
INDUSTRY OVERVIEW

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COMMISSIONED REPORT FROM IPSOS HONG KONG LIMITED

We commissioned Ipsos Hong Kong Limited (“**Ipsos**”), an independent market research company, to conduct an analysis of, and to report on China’s general economic environment and the garment industry from 2007 to 2015. Ipsos Hong Kong Limited received a total fee of HK\$268,000, which we believe such reflects the market rate.

The report prepared by Ipsos (“**Ipsos Report**”) includes information on the garment manufacturing, distribution and retail industry and other economic and industrial data, which have been quoted in this prospectus. The information contained in the report is derived by means of data and intelligence gathering which include: (i) desk research including government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals, other online sources and data from the research database of Ipsos Hong Kong Limited; (ii) client consultation; and (iii) primary research by interviewing key stakeholders and industry experts, including associations and experts, government officials, garment manufacturers, original equipment manufacturers and original design manufacturers, and branded fashion retailers.

The intelligence gathered by Ipsos has been analysed, assessed and validated using their in-house analysis models and techniques.

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Analyses in the Ipsos Report are based on the following general bases and assumptions:

- the global supply of materials for apparel is assumed to be stable and without shortage over the forecast period;
- it is assumed there is no external shock such as natural disasters or the wide outbreak of diseases to affect the global demand and supply of apparel;
- it is assumed the global economy will recover steadily in the future;
- Exchange rate of US\$ to RMB are used in the entire report are as follows:

2011: US\$ 1 to RMB 6.454

2010: US\$ 1 to RMB 6.761

2009: US\$ 1 to RMB 6.821

2008: US\$ 1 to RMB 6.940

2007: US\$ 1 to RMB 7.597

Analyses in the Ipsos Report have taken into account the following parameters:

- Garment import and export data from the China Customs
- 2010–2011 China garment industry development report by the China National Garment Association
- The 12th Five-Year plan of the PRC

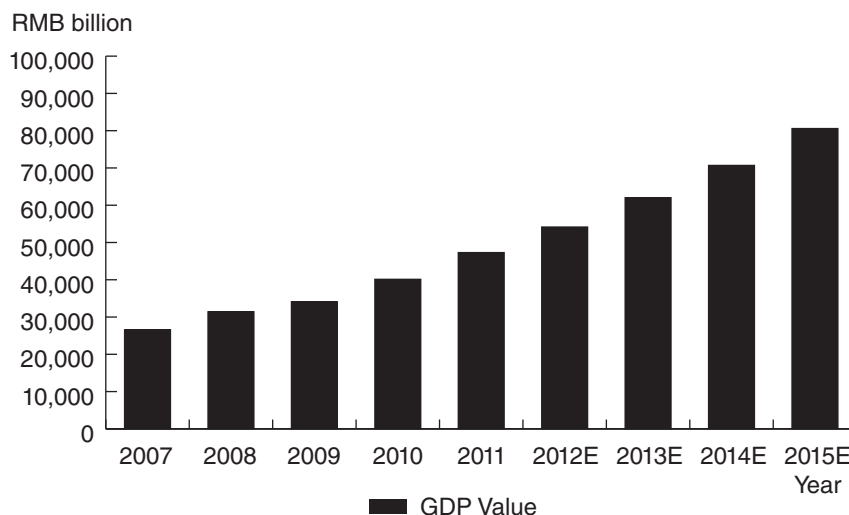
Ipsos is an independent market research company and is part of Ipsos S.A.. Ipsos S.A. was founded in Paris, France, in 1975, listed on the Paris stock exchange (NYSE Euronext Paris) since 1999. After the acquisition of Synovate Ltd. in October 2011, Ipsos S.A. becomes one of the largest research companies in the world which employs approximately 16,000 personnel worldwide across 84 countries. Ipsos S.A. conducts researches on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

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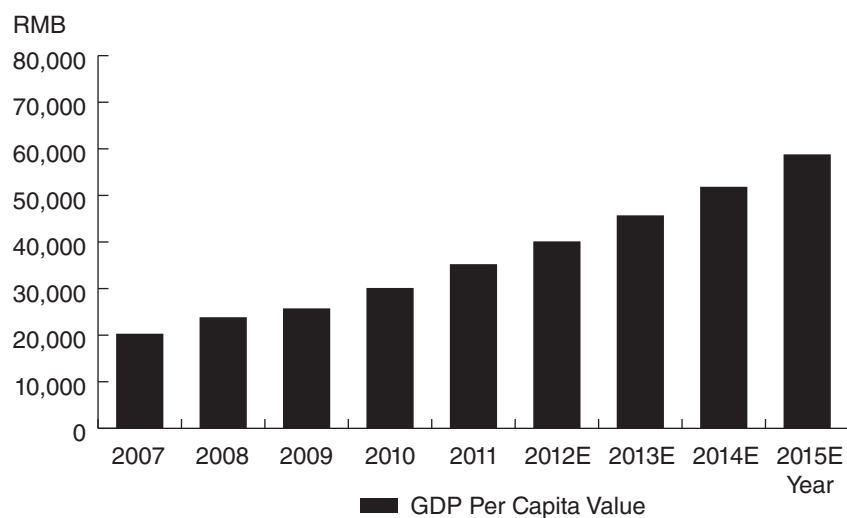
THE ECONOMIC GROWTH IN CHINA

The rapid development of China's economy is reflected by its growth in nominal GDP in the past years, which has grown significantly at a CAGR of approximately 15.5% from 2007 to 2011. The fast growth has led to a population with higher income and increased living standards, which fueled apparel demand in the country. The nominal GDP per capita increased from approximately RMB20,169 in 2007 to RMB35,099 in 2011, representing a CAGR of approximately 14.9%. The graphs below set out the nominal GDP and nominal GDP per capita of China from 2007 to 2015:

Nominal GDP of China (2007–2015E)



Nominal GDP Per Capita of China (2007–2015E)



