 10.6% of the market share in terms of retail revenue for the year ended 31 December 2012, respectively. The prices for these categories are as follows:

- low-end – price of suits per set is less than RMB2,000 while one piece of other types of menswear is priced less than RMB500;
- middle-end – price of suits per set is between RMB2,000 and RMB5,000 (RMB5,000 included); one piece of other types of menswear is priced between RMB500 and RMB2,000 (RMB2,000 included);

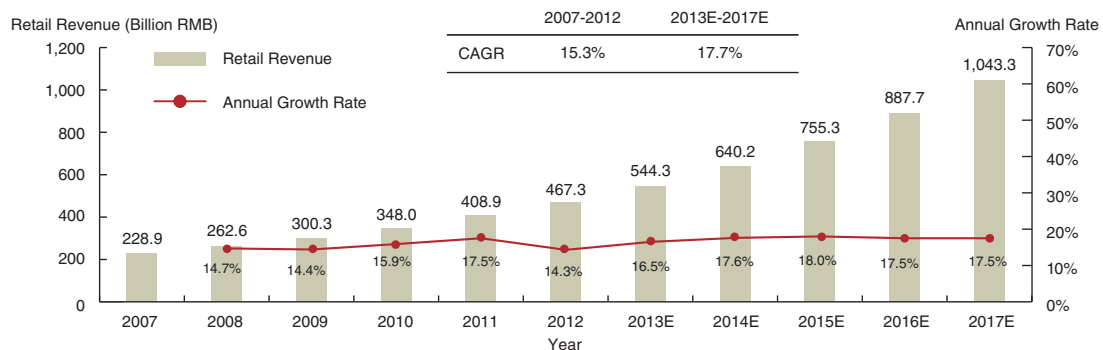
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- high-end – price of suits per set is between RMB5,000 and RMB15,000 (RMB15,000 included); one piece of other types of menswear is priced between RMB2,000 and RMB5,000 (RMB5,000 included); and
- luxury – price of suits per set is above RMB15,000; one piece of other types of menswear is priced above RMB5,000.

Size of and Growth in China’s Menswear Market

According to Frost & Sullivan, retail revenue of the PRC menswear market increased rapidly from RMB228.9 billion in 2007 to RMB467.3 billion in 2012, representing a CAGR of approximately 15.3%. Frost & Sullivan projects that retail sales of the PRC menswear market will reach approximately RMB1,043.3 billion in 2017, growing at a CAGR of approximately 17.7% during the period from 2013 to 2017. The following chart illustrates the historical and projected market size of the PRC menswear market in terms of retail revenue from 2007 to 2017.

Retail Revenue of Menswear Market (China), 2007-2017E



Source: Frost & Sullivan

The strong growth of the PRC menswear sector over the period from 2007 to 2012 was primarily due to rapid growth of the PRC economy, increasing purchasing power of urban households, which resulted in the increasing per capita spending on menswear during the period.

Key Market Drivers and Restraints

As a result of the growth of China’s economy, the per capita annual disposable income for urban households increased rapidly during the period from 2007 to 2012, resulting in increased per capita consumption on menswear from RMB417.4 to RMB821.6 during the same period. In addition, as their purchasing power increased, consumers tended to focus more on quality, fashionable design and brand reputation. This stimulated branded menswear manufacturers to improve material selection, design and production in order to meet consumers’ demands. According to Frost & Sullivan, as more international branded menswear companies enter into the PRC market, in particular the high-end and luxury segments, large domestic branded menswear manufacturers have responded to such competition by improving product quality enhancing design innovation and strengthening sales distribution.

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According to Frost & Sullivan, the growth of China's menswear market is constrained by several key factors, such as competition from countries with lower labor cost, increasing raw material prices and product homogeneity. According to Frost & Sullivan, China's labor cost has gradually increased in recent years along with the price of raw materials. Unlike international brands, which enjoy distinguished brand image, core innovative capabilities and unique designs, and are able to offer differentiated products to consumers, large domestic menswear manufacturers have not completely updated their product lines to eliminate product homogeneity, thereby reducing competitiveness against established international brands.

Key Barriers to Entry

The major barriers to entry for new entrants in the PRC menswear market include (i) product quality, design and raw materials; (ii) well-established brands; (iii) management of distributors and sales terminals and (iv) initial cost. According to Frost & Sullivan, as PRC consumers are increasingly paying more attention to apparel product quality, design and materials. In the luxury, high-end and middle-end sectors, well-branded manufacturers generally enjoy a competitive edge over smaller domestic producers in terms of stable consumer base and sales channel dominance. In addition, while initial cost of production facilities, raw materials and land for manufacturing sites is relatively low, new market entrants nevertheless must incur additional spending on promotion and advertisement in order to gain brand recognition and market share.

