

INDUSTRY OVERVIEW

SOURCES OF INFORMATION

Certain information provided in this section is derived from various official or publicly available sources including the following:

Bureau of Economic Analysis, United States Department of Commerce

The Bureau of Economic Analysis is an agency of the Department of Commerce of the United States, and is under direct control of the Department Economics and Statistics Administration in the United States. The agency produces economic accounts statistics that enable government and business decision-makers, researchers and the public to follow and understand the performance of the USA economy. The information presented in this document from Bureau of Economic Analysis is freely accessible by the public.

The International Trade Centre

The International Trade Centre was formed in 1964 and is a joint agency of the World Trade Organization and the United Nations for trade related technical assistance. The information presented in this document from the International Trade Centre is freely accessible by the public.

The National Bureau of Statistics of China

The National Bureau of Statistics of China is the official agency under the direct supervision of the State Council in charge of producing and issuing statistics and economic accounting in the PRC. The information presented in this document from the National Bureau of Statistics of China is freely accessible by the public.

Industry Canada

Industry Canada is the department of the Government of Canada with a mandate of fostering a growing, competitive, knowledge-based Canadian economy. The information presented in this document from Industry Canada is freely accessible by the public.

Statistics Canada

Statistics Canada is the Canadian federal government agency commissioned with producing statistics and economic accounting in Canada. The information presented in this document from Statistics Canada is freely accessible by the public.

China Textile City Construction Management Committee

China Textile City Construction Management Committee is a PRC government agency, who leads planning, construction and management of China Textile City. The information presented in this document from China Textile City Construction Management Committee is freely accessible by the public.

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Bureau of Labor Statistics, Department of Labor of the United States

The Bureau of Labor Statistics of the U.S. Department of Labor is the principal federal agency responsible for measuring labor market activity, working conditions, and price changes in the economy. The information presented in this document from Bureau of Labor Statistics, Department of Labor of the United States is freely accessible by the public.

International Trade Administration, Department of Commerce of United States

The International Trade Administration (“ITA”) is an agency of the Department of Commerce of the United States. Its main functions are to strengthen the competitiveness of industries in the United States, promote trade and investment, and ensure fair trade through the rigorous enforcement of respective trade laws and agreements. ITA works to improve the global business environment and helps US organisations compete locally and abroad. The information presented in this document from ITA is freely accessible by the public.

Energy Information Administration of the United States

Energy Information Administration (“EIA”) of the United States is the statistical and analytical agency within the Department of Energy of the United States Government. EIA collects, analyses, and disseminates independent and impartial energy information, which is independent of approval by any other officer or employee of the US Government. The information presented in this document from EIA is freely accessible by the public.

China Cotton Association

China Cotton Association is a non-profit organisation in the PRC whose main functions are to gather, analyse and release information about the area of cotton. The information presented in this document from China Cotton Association is freely accessible by the public.

China Statistical Yearbook 2012

China Statistical Yearbook is an annual statistical publication published by the National Bureau of Statistics of the PRC to reflect comprehensively the economic and social development in the PRC. The China Statistical Yearbook 2012 covers key statistical data in recent years up to 2011 at the national level and at the local levels of province, autonomous region and municipality directly under the central PRC Government. The information presented in this document from China Statistical Yearbook 2012 is freely accessible by the public.

Federal Reserve of the United States

The Federal Reserve is the central bank of the United States. It formulates monetary policies and ensures stability of the financial system in the United States. The information presented in this document from Federal Reserve of the United States is freely accessible by the public.

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THE PRC APPAREL MANUFACTURING INDUSTRY

Industry characteristics and size

The Group operates in the apparel manufacturing industry with its manufacturing base located in the PRC and its customers being mainly international apparel groups based in the USA and Canada.

