

INDUSTRY OVERVIEW

SOURCES OF THE INDUSTRY INFORMATION

We commissioned ZOU Marketing Limited, an Independent Third Party, to conduct an analysis of, and produce a report on, the Chinese sportswear market for inclusion in this document at an aggregate fixed fee of RMB850,000. ZOU Marketing Limited is a Shanghai-based sports marketing and consulting firm that conducts market research and provides advisory services on the China sports industry.

The methodology used by ZOU Marketing Limited involves reviewing reports and statistics published by various sportswear companies, independent industry researchers, and Chinese government agencies as well as conducting interviews with footwear and apparel companies and retailers. Interviews with companies and retailers were utilized as a cross-checking mechanism to verify the accuracy of all the market shares and revenue figures that were and were not contained in publicly available company reports. Market size and company revenue derived from forecasts were obtained from historical data analysis compared against macroeconomic factors and mapped against publicly available forecasts to arrive at their estimates. “Sportswear” as used in the report includes sports apparel, footwear and accessories.

ZOU Marketing Limited has made the following principal assumptions in the preparation of the report:

- the 2008 Olympic Games in Beijing have significantly raised public awareness in sports and fitness, stimulated the consumption of sports goods and sportswear and positively impacted overall market growth. As a result, the sportswear industry in China will continue to experience strong growth over the next five years;
- basketball will continue to be the most popular sports in China;
- the Chinese government will continue to support the development of the sportswear industry in China in the next 5 years;
- the recent financial and credit crisis will have a negative impact on China’s economy for the next couple of years; and
- there will be no material changes in existing political, legal conditions in China that will adversely affect the Chinese sportswear industry.

We also commissioned Frost & Sullivan, an Independent Third Party, to conduct brand awareness survey of the Chinese sports footwear market and produce a report on the sports footwear and basketball footwear markets in China for inclusion in this document. A fixed fee of RMB180,000 was paid to Frost & Sullivan for conducting the survey and preparing the independent report.

The methodology used by Frost & Sullivan in the preparation of the report involved conducting both primary and secondary research obtained from numerous sources within the sports footwear and basketball footwear industries in the PRC. The primary research was conducted through face-to-face interviews of customers in 28 major cities in terms of population and disposable income level which are located in 21 provinces and municipalities: Beijing, Shanghai, Guangdong, Heilongjiang, Jilin, Chongqing, Shandong, Henan, Hubei, Hunan, Hebei, Shaanxi, Sichuan, Zhejiang, Jiangsu, Fujian, Guangxi, Anhui, Yunnan, Gansu and Hainan. These 21 provinces/municipalities are typically regarded

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as representatives of northern, eastern, southern and western China geographically and economically. The research involved participants answering a number of questions as an interactive qualitative session to map brand perceptions. Secondary research was conducted through reviewing company reports and independent research reports to obtain the information of brand overview in target industries and products of manufacturers.

Certain other information and statistics set forth in this section are derived from publications of CEIC Data Company Ltd. (“CEIC”) and the Economist Intelligence Unit (“EIU”). Such publications were not commissioned by our Company.

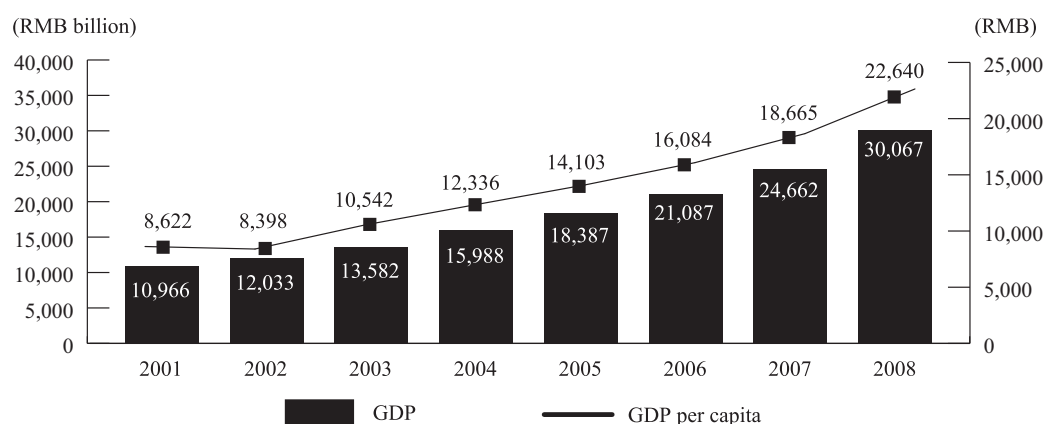
CEIC was founded in 1992 and is headquartered in New York with 26 offices located in Asia, Africa, Europe and Latin America. CEIC supplies clients in the field of macroeconomic and financial trend monitoring with access to financial time series data. The information and statistics derived from CEIC are based on secondary sources of government official publications with data being updated annually.

