
INDUSTRY OVERVIEW

This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China. Investors should also note that we commissioned Euromonitor International to prepare an independent report on the sportswear market of the PRC. Euromonitor International is the world's leading independent provider of business intelligence on industries, countries and consumers. Industries in which Euromonitor International conducts research are wide-ranging and include clothing and footwear, personal and leisure goods and retailing. Founded in 1972, Euromonitor International has offices in London, Chicago, Singapore, Shanghai and Vilnius and has a team of over 600 in-country analysts worldwide. Its Global Market Information Database (GMID) has been named "Best Business Information Product" by the international information industry. A fee of US\$25,000 was paid to Euromonitor International for the preparation of the independent report. We make no representation as to the correctness or accuracy of any of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

INTRODUCTION

Our Company operates primarily in the fashion sportswear industry in the PRC, where the fashion sportswear market accounted for approximately 17.0% of the total sportswear market in the PRC in 2007. The performance of the PRC fashion sportswear industry is driven by the growth of the Chinese economy and in particular the increase in disposable income in the Chinese population. Furthermore, market demand for sportswear products has been on the rise, especially as interest in sports participation increases in anticipation of the Beijing 2008 Olympic Games.

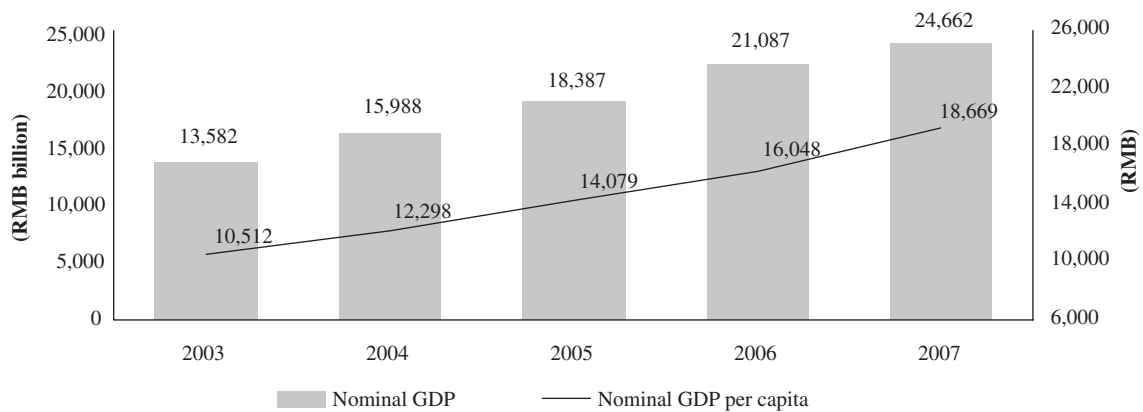
RAPID GROWTH OF THE CHINESE ECONOMY AND ITS CONSUMER SPENDING POWER

Growth of the PRC economy

The PRC economy has expanded rapidly since the "reform and market liberalisation" policies initiated by the Chinese government in the late 1970s. Since then, the PRC Government has actively sought to become engaged in international trade. Economic growth was further spurred by the launch of special economic zones along coastal PRC in the early 1990s. From 2003 to 2007, the PRC's National Bureau of Statistics estimated that the PRC's nominal GDP grew at a CAGR of approximately 16.1%, making the PRC's economy one of the fastest growing economies in the world. The following chart illustrates the nominal GDP and nominal GDP per capita in the PRC between 2003 and 2007.