There are a large number of market players in the apparel manufacturing industry throughout the world. Among all countries, the PRC has maintained its leading position in the apparel exports market for the year 2012. Based on the statistics published by the International Trade Centre, for the year 2012, the world in aggregate exported a total value of apparel and accessories of approximately US\$212,937 million. The country that supplied the highest value of apparel and accessories was the PRC, reaching approximately US\$98,372 million, which accounted for approximately 46.2% of the total worldwide exports value. The other major exporting countries and regions include Bangladesh, Germany, Turkey, Italy, Vietnam, India, Cambodia, Belgium and France. The chart below lists out the top 10 exporters that exported the highest value of articles of apparel and accessories for the year 2012:

	Export value in 2012	
	<i>US\$ million</i>	<i>%</i>
PRC (include Hong Kong)	98,372	46.2
Bangladesh	11,282	5.3
Germany	8,477	4.0
Turkey	8,428	4.0
Italy	7,806	3.7
Vietnam	6,913	3.2
India	5,466	2.6
Cambodia	4,307	2.0
Belgium	4,017	1.9
France	3,924	1.8
All other countries and regions	53,945	25.3
Total	212,937	100.0

Source: The International Trade Centre

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Competitive landscape and entry barriers

There are a large number of competitors of different scales of operation in the market and the competition in the PRC apparel manufacturing industry is intense. Apparel manufacturers and suppliers such as the Group targeting international apparel groups and specialty chain retailers in the United States and Canada are competing mainly on (i) product design and development capabilities and the ability to anticipate fashion trends; (ii) reliability of product quality and timely delivery; (iii) price competitiveness; and (iv) the ability to operate under various social compliance requirements set out by the customers.

Notwithstanding the relatively low initial capital commitment and technology requirements, PRC apparel manufacturers targeting international apparel groups and specialty chain retailers in the United States and Canada have to build a strong product design and development team that is capable of bringing constant ideas on the fashion trends and new design inspirations to the customers as well as an efficient manufacturing operation with reliable and high quality. Potential competitors will also have to face the challenges of increasing manufacturing costs associated with labour costs, raw material prices and the appreciation of RMB against US\$, as well as the stringent social compliance requirements imposed by the customers. All of the above factors create relatively high entry barriers for potential competitors of the Group.

For the Group’s market share in the apparel markets in the United States and in Canada, please refer to the paragraphs headed “USA apparel import” and “Canada total clothing manufacturing import” below in this section.

FUTURE OPPORTUNITIES AND CHALLENGES

The Group considers that the future opportunities and challenges faced by the Group will be affected by the development of the apparel industry in the USA and Canada as well as factors affecting the cost structure of the Group such as the costs of raw materials and labours and the fluctuation of the exchange rate between US\$ and RMB. With its vertically-integrated operation, the Group considers itself to be well-positioned to compete favourably against its competitors under such future challenges that are commonly faced by all competitors. When the Group’s competitors are unable to survive or maintain their market share as a result of such future challenges, the Group considers that it may bring opportunities for the Group to acquire its competitors’ market shares and to further enhance its business and performance. Set out below is an analysis of the opportunities and challenges faced by the industry.

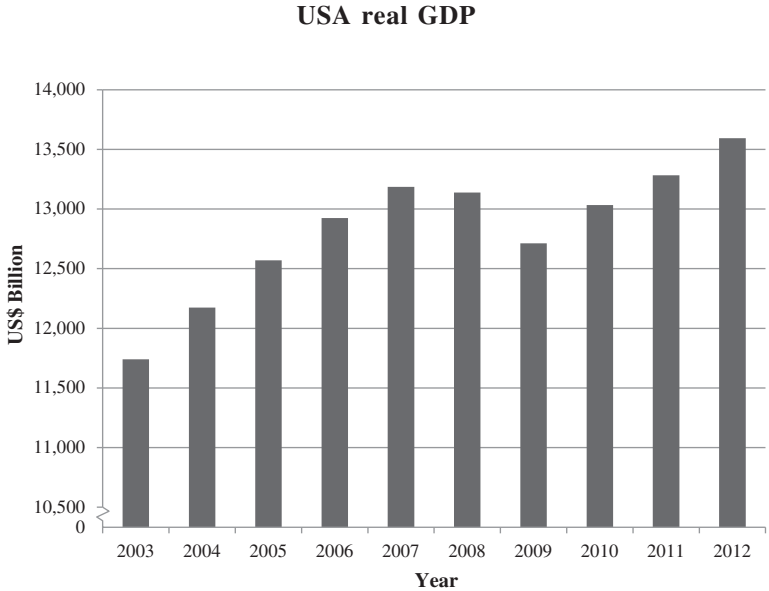
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USA apparel industry

Overview of USA economy

According to the statistics published by the Bureau of Economic Analysis of the Department of Commerce of the United States, the real GDP of the USA steadily increased from approximately US\$11,836 billion in 2003 to approximately US\$13,593 billion in 2012, with a CAGR of approximately 1.55%:



Source: Bureau of Economic Analysis, Department of Commerce of the United States

The sudden decrease in the real GDP of USA in 2008 and 2009 was mainly due to the global financial crisis which took place in 2008 and 2009 led by the collapse of some international financial institutions. The severe and significant damage to the USA economy can be shown from the significant drop in the GDP in 2009. The USA economy has been recovering since 2010 as illustrated in the above chart.

