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## **INDUSTRY OVERVIEW**

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*This section contains certain information which has been directly or indirectly derived, in part, from various governmental, official, publicly available documents, the Internet or other sources, which was not commissioned by the Group nor the Sponsor as well as information extracted from ready-made publications of Datamonitor purchased by the Company for the purpose of this document. The Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting, compiling and reproducing such information. The Directors 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. The relevant information has not been independently verified by the Group, the Sponsor or any of their respective affiliates or advisers, and therefore may not be accurate, complete or updated. The Group makes no representation as to its accuracy, completeness or fairness of such information and accordingly the information contained herein should not be unduly relied upon. The information and statistics may not be consistent with other information or statistics compiled within or outside EU or the PRC.*

### **SOURCES OF INFORMATION**

Certain information and statistics set forth in this section are derived from publications and reports of Eurostat, Euromonitor International, the Swedish National Institute of Economic Research, Market Access Database, the China Statistical Yearbook 2009, the National Bureau of Statistics of China, the China Wool Textile Association, the National Institute of Economic and Social Research, the China Cotton Association and Datamonitor Group. Publications and reports of these governmental organizations were prepared in the ordinary course of business and not commissioned by the Company or the Sponsor. Aside from the Datamonitor reports purchased by the Company at a total cost of US\$500.0, all articles, statistics, reports and etc mentioned above were obtained from public domain or the Internet.

#### **Eurostat**

Eurostat is a Directorate-General of the European Commission located in Luxembourg. Its main responsibilities are to provide the EU with statistical information at European level and to promote the harmonisation of statistical methods across the Member States of the European Union, candidate countries and European Free Trade Association countries. The main areas of Eurostat’s statistical works include EU policy and economic indicators, EU economy and finance, population and social conditions, industry, trade and services industry statistics. Eurostat disseminates its statistics free of charge via its Internet and its statistical databases that are accessible via the Internet. The information disclosed in this prospectus from Eurostat is publicly available information.

#### **Euromonitor International**

Euromonitor International is a global research organisation with over 600 full-time staff and field based analysts researching and tracking fast moving consumer goods, industrial service and B2B markets in over 200 countries worldwide. Euromonitor International is independently and privately owned. The information disclosed in this prospectus from Euromonitor International is publicly available information.

## INDUSTRY OVERVIEW

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### **The Swedish National Institute of Economic Research**

The Swedish National Institute of Economic Research (“**NIER**”) is a government agency in Sweden responsible for economic analysis and forecasting. The NIER performs analysis and forecasts of the Swedish and international economy and conducts related research. The Institute is a government agency accountable to the Ministry of Finance of Sweden. Like other Swedish government agencies, NIER has an independent status and is responsible for the analysis and forecasts that it publishes. NIER is financed largely by public funds. The remaining source of financing is commissioned assignments, primarily in the fields of macroeconomics and environmental economics. Some 60 persons, most of them economists, are presently employed by NIER. The activities of NIER can be subdivided into the following areas: analyses and forecast, business tendency surveys, research and commissioned assignments. The information disclosed in this prospectus from NIER is publicly available information.

### **Market Access Database**

The Market Access Database is a service provided by the European Commission. It is an operational tool of the European Union’s Market Access Strategy, supporting a continuous three-way exchange of information between the EU institutions, Member States and European businesses. The Market Access Strategy is a key pillar of the EU’s Trade Policy which aims to reduce the obstacles faced by European exporters of goods and services. The information disclosed in this prospectus from Market Access Database is publicly available information.

### **The National Bureau of Statistics of China**

The National Bureau of Statistics of China (“**NBS**”) is an agency directly under the State Council in charge of statistics and economic accounting in the PRC. The information disclosed in this prospectus from the NBS is publicly available information.

### **The China Wool Textile Association**

China Wool Textile Association (“**CWTA**”), founded in November 1995, is a national social organization of Chinese wool textile industry, and became a member of International Wool Textile Organization in March, 1998, on behalf of the China wool industry. CWTA has about 300 direct members and over 1300 indirect members. Its members vary from wool production, circulation, processing, to wool foreign trade, scientific research, and checking. CWTA represents Chinese wool industry to a great extent. The information disclosed in this prospectus from CWTA is publicly available information.