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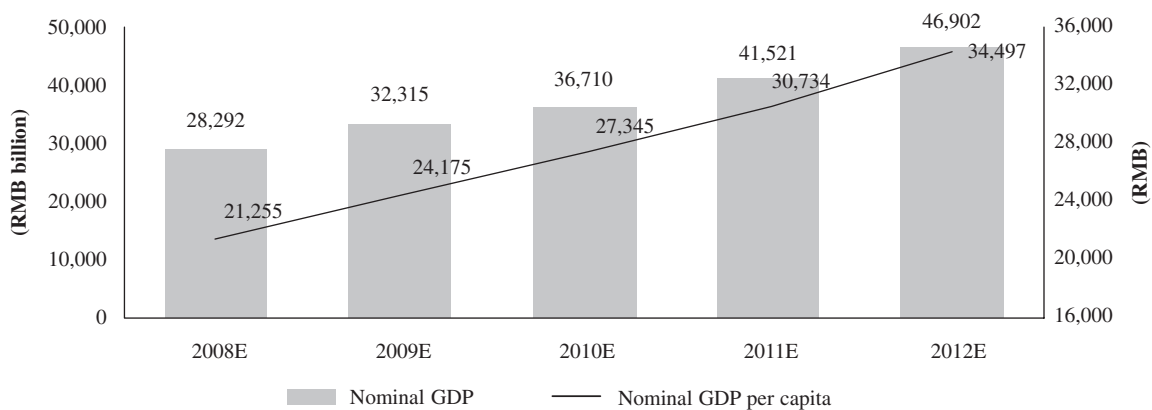
2003 — 2007 Nominal GDP and nominal GDP per capita in the PRC¹



Source: National Bureau of Statistics of China

In addition, according to the Economist Intelligence Unit² (“EIU”), economic expansion in the PRC is expected to remain strong in the coming years. The chart below illustrates the expected growth in GDP and GDP per capita in the PRC from 2008 to 2012.

2008 — 2012 Nominal GDP and nominal GDP per capita in the PRC¹



Source: EIU

¹ Nominal GDP per capita calculated based on nominal GDP and total population.

² The EIU is a specialist publisher serving companies establishing and managing operations across national borders. The EIU provides a constant flow of analysis and forecasts on more than 200 countries and eight key industries.

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Accelerating urbanisation trend and increasingly affluent urban residents

Urbanisation has accelerated in the PRC as a result of the country's rapid economic growth. Populations in urban cities have swelled with the influx of people from rural and less developed areas. During the short span between 2003 and 2007, the total urban population in the PRC increased by approximately 70 million or approximately 13.4%. In 2007, the total urban population was approximately 594 million and accounted for around 44.9% of the total population. The table below shows the growth of the urban population in the PRC from 2003 to 2007.

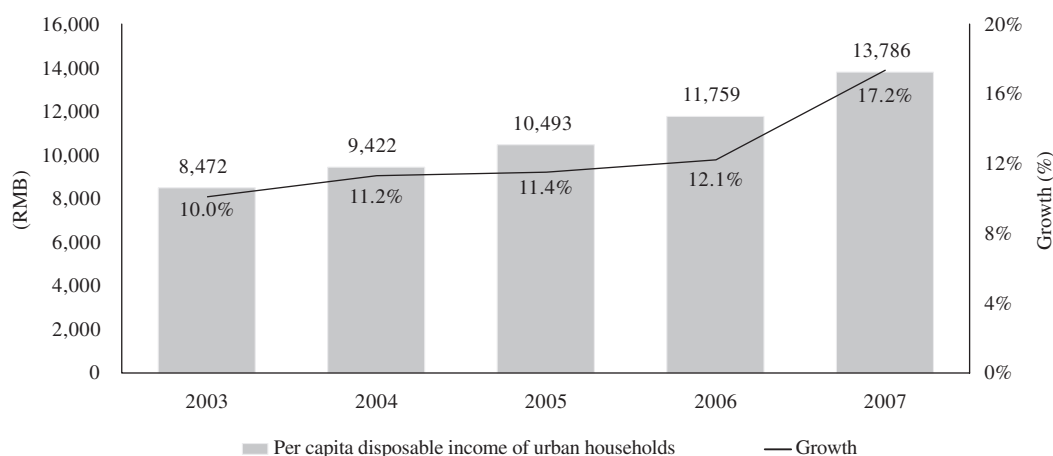
2003 — 2007 Growth of urban population in the PRC

	2003	2004	2005	2006	2007	CAGR
Urban population (millions)	524	543	562	577	594	3.2%
Total population (millions)	1,292	1,300	1,306	1,314	1,321	0.6%
Urbanisation rate (%)	40.5%	41.8%	43.0%	43.9%	44.9%	

Source: National Bureau of Statistics of China

Associated with the growth in GDP and the proportion of urban residents is an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban PRC residents have increased substantially since 2003. The chart below illustrates the per capita disposable income levels in the PRC from 2003 to 2007.