Great Potential of Business Casual Menswear

With increasing brand recognition on business casual menswear from consumers and continuous marketing efforts from men's business casual companies, business casual sector has shown the fastest growth rate among formal wear, business casual wear, fashion wear and other menswear. In 2012, this segment took 31.1% market share of total menswear market. With the penetration of business casual style and attitude, share of this sector is likely to increase in the following years. Frost & Sullivan estimates that in 2017, the business casual segment is likely to gain nearly 37.0% of the market share. Business casual menswear brands such as Lilanz and Fuguiniao are expected to benefit from the growing trend.

Sales Channel Analysis

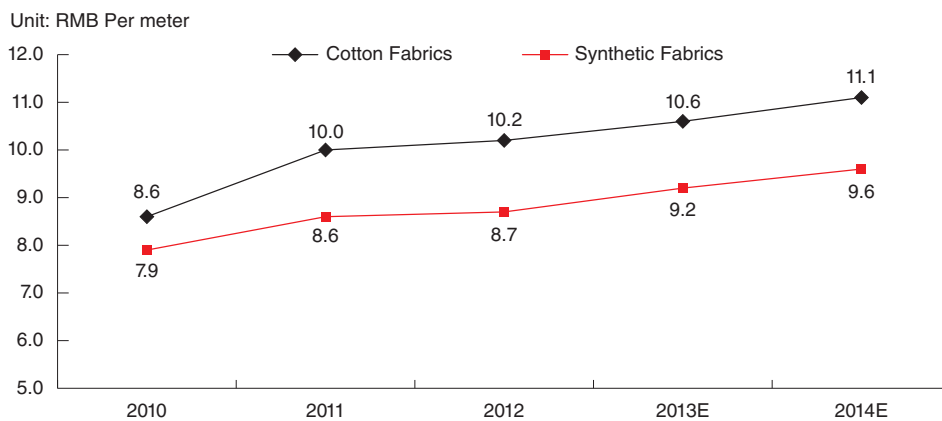
Currently, PRC menswear products are sold in department stores, speciality stores, supermarkets, online retailers and wholesale markets, among others. Specialty stores were the largest retail revenue contributor in 2012 with 41.2% of the market share mainly because specialty stores were widely deployed in large to lower-tier cities where department stores were unable to reach. Department stores were the second largest revenue contributor in 2012 with 32.6% of the market share because they were the most commonly adopted sales terminal for middle- and high-end brands, followed by online stores at 12.0%, hyper market/supermarket at 9.0%, wholesale market at 4.0% and others at 1.2%.

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Historical and Expected Trend of the Market Prices of the Key Raw Materials

According to Frost & Sullivan, key raw materials for menswear include cotton and synthetic fabrics. From 2010 to 2012, the average price of cotton and synthetic fabrics each increased from RMB8.6 per meter and RMB7.9 per meter to RMB10.2 per meter and RMB8.7 per meter, respectively. For similar reasons as leather, the price of cotton and synthetic fabrics is likely to increase around 5.0 percent annually from 2012 to 2014. The following chart illustrates the historical and expected trend of the market prices of the key raw materials for menswear:

**Cotton and Synthetic Fabrics Market:
Historical and Forecast Price Trends (the PRC), 2010-2014**



Note: The prices are tax excluded

Source: Frost & Sullivan

CONSUMER BEHAVIOR AND BRAND AWARENESS

In May 2013, we commissioned Frost & Sullivan to conduct street interceptions and pen-and-paper interviews (collectively, the “**Interviews**”) with 2,400 respondents in the PRC who are either our target consumers or potential consumers, who are both purchase decision makers of footwear. In terms of brand awareness, Fuguiniao ranks third behind Aokang and Daphne in terms of top-of-mind awareness. In particular, Fuguiniao men’s footwear and women’s footwear ranks second (behind Aokang) and fourth (behind Daphne, Belle and Red Dragonfly), respectively, in terms of top-of-mind awareness. In terms of brand loyalty, Fuguiniao is also one of the leading footwear brands in the PRC, ranking fourth behind Daphne, Aokang and Red Dragonfly as the most often purchased footwear with 9.5% market share among all respondents surveyed. In addition, according to the survey, consumers consider wear-comfort and good quality as the most important buying factors with respect to both men’s and women’s footwear purchases, as more than 60% of the respondents mentioned these two factors during the survey.