
INDUSTRY OVERVIEW

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INTRODUCTION

The women's footwear segment is the largest and fastest growing footwear segment in China according to the Euromonitor Report. Rapid growth in the segment has been underpinned by strong economic fundamentals in China. GDP has continued to grow strongly, and combined with rising urbanization, this has led to a significant rise in disposable income and consumption levels. In addition, with the increasing financial independence and social status of women in China which has come with economic growth, women's footwear is expected to be faster growing than men's and children's footwear in China going forward according to the Euromonitor Report.

Within the women's footwear segment, mid-to-premium women's footwear continues to be the key growth segment. Strong economic growth has led to a booming middle class in China and with the middle class being the core target customer segment of the market, this has been one of the key drivers of growth. As a result, the mid-to-premium women's footwear segment has continued to gain share from low- and mid-end segments and commanded a market share of 27.8% in 2010, compared to 26.8% in 2007. This trend is expected to continue going forward.

The competitive landscape in the mid-to-premium casual and formal women's footwear market in China, being the relevant segment for the Company, is relatively consolidated. The top 10 brands in China comprised 59.6% market share according to the Euromonitor Report. We are the second largest company in the segment with a 6.5% market share and our "C.banner" is the fourth largest brand in the segment with 5.0% market share.

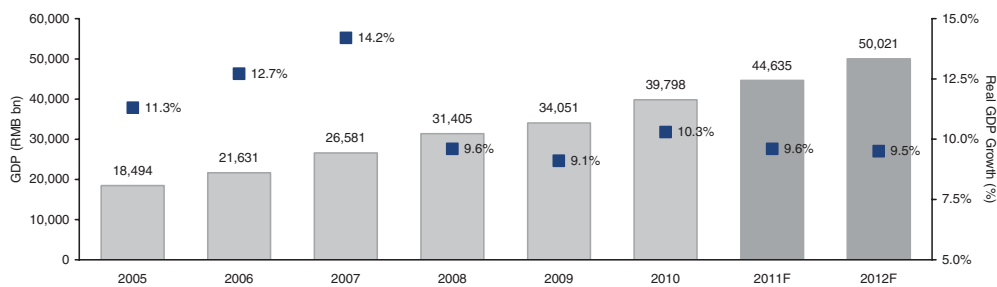
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ECONOMIC OVERVIEW OF CHINA

Rapid Economic Growth in China

The economy in China has continued to grow rapidly since economic reform was introduced in 1978. Since then, the PRC government has continued to emphasize raising economic productivity and improving personal income through market oriented reforms as well as focusing on foreign trade as a major driver of economic growth. Since the introduction of these reforms, the economy in China has continued to demonstrate high growth, and real GDP grew at a CAGR of approximately 11.2% between 2005 and 2010. Economic growth has continued remain strong and real GDP growth stood at 10.3% in 2010. As a result of the continued growth, China was named as the second largest economy in the world last year, surpassing Japan. The table below sets out the nominal GDP and real GDP growth of China between 2005 and 2010 and forecast nominal GDP and real GDP growth of China in 2011 and 2012:

Nominal GDP and real GDP growth in China (2005—2012F)

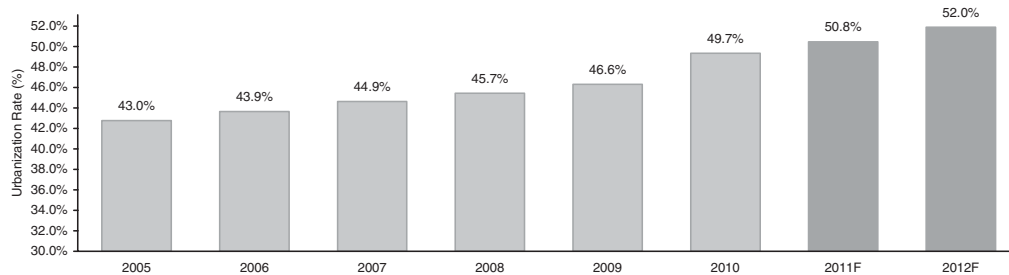


Source: Euromonitor Report; 2010 China Statistical Yearbook

Rising Urbanization and Household Consumption

As a result of economic growth in China, urbanization has continued to accelerate. Populations in urban areas have increased substantially, largely due to the significant influx of people from rural areas. The urbanization rate in China has increased from approximately 40.5% in 2003 to 49.7% in 2010 and is forecast by Euromonitor to increase to 52.0% by 2012. The chart below sets forth the urbanization rate in China between 2005 and 2009 and the forecast urbanization rate to 2012:

Urbanization rate in China (2005—2012F)

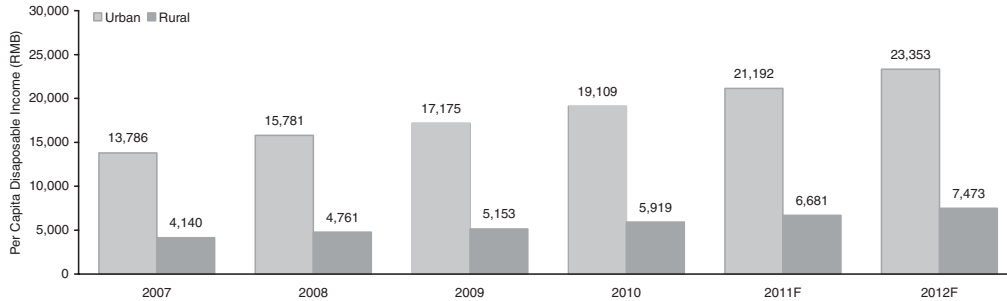


Source: Euromonitor Report; National Bureau of Statistics

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As new cities emerge, and consumers increasingly move away from rural areas to urban areas, they earn substantially higher income which results in higher disposable income and higher consumption levels. Historically, between 2007 and 2010, per capita disposable income in urban households has been approximately 3.3 times higher than rural per capita disposable income. For example, in 2010, estimated urban disposable income per capita was RMB19,109 compared to RMB5,919 in rural households. The chart below sets forth urban versus rural disposable income per capita between 2007 and 2012F:

Urban vs. rural per capita disposable income in China (2007—2012F)

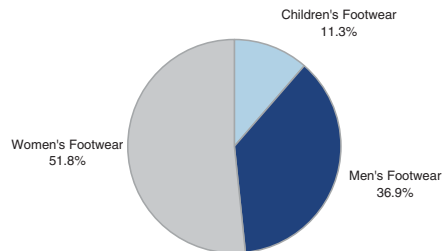


Source: Euromonitor Report

OVERVIEW OF THE WOMEN'S FOOTWEAR MARKET IN CHINA

The women's footwear market in China has continued to demonstrate strong growth since 2007. According to the Euromonitor Report, the women's footwear market in China has grown at a CAGR of approximately 9.4% between 2007 and 2010 to reach a market size of RMB 119.1bn, despite being impacted by the global financial crisis in 2008 and 2009. Women's footwear is the largest segment of the footwear market comprising approximately 52% of the footwear market in China in 2010. We set forth in the chart below the breakdown of the China footwear segment in 2010:

2010 breakdown of retail sales of footwear in China by category

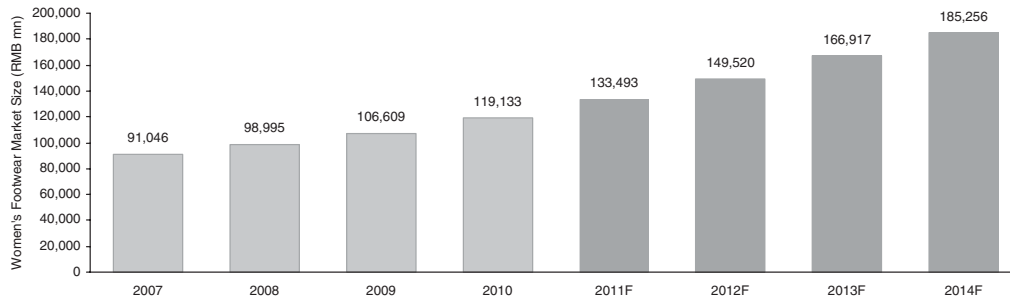


Source: Euromonitor Report

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Going forward, strong market growth is expected to continue with Euromonitor forecasting a market CAGR of approximately 11.7% between 2010 and 2014. The chart below sets forth the historical and forecast market size of the women's footwear market in China:

2007—2014F retail sales of women's footwear in China



Source: Euromonitor Report

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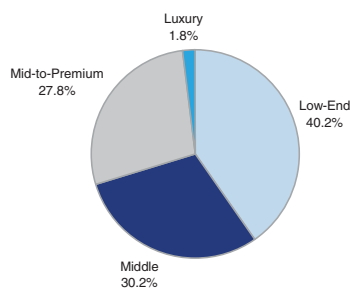
For the purposes of this prospectus, we have segmented the women’s footwear market by price segment and in accordance to Euromonitor’s segmentation. According to the Euromonitor Report, the women’s footwear market can be segmented into four categories, namely low-end, middle, mid-to-premium and luxury. Whilst price is one of the key determinants, the distinction between different price segments is due to a number of factors including price, brand positioning, consumer, and industry perception and distribution channels. The table below summarizes the key characteristics of the different segments:

<u>Price Segment</u>	<u>Description</u>
Low-end	<ul style="list-style-type: none"> ● Retail price of a pair of women’s low-end pumps is typically below RMB300 ● Low-end women’s footwear is usually sold in hypermarkets, supermarkets and independent multi-brand footwear stores ● Targets women with low level income
Middle	<ul style="list-style-type: none"> ● Retail price of a pair of women’s middle-end pumps is typically between RMB300 and RMB600 ● Middle-end women’s footwear is typically sold in chained specialty stores, middle-end department stores ● Brands include Daphne, Comrade and Walker Shop
Mid-to-premium	<ul style="list-style-type: none"> ● Retail price of a pair of women’s mid-to-premium pumps is typically between RMB600 and RMB2,000, in accordance with industry practice based on Euromonitor’s market research ● Mid-to-premium women’s footwear are typically sold in mid- and high-end department stores and chained specialty stores ● Targets middle-class women in first tier and second tier cities and some of the affluent third-tier cities ● Brands include Belle, Teenmix, Tata, C.banner, ST&SAT, Clarks and Ecco
Luxury	<ul style="list-style-type: none"> ● Retail price of a pair of women’s luxury pumps is typically above RMB2,000 ● Luxury brands usually sell multiple products in addition to footwear such as clothing, bags, accessories, fragrances etc. ● Mainly sold in specialty stores in very high end department stores and mono-brand specialty stores ● Brands include Louis Vuitton, Salvatore Ferragamo, Gucci and Dolce & Gabbana

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The low-end segment is the largest segment of the market given the large proportion of the population that live in lower tier cities and rural areas where income levels are lower. Conversely, the luxury segment comprises the smallest segment of the market given the relatively small proportion of the population that is able to afford luxury shoes and the limited distribution being focused largely on tier 1 cities. The chart below sets forth the split of retail sales of women's footwear by price segment in 2010:

2010 split of retail sales of women's footwear by price segment



Source: Euromonitor Report

KEY TRENDS IN THE WOMEN'S FOOTWEAR MARKET IN CHINA

Strong Economic Growth, Increasing Consumer Spending, Urbanization and Favorable Government Policies Supporting Sustainable Growth

Economic growth has been the key driver of growth for the women's footwear sector. As the economy has grown, bringing with it increased urbanization and rising disposable income, consumers have increased their levels of expenditure. In addition to existing urban consumers, increasing expenditure, economic growth has led to a larger addressable customer base for women's footwear retailers through increased urbanization, notably for middle-end and mid-to-premium brands. Consumers who did not previously have access to such brands in more rural areas would have access following migration to a larger city, in addition to higher income levels.

In addition, the PRC government is increasingly focused on private consumption as the key driver of economic growth going forward, as opposed to the previous focus which was very much centered on exports and foreign investment. For example, in 2008 the PRC government announced a RMB4 trillion stimulus plan which was focused on boosting domestic demand through increased spending in areas such as low-income housing, rural infrastructure, technological innovation, transportation and infrastructure.