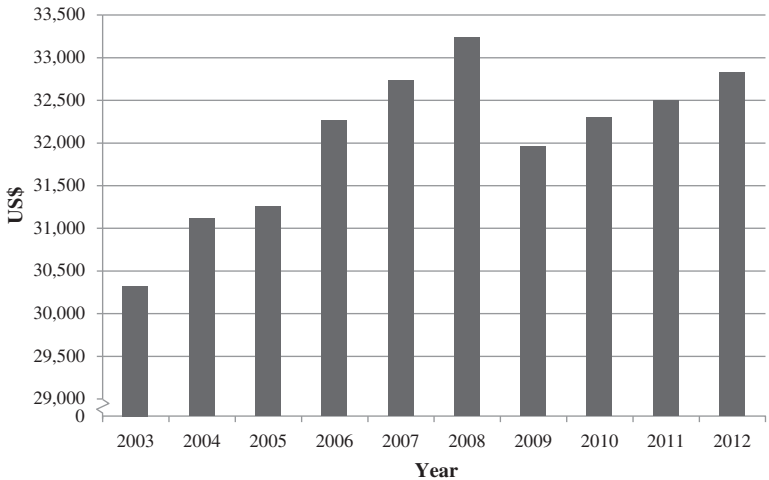
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Per capita disposable personal income of USA

According to the statistics published by the Bureau of Economic Analysis, U.S. Department of Commerce, the real adjusted per capita disposable personal income has increased from US\$30,453 in 2003 to US\$32,841 in 2012, representing a CAGR of 0.84% for the period from 2003 to 2012. Disposable personal income is defined as personal income less personal current taxes. The below chart illustrates the real adjusted per capita disposal personal income figures for the period from 2003 to 2012:

USA real adjusted per capita disposable personal income



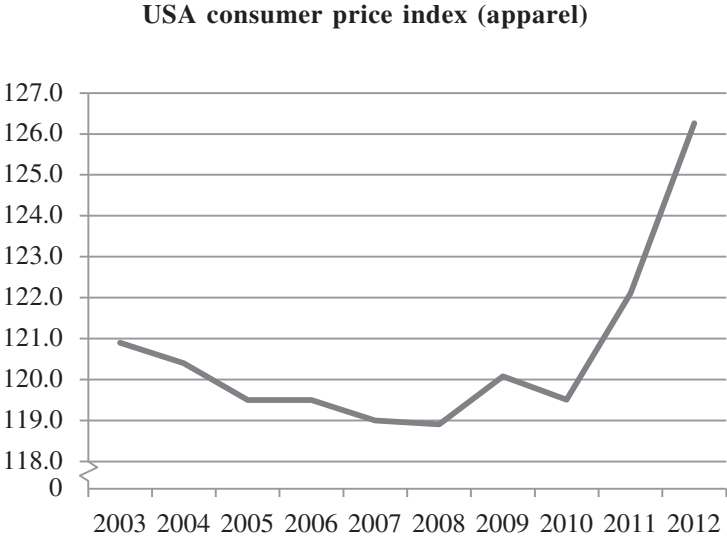
Source: Bureau of Economic Analysis, Department of Commerce of the United States

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USA apparel price index

According to the data published by the Bureau of Labor Statistics, Department of Labor of the United States, the consumer price index for apparel has increased from 120.9 in 2003 to 126.3 in 2012. The price level of apparel market in the United States has been increasing since 2010 as illustrated in the graph below.