2003 — 2007 Per capita disposable income of urban households in the PRC



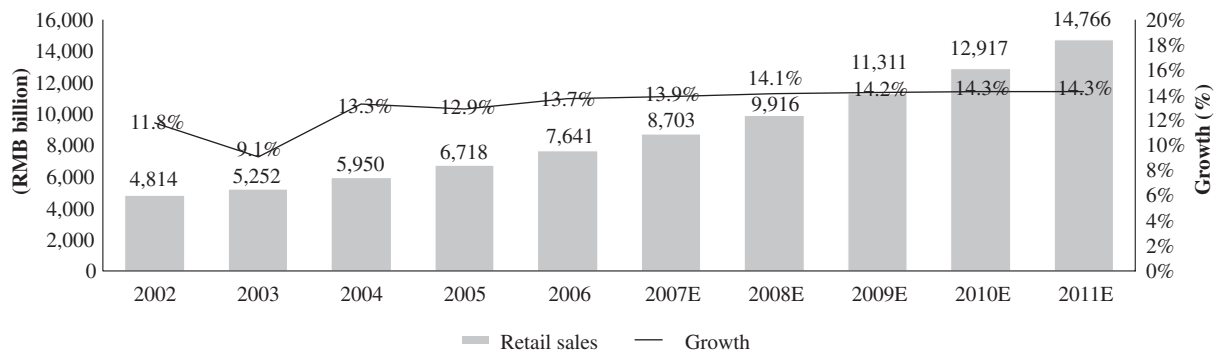
Source: National Bureau of Statistics of China

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THE BOOMING RETAIL INDUSTRY IN THE PRC

The PRC's market for consumer goods expanded rapidly in the past few years amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics have coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. This has undoubtedly contributed to the development of the retail industry. Total retail sales in the PRC between 2002 and 2006 grew from RMB4,814 billion to RMB7,641 billion, representing a CAGR of 12.2%, as shown in the chart below. According to the EIU, retail sales growth is expected to remain strong through year 2011 to reach RMB14,766 billion in sales, representing a 2006 to 2011 CAGR of 14.1%.

2002 — 2011 Retail sales and growth rate in the PRC



Source: National Bureau of Statistics of China — China Statistical Yearbook (2007) for historical figures 2002-2006
EIU for forecast figures 2007E-2011E

Key drivers of sustainable growth in the PRC's retail market

The increasing size of the PRC's middle class and growing affluence in the PRC overall have greatly contributed to the increasing consumption of lifestyle-enhancing products such as entertainment, leisure, technology, and fashion apparel and footwear. As the level of disposable income increases among these people, their purchase decisions become increasingly less driven by price and functionality, but more by brand image, product design and style.

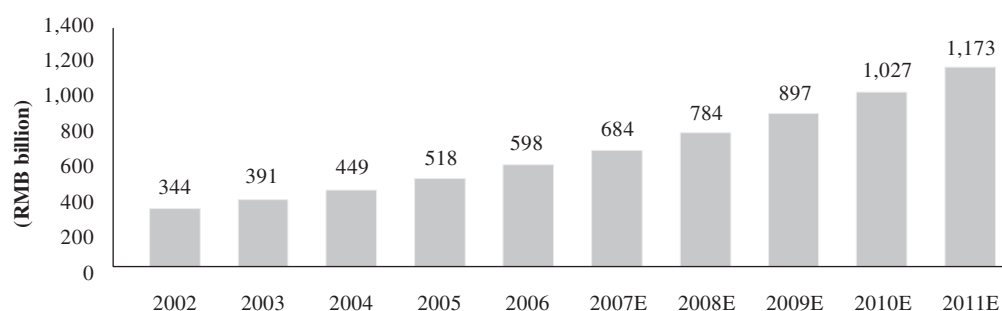
The PRC's generation Y, those born between 1980 and 1990, are expected to be a large driver of consumption among the population. This generation grew up amidst rising consumerism and entrepreneurship in the PRC, free from famine and political instability experienced by the previous generation. Their higher education and stronger earning power coupled with the influx of Western culture and mentality into the PRC have slowly bred a completely different perception of borrowing for consumption.