The Economist Intelligence Unit is a specialist publisher providing analysis and forecast on over 200 countries and nine strategic industries. The head office of the EIU is in London with major regional centres in Hong Kong, Vienna and New York. It maintains over 40 editorial and sales offices around the world. The information and statistics derived from the EIU are based on the China Country Report for April 2008 which is prepared by the EIU combining analytical insight and quantitative forecasts.

RAPID ECONOMIC GROWTH AND URBANIZATION

From 2001 to 2008, China’s GDP grew from RMB10,966 billion (US\$1,606 billion) to RMB30,067 billion (US\$4,402 billion), representing a CAGR of 15.5%. During the same period, GDP per capita increased from RMB8,622 (US\$1,262) to RMB22,640 (US\$3,315), representing a CAGR of 14.8%. According to the EIU, the economy is expected to continue its rapid growth in the coming years.

GDP and GDP per capita in China, 2001–2008

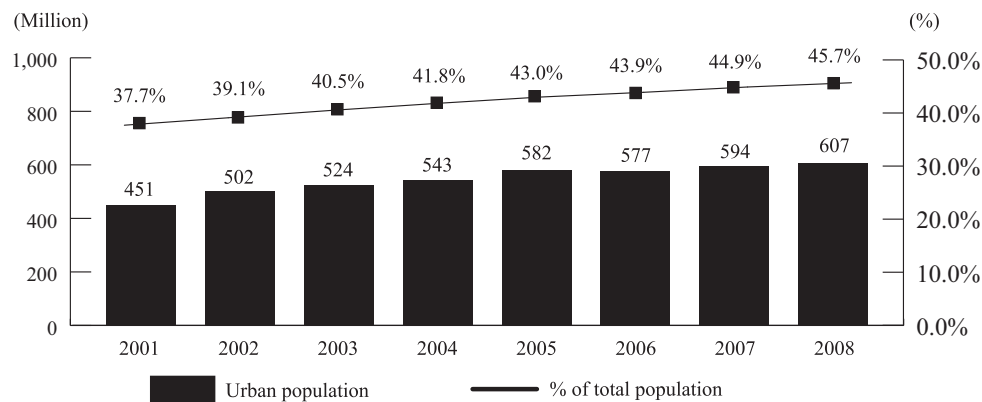


Source: National Bureau of Statistics of China

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The rapid growth of the Chinese economy has led to unprecedented urbanization of its population. The urban population has increased dramatically as people from rural and less developed areas migrated to cities in search of better jobs and higher living standards. Across China, cities have expanded their boundaries to accommodate this migration. In the period between 2001 and 2008, China’s urban population increased from 451 million to 607 million and accounted for 45.7% of the total population.

Urban Population in China, 2001–2008



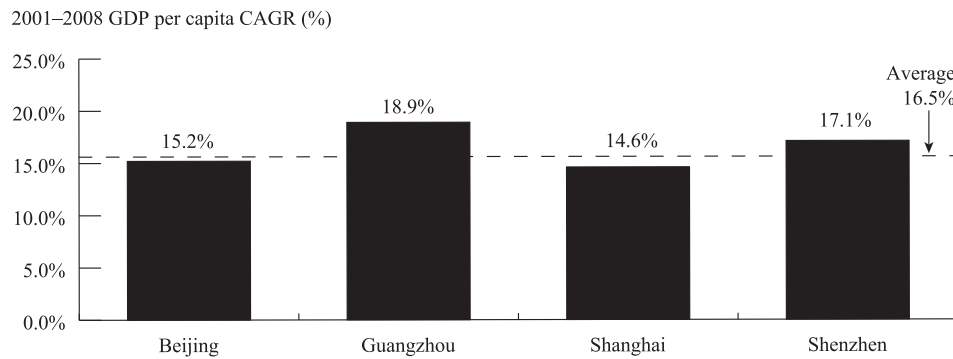
Source: National Bureau of Statistics of China

