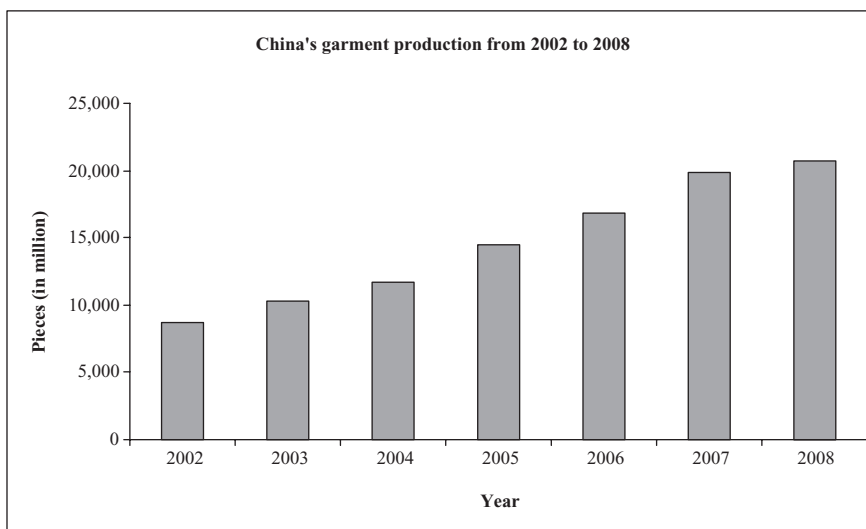

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CHINA GARMENT INDUSTRY OVERVIEW

China is one of the world's largest producers of textile and garment. Based on the statistics collected by CEIC Data Company Ltd, China produces some 20.75 billion pieces of garment for the year ended 2008. The abundance of low cost labor and China's economic growth over the years helped fuel the growth in China's garment industry, which in 1980 manufactured only about 945 million garment items.



Source: CEIC Data Company Ltd

In the early 1980s, Hong Kong garment companies set up garment manufacturing plants in Guangdong province to take advantage of lower manufacturing costs across the border and the “Open Door Policy” endorsed in the late 1970s, which included the establishment of four Chinese southern cities (Shenzhen, Zhuhai, Shantou and Xiamen) as special economic zones. This was soon followed by operations established by Asian investors from Taiwan, Japan, South Korea and etc. Such foreign investors, which were later followed by more affluent Chinese businessmen, began to set up garment factories throughout China where they can find low startup cost with cheaper labor compared to their territories.

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Today, garment factories can be found in major provinces along coastal region such as Zhejiang, Guangdong and Jiangsu. Together, these three provinces accounted for 57.7% of garment exports from China in the first three months of 2009 totaling US\$19.7 billion.

Top Ten Garment Exporting Provinces in China

Rank	Province	Export Value (in US\$ million)	
		2008	2009 (January to March)
1	Zhejiang	42,264	7,945
2	Guangdong	34,128	6,239
3	Jiangsu	29,217	5,486
4	Shanghai	16,618	3,288
5	Shandong	15,550	3,046
6	Xinjiang	10,711	1,161
7	Fujian	7,977	1,779
8	Heilongjiang	5,673	705
9	Liaoning	3,808	791
10	Hebei	2,717	526