Going forward, economic policies in China are expected to be focused on consumer expenditure. The recently announced 12th Five-Year Plan by the PRC government shifts the focus away from export led sectors to increasing domestic consumption through raising income levels of workers in China. Notably, the focus will be more on developing rural areas and prioritizing more equitable wealth distribution as well as social welfare and infrastructure.

In addition to larger scale macroeconomic policies, the PRC government has implemented other specific policies aimed at boosting consumer spending such as the rural household appliance subsidy program launched in February 2009 which resulted in sales of appliances in rural areas

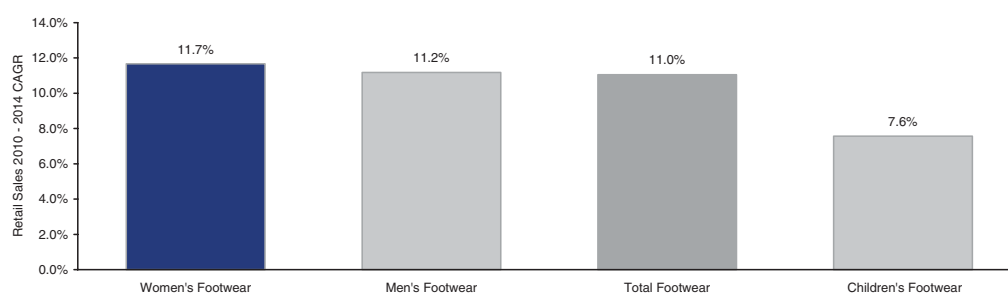
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growing by 170% in 2010. Other initiatives undertaken by the PRC government include testing new consumer lending policies to improve the market structure in consumer lending and facilitating more open lines of credit for consumers.

Women's Footwear Outgrowing Men's and Children's Footwear

Women's footwear has historically been the fastest growing footwear segment in China. Historically, between 2007 and 2010, retail sales of women's footwear market in China grew at a CAGR of approximately 9.4% and are expected to grow at a CAGR of approximately 11.7% between 2010 and 2014, according to the Euromonitor Report. In both periods, this represents higher growth than that seen in the men's and children's footwear segments. The chart below sets forth the CAGR of footwear retail sales in China by segment from 2010 to 2014:

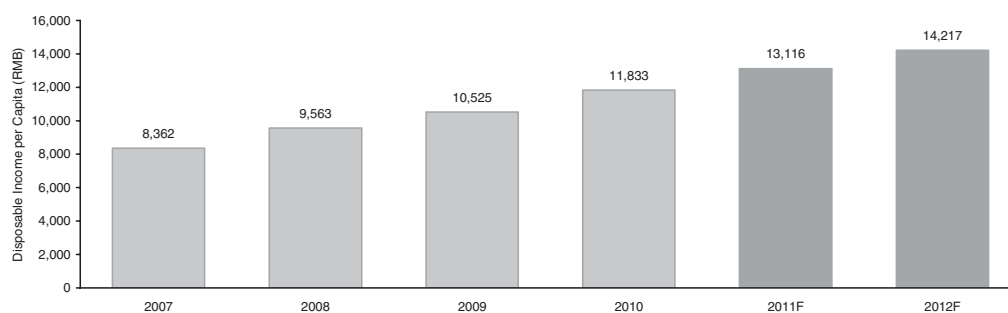
2010—2014F CAGR of retail sales of footwear in China by segment



Source: Euromonitor Report

According to the Euromonitor Report, sustained growth of the women's footwear market has in part been driven by growing financial independence of women in China. With continued industrialization and urbanization, an increasing number of Chinese women are now enjoying higher levels of education and employment, notably in more skilled jobs with higher incomes. As a result, according to the Euromonitor Report, the per capita disposable income of women has continued to demonstrate strong growth with a CAGR of approximately 12.3%, rising from RMB8,362 in 2007 to RMB11,833 in 2010. Going forward, growth is expected to continue to remain robust with per capita disposable income expected to rise to RMB14,217 by 2012, implying a 2010—2012 CAGR of approximately 9.6%. The chart below sets forth the per capita disposable income of women in China between 2007 and 2012:

2007—2012F per capita disposable income of women in China



Source: Euromonitor Report

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In addition, increased employment and rising incomes has led to a rising social status for women in China. According to the Euromonitor Report, such rise in social status, along with an increasing number of women in management and senior level employment has led to women attaching an increased level of importance to their appearance which has in turn driven demand for women's footwear.