The growth of the urban population has been accompanied by rising income levels of urban households. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households increased from RMB6,860 (US\$1,004) to RMB15,781 (US\$2,311) from 2001 to 2008, representing a CAGR of 12.6%.

First-tier cities, commonly acknowledged as Beijing, Shanghai, Guangzhou and Shenzhen, have led the growth of the domestic economy. As the domestic economy expanded, investment and development has been increasingly focused on second and third-tier cities, which have in recent years shown stronger economic growth than first-tier cities. From 2001 to 2008, the GDP per capita for selected second and third-tier cities have grown at an average CAGR of 19.8% and 24.2%, respectively, higher than the 16.5% average CAGR of GDP per capita experienced by selected first-tier cities during the same period.

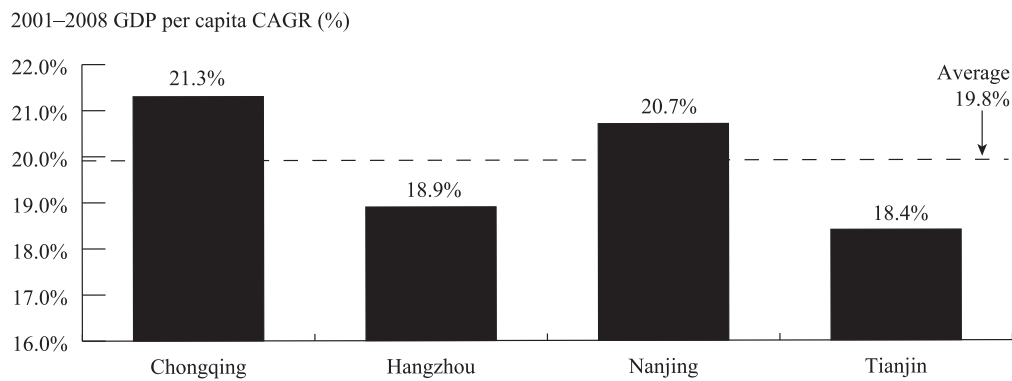
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First-tier cities’ GDP per capita CAGR, 2001–2008



Source: CEIC

Selected second-tier cities’ GDP per capita CAGR, 2001–2008

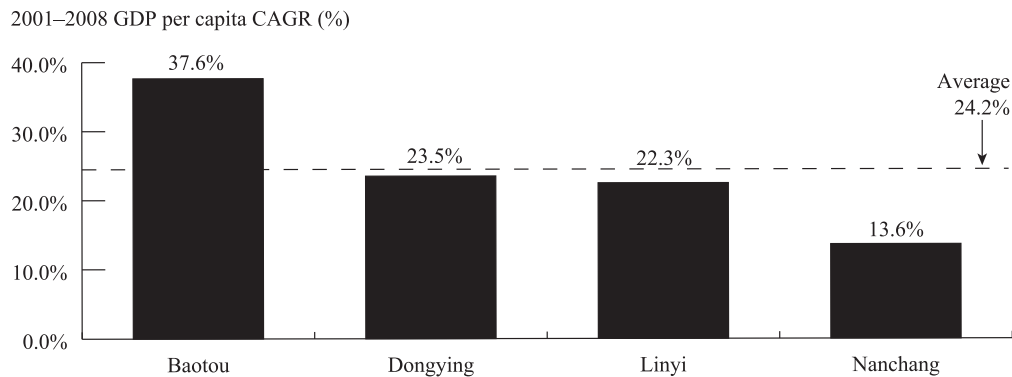


Note: CAGR of Nanjing is from 2001–2007

Source: CEIC

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Selected third-tier cities’ GDP per capita CAGR, 2001–2008



