
INDUSTRY OVERVIEW

OVERVIEW

The performance of the PRC sportswear industry is driven primarily by the growth of the PRC economy and in particular the increase in disposable income in the PRC as well as market acceptance of sportswear. We believe the sportswear industry in the PRC is benefiting from compelling industry fundamentals such as rapid economic growth, urbanization and increasing disposable income. In addition, the 2008 Beijing Olympic Games is expected to significantly increase the PRC public's interest in, and awareness of, sports and fitness and stimulate consumer spending in general and, in particular, on sportswear goods.

According to Frost & Sullivan, an independent market research and consulting company, the total expenditure on sportswear in the PRC was US\$3.8 billion in 2006, which has grown rapidly at a CAGR of 30.8% from US\$1.3 billion in 2002. In addition, total expenditure on sportswear and related products per capita in the PRC was US\$2.9 in 2006, which lags far behind many developed countries such as the United States, Canada, the United Kingdom, Germany, France, Australia, Japan, Korea and Singapore where per capita sportswear expenditure ranged from US\$18–US\$214 for the same period. Total expenditure on sportswear in the PRC is projected to grow at a CAGR of 21.3% between 2007 and 2011, which is significantly faster than in the developed countries.

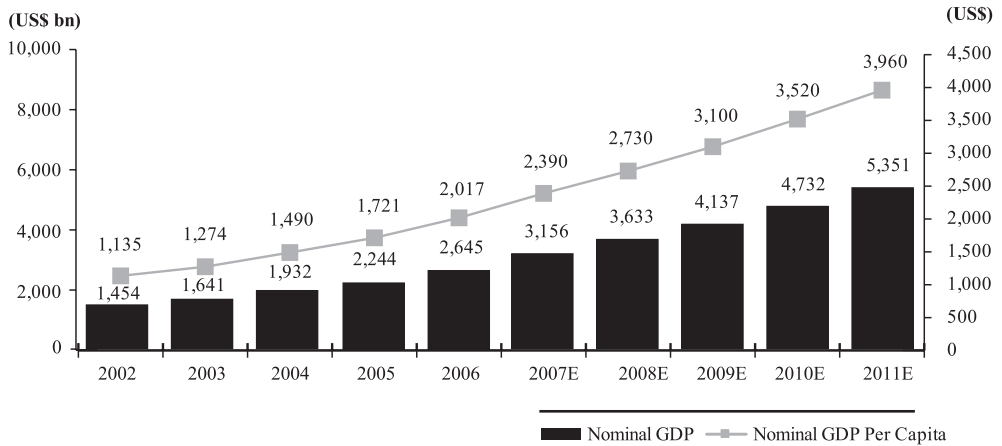
RAPID ECONOMIC GROWTH, URBANIZATION AND INCREASING DISPOSABLE INCOME

PRC Economic Growth

The PRC economy has grown significantly since the “Open Door” market liberalization policies initiated by the PRC government in the late 1970s. Economic growth was further spurred by the launch of special economic zones along the coastal region of the PRC in the early 1990s. According to the National Bureau of Statistics of China, the PRC economy has been experiencing steady growth with nominal gross domestic product (the “nominal GDP”) growing at a CAGR of approximately 16.1% per annum from US\$1,454 billion in 2002 to US\$2,645 billion in 2006. The nominal GDP per capita increased from US\$1,135 to US\$2,017 during the same period. According to the Economist Intelligence Unit (“EIU”), the GDP per capita is projected to further increase to US\$3,960 in 2011. The chart below sets forth the historical and projected nominal GDP and nominal GDP per capita in the PRC for the periods indicated.

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Nominal GDP and Nominal GDP Per Capita in the PRC



Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from the EIU

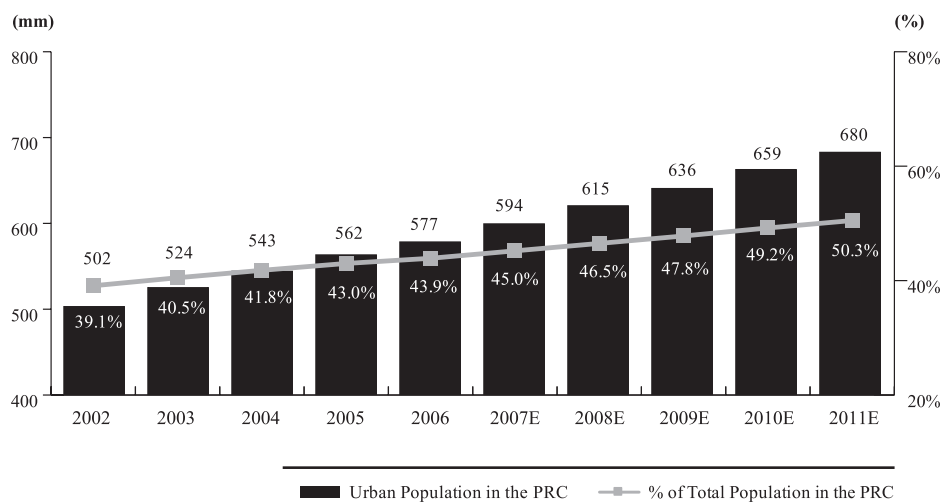
Urbanization

According to Euromonitor International (“Euromonitor”)¹, industrialization has accelerated urbanization through the migration of rural populations towards urban areas and the transformation of towns into cities or districts. According to the National Bureau of Statistics of China, the total urban population in the PRC increased by 74.9 million or approximately 14.9% from 2002 to 2006. In 2006, the total urban population was 577.1 million, which accounted for approximately 43.9% of the total population and is projected to reach 50.3% of the total population in 2011, according to Frost & Sullivan. The following chart sets forth the historical and projected urban population in the PRC for the periods indicated.

¹ Euromonitor International is an independent provider of market and competitor intelligence.

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Urban Population in the PRC from 2002 to 2011E

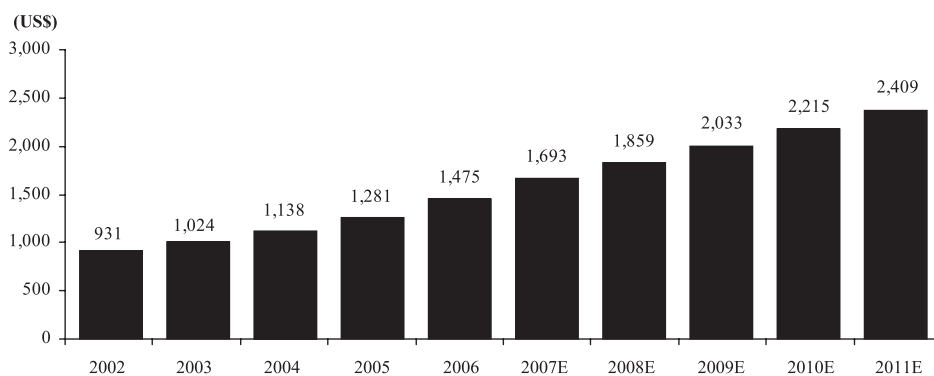


Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan

Disposable Income Growth of Urban Households

With the rapid growth of the PRC economy, income levels of urban households have increased and living standards have improved. According to the National Bureau of Statistics of China, the annual per capita disposable income of urban households in the PRC increased at a CAGR of 12.2% from US\$931 in 2002 to US\$1,475 in 2006. According to the Frost & Sullivan, the per capita annual disposable income of urban households in the PRC is projected to further increase to US\$2,409 in 2011. The following chart sets forth the historical and projected per capita annual disposable income of urban households in the PRC for the periods indicated.

Per Capita Disposable Income of Urban Households in the PRC



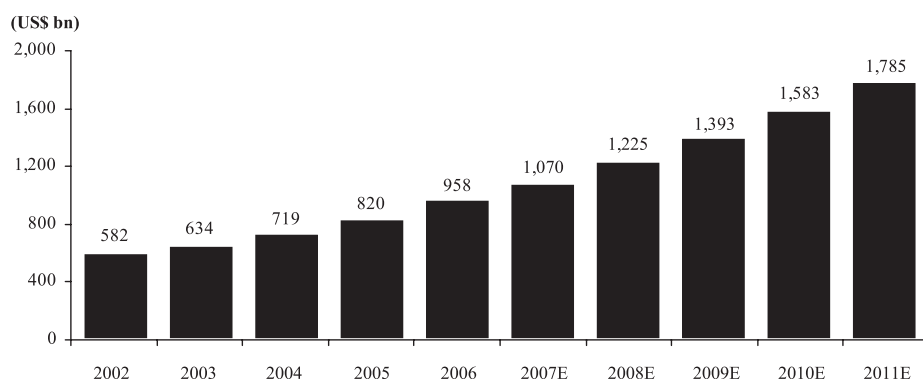
Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan

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STRONG RETAIL GROWTH AND CHANGING CONSUMPTION PATTERNS

The growing consumption power of urban consumers is a key driver of the development of the retail industry in the PRC. Consumer spending, as measured by total retail sales value, has grown at a CAGR of approximately 13.3% per annum from US\$582 billion in 2002 to US\$958 billion in 2006. According to Frost & Sullivan, the total retail sales value is projected to further increase to US\$1,785 billion in 2011. The chart below illustrates the growth in consumer spending in the PRC for the period indicated.