Source: National Bureau of Statistics of China

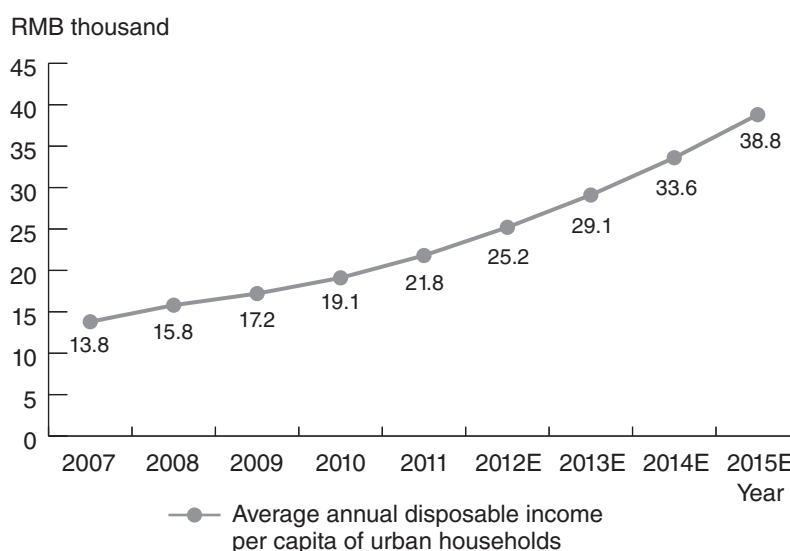
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The growth of China's economy has slowed down to approximately 9.6% and 9.2% in 2008 and 2009, respectively, due to the impact of the financial crisis that began at the end of 2008 but has rapidly regained its momentum and experienced a strong recovery in 2010 at a growth rate of approximately 10.4%. The strong recovery has proven that the economy of China is able to grow faster as compared to the world's imports and possesses strong fundamental competitiveness in the manufacturing industry. Due to the increased concern of the European debt crisis and the growing income disparity within the country, the growth of China's economy is expected to decline to approximately 7.5% in 2012. Nevertheless, the China's economy is expected to continuously grow but at a slower pace with a CAGR of approximately 14.2% from 2012 to 2015 to reach to approximately RMB80,573 billion in 2015 as the country moves away from focusing on labour intensive industries to the higher-end manufacturing and service industries.

GROWTH IN DISPOSABLE INCOME OF URBAN HOUSEHOLDS

The prosperous growth of China's economy has contributed to the growing level of disposable income in China. The graph below sets out the per capita annual disposable income of urban households in China from 2007 to 2015:

Per Capita Annual Disposable Income of Urban Households in China (2007–2015E)



Sources: National Bureau of Statistics of China; Ipsos Report

Despite the global economic downturn in 2008 and 2009, China's per capita annual disposable income of urban households has been growing steadily. Per capita annual disposable income increased at a CAGR of approximately 12.1% from 2007 to 2011 to reach approximately RMB21,800 in 2011. Despite the growing economy, China is still an emerging economy with its income remaining relatively low. The "Income-Doubling Plan" to double average wages over the five years from 2011, along with the PRC government's attempt to further raise the individual income tax threshold from RMB2,500 to RMB3,000 per month will boost the annual disposable income in China. It is expected that the per capita annual disposable income of urban households will grow at a CAGR of approximately 15.5% from 2012 to 2015 to reach approximately RMB38,800 in 2015.

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Average Annual Household Disposable Income of Selected Cities in China (2007–2011)

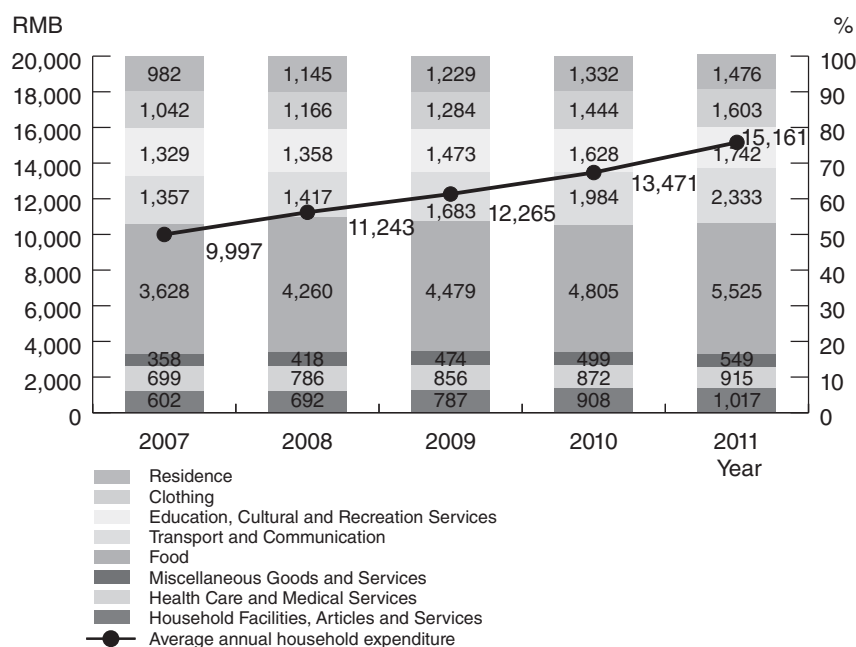
Year	Shanghai		Hangzhou		Suzhou		Heilongjiang		Changsha		Nanjing	
	Value RMB (000)	% Change	Value RMB (000)	% Change	Value RMB (000)	% Change	Value RMB (000)	% Change	Value RMB (000)	% Change	Value RMB (000)	% Change
2007	23.62	14.3	21.69	14.0	21.26	14.7	10.25	11.6	16.15	16.0	20.32	15.8
2008	26.68	13.0	24.10	11.1	23.87	12.3	11.58	13.0	18.28	13.2	23.12	13.8
2009	28.84	8.1	26.86	11.5	26.32	10.3	12.57	8.5	20.24	10.7	25.50	10.3
2010	31.84	10.4	30.04	11.8	29.22	11.0	13.86	10.3	23.35	15.4	28.31	11.0
2011	36.23	13.8	34.07	13.4	33.07	13.2	15.70	13.3	26.45	13.3	32.20	13.7
CAGR (%)	11.3		12.0		11.7		11.2		13.1		12.2	