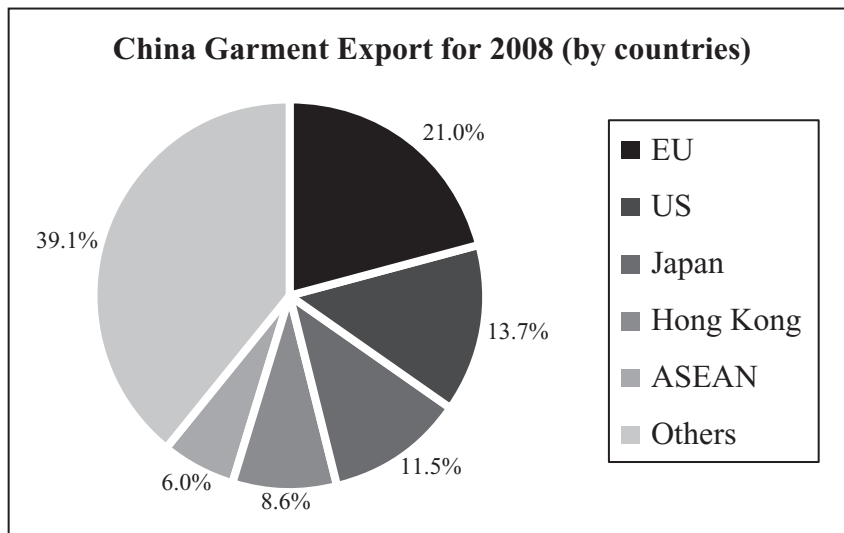
Source: China Customs Statistics

Currently, a large portion of these PRC clothing manufacturers focuses on low and medium end products. They engage principally in export oriented original equipment manufacturing segment of the industry, taking advantage of scale of production and China's lower cost due to labor intensive manufacturing processes required in the industry. However, the industry export focus is slowly changing with the advent of Chinese brands and Chinese manufacturers began to manufacture and sell garments domestically under their own brand names.

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China Garment Export Market

Over the last few decades, China managed to establish itself as the leader in low cost manufacturing, particularly in labor intensive industries. Since 1994, China is one of the world's largest exporters of garment. In 2008, US\$185.2 billion worth of garments were exported to various countries in the world with US, EU and Japan accounting for 46.2% of the total exports.



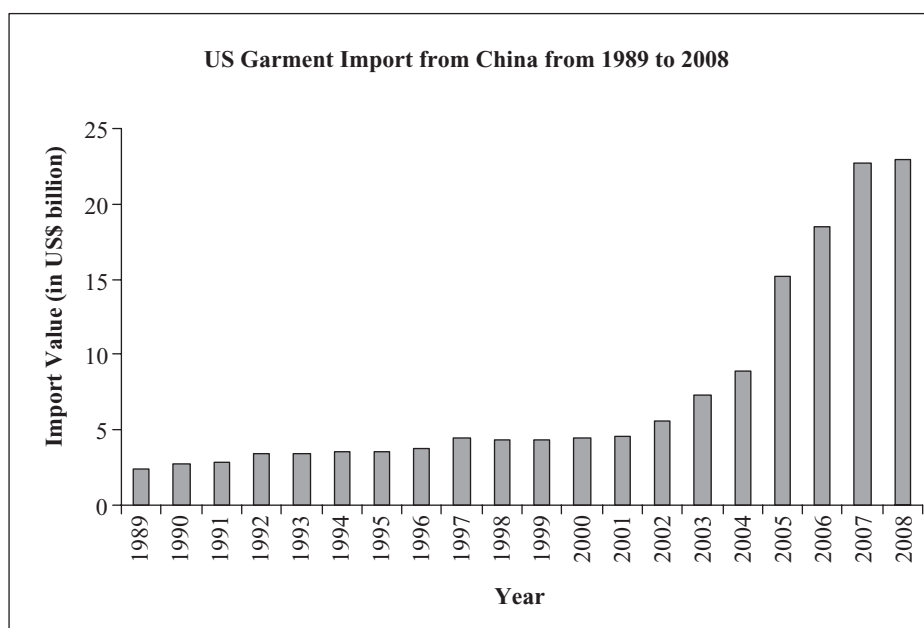
Source: China Customs Statistics

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Impact of WTO on China's Garment Export

Export of garments from China used to face tariffs and/or import quotas in the US and EU countries. Prior to China joining the World Trade Organization (“WTO”) and reaching the Agreement on Textiles and Clothing with members of the WTO, Chinese made garments were subjected to import tariffs and quotas thus affecting its growth. With China joining WTO, these tariffs and quotas were gradually removed and in 2005, the only restriction left were anti-dumping protection from China-made goods for 15 years from the date of accession and a China-specific safeguard mechanism restraining China imports from disrupting WTO members’ markets.

