
INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, in part, from various official government publications. Whilst reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, neither we, nor the Sponsor or the Sole Global Coordinator, nor any of our or their respective affiliates or advisers, nor any party involved in the Global Offering have independently verified such information and statistics derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information or statistics compiled within or outside China.

In addition, certain information and data contained in this prospectus are derived from market data provided by Euromonitor and EIU. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the information has not been independently verified by us, the Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

INTRODUCTION

We are principally engaged in the design, production and sales of sports shoes with the *Flyke* brand in China. We launched the *Flyke* brand in April 2004 and as of the Latest Practicable Date, the products with the *Flyke* brand were sold by 19 authorised distributors at 1,169 authorised retail stores in 208 cities in China. In addition to sports shoes, the *Flyke* brand also includes sportswear and sports accessories which are produced by our contract manufacturers. The *Flyke* brand targets the youth market ranging from 14 to 25 years old in second- and third-tier cities in China. The *Flyke* brand is on fashionable and leisure sports shoes, sportswear and sports accessories.

We enjoy a rapid growth in the sales of sports shoes, sportswear and sports accessories with our *Flyke* brand during the three years ended 31 December 2008 which recorded a CAGR of approximately 656.7%.

In December 2005, Xinwei (China) was accredited as a “2005 China Sports Brand Top 100 Outstanding Enterprise” (2005年中國體育品牌風雲100榜優秀企業). In July 2006, Xinwei (China) was named as an “Advance Enterprise for Creation of Famous Brand for the Year 2003–2005” (2003–2005年度創名牌先進企業). In July 2007, the *Flyke* brand was awarded the “Top 10 Most Favourable Brands of sportswear as voted by consumers in China” (中國體育用品市場消費者(用戶)最喜愛十佳品牌) and the “A reputable brand in terms of protecting consumers’ interest” (全國保護消費者權益信譽品牌). In September 2008, Xinwei (China) was awarded “Fujian Famous International Brand” (福建國際知名品牌).

INDUSTRY OVERVIEW

Prior to the launch of the *Flyke* products, Xinwei (China) had already started the design, production and sales of Soles and sport shoes for our Export ODM Business. These two business activities are part of our vertically integrated business models for the production and sales of sports shoes for our customers.

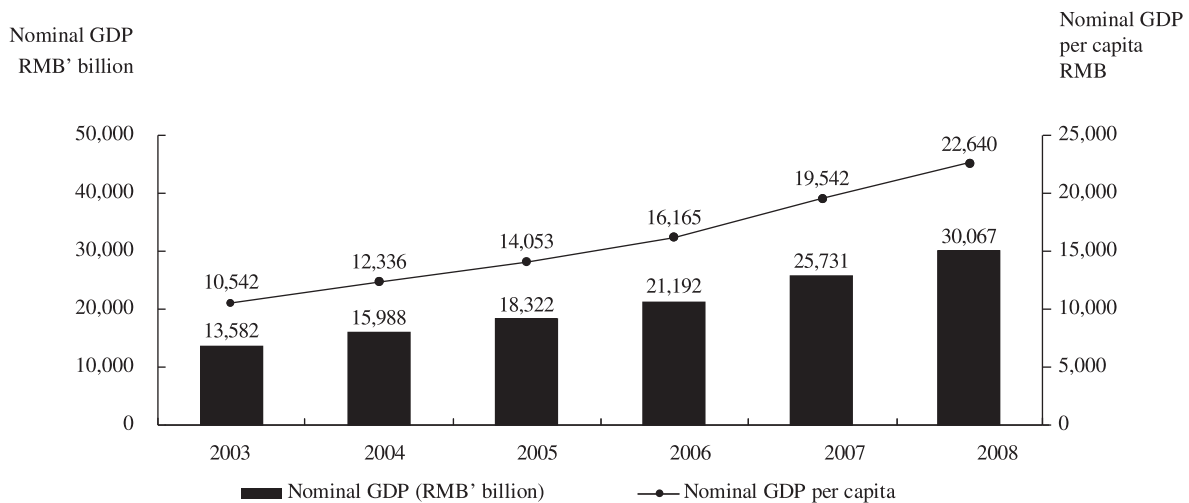
As part of our vertically integrated business models, we have strong product design and development capability dedicated for the sports shoes, sportswear and sports accessories with the *Flyke* brand and our Export ODM Business. During the year ended 31 December 2008, our product design and development teams designed and developed over 1,400 styles of sports shoes. We also designed, developed and produced all Soles in our sports shoes and sell Soles to other manufacturers according to their specifications.