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THE GROWING APPAREL MARKET IN THE PRC

Since joining the World Trade Organisation in 2002, the PRC has benefited from freer trade and liberalisation from many trade restrictions on textile and apparel products. According to Euromonitor International, these liberalisations are expected to result in a gradual upward growth trend in apparel sales over the next few years. As shown in the chart below, apparel sales in the PRC are expected to grow from approximately RMB598 billion in 2006 to reach approximately RMB1,173 billion by 2011, representing a CAGR of 14.4%.

2002 — 2011 Annual apparel sales in the PRC



Source: © Euromonitor International

According to Euromonitor International, the proportion of apparel sales relative to footwear sales are expected to increase going forward as apparel fashions and trends tend to change more quickly, giving consumers a reason to make more frequent apparel purchases.

THE PRC FOOTWEAR INDUSTRY

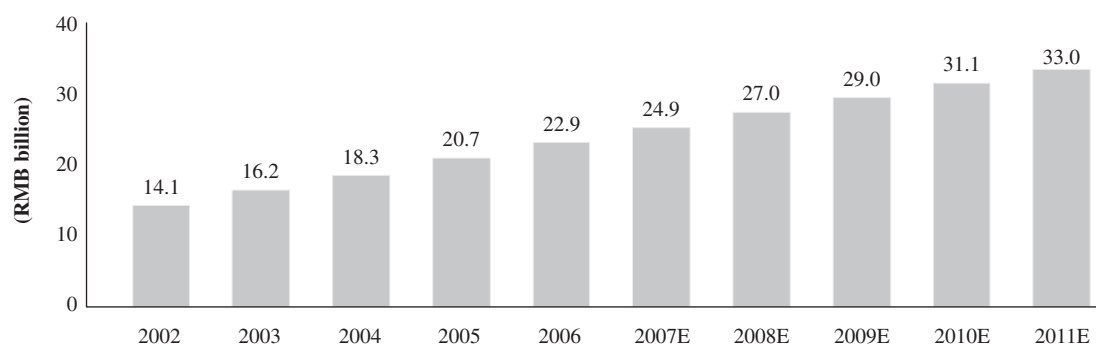
According to SATRA Technology Centre¹, in 2005, the PRC's footwear production increased to 9 billion pairs, representing a 62% share of global footwear production. Consumption of footwear in 2005 in the PRC reached 2.1 billion pairs, representing 16% of global footwear consumption.

The following chart illustrates annual sales for footwear in the PRC between 2002 and 2011. Annual footwear sales grew from approximately RMB14.1 billion in 2002 to approximately RMB22.9 billion in 2006, representing a CAGR of 12.9%, and are expected to continue this strong growth from 2006 to 2011 at a CAGR of 7.6% to reach approximately RMB33.0 billion in sales by 2011.

¹ SATRA Technology was formed in 1919 to serve the footwear industry and is the world's leading research and technology centre of its kind.

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2002 — 2011 Annual footwear sales in the PRC



Source: © Euromonitor International

EXPANDING SPORTS CULTURE IN THE PRC

The PRC has emerged as a major sporting nation over the past decade and as host of the upcoming Beijing 2008 Olympic Games the nation is expected to be near or at the top of the medals charts in Beijing in 2008. Along with the 2009 East Asian Games in Hong Kong and the 2010 Asian Games in Guangzhou, these high-profile sporting events will help grow and sustain the PRC public's interest in sports for the next few years. Furthermore, the emergence of world-class athletes such as basketball star Yao Ming and world hurdling champion Liu Xiang has boosted interest in sports across the PRC. These developments should drive the growth of domestic demand for sporting apparel and footwear.

More people than ever are improving their health by engaging in sports, as health consciousness among the PRC population has increased in recent years. Through constructing sporting facilities and organising events, the PRC's General Administration of Sport, a PRC government sports body, has provided people with more opportunities to exercise.