### **The National Institute of Economic and Social Research**

The National Institute of Economic and Social Research (“**NIESR**”) is Britain’s longest established independent economic research institute with over sixty years experience of applying academic excellence to the needs of business and policy makers. The Institute is independent of all party political interests. It receives no core funding from government and is not affiliated to any single university, although its staff regularly undertake projects in collaboration with leading academic institutions. The Institute’s work falls into three distinct fields: economic modelling and macro analysis; education, training and employment;

## **INDUSTRY OVERVIEW**

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and the international economy. The work of NIESR is influential world wide with subscribers to its publications in over 70 countries. The Institute's global model is used by some 30 prestigious organisations including several central banks and finance ministries. The information disclosed in this prospectus from NIESR is publicly available information.

### **The China Cotton Association**

China Cotton Association is a non-profit organization which is voluntarily established by cotton farmers, cotton farmers' cooperative organizations, enterprises engaged in cotton related businesses, cotton research institutes and other organizations. The institute accepts supervision and management from the Ministry of Civil Affairs. The purpose of China Cotton Association is to become a bridge between enterprises, cotton farmers and the government and promote the sustainable development in the area of cotton. One of the main functions of China Cotton Association are to provide information services to its members in the area of cotton. The information disclosed in the prospectus from the China Cotton Association is publicly available information.

### **Datamonitor**

The Datamonitor Group is a provider of global business information, delivering independent data, analysis and opinion across the automotive, consumer markets, energy & utilities, financial services, logistics & express, pharmaceutical & healthcare, retail, technology and telecoms industries. The Company purchased ready-made publications prepared by Datamonitor with regard to the apparel retail market in the UK and Sweden and did not commission any market research report prepared by Datamonitor for the purpose of this document. The information extracted from the ready-made publications prepared by Datamonitor reflects estimates of market conditions based on primary research with industry panels and consumers. Data gathered by Datamonitor, including information on market segmentation, market growth, pricing, competitors and products will be analysed and interpreted to produce detailed estimates and forecasts.

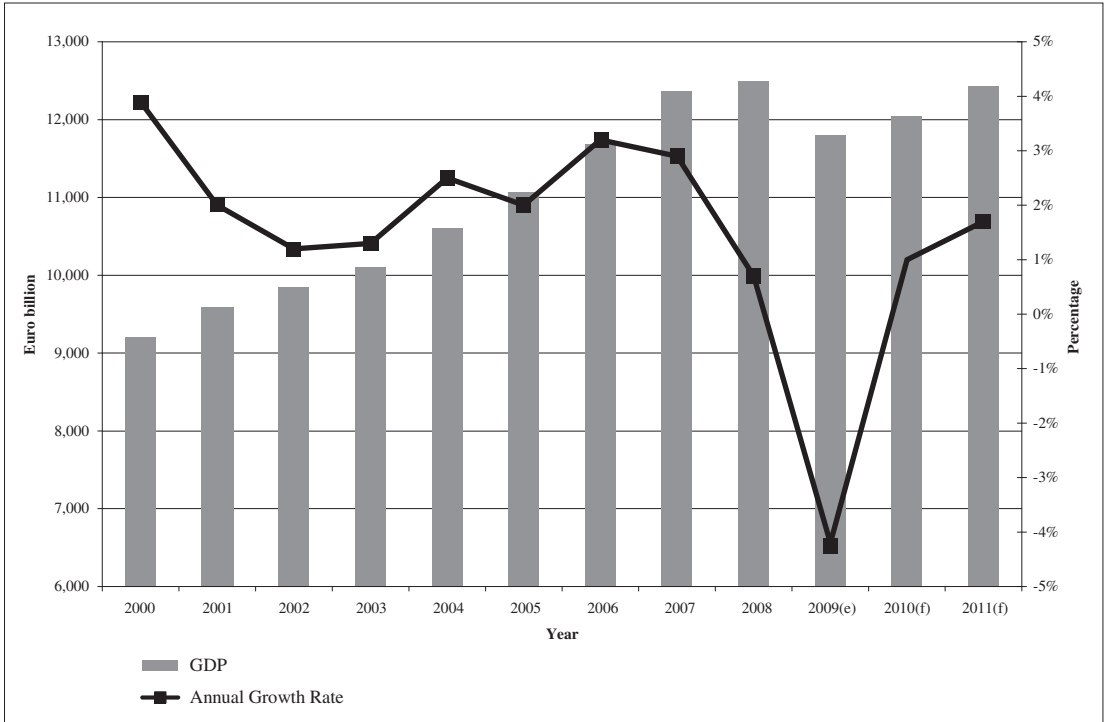
The Directors believe that the sources of the information extracted from the Datamonitor's publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Group has no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the Datamonitor's publications have not been independently verified by the Group, the Sponsor or any other party involved in the Placing and no representation is given as to their accuracy.