RAPID GROWTH OF CHINA ECONOMY AND URBANISATION

Rapid growth of China economy

China economy has expanded since the last two decades and in particular following the accession to the World Trade Organisation. Various market liberalisation initiatives have been introduced and implemented by the PRC Government. The National Bureau of Statistics of the PRC reported that the PRC's nominal GDP grew at a CAGR of approximately 17.3% during the six-year period from 2003 to 2008. This growth rate was substantially higher than all other developing and developed counties during the corresponding period, making China to be one of the fastest growing economies in the world.

The following diagram illustrates the nominal GDP and nominal GDP per capita in China between 2003 and 2008:—



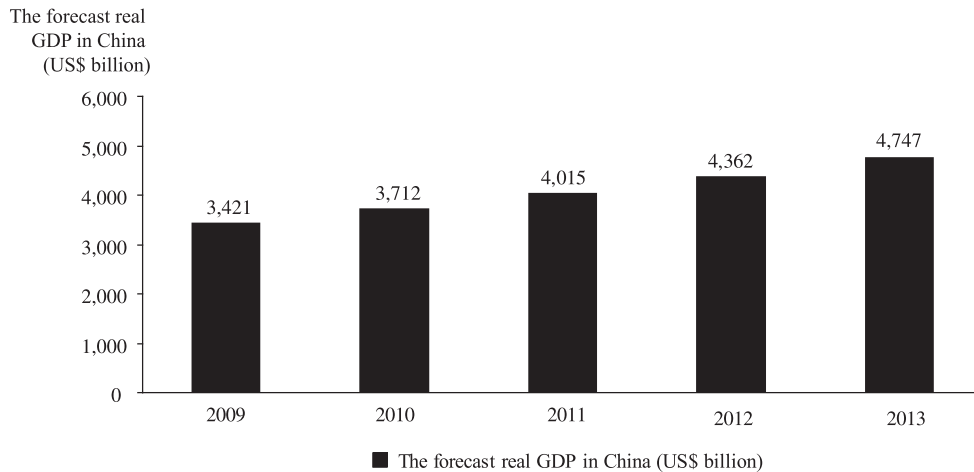
Source: National Bureau of Statistics of the PRC

Despite the recent financial crisis leading to contraction of the economies in the US and the European countries, the economies of China and other Asian countries are expected to continue to grow, principally because of the high level of domestic consumption and the

INDUSTRY OVERVIEW

aggressive stimulating monetary policies adopted by these governments. In particular, the GDP of China are expected to grow. According to EIU, the forecast real GDP of China during the five-year period between 2009 to 2013 are expected to increase by approximately US\$1,326 billion, representing a CAGR of approximately 8.5%.

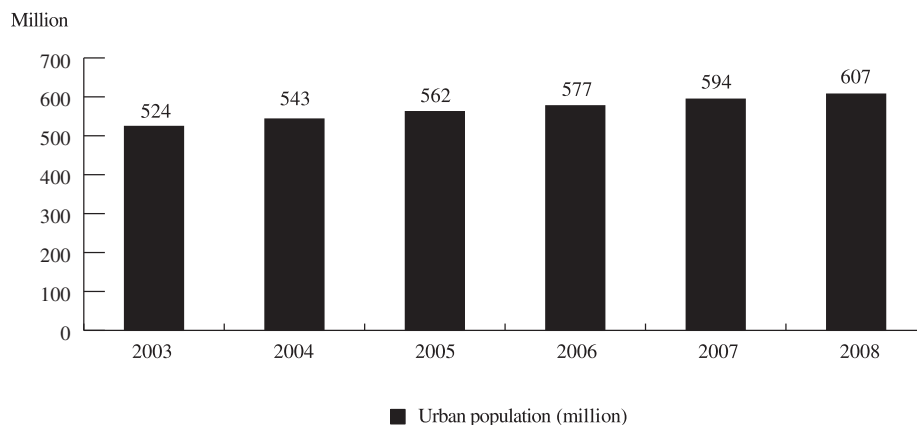
The following diagram illustrates the forecast real GDP in China from 2009 to 2013:—



Source: EIU

Urbanisation has accelerated in China as a result of the country's rapid economic growth. The percentage of population in urban cities in China have swelled with the influx of people from rural and less developed areas. During the six-year period from 2003 to 2008, the total urban population in China increased by approximately 82.9 million, with a CAGR of approximately 3.0%. In 2008, the total urban population in China reached approximately 607 million and accounted for approximately 46.0% of the total population in China.