China's per capita GDP has surpassed a level where its consumers' main expenditure is likely to have shifted to higher-value lifestyle goods and services and away from basic goods. According to Euromonitor International, by 2010, sports-related industries in China are expected to account for 0.3% of GDP, but this still lags behind the estimated 1.0%-3.0% average for more developed countries. In the near future, therefore, there remains significant scope for further sustained growth in sports-related industries in the PRC.

There is a link between increasing income levels and the rising popularity of sports and trend toward health and fashion. The PRC's General Administration of Sport has published data that generally shows an increasing level of participation in sports in the PRC, driven mainly by improving living standards and increasing levels of income. According to the PRC's 十一五體育規劃 (The 11th Five Year Plan for Sports), the PRC Government targets to have an additional 55 million active participants in sports activities by 2010.

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The increased popularity of sports and fitness in the PRC is also evidenced by the number of sporting events held in the PRC at the county level, increasing from 24,880 in 1995 to 40,281 in 2006.

THE PRC SPORTSWEAR INDUSTRY

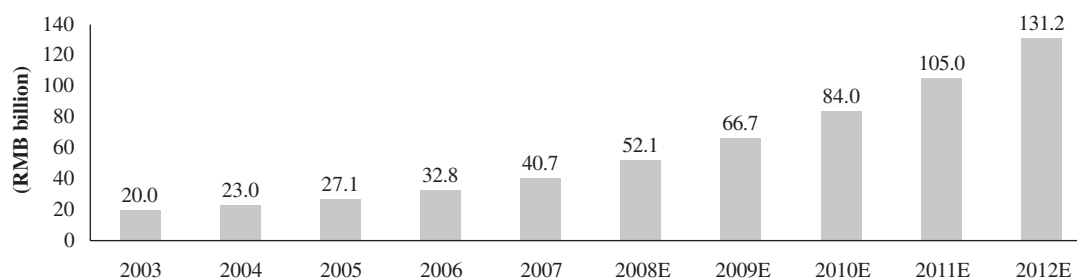
The PRC sportswear market, which includes footwear, apparel and accessories, has expanded rapidly in recent years. Important factors contributing to the growth of the PRC sportswear market are the overall GDP growth in the PRC, rising income levels and shifting consumption preferences of increasingly affluent consumers.

According to Euromonitor International, looking at the products under review, sportswear in China (“**sportswear market**”) can basically be classified into three key style sectors: professional sportswear, casual sportswear and fashion sportswear. Professional sportswear refers to sportswear that is tailor-made for a certain sports game in view of its athletic characteristics, rules and athletes’ physiological needs, with an attempt to better athletic achievement. Casual sportswear refers to footwear, apparel and accessories not only catering to the sports needs, but also suitable for casual wear. Finally, fashion sportswear is a hybrid of casual sportswear and fashion wear and places an emphasis on the combination of sports functions and fashion tastes and trends.

Estimated PRC’s sportswear market size

The PRC’s sportswear market has experienced double-digit growth in recent years, with the 2006 sportswear market having a total size of approximately RMB32.8 billion. The sportswear market is expected to quadruple in size from RMB32.8 billion in 2006 to RMB131.2 billion in 2012, representing a CAGR of 26.0%. The chart below illustrates the size of the PRC sportswear market as measured by revenue.

2003 — 2012 Sportswear market in the PRC¹



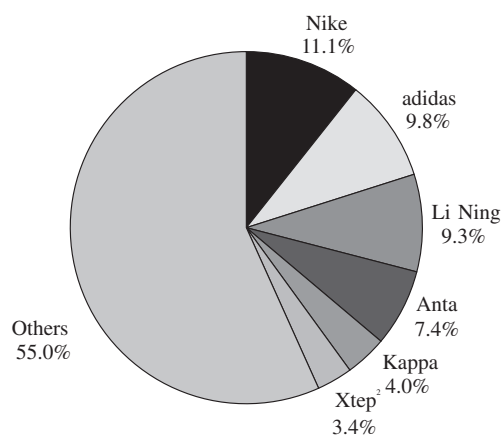
Source: © Euromonitor International

¹ The chart represents the total sportswear market

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According to Euromonitor International, leading sportswear brands in the PRC include well-known international brands such as Nike, adidas and Kappa, as well as top domestic brands such as Li Ning, Anta and Xtep.