## INDUSTRY OVERVIEW

### CLOTHING INDUSTRY IN THE EU

#### Overview of the EU Economy

According to the Eurostat, the EU economy grew from approximately Euro9,202 billion in 2000 to approximately Euro11,806 billion in 2009, representing a CAGR of approximately 2.81%. The sharp drop in the annual growth rate of the nominal GDP of EU in 2009 was mainly due to the global financial crisis broke out in 2008. The global economic crisis left significant damage to the EU countries in terms of GDP as the 2009 GDP was backed down to almost 2006 levels. Based on the estimates from Eurostat, the GDP for the years 2010 and 2011 will recover from the 2009 levels. However, the nominal GDP of the EU is only expected to reach approximately Euro12,435 billion in 2011, representing a real GDP growth rate of approximately 1% and 1.7% for 2010 to 2011 respectively. The following chart sets forth the historical and expected GDP and annual real GDP growth rates between 2000 to 2011 for the EU.

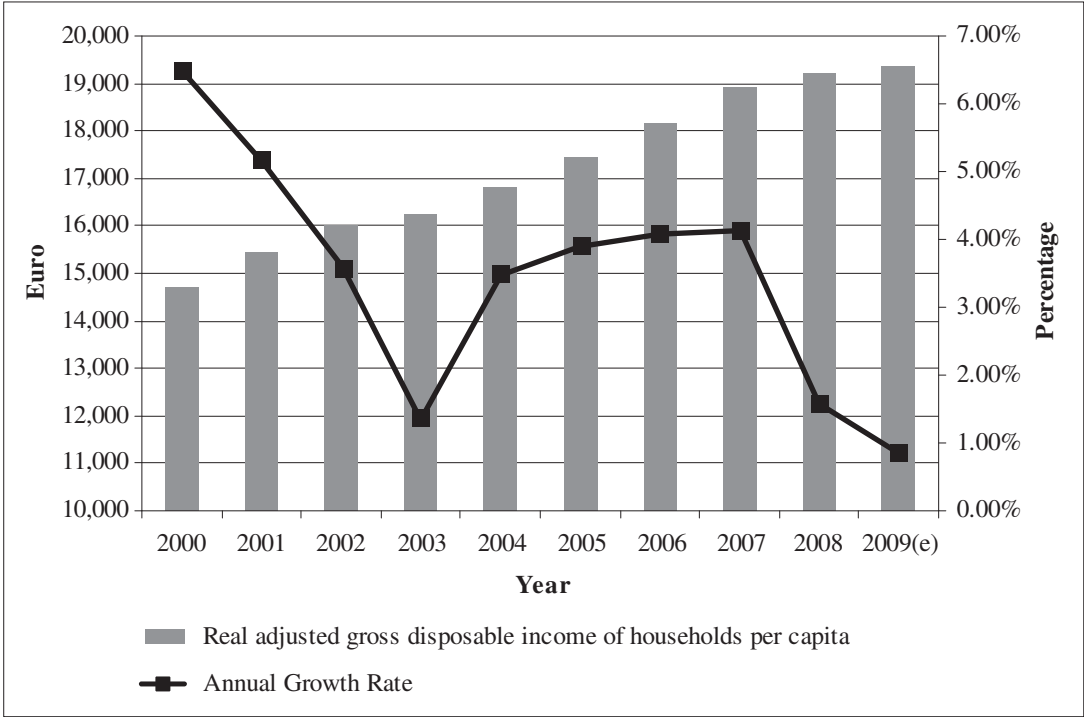


Source: Eurostat 2009

**INDUSTRY OVERVIEW**

**Average Annual Disposable Income per Capita of EU**

Based on statistics published by Eurostat, the real adjusted gross disposable income of households per capita of EU has been increasing gradually during the period between 2000 to 2009. The real adjusted gross disposable income of households per capita of EU increased from approximately Euro14,705 in 2000 to approximately Euro19,372 in 2009, representing a CAGR of approximately 3.11%. The following chart shows the real adjusted gross disposable income of households per capita of EU from 2000 to 2009.