Frequent Launches and Product Variety Stimulating Consumption

As footwear companies continue to launch new styles, this increases the desire of women to purchase new shoes and has been a driver of demand. According to the Euromonitor Report, women's footwear accounts for approximately 60% of adult's footwear in terms of retail sales value due to the frequent launches of new styles and products as compared to men's and children's shoes. Such a high level of variety of products has been driven by footwear companies continuing to launch new styles in an attempt to meet increasing demand caused by rising income and propensity to spend on footwear as described above and to capture greater market share. In addition, several of the leading manufacturers are adopting a multi-brand strategy to target various ages and demographic groups which has resulted in a rise in the number of brands in the market. As competition continues to intensify, it is expected that such rapid and continuous product launches will continue to be a driver of market demand for women's footwear.

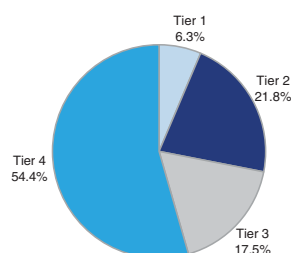
Second and Third Tier Cities Demonstrating Greater Growth Potential

Second and third tier cities in China have become the key area of focus in China not just for retailers in the women's footwear sector but throughout multiple segments. First tier cities, whilst highly attractive from an income perspective, only represent 3.6% of the total population and are becoming increasingly saturated with most of the major brands having been established there for several years and the competition for prime locations becoming increasingly prohibitive. Conversely, other cities (defined here as cities that do not fall under tier 1, tier 2 or tier 3 categories), which predominantly comprise prefecture and county level cities, account for over 60% of the national population according to the Euromonitor Report, but per capita consumption remains low with the majority of expenditure being focused on necessities rather than discretionary goods such as footwear.

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As a result, companies are increasingly focused on second and third tier cities which, on a combined basis, represent a significant proportion of the Chinese population and whose inhabitants can be characterized as having sufficiently high disposable income levels to generate strong and rising demand for discretionary goods such as women's footwear. Statistics from the National Bureau of Statistics of China show that the populations in second and third tier cities comprise 15.5% and 15.1% of the national total respectively in 2009 which resulted in significantly larger retail sales value of women's footwear as compared to first tier cities. The chart below sets forth the split of retail sales of women's footwear by city tier:

2010 split of women's footwear retail sales in China by city tier



Source: Euromonitor Report

While other cities comprise the largest part of the market by sales due to the large population, given the low income levels, demand is focused on low margin, low-end shoes with per capita expenditure on women's footwear in fourth-tier cities and the rural market estimated to be approximately RMB151 in 2010 according to the Euromonitor Report.

In addition, the economic development of second and third tier cities has been robust, specifically in cities located in certain specified economic zones such as Suzhou, Wuxi, Ningbo and Wenzhou. As a result, according to the Euromonitor Report, the women's footwear market in second and third tier cities is expected to demonstrate faster growth as compared to first tier and fourth tier cities.