The following diagram illustrates the growth of the urban population in China from 2003 to 2008:—

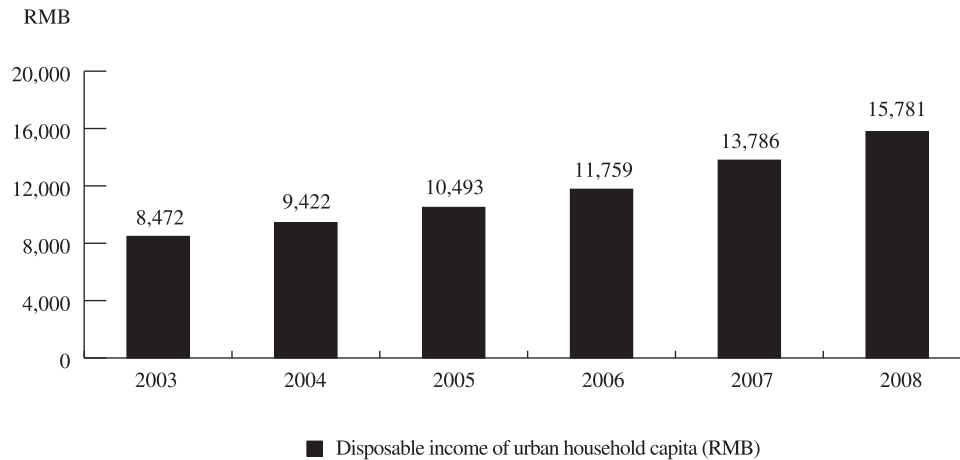


Source: National Bureau of Statistics of the PRC

INDUSTRY OVERVIEW

Consistent with the rapid growth in GDP and the urban population in China, the level of the urban household income has increased accordingly. The increase in the household income has strengthened the purchasing power of the urban population. According to National Bureau of Statistics of the PRC, the household disposable income of the urban population in China increased from approximately RMB8,472 in 2003 to RMB15,781 in 2008, representing a CAGR of 13.3%.

The following diagram illustrates the disposable income of urban households in China from 2003 to 2008:—