Sources: National Bureau of Statistics of China; Ipsos Report

GROWTH IN HOUSEHOLD CONSUMPTION EXPENDITURE

The increase in household disposable income has driven an increase in household expenditure in China. The graph below sets out the per capita annual household consumption expenditure in China from 2007 to 2011:

Per Capita Annual Household Consumption Expenditure in China (2007–2011)



Sources: National Bureau of Statistics of China; Ipsos Report

Per capita annual household consumption expenditure in urban households grew from approximately RMB9,997 in 2007 to RMB15,161 in 2011 at a CAGR of approximately 11.0%. Per capita household consumption expenditure on clothing was approximately RMB1,603 in 2011, accounting for approximately 10.6% of the total consumption expenditure.

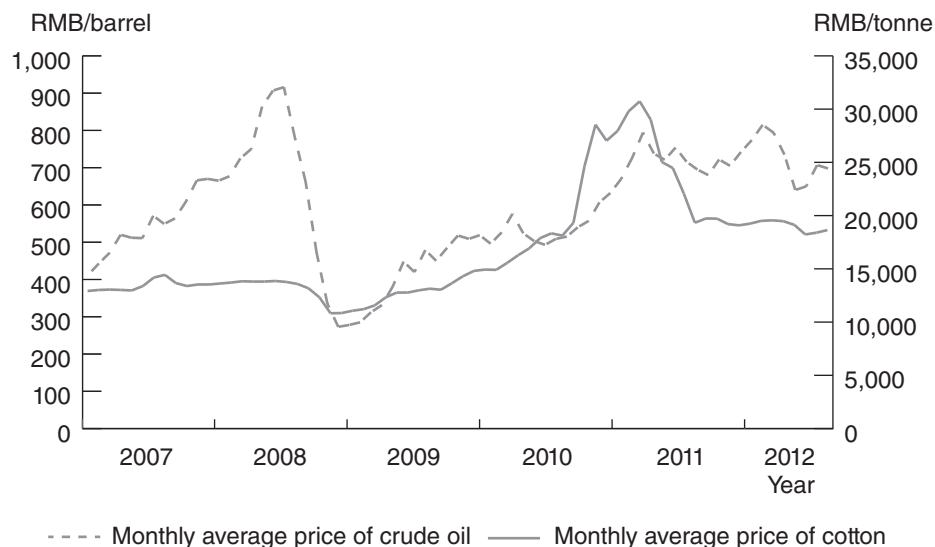
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FACTORS AFFECTING THE APPAREL INDUSTRY IN CHINA

The apparel industry in China faces increasing production costs that have caused pressure on the profitability of apparel manufacturers. Two of the major components of production costs in the apparel industry are the prices of crude oil and cotton.

The table below sets out the average price trend of crude oil and cotton in China from 2007 to 2012:

Average Price Trend of Crude Oil and Cotton in China (2007–2012)



Sources: The International Energy Network; China Cotton Association; Ipsos Report

The average price of crude oil in China increased at a CAGR of about 7.1% from approximately RMB542 per barrel in 2007 to approximately RMB713 per barrel in 2011. Average price of cotton in China increased from RMB13,424 per tonne in 2007 to approximately RMB23,844 per tonne in 2011, representing a CAGR of approximately 15.4%. Driven by domestic and foreign demand, fallen local supply and increased global cotton price, the monthly average cotton price started to rise since 2009 and peaked in March 2011 at around RMB30,733 per tonne.

APPAREL MANUFACTURING, DISTRIBUTION AND RETAIL INDUSTRY IN CHINA

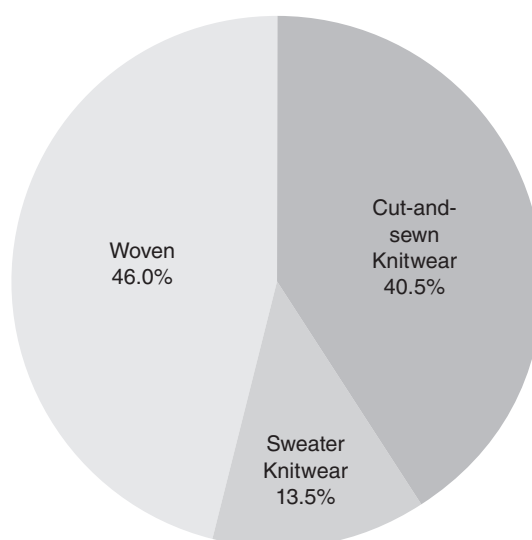
Overview of the apparel industry

With the rise in living standards, the appreciation of clothing has changed from functional, durable and keeping warm to fashionable, trendy and as a way of express oneself. Apparel products nowadays can be broadly categorised into two major types: woven wear and knitwear. There are two types of knitwear, cut-and-sewn knitwear and sweater knitwear differentiated by their manufacturing process.

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Cut-and-sewn knitwear products are produced by cutting knitted fabric into panels and sewing them together whilst sweater knitwear products are manufactured through inter-looping of yarns to form components of specific size and shape and stitching together. The low cost of production for knitted fabric and suitability for low volume production have driven cut-and-sewn knitwear to play a key role in the apparel industry. Moreover, selection of cut-and-sewn process for the manufacturing of apparel products does not limit to t-shirt or track-suits, but extends to more high-end products such as fashion coat and gown etc. Therefore, the potential of cut-and-sewn knitwear is growing among different customer segments and occasions. For the year 2011, the total production value of apparel products in China amounted to approximately RMB2,084 billion, of which approximately RMB959 billion were contributed by woven wear, approximately RMB844 billion were cut-and-sewn knitwear and approximately RMB281 billion were sweater knitwear.