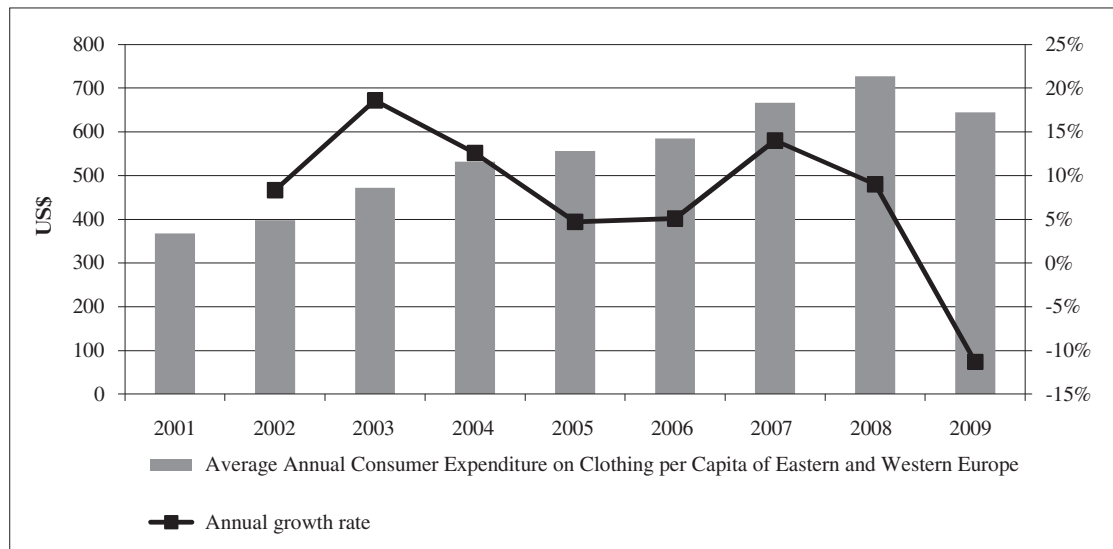
Source: Eurostat 2009

Note: The 2009 real adjusted gross disposable income of households per capita figure was extrapolated based on Eurostat’s gross disposable income growth in EU.

## INDUSTRY OVERVIEW

### Average Annual Consumer Expenditure on Clothing per Capita of Eastern and Western Europe

According to the statistics published by Euromonitor International, the average annual consumer expenditure on clothing per capita of Eastern and Western Europe has increased from approximately US\$367.5 in 2001 to approximately US\$644.8 in 2009, representing a CAGR of approximately 7.3%. The following chart shows the average annual consumer expenditure on clothing per capita of Eastern and Western Europe from 2001 to 2009.



Source: Euromonitor International from national statistics by Euromonitor International 2009

Note:

- 1) Eastern Europe included Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine.
- 2) Western Europe included Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.

### Market Conditions of Key EU Export Countries

#### Sweden

Sweden's economy is the largest among the Nordic countries. Traditionally, Sweden's economy encouraged a high standard of living in extensive welfare benefits. The country's economy is heavily dependent on foreign trade. Privately owned companies constitute 90% of the nation's industrial output, of which the engineering sector accounts for 50% of output and exports. According to European Commission's forecasts, Sweden which posted the smallest public deficit in the European Union last year at 0.5% of GDP is likely to keep that position this year.

As of the first quarter of 2010, Sweden has recorded 4 consecutive quarters of growth in its GDP, recording 1.4% compared to the previous quarter and 3% compared to a year ago. Sweden's economy has benefited from rising exports, four income tax cuts since 2006 and record-low interest rates. According to

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## INDUSTRY OVERVIEW

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the NIER, manufacturing industry has reported significant growth in both new orders and output volume for the first quarter and strong order and output growth is forecasted for the 2nd quarter of 2010.