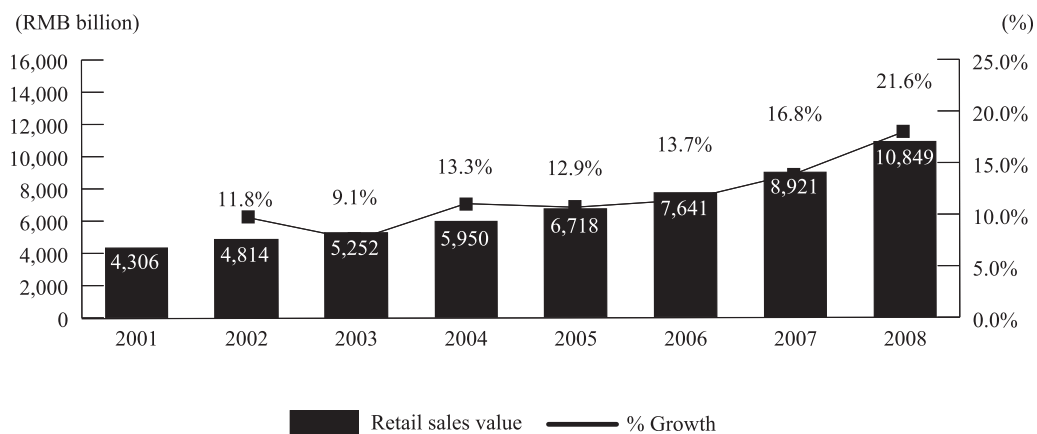
Note: CAGR of Baotou and Linyi are from 2001–2007

Source: CEIC

ROBUST RETAIL GROWTH AND SHIFTING CONSUMPTION PATTERNS

Increasing purchasing power of urban consumers has driven the rapid development of the retail sector in China. As illustrated in the following chart, total retail sales of consumer goods increased from RMB4,306 billion (US\$630 billion) in 2001 to RMB10,849 billion (US\$1,588 billion) in 2008, representing a CAGR of 14.1%.