The graph below sets out the distribution of apparel products by category in China in 2011:



Notes:

- (1) Cut-and-sewn knitwear includes articles of apparel, overcoats, jackets, suits, trousers, dress, skirt, shirts, blouses, underwear, nightwear, babies garments and clothing accessories, panty hose, tights, hosiery nes, t-shirts, singlets and other vests, track suits, ski suits and swimwear, gloves, mittens and mitts etc. knitted or crocheted;
- (2) Sweater knitwear includes jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted.

Sources: Ipsos Report

Development of apparel market participants

Garment manufacturers could be generally categorised into processing factory, or CMT, which focuses on cut, make and trim of fabric provided by customers to form a garment, original equipment manufacturer, or OEM, original design manufacturer, or ODM, and apparel supply chain service provider. Apparel supply chain service providers focus on value-added services such as capability in product design and development, material sourcing, manufacturing arrangement, quality control and logistic arrangement.

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The table below summarises the scope of services of different types of garment manufacturers:

<u>Elements of an apparel supply chain</u>	<u>Processing factory (CMT)</u>	<u>Original equipment manufacturer (OEM)</u>	<u>Original design manufacturer (ODM)</u>	<u>Apparel supply chain services provider</u>
Product design and development	Not applicable	Not applicable	Yes, in accordance with specification provided by customers	Yes, with certain degree of autonomy
Fashion trend ascertaining and sampling	Not applicable	Maybe for sampling	Yes	Yes
Raw material sourcing	Not applicable	Maybe	Maybe	Yes
Manufacturing	Yes, in accordance with specification provided by customers	Yes, in accordance with specification provided by customers	Yes, in accordance with specification provided by customers	Maybe, with particular emphasis on production management rather than in-house production
Quality control	Yes	Yes	Yes	Yes
Packaging and logistics arrangement	Maybe, but not the focus of services	Maybe	Maybe	Yes

There are an increasing number of apparel manufacturers in China shifting from OEM and ODM processing to apparel supply chain servicing by moving away from labour intensive manufacturing work and focusing to provide comprehensive apparel supply solutions to its customers so as to improve their market competitiveness.

As such, the business flow and operating model of OEM, ODM and supply chain servicing provider are similar but with different focuses. OEM and ODM are with more emphasised on their manufacturing capability while apparel supply chain service providers are with more emphasis on value-added services, such as capability in product design and development, material sourcing, manufacturing arrangement, quality control and logistic arrangement, which are also covered in the business scope of OEM and ODM.

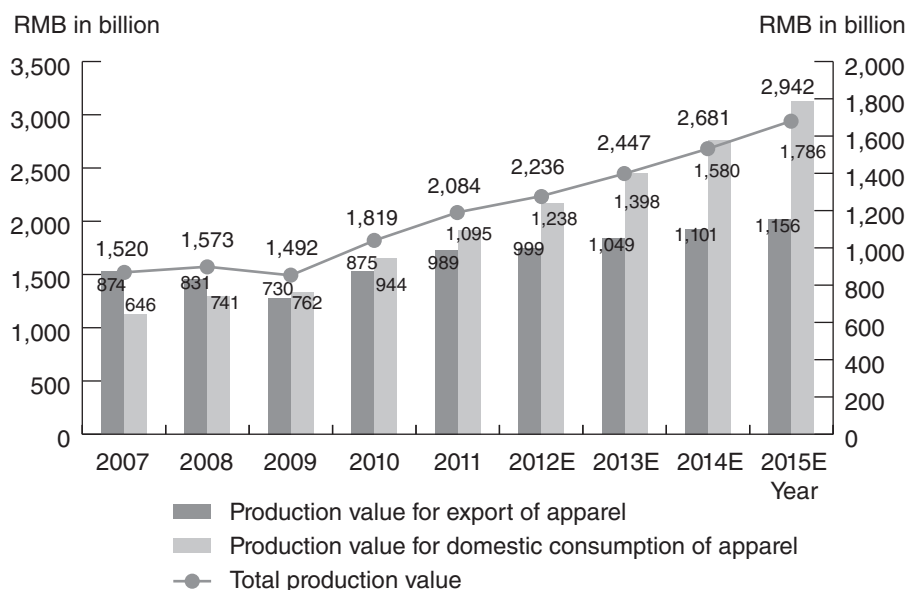
Overview of the apparel manufacturing industry in China

The apparel manufacturing industry is key to China's economy, accounting for approximately 8.2% of the country's total export value, and approximately 37% of the world's export of apparel in 2010. China's share in the world's export of apparel increased from approximately 18.3% in 2000 to approximately 37% in 2010; while its share in the country's total exports declined from approximately 14.5% to approximately 8.2% in the same period. The abundant supply of low-cost and skilled workers has attracted apparel manufacturers from all over the world to set up production bases in China. Although the production capacity of the industry is huge, its standard is low; many mass product manufacturers exist in the market, with few influential global brands. There were more than 11,168 apparel manufacturers with annual production value of over RMB20 million in the country by the end of 2011. These manufacturers are weak in product design and development, as well as brand building. Most of them are only providing original equipment manufacturing services for foreign brands and enjoying slim profit. The market is burdened with an oversupply of mass-produced apparels.