Since 2002 (the year after China joined WTO), garment exports from China continues to register significant growth upon the removal of key tariffs and quotas.

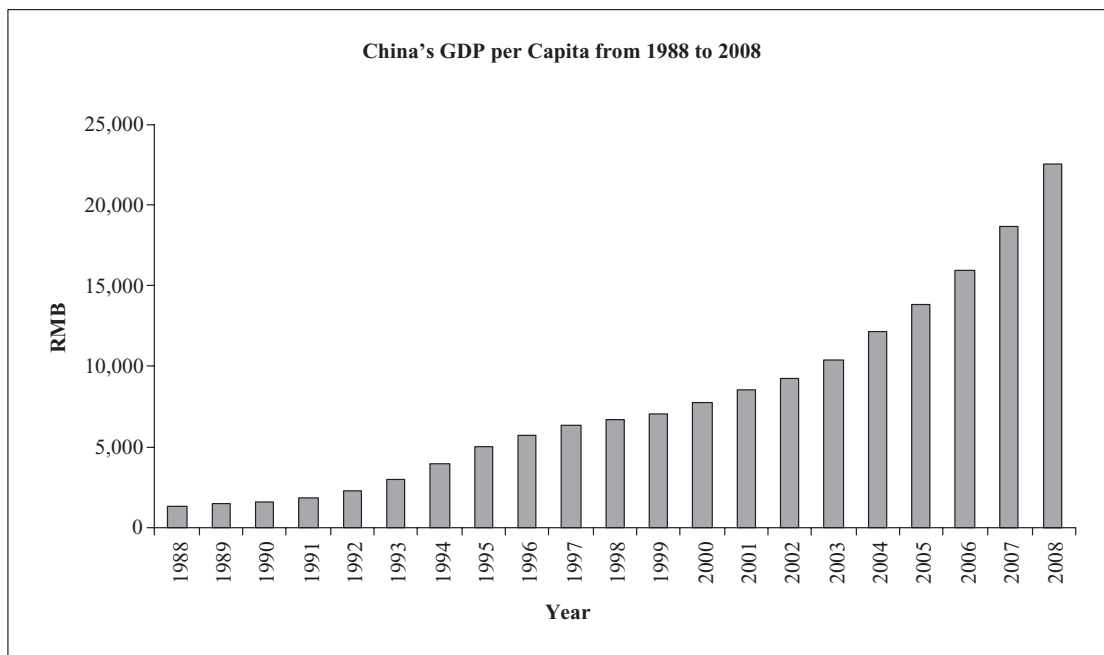


Source: U.S. Office of Textiles and Apparel

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China Domestic Consumer Market

China's has grown exponentially over the last 20 years with GDP growing at an annual growth rate of 16.2% to an estimated RMB30.07 trillion by National Bureau of Statistics in 2008. Such rate of growth meant that the GDP of China grew by almost 19 times in total for the last 20 years.



Source: National Bureau of Statistics of China

China's growth of GDP per capita from approximately RMB1,366 in 1988 to approximately RMB22,698 in 2008, representing approximately 15.1% compound annual growth rate per annum, meant that domestic consumers are fast gaining the financial ability to spend on goods that were once considered a luxury.

Despite the robust growth of its economy, China suffers significant economic disparity between rural and urban areas. According to the latest statistics published by the Chinese Academy of Social Sciences, urban to rural income ratio averaged about 5 in 2008 by contrast with the gap in 2000 when the ratio was 2.79. As a result, China has become one of the countries with the largest urban-rural gap in the world. This disparity has led the Communist Party of China Central Committee issuing a policy document to expedite rural reform and development in October 2008.