2007 Breakdown by revenue of the sportswear market in the PRC¹



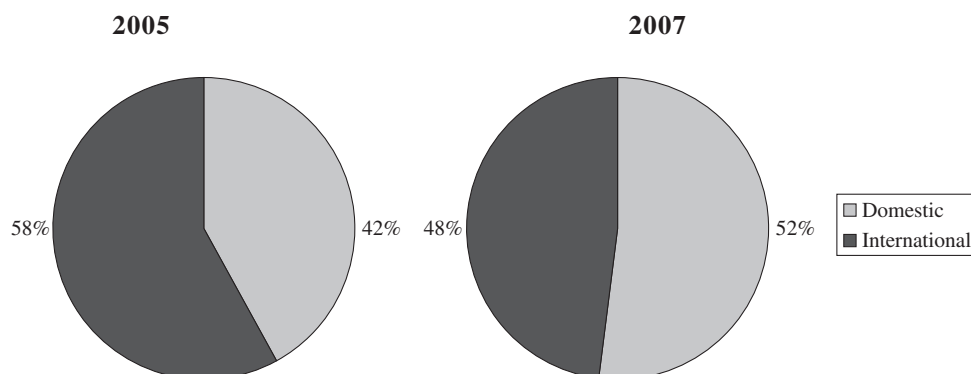
Source: © Euromonitor International

¹ The chart represents the total sportswear market

² Xtep's market share increased from 1.2% in 2006 to 3.4% in 2007

Relevant market research by Euromonitor International indicates that domestic brands are becoming increasingly prominent and successful. Despite the higher positioning and name recognition of major international brands, domestic brands are very effective in capturing market share by penetrating all levels of the Chinese market, whereas international brands tend to be less effective in penetrating markets beyond major cities such as Beijing, Shanghai and Guangzhou due to their brand positioning. The charts below set forth the share of international sportswear brands in the top 10 versus the share of domestic sportswear brands in the top 10 in terms of revenue in 2005 and in 2007.

2005 and 2007 Market share between international and domestic sportswear brands in the top 10



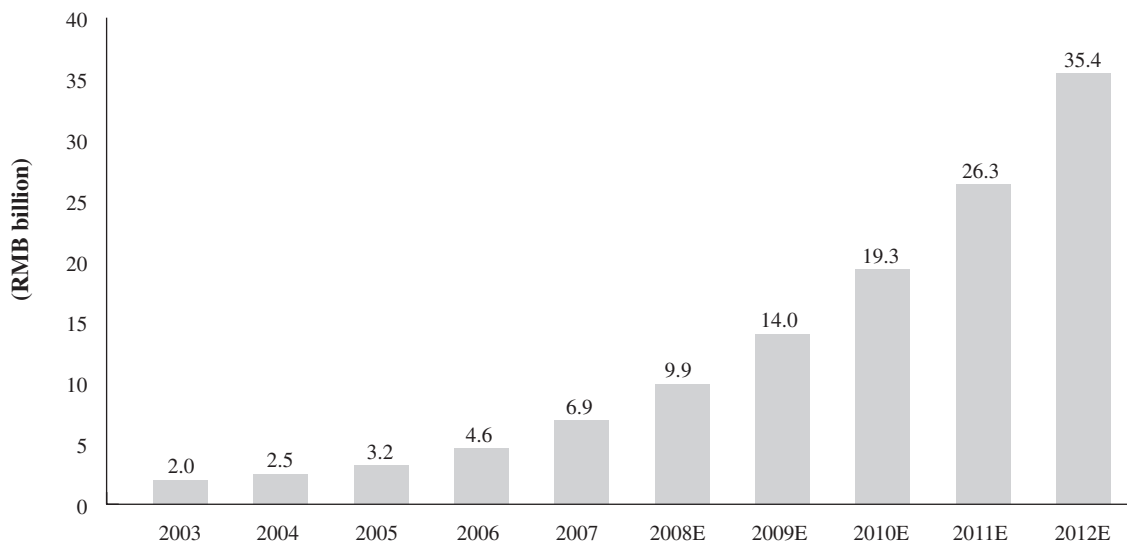
Source: © Euromonitor International

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Fashion sportswear market in the PRC