Retail Sales in China, 2001–2008

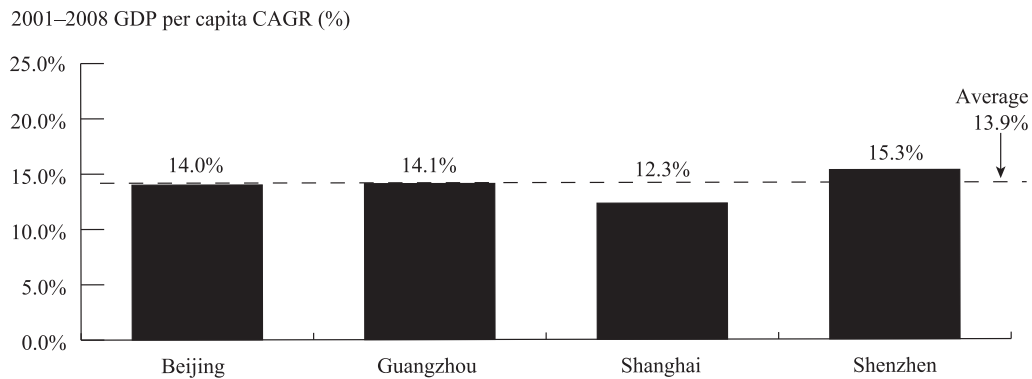


Source: National Bureau of Statistics of China

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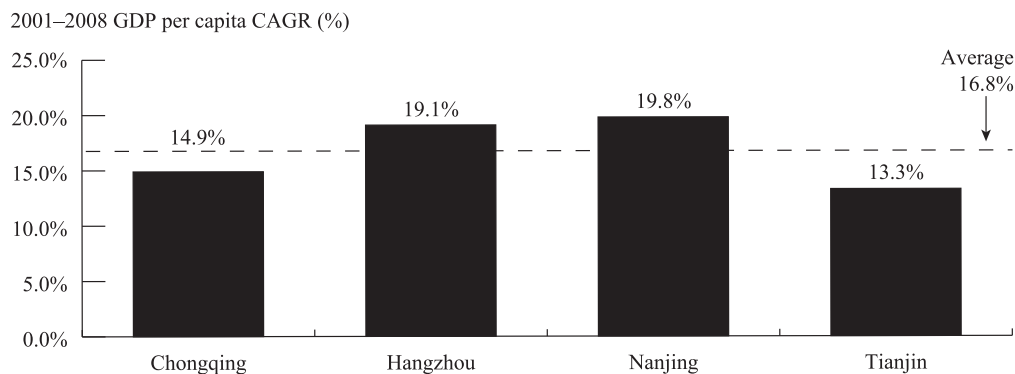
In recent years, retail sales in second and third-tier cities have grown more rapidly than in first-tier cities. From 2001 to 2008, retail sales of consumer goods for selected second and third-tier cities grew at an average CAGR of 16.8% and 21.7%, respectively, significantly higher than the 13.9% average CAGR in first-tier cities during the same period.

First-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

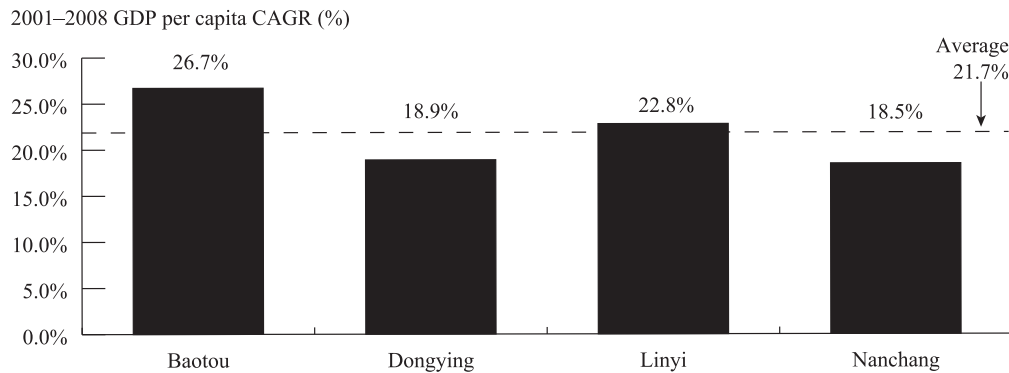
Selected second-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

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Selected third-tier cities’ retail sales of consumer goods CAGR, 2001–2008



Source: CEIC

THE CHINESE SPORTSWEAR MARKET

The shifting consumption pattern towards lifestyle products can be well evidenced in China’s sportswear market.

In China, more and more people are participating in sports due to the growing popularity of sports and increasing health awareness of the general public. According to the National General Administration of Sport, the sports participation rate increased from 31.4% in 1996 to 33.9% in 2000 and further rose to 37% in 2005, with a total increase of over 100 million people participating in sports over the nine years. The Chinese government expects the sports participation rate to reach 40% by 2010.

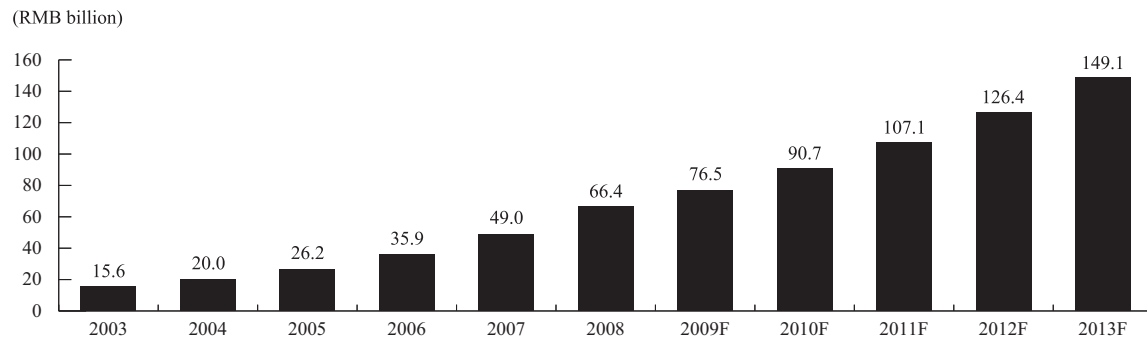
As a result, China’s sportswear market, which includes apparel, footwear, and accessories, has expanded rapidly in recent years. According to ZOU Marketing Limited, China’s branded sportswear market has experienced double-digit annual growth since 2000, with an approximate market size of RMB66.4 billion (US\$9.7 billion) in 2008. From 2003 to 2008, China’s sportswear market experienced an estimated CAGR of 33.6% in growth.