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The global financial crisis and economic downturn has led to fierce market competition in the apparel industry; apparel export value decreased from approximately RMB831 billion in 2008 to approximately RMB730 billion in 2009. As a result, many export-oriented apparel enterprises have increased efforts to expand domestic sales to sustain their businesses. The graph below sets out the total production value of apparel for export and domestic consumption in China from 2007 to 2015:

Total Production Value of Apparel for Export and Domestic Consumption in China (2007–2015E)



Sources: China Customs; Ipsos Report

The production value of apparel for export increased at a CAGR of approximately 3.1% while that for domestic consumption increased at a CAGR of approximately 14.1% from 2007 to 2011. Strong economic and consumption growth, rapid urbanisation and the growing number of wealthy households all contributed to the increase in production value of apparel for domestic consumption in the past years. As production value of apparel for export is anticipated to be impacted by the debt crisis in Europe, it is expected that the production value of apparel for domestic consumption will grow significantly at a CAGR of approximately 13.0% from 2012 to 2015, while the production value of apparel for export will only increase at a CAGR approximately 5.0% during the same period.

Sales value of apparel products in China

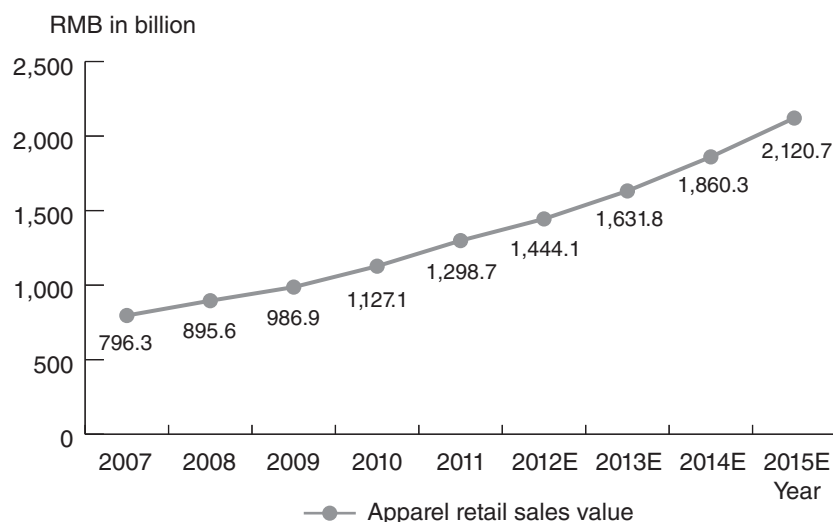
The apparel industry in China has entered into an era of personalisation, diversification and fashion consumption. Market competition is shifting from price and volume to technical and branding. Leading apparel enterprises and retailers have sought to diversify their product portfolio and grow market share by expanding their product offerings and adopting a multi-brand strategy. With reference to the success of reputable foreign brands, domestic brand owners are outsourcing production to local contractors and placing stronger efforts on front-end product design, brand building and sales network development. In light of the rising competition, a business model incorporating production outsourcing, self-managed and franchised retail operations is increasingly being adopted by domestic apparel enterprises and brand owners to

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stand out in the market. Franchised and self-managed retail operations have enabled fast development of the industry with store image being an important marketing strategy. Network sales have also emerged as a new consumption pattern in recent years.

Retail sales value of apparel products in China has been sustained by strong government support and strengthening consumer confidence in recent years. The graph below sets out the total retail sales value of apparel products in China from 2007 to 2015:

Total Retail Sales Value of Apparel Products in China (2007–2015E)



Source: Ipsos Report

Total retail sales value of apparel products in China grew at a CAGR of approximately 13.0% from 2007 to 2011. The prosperous growth of China's economy in recent decades has also driven demand on apparel products. On top of the increasing household consumption expenditure, there is also an increase in the number of consumers now sought after apparel products with better quality, design, style and functionality to upgrade their self-appearance and status. With the continuous support from the PRC government to boost local consumption, retail sales value of apparel products is expected to grow at a CAGR of approximately 13.7% from 2012 to 2015.

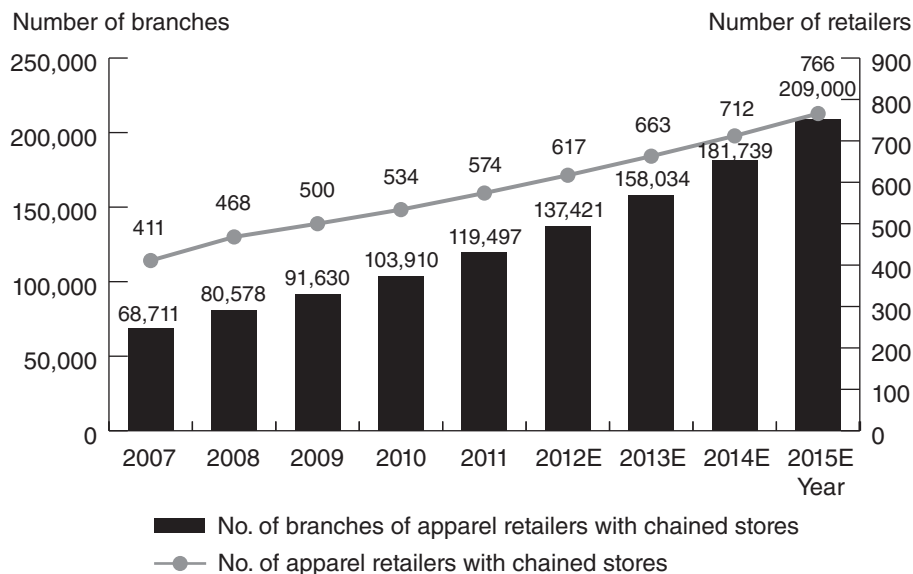
Overview of the apparel distribution and retail industry in China

Apparel products in China are distributed through retail outlets that are self-operated, franchised or those with a combination of both elements. With chained store operation being a major development trend in China, many apparel retailers have adopted a multiple distribution strategy in which a combination of both franchised and self-operated stores are set up to expand their sales network. Growing brand awareness and increasing demand for high quality clothing and apparel have contributed to the fast network expansion by retailers in China. Franchised operation allows for rapid expansion and greater market access by retailers that have more standardised retail operation and no significant upfront investment. Amongst the fastest growing sector for chained store operation in China including casual wear, sportswear, children's wear and underwear, franchised operation is the most common business model for casual wear and sportswear.