Total Retail Sales Value in the PRC from 2002 to 2011E



Source: Historical data up to and including 2006 from the National Bureau of Statistics of China; 2007 to 2011 projected data from Frost & Sullivan.

As per capita nominal GDP continues to grow which resulted in more affluent consumers in the PRC, demand for mid- to high-end branded products with better designs and quality will increase. We believe this shift in consumption patterns in the PRC will result in a gradually expanding target customer base for us.

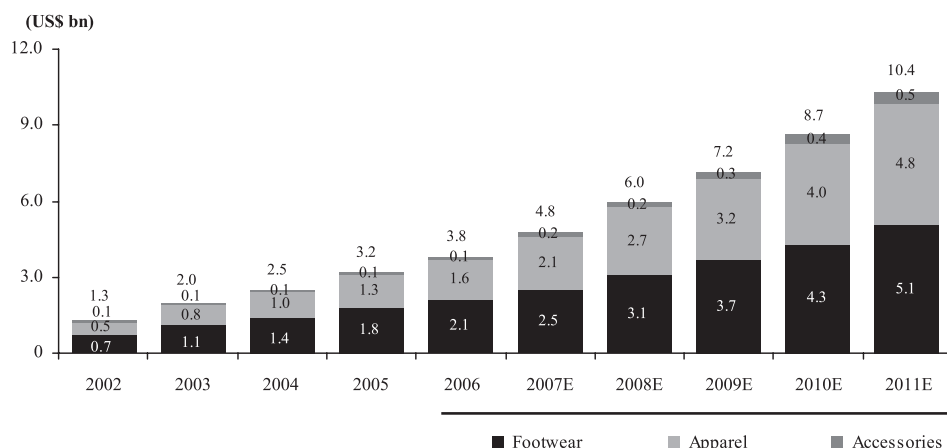
THE PRC SPORTSWEAR MARKET

Overview

The PRC sportswear market, which includes footwear, apparel and accessories, has expanded rapidly in recent years. According to Frost & Sullivan, total expenditure on sportswear in the PRC increased from US\$1.3 billion in 2002 to US\$3.8 billion in 2006, representing a CAGR of 30.8% in that period. Frost & Sullivan projects expenditure on sportswear to grow at 21.3% annually between 2007 and 2011 to reach US\$10.4 billion in 2011. The following chart sets forth the historical and projected expenditure on sportswear in the PRC by type of sportswear for the periods indicated.

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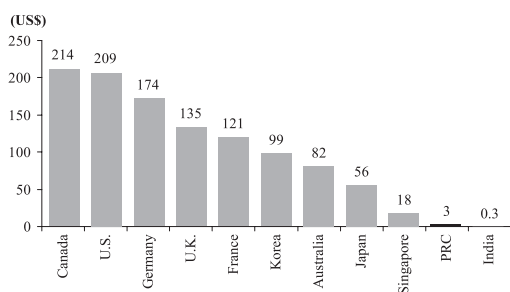
Total Sportswear Consumption in the PRC by Type of Products



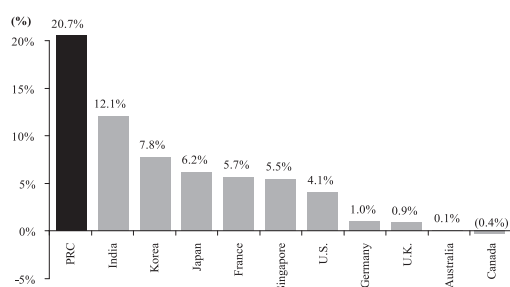
Source: Frost & Sullivan

The growth potential of the sportswear market in the PRC is further demonstrated by the rapidly growing expenditure on sportswear per capita. According to Frost & Sullivan, sportswear expenditure per annum per capita in the PRC was US\$2.9 in 2006, which lags far behind many developed countries such as the United States, Canada, the United Kingdom, Germany, France, Australia, Japan, Korea and Singapore. However, Frost & Sullivan projects annual sportswear expenditure per capita in the PRC to grow at 20.7% annually between 2007 and 2011, which is significantly faster than the same countries named above. The following charts set forth per capita sportswear expenditure in 2006 and the projected growth rate of sportswear expenditure per capita from 2007 to 2011 for the PRC and various other countries:

Total Sportswear Expenditure per Capita in 2006



2007E–2011E CAGR of Total Sportswear Expenditure per Capita



Source: Frost & Sullivan

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Key Industry Growth Drivers

Major factors contributing to the growth of the PRC sportswear market include the overall growth of nominal GDP, rising income levels, shifting consumption patterns of increasingly affluent urban consumers and increasing retail demand for sportswear products.