According to an industry profile of apparel retail in Sweden provided by Datamonitor, the Swedish apparel retail industry had total revenue of US\$8,011 million in 2009, of which womenswear, menswear and childrenswear account for 52.1%, 34.0% and 13.9% respectively of the total Swedish retail market.

The apparel retail value in Sweden grew from approximately US\$6,900 million in 2005 to approximately US\$8,000 million in 2009, representing a CAGR of approximately 3.7%. The following table shows the apparel retail industry and the annual growth rate of the industry in the period from 2005 to 2009.

### Sweden apparel retail industry value

Year	US\$ million	% Growth
2005	6,900	
2006	7,500	8.0
2007	7,700	3.2
2008	7,900	2.0
2009(e)	8,000	1.8
CAGR: 2005 to 2009(e)		3.7%

Source: Datamonitor May 2010

Although the Swedish apparel retail industry grew at 3.7% CAGR over the last 4 years, it is not expected to reach this level of CAGR in the forthcoming years. Despite the current global economic downturn, the Swedish apparel retail industry continues to grow at a healthy rate with growing demand for discount apparel retail. The fragmentation of suppliers in Sweden means that retailers can source not only from local but foreign suppliers, which as a result, leads to a fragmented apparel retail industry whereby smaller players can enter the market.

According to Datamonitor, the leading companies in the apparel retail market in Sweden are, among others, H & M Hennes & Mauritz AB ("**H&M**"), KappAhl Holding AB ("**KappAhl AB**") and RNB Retail and Brands ("**RNB**").

H&M, a company listed on the Stockholm Stock Exchange, offers fashion and related products for women, men, teenagers and children with national brands and private label merchandise in various categories including apparel, cosmetics, accessories and footwear. As at November 2008, H&M operated 1,738 stores in 33 countries, primarily in leased store premises and through direct channels such as Internet and catalogue. The company recorded a revenue and net income of approximately US\$15,489.6 million and US\$2,138.1 million respectively for the fiscal year ended 30 November 2009.

## INDUSTRY OVERVIEW

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KappAhl AB, one of the top five customers of the Group, is a Sweden based company listed on the Stockholm Stock Exchange engaging in the retail industry. KappAhl AB markets and sells clothes for women, men and children under a number of brands such as Number One, XLNT, U.S. Polo Association, Madison avenue, Redwood, KAXS and recorded revenue of approximately US\$635 million in the fiscal year ended August 2009, an increase of 5.3% as compared to fiscal 2008. Its net income reached approximately US\$41 million in fiscal 2009 as compared to a net income of approximately US\$57 million in the preceding year.

RNB is engaged in the ownership, operation, and development of store concepts for fashion conscious customers in Sweden. RNB, also a listed company on the Stockholm Stock Exchange, operates 475 stores, of which 211 are operated by its franchisees. The company's primary market is Sweden with focus on Scandinavia and northeastern Europe. JC Aktiebolag, one of the top five customers of the Group was acquired by RNB in 2006 and became one of the subsidiaries of the company. JC and Brothers are two of the brandnames under RNB. As at the fiscal year ended 31 August 2009, RNB recorded a revenue and net loss of approximately US\$419.2 million and US\$86.5 million respectively.

### *United Kingdom*

The United Kingdom was once the largest economy in the world. However, with globalisation over the years, the economy now ranks 5th in the world and relies heavily on global trade. The recent global financial crisis at the end of 2008 dealt a major blow to the country's economy with several financial institutions having to merge or be rescued by the government. All sectors of the industries was struggling in 2009, with consumer confidence, the housing market, employment and manufacturing either at the lowest point, or dropping faster than ever previously recorded.

Based on a report prepared by the NIESR, the UK economy is expected to contract by 4.4% in 2009 but would expand by 1.3% in 2010 and 1.5% in 2011 with more dependent on exports for future economic growth. The consumer spending is expected to decline by 3.3% in 2009 and 0.7% in 2010 respectively. Due to the announced tax increase and downward pressure on income growth, the household saving rate is expected to increase from 1.7% in 2008 to 8.2% in 2011. Overall, UK is not expected to grow significantly in the medium term due to outstanding budget deficits and the need to lower it by cutting spending.