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The graph below sets out the total number of apparel retailers with chained stores and their respective number of branches in China from 2007 to 2015:

Total Number of Apparel Retailers with Chained Store and Their Respective Number of Branches in China (2007–2015E)



Source: Ipsos Report

The number of apparel retailers with chained stores in China grew at a CAGR of approximately 8.7% from 2007 to 2011 while that for their respective number of branches grew at a CAGR of approximately 14.8% over the same period. Eyeing on the growing demand in second-tier⁽¹⁾ cities in China as a result of urbanisation and growing disposable income, both domestic and foreign apparel retailers have increased retail penetration into these cities in the past years to explore the potential. While growth in the number of retailers is mainly generated in second-tier cities, competition is intense in first-tier cities such as Shanghai and Beijing. These cities have higher consumption power and better showcase effects. Due to the same reason, they have been the preferred location for both domestic and foreign apparel retailers for establishing their first store or a flagship store in China. It is expected that the number of apparel retailers with chained stores and their respective number of branches to increase at a CAGR of approximately 7.5% and 15.0% from 2012 to 2015, respectively. Increased penetration by domestic and foreign brand owners as a result of the increase in disposable income and lower operating costs in second-tier cities will be the momentum for growth.

Note:

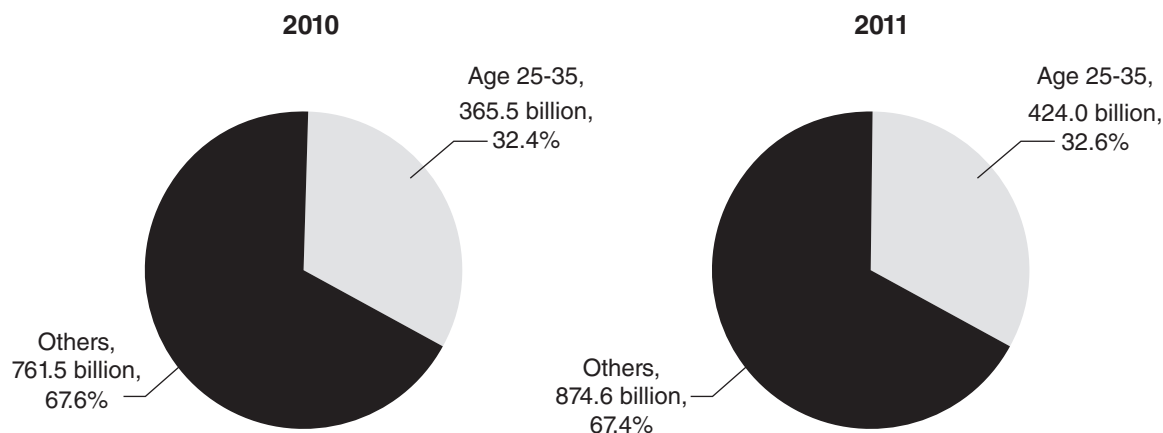
- (1) The first-tier cities comprise Beijing, Shanghai, Guangzhou, Shenzhen; the second-tier cities comprise, among others, Chengdu, Shenyang, Hangzhou, Wuhan, Suzhou, Nanjing, Chongqing and Changsha; the third-tier cities comprise, among others, Fuzhou, Kunming, Changchun, Harbin, Shijiazhuang, Wenzhou, Zhuhai, Guiyang, Urumqi and Lanzhou. There is no formal government classification of the city-tier. The cities above have been short-listed based on a range of indicators including GDP (total and growth) and disposable income.

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Retail of apparel products for age group of 25–35 years in China

The population of the age group of 25–35 years in China is a key contributor to the sales of apparel products in China. The graphs below set out the retail sales value of apparel products for age group of 25–35 years in China in 2010 and 2011:

Retail Sales Value of Apparel Products for Age Group of 25–35 Years in China (2010 and 2011)



Source: Ipsos Report

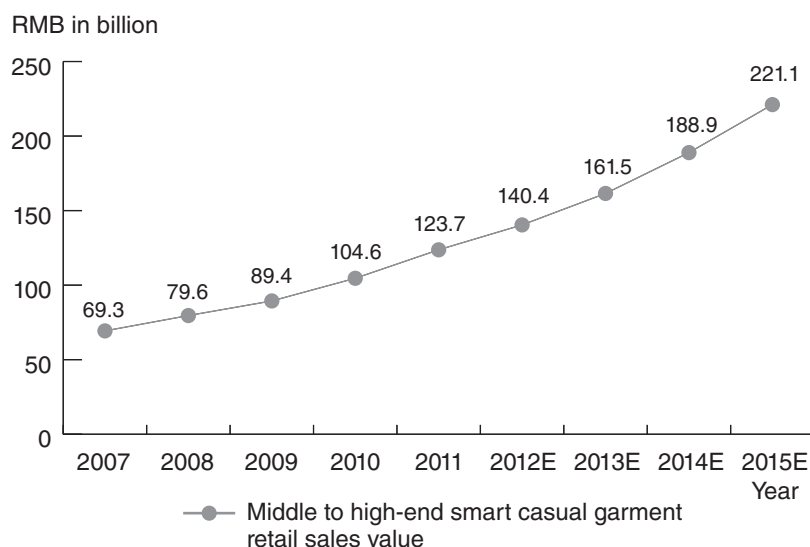
The population of the age group of 25–35 years accounted for approximately 13% of the total population in China in 2011. This age group possesses huge demand for apparel products, with their total retail sales value of apparel products accounting for approximately 32.6% of the market in 2011, an increase of approximately 16% from 2010. The population of the age group of 25–30 years generally grew up as a single child and tends to hold higher value of themselves and when fulfilling their needs. The majority of them are brand conscious and are sensitive to fashion trend and the quality of apparel products. On the other hand, the population of the age group of 31–35 years typically has a stable job and income and therefore has high purchasing power. As a whole, the purchasing behaviours coupled with the high-level of disposable income are key factors supporting the expenditure of the population of the age group of 25–35 years on middle to high-end as well as high-end apparel products in China.