We believe that the combination of the government’s support and promotion of sporting programs for the general public, China’s hosting of upcoming international sporting events, increasing media exposure and rapid disposable income growth of the population are key drivers to sustaining double-digit growth for China’s sportswear market beyond 2008. In particular, we believe the 2008 Olympic Games held in Beijing significantly enhanced the recognition of major sportswear brands in China through vast marketing promotions and sponsorships. According to ZOU Marketing Limited, the market is expected to reach approximately RMB107.1 billion by 2011, representing a three-year CAGR of around 17.3% from 2008, and further surge to RMB149.1 billion in 2013.

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The following chart sets out the historical and estimated size of China’s sportswear market as measured by retail sales for the periods indicated.

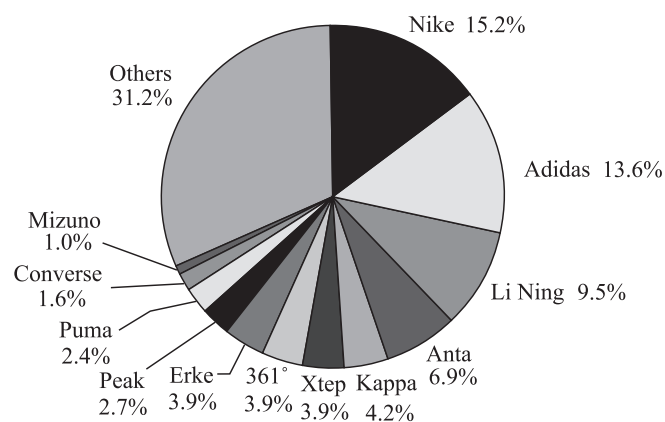
Estimated China’s Sportswear Market Size by Revenue, 2003–2013



Source: ZOU Marketing Limited

The barriers to entry to China’s branded sportswear market are high, due to the cost and time required to build brand awareness and establish an effective distribution network. There are close to 100 sportswear brands in China, of which 15% to 20% are international brands and the remaining domestic brands. However, sales breakdown by international brands was about 39% in 2008.

Estimated Peak’s Market Share Relative to Publicly-listed Sportswear Companies’ Brands in China by Revenue in 2008



Source: ZOU Marketing Limited

Notes:

- (1) Chart is based on China domestic sales revenue
- (2) “Others” includes listed companies’ brands whose market share by China domestic sales revenue were less than Peak’s China domestic sales revenue in 2008. These brands include, among others, Reebok and Yeli

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- (3) “Others” also includes non-listed companies’ brands whose market share by China domestic sales revenue may be more or less than Peak’s China domestic sales revenue in 2008. These brands include, among others, New Balance, VOIT and Qiaodan.

THE CHINESE BASKETBALL MARKET

Since its introduction in the late 19th century by American missionaries, basketball has become one of the most popular sports among Chinese sports fans. According to the NBA, basketball has surpassed soccer as China’s most popular “big-ball” sport (“small-ball” sports include activities such as table tennis and badminton). The NBA estimates that approximately 300 million people in China play basketball.

Factors contributing to basketball’s popularity in China include the NBA’s expansion in China, significant media coverage and promotion, popular cultural appeal to the youth population and government support.

In China, the NBA has played an essential role to the popularity of basketball. Since its entry into China in 1989, the NBA has grown into the most popular international professional sports league in the country.

Extensive media coverage and promotion further enhanced the popularity of basketball in China. The NBA currently has relationships with over 30 major TV stations in China. Chinese basketball fans in the urban markets can now watch one to four NBA games each week. During the 2007–08 NBA season, an estimated 100 million Chinese viewers tuned in to watch Chinese stars Yao Ming (Houston Rockets) and Yi Jian Lian (formerly of the Milwaukee Bucks and now on the New Jersey Nets) play against one another for the first time in NBA uniforms. Domestic basketball leagues are also available on TV, including men’s and women’s professional basketball and the fledgling China University Basketball Association (CUBA).