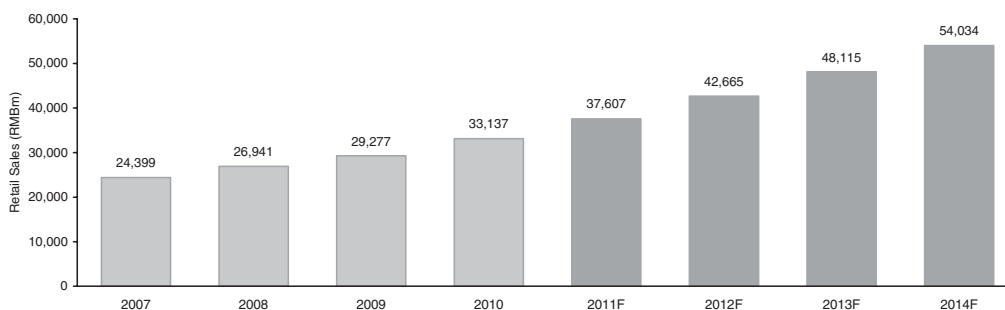
OVERVIEW OF THE MID-TO-PREMIUM WOMEN'S FOOTWEAR MARKET IN CHINA

The mid-to-premium women's footwear market comprises approximately 28% of the women's footwear market in China. The segment mainly targets middle-class women, such as female white collar workers with mid-to-high income who typically are well educated, and have relatively high purchasing power. Women who purchase shoes in this segment are also more brand-oriented and choose brands with high awareness and are of good quality. Examples of such brands include "Belle," "Teenmix," "Tata," "C.banner" and "Kisscat."

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The segment has continued to demonstrate strong growth, with retail sales of the segment demonstrating a CAGR of approximately 10.7% between 2007 and 2010 to reach RMB33.1 billion, and such strong growth is expected to continue. According to the Euromonitor Report, retail sales of mid-to-premium women's footwear in China is expected to grow at 13.0% between 2010 and 2014. The chart below sets forth historical and forecast retail sales of mid-to-premium women's footwear in China between 2007 and 2014F:

2007—2014F retail sales of mid-to-premium women's footwear in China



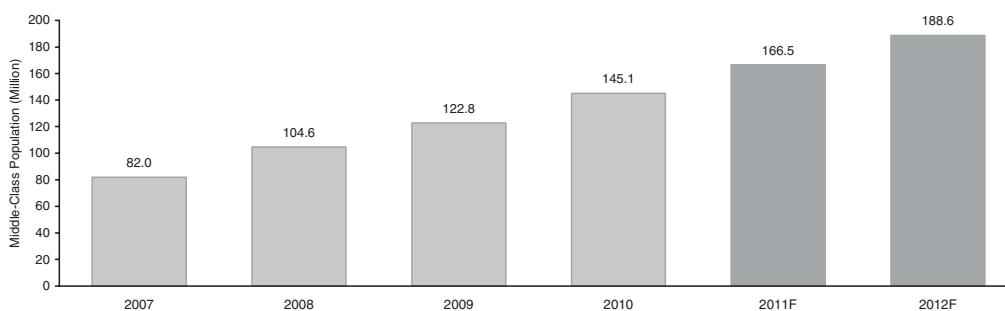
Source: Euromonitor Report

KEY TRENDS IN THE MID-TO-PREMIUM WOMEN'S FOOTWEAR MARKET IN CHINA

Booming Middle-class Population Driving Growth of the Mid-to-premium Women's Footwear Market

Strong economic growth has brought with it a rapid increase in the population of the middle-class in China. According to the National Bureau of the Statistics of China, middle-class is defined as people with an annual household income of between RMB60,000 to RMB500,000. Based on this definition, China is said to have a middle-class population of 145 million in 2010, accounting for approximately 10.8% of the population. The middle-class population has witnessed rapid growth and according to the Euromonitor Report, is expected to continue its fast growth going forward. Between 2007 and 2010, the middle-class population in China demonstrated a CAGR of approximately 21.0% and is expected to demonstrate a CAGR of approximately 14.0% between 2010 and 2012. The chart below sets forth the population growth of the middle-class population in China:

2007—2012F middle-class population in China



Source: Euromonitor Report

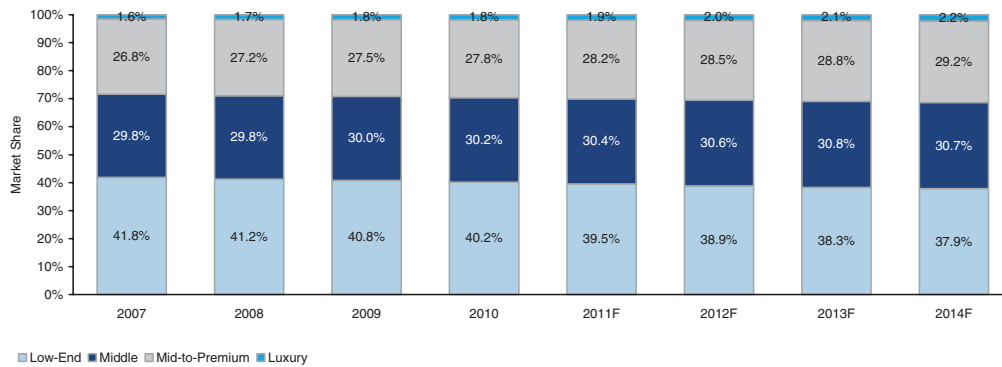
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The middle-class population is typically comprised of professionals and white collar workers who continue to pursue higher quality lives and are more willing to pay for branded products of better quality and design. As a result, the strong growth in middle-class population has significantly benefited the mid-to-premium women's footwear segment given their high quality offering and companies' focus on brand image and positioning.

Mid-to-premium Segment Continuing to Gain Share

The mid-to-premium market has continued to gain share in overall women's footwear and has been the key driver of growth in the industry. According to the Euromonitor Report, between 2007 and 2010, mid-to-premium women's footwear increased its share of the overall women's footwear market from 26.8% to 27.8% and this rising trend is expected to continue, with the segment expected to command 29.2% of the overall women's footwear market in China by 2014. The chart below sets forth a breakdown of retail sales of the women's footwear segment in China by price segment between 2007 and 2014.

2007—2014F market shares of the women's footwear segment in China



Source: Euromonitor Report

Increasing market share has largely been driven by positive demographic trends, notably due to a rising middle-class as well as rising incomes as discussed previously. As this trend continues, this will lead to an increasing customer base in the mid-to-premium market as consumers purchase more middle-end shoes in lieu of low-end shoes.

Branding and Product Quality Becoming Increasingly Important

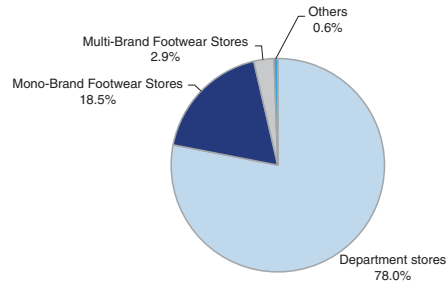
Given an increasing focus of target customers for mid-to-premium women's footwear on improving their lifestyles, branding and product quality have become important differentiating factors. Mid-to-high income consumers want to be seen wearing clothing and footwear from leading brand names which are in line with the latest fashion trends and styles. As a result, brand owners and manufacturers have placed increasing emphasis on product design as well as choice of materials and craftsmanship. In addition, companies continue to place greater effort in marketing and advertising to strengthen their brand image with their target customers, such as using well-known celebrities to endorse their brands.

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Department Stores Are the Dominant Distribution Channel for Mid-to-premium Women's Footwear

For the mid-to-premium women's footwear market, department stores continue to be the dominant distribution channel in China. In 2010, department stores comprised 78.0% of retail sales of formal and casual mid-to-premium women's footwear in China. The chart below sets forth the split of retail sales by distribution channel in the mid-to-premium women's footwear segment in China:

2010 split of mid-to-premium women's footwear in China by distribution channel



Source: Euromonitor Report

Note: Includes formal and casual footwear only. Excludes other footwear which predominantly comprises sports shoes

According to the Euromonitor Report, department stores have significant advantages over other channels. Such advantages include better shopping environments, higher product variety, and a premium image of department stores as compared to mono-brand stores. In addition, department stores are typically located in the center of major business and commercial districts in China which allow for high customer traffic and as such, are the first choice distribution channel for footwear manufacturers.

While their dominance is likely to continue in the longer term, it should be noted that there has also been strong growth of mono-brand stores in recent years given a greater focus on expansion into lower tier cities by footwear brands. Department stores tend to have lower penetration in lower tier cities and as such mono-branded specialty stores, both franchised and self-operated, continue to enjoy strong growth.