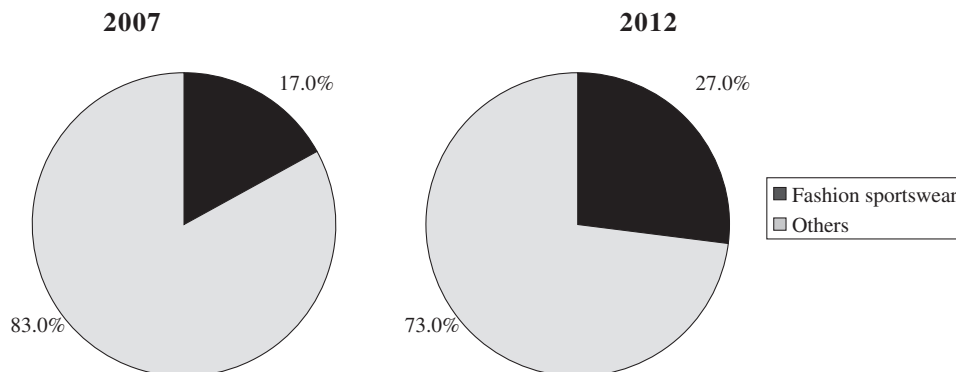
Overall, there is a trend in the sportswear industry toward fashion and comfort. Fashion sportswear serves both the functional needs of consumers engaging in sports activities as well as the need for convenience and comfort for everyday wear. Due to this combination, the fashion sportswear market has been growing rapidly since 2003, its growth far exceeds that of other sportswear segments. From 2003 to 2007, the fashion sportswear market grew at a CAGR of 36.3%. Euromonitor International estimates that, in 2007, the fashion sportswear market size was RMB6.9 billion in terms of revenue, or 17.0% of the total sportswear market in the PRC, up from the 10% share in 2003. In 2012, this segment is expected to account for 27.0% of the total market, or RMB35.4 billion in terms of revenue.

2003-2012 Fashion sportswear market in the PRC



Source: © Euromonitor International

Fashion sportswear segment's share of the sportswear market

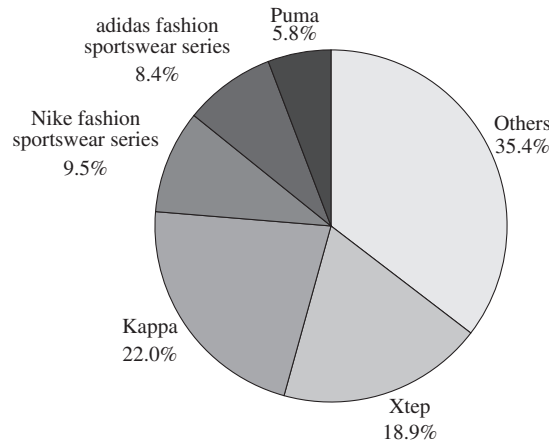


Source: © Euromonitor International

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In light of this growth potential, international brands such as Nike and adidas have introduced fashion sportswear series. For example, in 2007, adidas introduced Adilibria and adi-Fuse for women and Nike added its Nikewomen series. Other players such as Kappa, Xtep and Puma have positioned themselves as fashion sportswear brands and have experienced substantial growth. The chart below sets forth the share in terms of revenue in the fashion sportswear market for the top 5 brands in 2007:

2007 Market share breakdown of the top 5 fashion sportswear brands in the PRC



Source: ©Euromonitor International

Note: The market share of Nike and adidas brands only include their product series that fit the description of "fashion sportswear"

It is expected that fashion sportswear brands will become increasingly popular and spending in this area will increase. In addition, the PRC Government has consistently promoted competitive athletics and athletic programmes for the general public. The upcoming Beijing 2008 Olympic Games is expected to increase the Chinese public's interest in, and awareness of, sports and fitness. We expect that the Beijing 2008 Olympic Games will stimulate consumer spending generally, and in particular, spending in sporting goods, including sportswear.