One of the key moves of the new policy was to allow farmers to lease their contracted farmland or transfer their land use right to boost their scale of operation for farm production and provide funds for them to start new businesses. The other key element of the policy was to push for rural-urban integration whereby industrial structure in rural areas would be optimized, to foster enterprises owned by villages and townships and to channel capital and

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talent to the countryside. Lastly, the new policy encourages the improvement of farmers' life by establishing a modern agricultural industrial system and the modernization of rural finances as well as security systems.

Generally, China's improving economic conditions and the support from the Chinese government increase the importance of domestic consumer market of China. The worldwide financial tsunami that began in the third quarter of 2008 had also led Chinese garment and other products manufacturers that traditionally focused on export markets to look into the domestic retail market.

China Urban Consumer Market

As of 2008, 45.7% of China's population is estimated to be living in urban areas. The UN has forecasted that more than half of China's population will be staying in the urban areas in less than a decade. This rural to urban migration process is expected to continue as various studies have shown that urban residents earn more than 3 times, which has since widened to 5 times in recent studies, what rural resident earns. In terms of disposable income of urban population, there is continual increase with the amount compounding at an annual growth rate of 10.3% for the last 10 years. Furthermore, Engel's coefficient, a measurement of the proportion of people's expenditure on food relative to total consumption and a major indicator of people's living standard, has been trending downwards from 46.6% in 1997 to 36.3% in 2007, which further showed that urban consumers now have an increasingly larger percentage of disposable income.

China Per Capita Annual Disposable Income/Annual Net Income and Engel's Coefficient of Urban and Rural Households for the period 1997 to 2008

Year	Per Capita Annual Disposable Income of Urban Households <i>RMB</i>	Per Capita Annual Net Income of Rural Households <i>RMB</i>	Engel's Coefficient of Urban Households (%)	Engel's Coefficient of Rural Households (%)
1997	5,160	2,090	46.6	55.1
1998	5,425	2,162	44.7	53.4
1999	5,854	2,210	42.1	52.6
2000	6,280	2,253	39.4	49.1
2001	6,860	2,366	38.2	47.7
2002	7,703	2,476	37.7	46.2
2003	8,472	2,622	37.1	45.6
2004	9,422	2,936	37.7	47.2
2005	10,493	3,255	36.7	45.5
2006	11,760	3,587	35.8	43.0
2007	13,786	4,140	36.3	43.1
2008	15,781	4,761	37.9	43.7

Source: National Bureau of Statistics of China

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With growing affluence in urban households, international apparel brands are setting up outlets in PRC. As a result, intense competition has appeared in garment and apparel market in the urban areas, with more premium international brands trying to establish their presence in big cities within China.

China Rural Consumer Market

Rural consumer market on the other hand shows a different trend from that of urban areas. Despite disposal income in rural markets registered 7.07% compound annual growth rate from 1997 to 2007, growth is slower when compared to that of urban residents. Rural-to-urban migration also contributed to this shift as younger working adults move to the cities to seek better job and educational opportunities, leaving behind an already weak rural consumer market. However, as the government began investing in, and encouraging the development of, the rural and western part of China, the government hopes that this would lead to faster growth in these areas in the future.

With lower income, the rural consumers focus on different criteria in their consumption decisions compared to their urban counterparts. Quality and value tend to be their main criteria in selecting their choice of goods. To date, international established apparel brands have yet to establish in rural areas.

REGULATIONS IN THE PRC

As advised by our legal advisers as to PRC laws, our manufacturing and wholesaling business operations in the PRC are not subject to any specific license requirements other than those generally applicable to companies and business operating in the PRC. A summary of some regulations which are applicable to our Group is set forth below.

Environmental Protection Law (環境保護法)

Promulgated on 26 December 1989, the Environmental Protection Law sets out the legal framework for environmental protection in the PRC. The purpose of the Environmental Protection Law is to protect and enhance the living environment, to prevent and remove environmental pollution, contamination and other public hazards, and to safeguard public health. The State Administration for Environmental Protection is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating national waste discharge limits and standards. Local environmental protection authorities at county level and above are responsible for the environmental protection in their administrative areas.