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Retail of middle to high-end smart casual apparel in China

The change in consumption pattern from mass to middle to high-end products, coupled with the rising middle class, drives demand of middle to high-end smart casual apparel⁽¹⁾ in China. The graph below sets out, the total retail sales value of middle to high-end smart casual apparel in China from 2007 to 2015:

Total Retail Sales Value of Middle to High-end Smart Casual Apparel in China (2007–2015E)



Note: Casual wear is segmented into four groups: business casual, smart casual, outdoor casual, leisure

Source: Ipsos Report

The middle to high-end smart casual apparel in China has grown rapidly from approximately RMB69.3 billion in 2007 to approximately RMB123.7 billion in 2011 at a CAGR of approximately 15.6%. The significant growth was primarily due to enhanced living standards, increased disposable income and rise in level of style and brand consciousness amongst the Chinese consumers. An increasing number of enterprises in China have also relaxed their formal dress code to smart casual which fueled the demand for smart casual apparel in China. In line with the trend of general apparel products, demand for smart casual is expected to shift from mass to middle to high-end products. Increasing disposable income and urbanisation are the key factors dictating the change in consumption pattern. The rising middle class consumers are also expected to be the drivers for growth in the next 10 to 12 years. The affluent and fashion-savvy customers will add demand to the sales of middle to high-end smart casual apparel, especially in the eastern regions where the wealthier population is concentrated and there is a larger amount of high-end retailers in place. It is expected that the retail sales of middle to high-end smart casual apparel in China will grow at a CAGR of approximately 16.3% from 2012 to 2015 due to the continuous rise in living standards.

Note:

(1) Middle to high-end smart casual apparel generally refers to smart casual apparel products with average unit price above RMB300.

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COMPETITION LANDSCAPE

The apparel industry in China is highly fragmented, with more than 11,168 apparel manufacturers with annual production value of over RMB20 million in the market in 2011, most of which also engage in retailing and supply chain servicing. The number of apparel supply chain service providers accounted for less than 5% of the total number of apparel manufacturers in China in 2011. The top five apparel supply chain service providers in the PRC are mostly originated from Hong Kong and have well establishments in the PRC employing approximately 15,000 to 48,000 employees. These top five apparel supply chain service providers accounted for in aggregate 15.3% of the total market share in 2010. The industry practitioners are competing mainly on (i) product excellence through enhancement in design and product development capabilities; (ii) service capability through adopting one-stop business model and provision of an integrated comprehensive apparel supply chain solution to customers; (iii) marketing and branding through building a differentiated brand; and (iv) sales network expansion to remain competitive.

Since the elimination of the quota system for textile and apparel products in 2005, there has been a higher reliance of long-term relationships between manufacturers and customers. Multinational manufacturers and those who have strong supply chain capability are the most potential partner targets for leading garment retailers and enterprises. As significant resources and time are required before new entrants can establish a sound reputation in the market as manufacturers, the entry barriers of the apparel industry are considered to be high due to the reliance on long-term relationship between manufacturers and customers together with the rising operating cost. The apparel industry in China is comprised of both domestic and foreign enterprises. Domestic enterprises dominate the mass market, especially in second-tier cities and rural areas, as they have more extensive sales channels than their foreign counterparties. These enterprises have also been making use of the online retail channel to penetrate into the overseas markets. An increasing number of foreign enterprises have entered the lucrative Chinese market in recent years, with many leading enterprises proactively expanding into second-tier cities to capture the growing potential. Department store operators have also started to launch their own private label apparel products or proprietary brands to boost sales. With the rapid urbanisation and the development of Central and Western China, it is expected that domestic consumption of apparel will continue its growth momentum in the next few years while presenting opportunities for own brand development by Chinese apparel manufacturers.

Apparel enterprises have sought to diversify their product portfolio and grow market share by expanding their product offerings and adopting a multi-brand strategy. With increased competition and the ever-changing fashion trend, apparel manufacturing enterprises and retailers are required to offer a wider range of products and services as well as possess the ability to respond timely to increase their competitive edge. As a result, an increasing number of manufacturers are expanding their business from original equipment manufacturing processing to full package service in attempt to become a supply chain service provider.

The elimination of the quota system for textile and apparel in 2005, coupled with the global economic recession in 2008–2009, had accelerated the streamline of global supply chains. This drives retailers to work with suppliers with stronger capability and favours the growth of the apparel industry in China as the country benefited from a cost of production.

Increased standard of living, disposable income, rapid urbanisation in China drives domestic demand for apparel products in China, especially in middle to high-end products. Moreover, the PRC government's support for the development of domestic brands and enterprises also empowers domestic enterprises and accelerate their growth in the garment industry in China. We face competition from existing and new players in the apparel industry in China. However, the Directors believe that with the long-term relationships built with our

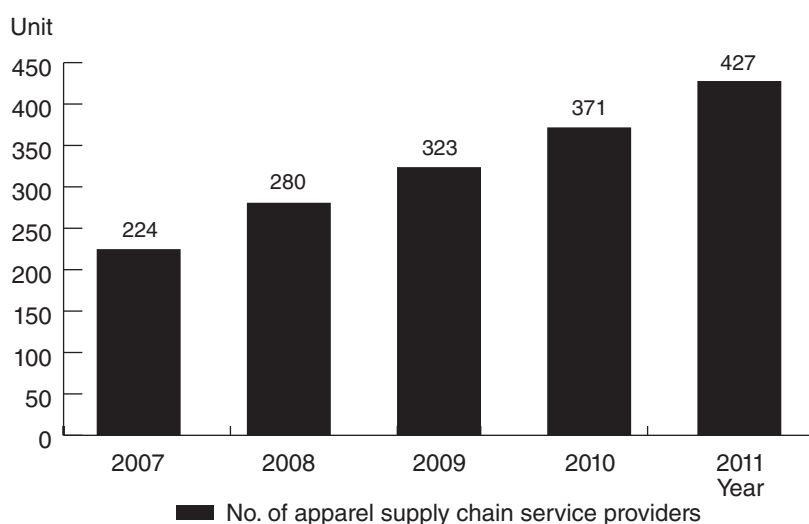
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customers of our apparel supply chain servicing business, the geographical coverage of our 90 POS across 49 cities in 19 provinces, autonomous regions and municipalities in the PRC as at the Latest Practicable Date, the engagement of online sales agents and set up of internet stores as well as the adoption of a multi-brand strategy, we are able to compete with these existing and new players in the apparel industry in China.