In addition, the rising popularity of sports and an increasing trend of consciousness of fitness and fashion are expected to drive demand for sportswear in the PRC. The increased popularity of sports and fitness in the PRC is evidenced by the 61.9% increase in sporting events from 1995 to 2006 held in the PRC, as illustrated in the following table.

| | <u>1995</u> | <u>2000</u> | <u>2006</u> |
|--|-------------|-------------|-------------|
| Number of sporting events held by sports commissions at and above county level from 1995 to 2006. | 24,880 | 26,196 | 40,281 |

Source: *Chinese Statistical Yearbook (2007)*

In addition, the PRC government has consistently promoted competitive athletics and athletic programs for the general public. In July 2001, the PRC won the right to host the 2008 Olympic Games in Beijing. We expect that the 2008 Beijing Olympic Games will significantly increase the PRC public's interest in, and awareness of, sports and fitness. Furthermore, we expect that the 2008 Beijing Olympic Games will stimulate consumer spending generally, and in particular, consumer spending on sportswear goods.

Market Segmentation

Regarding the major brand companies in the sportswear market in the PRC, according to Frost & Sullivan, there are approximately 100 sportswear brands in the PRC, with approximately 45% market share of these brands being international brands and the rest being local brands. The table below illustrates the historical market shares in terms of sales for major sportswear brands in the PRC.

Market Share of Sportswear Brands in terms of Sales

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---------------------------|-------------|-------------|-------------|
| <i>Nike</i> | 11.0% | 13.1% | 16.7% |
| <i>Adidas</i> | 6.8% | 12.3% | 15.6% |
| <i>Li Ning</i> | 8.7% | 9.6% | 10.5% |
| <i>Kappa</i> | 0.5% | 0.8% | 2.8% |
| <i>Reebok</i> | 1.4% | 1.5% | 1.7% |
| <i>PUMA</i> | 0.9% | 1.1% | 1.3% |
| <i>Converse</i> | 0.7% | 0.5% | 0.7% |
| <i>Others</i> | 70.0% | 61.1% | 50.7% |
| Total | 100.0% | 100.0% | 100.0% |

Source: *Frost & Sullivan*

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The top international sportswear brands, such as *Nike* and *Adidas*, have been able to expand their market shares in the PRC due to their extensive distribution channels, strong brand awareness, sophisticated product development and innovative marketing strategies at the expense of less established, lower-end brands. International brands have developed a strong following amongst young urban consumers who are showing increasing fashion and brand-consciousness.

According to Frost & Sullivan, as at December 31, 2007, there were over 100 major sportswear retailers in the PRC and the five largest sportswear retailers constituted over 45% of the sportswear retail market in the PRC in terms of sales, whereas we and our Regional Joint Ventures together constituted approximately 17.4% of the total market share. The top international sportswear brands rely heavily on distributors to distribute their products to consumers through retail outlets in department store counters, street-level stores or shopping-mall stores. In selecting their distributors, they prefer to partner with retailers with nationwide distribution capabilities, knowledgeable sales forces, experienced management teams and sufficient resources to support rapid expansion.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and growth consulting company based in the United States with over 40 years of industry experience, to conduct an analysis of, and to report on, the sportswear market in the PRC for the period from 2002 to 2011. The report commissioned has been prepared by Frost & Sullivan independent of our influence, and the fees we paid to Frost & Sullivan for the report commissioned reflect market rates.

The Frost & Sullivan report we commissioned includes information on the PRC sportswear market such as market share and ranking of brand companies and sportswear retailers, sales value, total sportswear consumption, consumption per capita and other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC sportswear industry. Primary research involves interviewing leading industry participants including sportswear brand companies and sportswear retailer. Secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected total sportswear consumption and total retail sales value in the PRC were obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers such as level of brand awareness, product variety, awareness of sporting activities, etc., mapped against available projected drivers obtained through interviews with industry experts and participants.