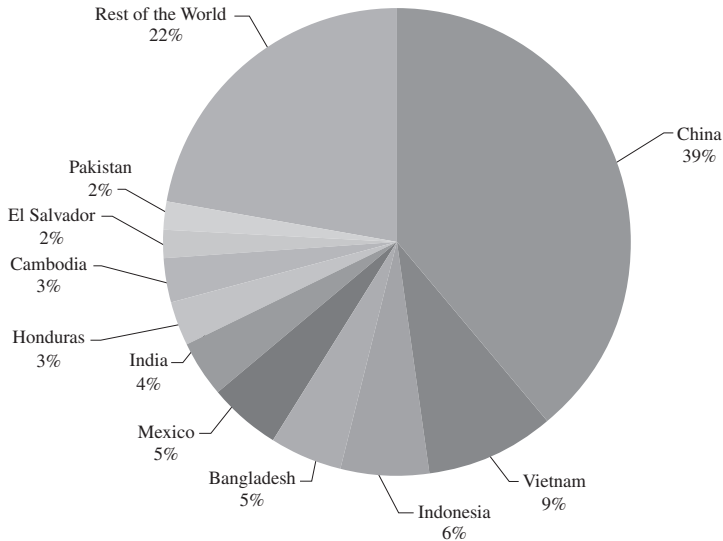
Source: Bureau of Labor Statistics, Department of Labor of the United States

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USA apparel import

According to the figures published by the International Trade Administration, U.S. Department of Commerce Office, USA total apparel and accessories import values in year 2012 was US\$81,449 billion. The 10 countries that contributed most to USA total apparel import value were, in sequence, China, Vietnam, Indonesia, Bangladesh, Mexico, India, Honduras, Cambodia, El Salvador and Pakistan for the year 2012. USA total apparel import values from each of the top 10 countries were approximately US\$32,102 billion from China, US\$7,131 billion from Vietnam, US\$4,961 billion from Indonesia, US\$4,474 billion from Bangladesh, US\$3,912 billion from Mexico, US\$3,206 billion from India, US\$2,651 billion from Honduras, US\$2,537 billion from Cambodia, US\$1,840 billion from El Salvador and US\$1,560 billion from Pakistan for the year 2012. The chart below sets out the USA total apparel and accessories import value distribution by countries for the year 2012.

2012 USA total apparel import and accessories distribution by countries



Source: International Trade Administration, U.S. Department of Commerce

As at the Latest Practicable Date, there were approximately 50 listed companies on the New York Stock Exchange that were apparel retailers or clothing and accessories sellers. These companies include existing and potential customers of the Group.

Based on the total apparel and accessories import value of the United States in 2012 of US\$81,449 billion and the Group’s sales to customers in the United States in 2012 of approximately HK\$217.7 million (or approximately US\$27.9 million), the Group’s market share in the apparel market in the United States is insignificant (less than 0.01%).

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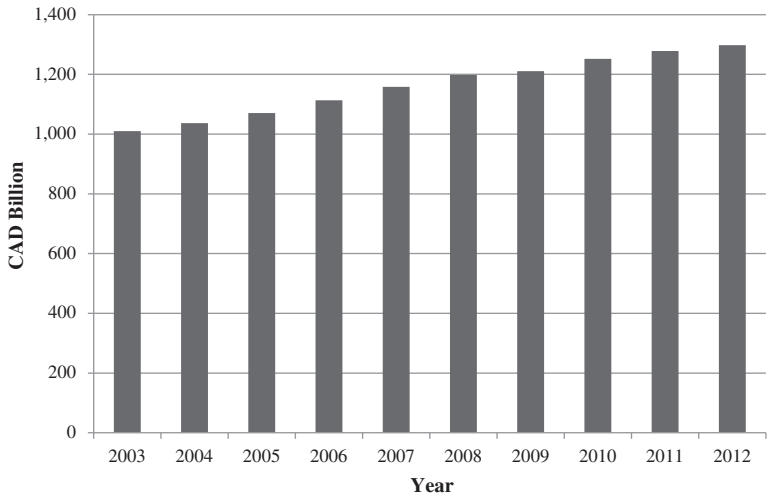
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Canada apparel industry

Overview of Canada economy

According to the statistics published by Statistics Canada, the Canada’s central statistical office, the real GDP of Canada steadily increased from approximately CAD1,009 billion in 2003 to approximately CAD1,297 billion in 2012, with a CAGR of approximately 2.83%:

Canada real GDP



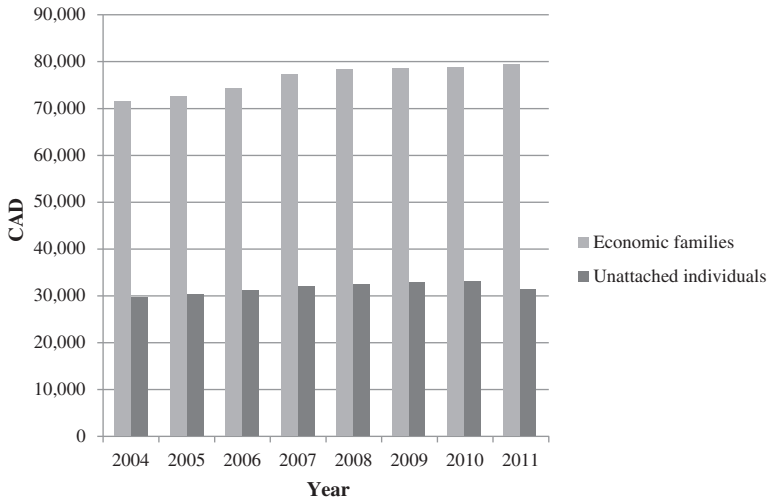
Source: Statistics Canada

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Disposable personal income of Canada

According to Statistics Canada, the real adjusted disposable income for a typical economic family has increased from CAD71,600 in 2004 to CAD79,600 in 2011, representing a CAGR of 1.52% for the period. Disposal income is defined as personal income less personal current taxes; an economic family is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common law or adoption; whereas unattached individual is a person living either alone or with others to whom he or she is unrelated, such as roommates or a lodger. The following chart shows the real adjusted disposal income figures for the period from 2004 to 2011:

Canada real adjusted disposable personal income

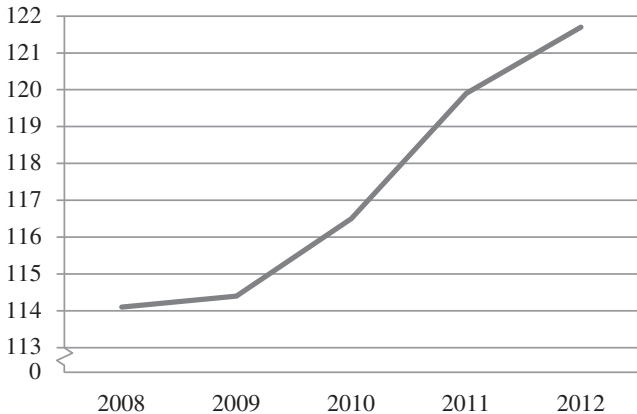


Source: Statistics Canada

Canada apparel retail value

According to the data published by Statistics Canada, the consumer price index (Canada) for clothing and footwear has increased from 114.1 in 2008 to 121.7 in 2012. The chart below sets out the consumer price index in Canada for clothing and footwear from 2008 to 2012.

Canada consumer price index (clothing and footwear)



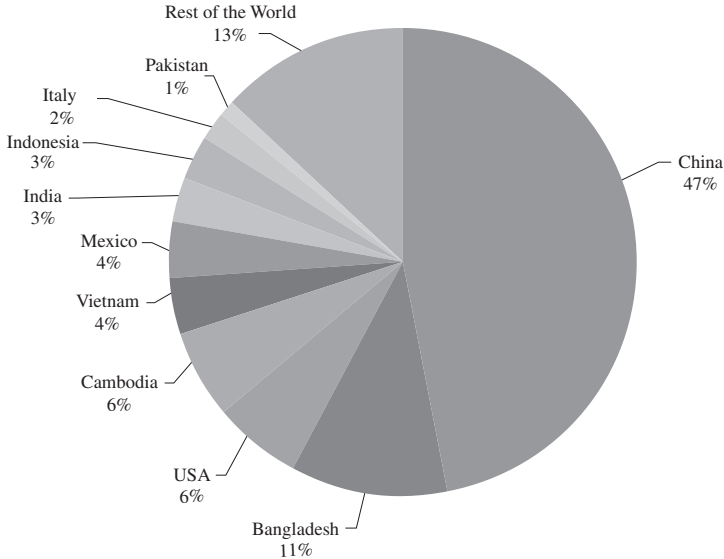
Source: Statistics Canada

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Canada total clothing manufacturing import