Market competition of apparel supply chain services in China

Supply chain services typically comprise the processes of planning, implementing, controlling and service delivery. It spans over all movement and storage of raw materials, work-in-progress inventory as well as finished goods from point of origin to point of consumption. Hence, supply chain service providers are able to improve brand owners and retailers' supply chain efficiency through shortening total lead time, lowering total sourcing costs and reducing retail mark-down. The graph below sets out the total number of apparel supply chain service providers in China from 2007 to 2011:

Total Number of Apparel Supply Chain Service Providers in China from (2007–2011)



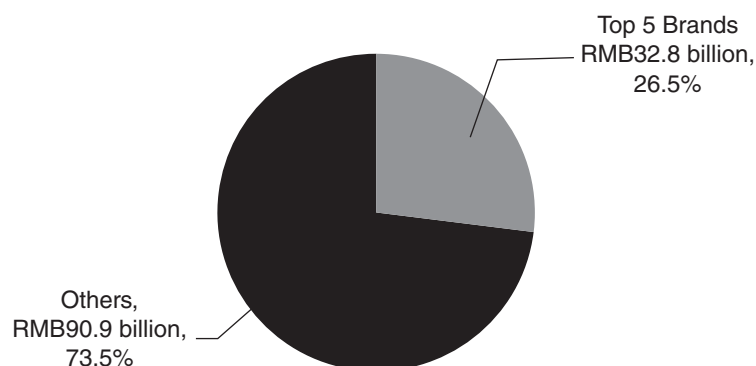
Source: Ipsos Report

A company requires strong capability in supply chain coordination and long term relationships with customers to become a supply chain service provider. In 2011, there was a total of about 427 apparel supply chain service providers in China, which increased from about 224 in 2007 at a CAGR of approximately 17.5%. An increasing number of apparel manufacturers in China are expanding their business from original equipment manufacturing processing to full package service. In particular, when the global financial crisis in 2008 hampered apparel export significantly, apparel manufacturers strengthened their competitiveness by upgrading the services they provide. Although it is an industry trend to develop into a supply chain service provider in China, there is only a limited number of service providers in the market at present. The number of apparel supply chain service providers accounted for less than 5% of the total number of apparel manufacturers in China in 2011.

INDUSTRY OVERVIEW

Market competition of apparel retailing in China

**Retail Sales Value of Middle to High-end Smart Casual Apparel
by Top 5 Brands for Age Group in China (2011)**



Source: Ipsos Report

The market of middle to high-end smart casual apparel in China is fragmented. The leading brands have entered into the market for many years thus already gained a considerable amount of market share in China. These brands generally have high brand awareness, wide retail network and sophisticated styles to tap on the demand of Chinese customers. As smart casual is getting popular in China, many international brands have also launched their smart casual lines in China. Most of these products are made of pure cotton fabric, which in many people's minds represents comfort and high-class. Competition is increasingly fierce as more retailers expand into the smart casual category.

RECENT DEVELOPMENT AND OUTLOOK OF RETAIL MARKET IN CHINA

The uncertain global economy posted challenges on the retail market in China in 2012

Retail sales of consumer goods in China showed a slight decline in the first half of 2012. According to the National Bureau of Statistics of China, retail sales grew nominally by approximately 14.1% year-on-year in April, then slightly decelerated at approximately 13.8% year-on-year in May and approximately 13.7% year-on-year in June 2012. Sales for most commodities decelerated in the first half of 2012, except for telecommunication equipment and Chinese and Western medicine. However, retail sales growth of apparel (clothing, shoes, hats and textiles) of enterprises above designated size (i.e. enterprise with annual sales of RMB5 million or more) slowed down from approximately 24.2% year-on-year for the year ended 2011 to approximately 16.9% year-on-year in the first half of 2012 due to the European Debt Crisis which reduces demand of export from China, the decelerated GDP growth in China in the first half of 2012 and the increasing operating cost in China.

In view of the shrinking export market and foreign investment, the PRC government has recently announced various policies to promote foreign trade. The continual support from the PRC government to promote foreign trade and expand domestic demand is expected to add further impetus to the China economy which will boost domestic consumption of consumer goods in the near future.

INDUSTRY OVERVIEW

Growth in the apparel market is expected to pick up slightly in the second half of 2012

Despite the decelerated retail market in the first half of 2012, apparel sales picked up slightly in the 3rd quarter of 2012; retail sales of apparel grew at approximately 17.8% year-on-year during January to September 2012, which exceed the retail sales growth of consumer goods as a whole by approximately 3.7% during the same period. The expected improvement of the apparel sales market was mainly attributable to the decline in raw material price coupled with the relieves of upward price pressure of apparel products due with the decrease in export demand which would drive the growth in sales volume in 2012 in China as well as the growth in internet sales and mass market.

With the continual support from the PRC government to boost local consumption, retail sales value of apparel products is expected to grow at a CAGR of approximately 13.7% from 2012 to 2015. In the longer term, accelerating pace of urbanisation and continuous rising national incomes of China will support the steady growth of its domestic consumption market. The increasing purchasing power of the third and fourth-tier cities will also boost overall domestic consumption of apparel in China while demand for fashionable and branded high-quality apparel products remains intact.