Source: National Bureau of Statistics of the PRC

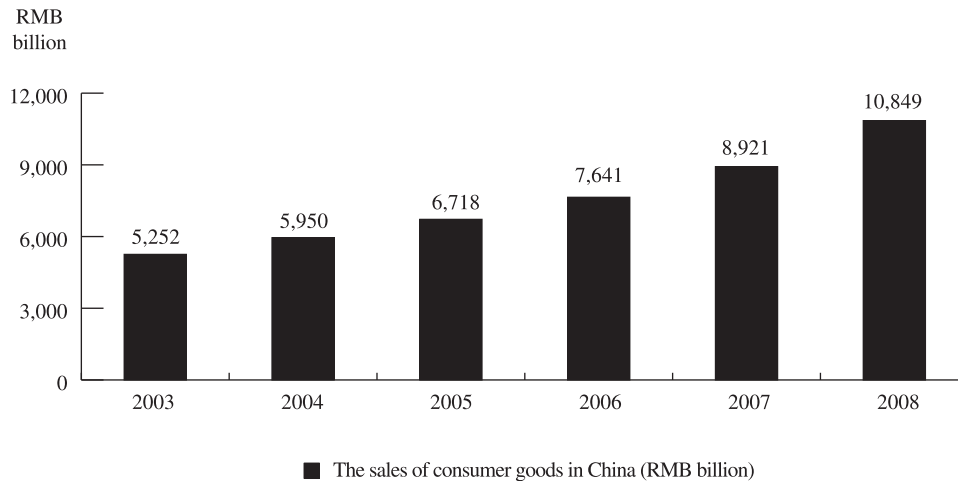
STRONG RETAIL GROWTH AND CONSUMPTION

Retail growth

As a result of the growing urban population and the increase in the level of household disposal income, the retail sales of consumer goods in the PRC increased by approximately two times during the six-year period between 2003 and 2008. According to National Bureau of Statistics of the PRC, the retail sales in China grew from approximately RMB5,252 billion in 2003 to approximately RMB10,849 billion in 2008, representing a CAGR of 15.6%. The growth has coincided with the increase in household disposable income per capita, suggesting that the purchasing power of consumers in China is increasing. The retail industry is expected to boost with the continuous improving in the living standards in China.

INDUSTRY OVERVIEW

The following diagram illustrates the retail sales of consumer goods in China from 2003 to 2008:—



Source: National Bureau of Statistics of the PRC

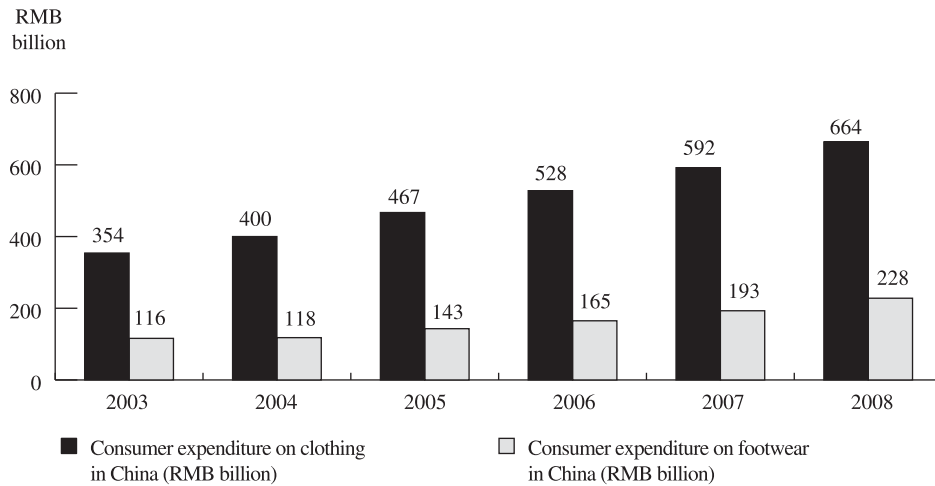
According to EIU, the retail market in China is expected to prosper in the coming years. The retail sales in China are expected to increase from approximately US\$1,290 billion in 2009 to approximately US\$1,799 billion in 2013, representing a CAGR of approximately 8.7%.

Consumption growth

Consumption patterns in China have changed over time. During the early years of economic development, most of the spending was made on necessities. This pattern has undergone a significant change since the two decades with the improvement in the living standards and the growing urban populations. Consumer spending is also directed towards lifestyle products and services, such as leisure, sports, entertainment, apparel and footwear, with health conscious and environmentally-friendly awareness. According to the Euromonitor Report, during the six-year period ended 31 December 2008, the annual apparel and footwear consumption per urban household in China increased by approximately RMB354.0 billion and approximately RMB116.0 billion, representing a CAGR of approximately 13.4% and 14.4%, respectively.

INDUSTRY OVERVIEW

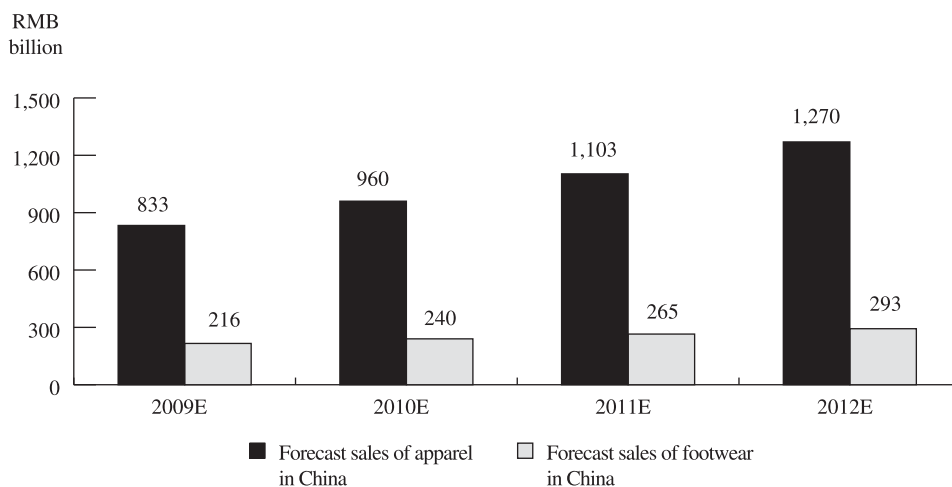
The following diagram illustrates the sales of total apparel and footwear per capita of urban household in China:—