Enterprises that discharge contaminants must report to, and register with, the State Administration for Environmental Protection or the local environmental protection authorities. Enterprises discharging contaminants in excess of the discharge limits or standards prescribed by the central and/or local authorities must pay discharge fees for the treatment of the excessive discharge.

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Government authorities can impose different penalties on persons or enterprises in violation of the Environmental Protection Law, depending on the individual circumstances of each case and the extent of contamination. Such penalties include warnings, fines, imposition of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which have been removed without permission or left unused, administrative actions against relevant responsible persons or enterprises, or orders to close down those enterprises. Where the violation is serious, the persons or enterprises responsible for the violation may be required to pay damages to victims of the contamination. Where serious environmental contamination occurs in violation of the provisions of the Environmental Protection Law which results in serious loss of public and private property, persons or enterprises directly responsible for such contamination may be subject to criminal liabilities.

Production Safety Law (安全生産法)

The Production Safety Law was promulgated on 29 June 2002 and became effective on 1 November 2002, companies conducting production activities must meet the conditions for safe production stipulated by the laws and regulations. Companies conducting production activities that have more than 300 employees must form a management department for production safety or have personnel solely responsible for production safety. Companies conducting production activities that have less than 300 employees must have personnel solely responsible for production safety or have part-time personnel responsible for the management of production, or entrust engineering technicians with qualifications stipulated by laws and regulations for such purpose. Companies conducting production activities must place warning signs in the working place or on the equipment which is comparatively more hazardous. Companies conducting production activities must take out job-related injury insurance in accordance with applicable laws and regulations.

Provisions on Minimum Wages (最低工資規定)

The Provisions on Minimum Wages promulgated by the former Ministry of Labor and Social Security became effective on 1 March 2004. The purpose of this regulation is to safeguard the legitimate rights and interests of labor in getting labor remunerations, and safeguard the basic necessities of labor and their family members. The term “standards on minimum wages” refers to the minimum labor remunerations that shall be paid by the employing entities according to law under the precondition that the labor have provided normal labor services within normal working hours or within the working hours as prescribed in the labor contracts concluded according to law.

In general, the standards of minimum wages appear in two forms, namely the monthly minimum wage standard and the hourly minimum wage standard. The monthly minimum wage standard applies to full-time employees while the hourly minimum wage standard to part-time employees. Different administrative areas within a province, autonomous region or municipality directly under the Central Government may adopt different standards of minimum wages. The standards on minimum wages shall be reviewed at least once every two years.

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Provisional Regulations on Collection and Payment of Social Insurance Premiums

(社會保險費徵繳暫行條例)

Provisional Regulations on Collection and Payment of Social Insurance Premiums was implemented on 22 January 1999, which is formulated to strengthen and regularize collection and payment of social insurance premiums, and to ensure the granting of social insurance compensation. The administrative department of labor security under the State Council is responsible for the nationwide administration, supervision and checkup of the collection and payment of social insurance premiums. The administrative departments of labor security of the people's governments at or above the county level are responsible for the administration, supervision and checkup of the collection and payment of social insurance premiums within their respective administrative areas. The base and rate of social insurance premiums shall be set fixed in accordance with relevant laws and administrative regulations as well as provisions of the State Council. Units and individuals paying premiums shall promptly pay social insurance premiums in full amount and social insurance premiums collected and paid shall be incorporated into social insurance funds and only used for their special purposes. No unit and individual may misappropriate these premiums.

ANTI-DUMPING PROVISION

Some countries in South America and Europe may impose anti-dumping duties on products exported from another country if such exported products are being sold (i) at less than the producer's sale prices in home market or (ii) at prices that are lower than its production costs. To the best knowledge of our Directors, there is no anti-dumping measure in force in the Middle East.

Our Directors consider that the anti-dumping provision does not apply to our exported sales as, to the best knowledge of our Directors, (i) our OEM products are not distributed in the PRC, therefore there is no reference price on the sale prices of our OEM products in our home markets; and (ii) our OEM products are sold at prices higher than our production costs.