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MID-TO-PREMIUM WOMEN'S FOOTWEAR COMPETITIVE LANDSCAPE

The mid-to-premium women's footwear market is relatively consolidated with the top 10 brands (both casual footwear and formal footwear) comprising 59.4% of the total market. Being predominantly comprised of sportswear, we have excluded others from our analysis of the competitive landscape. The table below sets forth the 2010 market shares of the top 10 brands in the mid-to-premium casual and formal women's footwear market in China:

Market shares of mid-to-premium formal and casual women's footwear in China by 2010 estimated retail sales

<u>Brand</u>	<u>Company</u>	<u>Market Share (%)</u>
Belle	Belle International Holdings Ltd	17.0
Teenmix	Belle International Holdings Ltd	9.8
Tata	Belle International Holdings Ltd	9.6
C.banner	Hongguo International Holdings Ltd	5.0
Kisscat	Kisscat Co Ltd	4.2
Staccato	Belle International Holdings Ltd	4.1
ST&SAT	Foshan Saturday Shoes Co Ltd	3.1
Harson	Harson Kunshan Shoes Co Ltd	2.4
Basto	Belle International Holdings Ltd	2.3
Le Saunda	Le Saunda Holdings Ltd	2.2
Others	Others	40.6

Source: Euromonitor Report

Among the top 10 brands Belle International Holdings Ltd is the largest company taking five of the top 10 brands including the top three brands in the segment. According to the Euromonitor Report, the Company is the second largest company in the segment by retail sales with its flagship brand "C.banner" being the fourth largest brand in the segment with 5.0% market share based on estimated retail sales. Together with "EBLAN" and "Naturalizer," the Company had a total of 6.5% market share in the mid-to-premium formal and casual women's footwear market in China in 2010. The table below sets forth the leading companies in the mid-to-premium casual and formal women's footwear market in China:

2010 market shares of mid-to-premium formal and casual women's footwear in China

<u>Company</u>	<u>Market Share (%)</u>
Belle International Holdings Ltd	46.0
Hongguo International Holdings Ltd	6.5
Kisscat Co Ltd	4.2
Foshan Saturday Shoes Co Ltd	3.7
Le Saunda Holdings Ltd	3.2
Others	36.3

Source: Euromonitor Report

As the top 10 brands have continued to accelerate store rollout into lower tier cities, the market has continued to consolidate. According to the Euromonitor Report, the combined market share of the top 10 brands in the segment has increased from 48.2% in 2007 to 59.4% in 2010. This trend is expected to continue going forward with leading brands continuing to expand their presence and gain share from smaller, regional brands.

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SOURCES OF INFORMATION

In connection with the Global Offering, we have engaged Euromonitor, an Independent Third Party, to conduct a study of the women's footwear market in China. Euromonitor is an independent market research firm with more than 25 years' of industry experience in conducting trade research and detailed local market analysis. We have included certain information from the Euromonitor Report in this prospectus because we believe such information facilitates an understanding of the women's footwear market in China for potential investors. A total amount of US\$33,800 in fees was paid to Euromonitor for the Euromonitor Report.

The Euromonitor Report covers various topics including: (1) macroeconomic factors in China that are relevant to the women's footwear market; (2) quantitative and qualitative market sizing and analysis of the women's footwear market in China, including further market sizing and analysis of the women's casual footwear market in China as well as the women's formal footwear market in China; (3) quantitative analysis of retail channel sales for both the women's casual footwear mid-to-premium segment and women's formal mid-to-premium segment; and (4) qualitative and quantitative analysis of the competitive landscape of the women's footwear retail market. The methodology used by Euromonitor for its study consisted of both primary research and secondary research on the women's footwear markets in China, supplemented with market/strategy overview analysis reconciling data and qualitative and anecdotal information gained from sources inside the industry. Primary research involves trade interviews with identified contacts of major women's footwear manufacturers (brand owners), retailers, distributors, and trade associations. Secondary research involves information-gathering and assessment of relevant information from sources such as Euromonitor's in-house data, corporate websites of leading women's footwear retailing companies (brand owners) in China, trade reports on the women's footwear retail segment, reports of the Footwear Associations, China Chain Store & Franchise Association, business and trade press.

The geographic scope of work for the study conducted by Euromonitor covers first-to-third-tier cities and the other cities in China.