Datamonitor estimates that the UK apparel retail market ranks third after Germany and Italy within the EU with 2009 revenue reaching US\$63.1 billion, accounting for 16.4% of EU total apparel retail market value. In 2009, approximately 54.6%, 32.1% and 13.3% of the total UK retail value were attributable to the sales of womenwear, menswear and childrenswear respectively.

The apparel retail value in the UK grew from approximately US\$ 58.6 billion in 2005 to approximately US\$ 63.1 billion in 2009, representing a CAGR of approximately 1.9%. The following table shows the apparel retail industry and the annual growth rate of the industry in the period from 2005 to 2009.



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## INDUSTRY OVERVIEW

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### UK apparel retail industry value

Year	US\$ billion	% Growth
2005	58.6	
2006	60.9	4.0
2007	62.8	3.0
2008	63.2	0.7
2009(e)	63.1	(0.2)
CAGR: 2005 to 2009(e)		1.9%

Source: Datamonitor May 2010

In comparison, Germany, which is the largest market among the EU countries, only managed to record a CAGR of 0.8% between 2005 and 2009. However, over the next 5 years, growth in the UK apparel retail industry is expected to decelerate. Similarly, demand for discount apparel retail is growing with consumers becoming more price conscious, while retailers compete intensively on pricing by sourcing for cheaper apparel from foreign suppliers.

According to Datamonitor, the leading companies in the apparel retail market in the UK are, among others, Arcadia Group Limited ("**Arcadia**"), H & M Hennes & Mauritz AB ("**H&M**") and Next plc ("**Next**"). As at the Latest Practicable Date, Arcadia and Next are the direct customers of the Group.

Arcadia is a clothing retailer that operates approximately 2,500 stores throughout the UK and over 420 international franchise stores with seven brandnames, namely Burton, Dorothy Perkins, Topshop, Topman, Evans, Miss Selfridge, Wallis and Outfit. The company operates in the UK, Asia, Europe, Middle East, South America and the US. Under the Burton brand, the company operates 400 stores across the UK and Ireland. These stores offer a range of men's clothing ranging from casual wear and leisure wear to formal wear. The Topman stores are focused on men's clothing and operate throughout the UK. In addition, the company also offers a complementary catalog and online shipping business. The company recorded revenues of US\$2,958 million in the fiscal year ending August 2009, an increase of 2.7% compared to fiscal 2008.

H&M offers fashion and related products for women, men, teenagers and children. The company offers national brands and private label merchandise in various categories including apparel, cosmetics, accessories and footwear. H&M operated 1,738 stores in 33 countries as of November 2008.

Next is primarily engaged in the retail sale of clothing, footwear, accessories and home products. Next distributes through three main channels: Next Retail is a chain of more than 500 stores in the UK and Ireland; Next Directory is a direct mail catalogue and transactional website with more than 2 million active customers and Next International has more than 170 stores overseas. The company recorded revenue of US\$5,100 million in the fiscal year ending January 2009, a decrease of 1.7% compared to fiscal 2008. Its net income was US\$471 million in fiscal 2009, compared to a net income of US\$552 million in the preceding year.