Source: Euromonitor Report

The sales of apparel and footwear in China would increase with the overall increase in the retail sales. According to the Euromonitor Report, the sales of apparel and footwear are expected to increase from approximately RMB833 billion and approximately RMB216 billion in 2009, respectively, to approximately RMB1,270 billion and approximately RMB293 billion in 2012, representing a CAGR of 15.1% and 10.6%, respectively.

The following diagram illustrates the expected sales of apparel and footwear in China from 2009 to 2012:—



Source: Euromonitor Report

INDUSTRY OVERVIEW

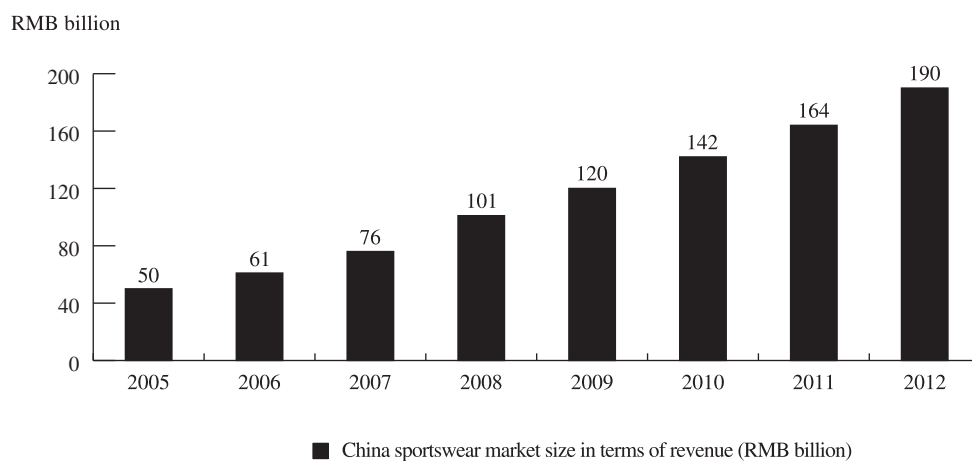
Sportswear Industry in China

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

According to the Euromonitor Report, sportswear in China may be classified into three key style categories, namely professional sportswear, casual sportswear and fashion sportswear. Professional sportswear refers to sportswear that is designed and tailor-made for sports performance 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. 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.

Forecast size of the China sportswear market

According to the Euromonitor Report, the China sportswear market has experienced double-digit growth in recent years, with the 2008 sportswear market having a total size of approximately RMB100.6 billion. The sportswear market is expected to quadruple in size from RMB119.9 billion in 2009 to RMB190.4 billion in 2012, representing a CAGR of approximately 16.7%. The diagram below illustrates the size of the China sportswear market as measured by revenue from 2005 to 2012:—