Youth appealing basketball culture is another key contributing factor to basketball’s popularity in China. There are many aspects of the sport that attract Chinese youth, including the individual spirit it advocates, the strong presence of hip-hop and rap music in the global basketball culture and its powerful influence on youth fashion trends, including urban street wear uniforms such as basketball warm-ups, tee-shirts, sweatshirts and athletic footwear.

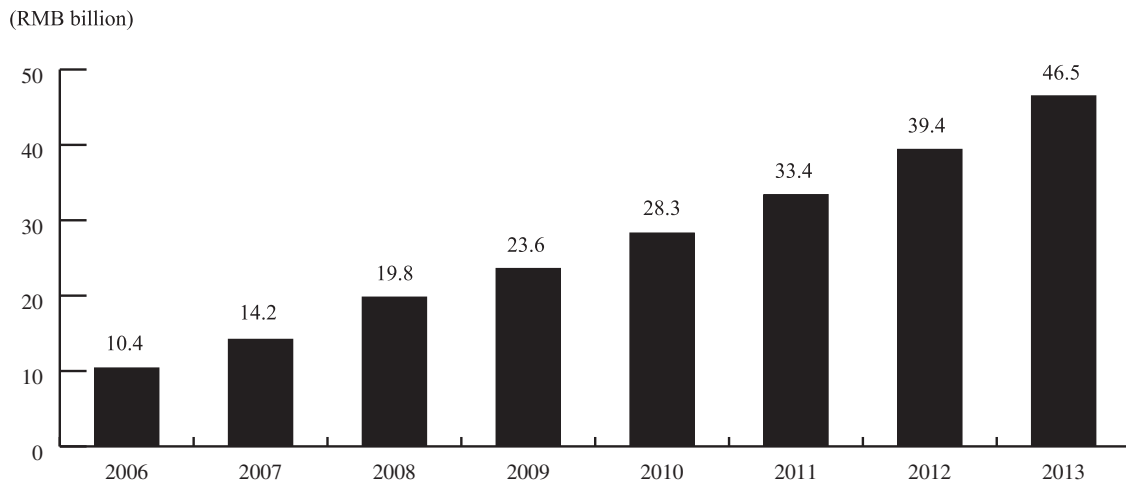
Basketball also enjoys substantial government support. The “Mini-Basketball Project” (小篮板工程) which commenced in 1998 led by the National General Administration of Sport, aimed to build over 80,000 basketball shooting facilities in over 100 cities nationwide in 10 years and to have up to 10 million teenagers playing basketball on a regular basis. With wider basketball facility availability and more people participating in basketball, we believe that demand for basketball sportswear will continue to grow in the coming years.

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THE CHINESE BASKETBALL FOOTWEAR MARKET

According to ZOU Marketing Limited, in light of the rise in spending power and disposable income, and growing popularity of basketball as a sport and fashion statement, China’s basketball footwear market size is estimated to be approximately RMB19.8 billion (US\$2.9 billion) in 2008 by retail value and expected to reach more than double to RMB46.5 billion (US\$6.8 billion) by 2013. According to the same source, China’s basketball footwear market was one of the largest segments of the Chinese sportswear market. In 2008, it accounted for approximately 15.5% of the Chinese sportswear market by revenue.

China’s Basketball Footwear Market Size by Retail Sales, 2006–2013



Source: ZOU Marketing Limited

BRAND AWARENESS

In November 2008, Frost & Sullivan conducted a market survey commissioned by Peak. Based on Frost & Sullivan’s face-to-face interviews with over 4,000 respondents in November 2008 in 28 major cities across China including, among others, all first-tier cities and 12 second-tier cities, Peak is among the top three most recognized sports footwear and basketball footwear brands in China as compared to other domestic and international sports footwear and basketball footwear brands. Based on the market survey, Lining, Nike and Peak are the top three most recognized sports footwear and basketball footwear brands in China.