According to the figures published by Industry Canada, Canada’s total clothing manufacturing import value in year 2012 was US\$9,126 million. The 10 countries that contributed most to Canada’s total clothing manufacturing import value were, in sequence, China, Bangladesh, USA, Cambodia, Vietnam, Mexico, India, Indonesia, Italy and Pakistan for the year 2012. Canada’s total clothing manufacturing import values from each of the top 10 countries for the year 2012 were approximately US\$4,282 million from China, US\$1,012 million from Bangladesh, US\$593 million from USA, US\$536 million from Cambodia, US\$399 million from Vietnam, US\$323 million from Mexico, US\$288 million from India, US\$242 million from Indonesia, US\$198 million from Italy and US\$120 million from Pakistan. The chart below sets out the 2012 Canada’s total clothing manufacturing import value distribution by countries.

2012 Canada total clothing manufacturing import distribution by countries



Source: Industry Canada

According to the statistics from Industry Canada, there were approximately 552 companies in Canada engaged in the apparel sector or operating clothing and clothing accessories stores in September 2013. Such companies include existing and potential customers of the Group.

Based on the total clothing manufacturing import value of Canada in 2012 of US\$9,126 million and the Group’s exports to Canada in 2012 of approximately HK\$109.5 million (or approximately US\$14.0 million), the Group’s market share in Canada’s apparel market was approximately 0.15% in 2012.

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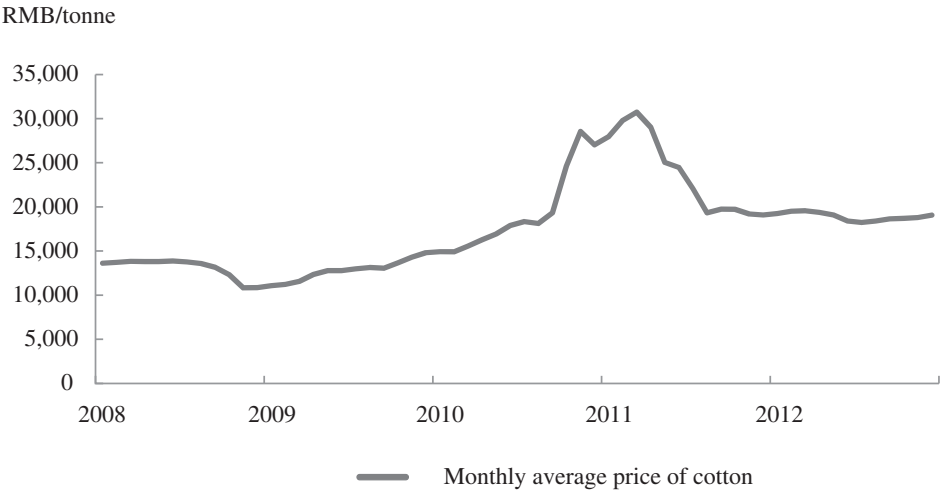
Costs of raw materials and labour in the PRC

Fabric prices

One of the Group’s major raw materials is fabric, which is mainly made of cotton and polyester.

The following graph illustrates the movement in the price of cotton in the PRC from 2008 up to the end of 2012:

Average price trend of cotton in China (2008–2012)