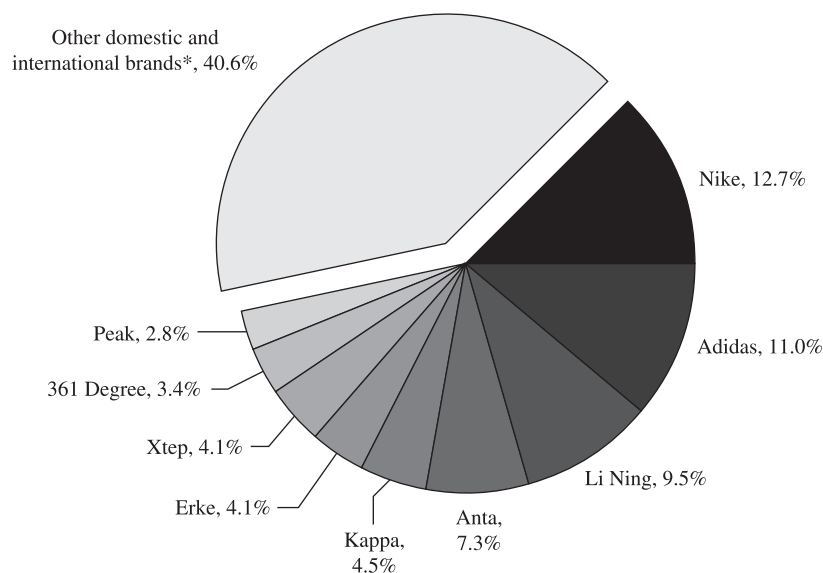


Source: Euromonitor Report

According to the Euromonitor Report, leading sportswear brands in the PRC include well-known international brands such as Nike, adidas and Kappa, and leading domestic brands, such as Li Ning, Anta, Erke, Xtep and 361°.

INDUSTRY OVERVIEW

The following diagram illustrates the share breakdown of the leading sportswear brands in China in terms of the retail sales revenue generated from end consumers:—



* Include all brands with market share of less than 2.5%

Source: Euromonitor Report

THE GROWTH OF THE GLOBAL ECONOMY AND FOOTWEAR CONSUMPTION

Global economic growth

The global economy expanded rapidly during the period between 2003 and 2008, principally due to the increased consumption by the developed countries and the increase in the asset prices. According to Euromonitor Report, the global GDP grew from approximately US\$37,293 billion to approximately US\$60,841 billion, representing a CAGR of approximately 10.3% during the six-year period between 2003 and 2008. From 2003 to 2008, the GDP of the countries in Eastern Europe and South America, which are the principal markets of our sports shoes, increased by approximately US\$2,352 billion and approximately US\$2,405 billion, respectively, representing a CAGR of approximately 24.9% and 17.0%, respectively. The following diagram illustrates the growth rate of global GDP and GDP of countries in Eastern Europe and Latin America from 2003 to 2008:—

GDP	2003	2004	2005	2006	2007	2008	CAGR
	(US\$' million)	(US\$' million)	(US\$' million)	(US\$' million)	(US\$' million)	(US\$' million)	(from 2003 to 2008)
Global	37,293	41,995	45,381	49,107	55,026	60,841	10.3%
Eastern Europe	1,152	1,465	1,790	2,167	2,790	3,505	24.9%
Latin America	2,022	2,325	2,803	3,287	3,824	4,426	17.0%

Source: Euromonitor Report

INDUSTRY OVERVIEW

Global footwear consumption

According to the Euromonitor Report, the global footwear consumption was approximately 7,648 million pairs of footwear and generated revenue of approximately US\$231.0 billion in 2008 as compared to approximately 5,893 million pairs of footwear and approximately US\$173.0 billion in value in 2003, representing a CAGR of approximately 5.4% and 6.0%, from 2003 to 2008, respectively. The global footwear consumption in the countries in Eastern Europe and Latin America increased by approximately US\$5,336 million and US\$12,734 million, respectively, representing CAGR of approximately 14.3% and 14.2%. The following diagram illustrates the global footwear consumption from 2003 to 2008:—

Sales of footwear	2003	2004	2005	2006	2007	2008	CAGR (from 2003 to 2008)
	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>
Global.	173,006	189,442	197,873	207,416	224,084	231,173	6.0%
Eastern Europe	5,619	6,628	7,513	8,425	10,068	10,955	14.3%
Latin America.	13,554	15,139	18,064	20,693	24,287	26,288	14.2%

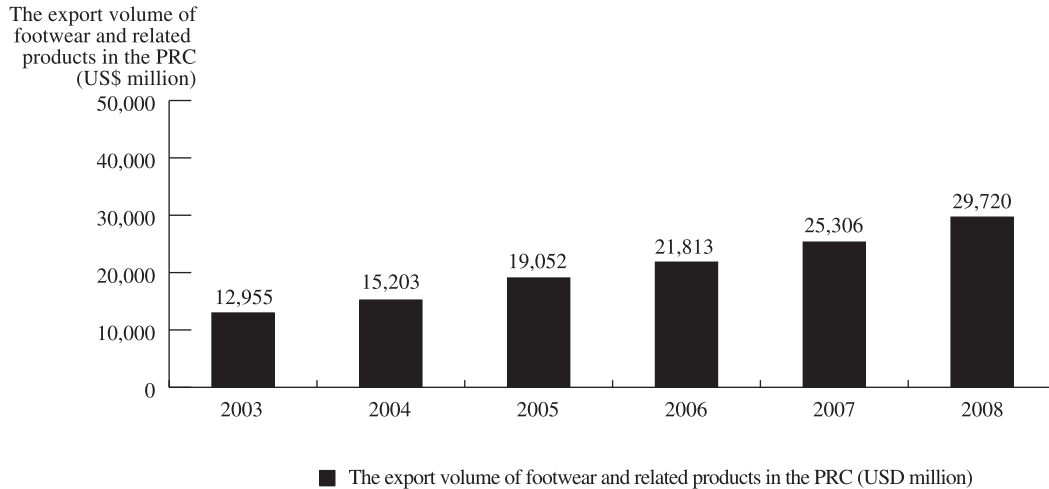
Source: Euromonitor Report

CHINA FOOTWEAR EXPORT BUSINESS

According to the National Bureau of Statistic of the PRC, the export volume of footwear and related products in China increased from approximately US\$12,955 million from 2003 to approximately US\$29,660 million in 2008, representing a CAGR of approximately 18.0%.

INDUSTRY OVERVIEW

The following diagram illustrates the export volume of footwear and related products in China from 2003 to 2008:—



Source: National Bureau of Statistic of the PRC

SOURCES OF INFORMATION

EIU

EIU is a global provider of economic information and country-based or industry-based information. The information disclosed in this prospectus from EIU is extracted from reports not commissioned by us and was prepared in the ordinary course of business of EIU.

Euromonitor

We commissioned Euromonitor, an Independent Third Party, to conduct a market analysis of, and produce the Euromonitor Report independent of our influence on (a) the sports shoes consumption in China and (b) the sportswear industry in China covering the period from 2003 to 2008 with forecasts for each of the four years ending 31 December 2012. In addition to relying on the Euromonitor Report, we also relied on various data provided by Euromonitor for the preparation of this section of the prospectus including data on China's economy, consumer spending and pattern and the levels of household disposal income in China. The fee paid by us for the Euromonitor Report was RMB100,000, of which we consider such fee reflects market rates and which was duly settled by us without any reference or conditional upon the Listing or any of the results provided within the Euromonitor Report. We have not commissioned other customerised reports for the purpose of inclusion in this prospectus.

Our Directors understand that the methodology used by Euromonitor in gathering the relevant market data being the basis of the Euromonitor Report included the following:—

- (a) combining their existing research data with information gathered from published secondary sources (such as company websites, trade associations, trade press, and national statistics available in China); and

INDUSTRY OVERVIEW

(b) interviews with selected sports brands and our competitors in China.

The above data gathered by Euromonitor was tested for reasonableness and has been incorporated in their modeling to build the forecasts in the Euromonitor Report. Forecasts are further assessed at multiple levels within Euromonitor and assumptions used to make such forecasts are evaluated for reasonableness with due reference to the supporting data, the micro and macro economic trends and such other factors as considered appropriate by Euromonitor. We also understand that Euromonitor also consulted with industry representatives who contributed their opinion on how the market would be developed with the latest trends and technology. The forecasts set forth in the Euromonitor Report are therefore not entirely based on pure statistical models, nor are they straight-line forecasts without reference to the commercial reality. Euromonitor bases its forecasts on informed, common-sense and consensual estimates gathered from various sources set forth above.

In creating the market data, *Euromonitor* also based on the following principal assumptions:—

- Specialist trade press like China Textile Information Weekly, China Fashion Weekly, etc;
- Authority statistics, reports and/or databases, e.g. China Apparel Industry Development Yearbook, China Textile Industry Statistics, China National Statistics Yearbook etc;
- Trade associations and other semi-official sources, like China National Textile and Apparel Committee, China National Garment Association, China Textile Economy Information Center, China General Chamber of Commerce etc;
- Independent analysts' or research groups' reports; and
- Euromonitor Passport data.