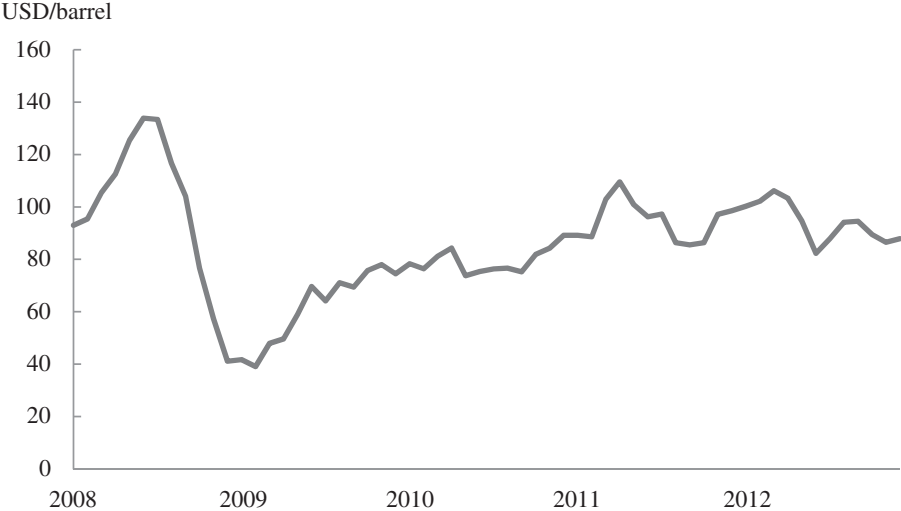
Sources: China Cotton Association

The monthly average price of cotton in the PRC increased from approximately RMB13,622 per tonne in January 2008 to approximately RMB19,068 per tonne in December 2012, representing a CAGR of approximately 6.96%. Driven by domestic and foreign demand, fallen local supply and increased global cotton price, the average cotton price started to rise since 2009 and peaked in March 2011 at around RMB30,733 per tonne. The cotton price has fallen substantially since then and remained relatively stable throughout 2012 at the level of approximately RMB19,000 per tonne.

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Polyester is mainly made from crude oil. The table below sets out the international price trend of crude oil from 2008 up to the end of 2012:



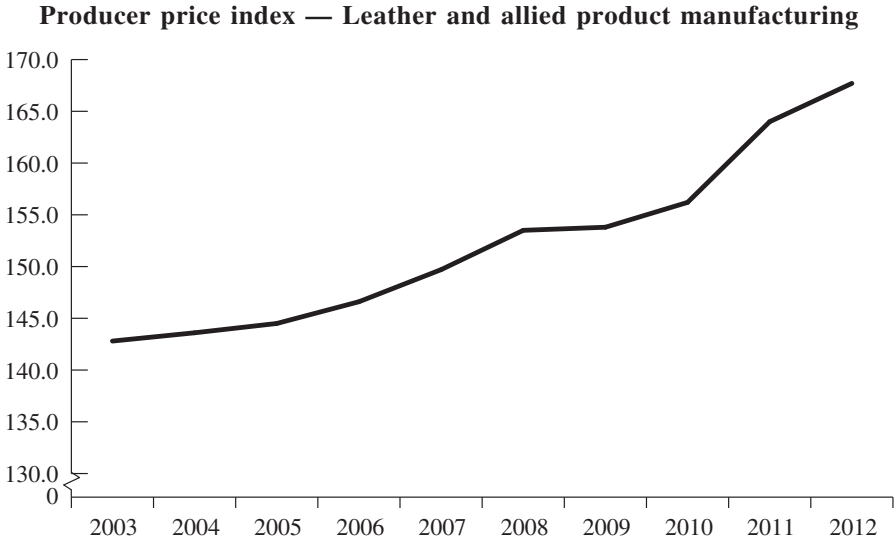
Sources: U.S. Energy Information Administration

The price of crude oil underwent a significant decrease after the record peak of USD133.88 per barrel recorded in June 2008. Then the monthly average price of crude oil increased at a CAGR of approximately 20.31% from approximately USD42 per barrel in the beginning of 2009 to approximately USD88 per barrel at the end of 2012. During the Track Record Period, the monthly average price of crude oil was about USD89 per barrel in January 2011 and about USD88 per barrel in December 2012.

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Leather prices

One of the Group’s major raw materials is leather. The Directors are not aware of any statistics in relation to the historical price trend of leather in the PRC markets. However, the Directors are aware of the following producer price index (leather and allied product manufacturing) published by the Bureau of Labor Statistics of the Department of Labor of the United States, and the Directors consider that such index is reflective of the general price trend of leather in the PRC markets. The following graph illustrates the producer price index (leather and allied product manufacturing) from 2003 to 2012 published by the Bureau of Labor Statistics of the Department of Labor of the United States:



Source: Bureau of Labor Statistics, Department of Labor of the United States

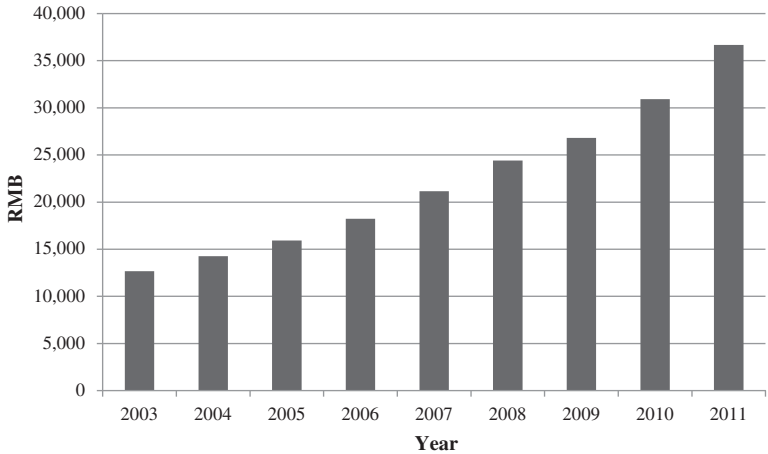
The producer price index (leather and allied product manufacturing) has increased from approximately 142.8 in 2003 to approximately 167.7 in 2012, representing a CAGR of approximately 1.80% in price of leather and allied product manufacturing.

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Labour costs

According to the statistics published by National Bureau of Statistics of China, the average wage of employed persons in manufacturing sector located in urban areas of the PRC has been increased from approximately RMB12,671 in 2003 to approximately RMB36,665 in 2011, representing a CAGR of approximately 14.20%. The series of high-profile strikes happening in some of the PRC factories in 2010 has put a spotlight on growing unrest among the PRC’s massive migrant worker populations wanting a greater share of the profit of the employers. The following chart sets out the average wage of employed persons in manufacturing sector located in urban areas of the PRC for the period from 2003 to 2011.

Average wage of employed persons in urban units of PRC (manufacturing sector)



Source: China Statistical Yearbook 2012 published by National Bureau of Statistics of China

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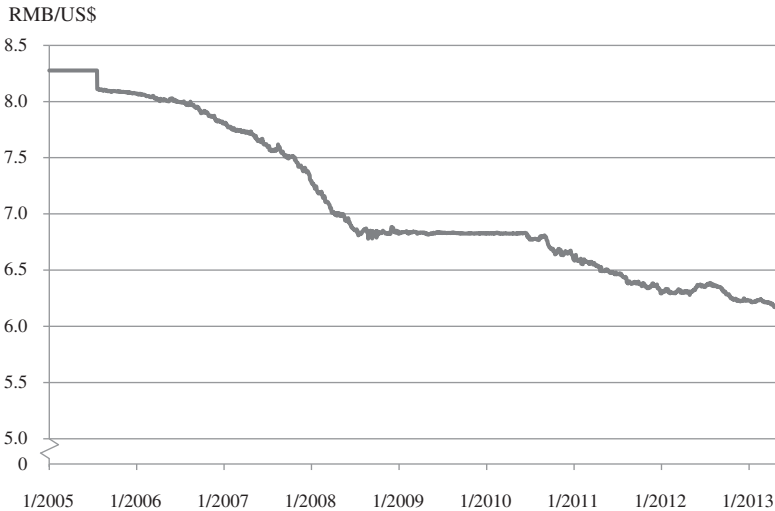
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Foreign exchange rate fluctuation and its effect on the Group

Trend of exchange rate between US\$ and RMB

On 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market demand and supply with reference to a basket of currencies, determined by the PBOC. This change in policy has resulted in the value of the RMB appreciating against the USD significantly. The following chart illustrates the historical exchange rates between RMB and USD from January 2005 to January 2013.

Historical exchange rate (RMB per USD)



Source: Federal Reserve of the United States

Foreign exchange risk

The exchange rates between RMB and the USD are subject to changes in the PRC Government’s policies and international political and economic conditions. The Group derives a substantial part of its revenue in USD while its costs are mainly denominated in RMB. Appreciation of RMB against USD will therefore directly decrease the profit margin of the Group if the Group is unable to increase the selling prices of its products accordingly. If the Group increases the selling prices of its products as a result of the appreciation of RMB, it may in turn affect the Group’s competitiveness against overseas competitors. To the extent that the Company needs to convert future financing into RMB for its operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the purchasing power of the RMB amount that the Company would receive from the conversion. Please refer to the paragraph headed “Hedging of currency risk” under the section headed “Business” in this document for further details of the Group’s currency risk and the related hedging activities.