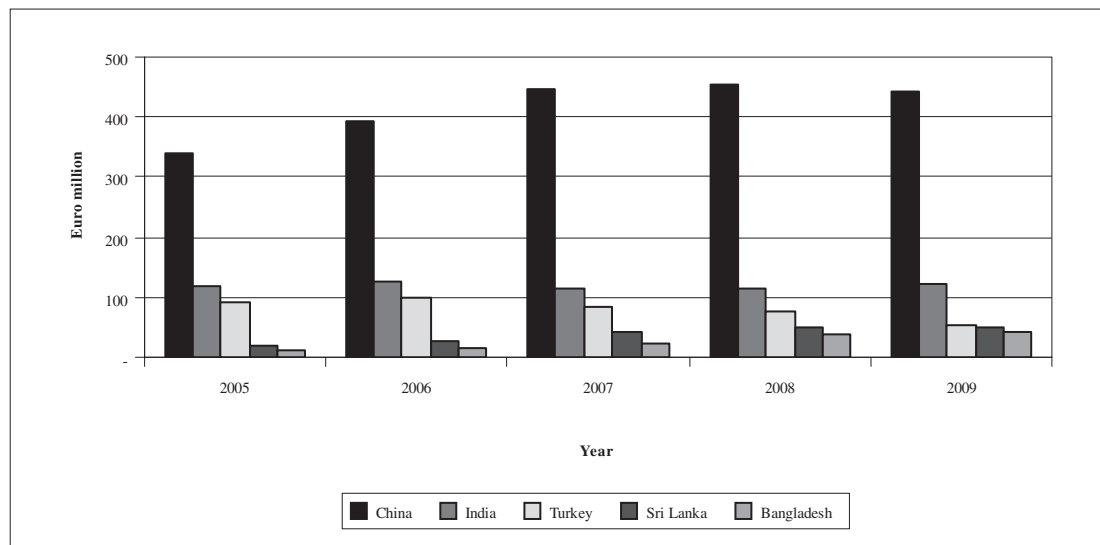
## INDUSTRY OVERVIEW

### Other EU Countries

Overall, the recent global financial crisis did severe damage to regional economies of the EU. Although certain EU countries such as Germany remains strong and recovered after the crisis, countries such as Greece sought financial assistance as the country was not able to repay its surmounting debt. The Directors are of the opinion that although the EU economy are facing significant challenges currently, the crisis might pose opportunities for cheap manufacturers as these countries goes through austerity measures by sourcing for cheaper alternatives overseas.

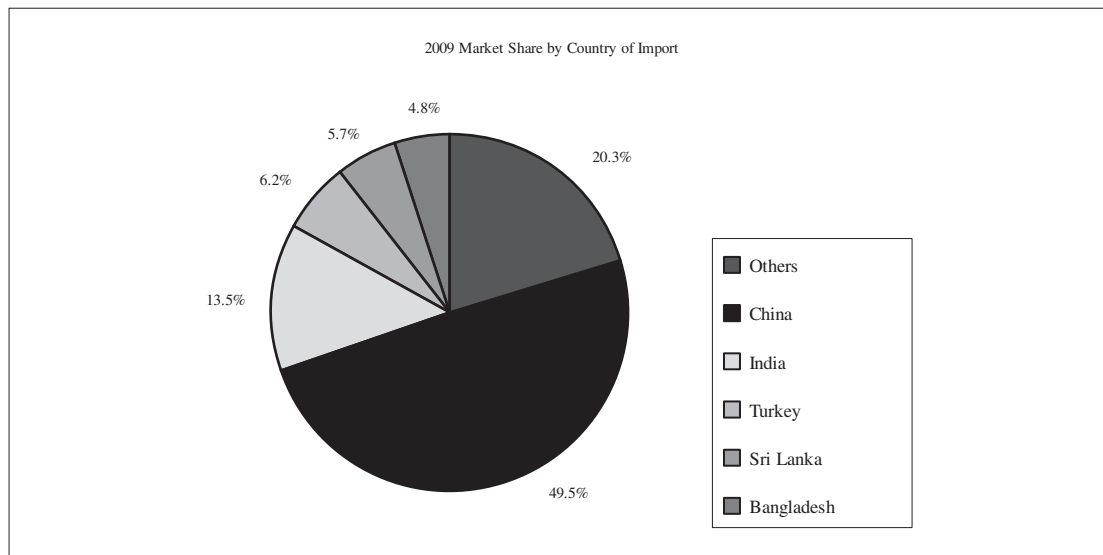
### Import of Men's or Boys' Knitted or Crocheted Innerwear and nightwear in the EU

According to statistics from the Market Access, the top 5 countries where the men's or boys' knitted or crocheted underpants, briefs, nightshirts, pajamas manufactured and exported to EU were China, India, Turkey, Sri Lanka and Bangladesh. For the year in 2009, imports values among these top 5 countries were approximately Euro443 million from China, Euro121 million from India, Euro55 million from Turkey, Euro51 million from Sri Lanka, and Euro43 million from Bangladesh, which accounted for approximately 49.5%, 13.5%, 6.2%, 5.7% and 4.8% respectively of total imports of men's or boys' knitted or crocheted underpants, briefs, nightshirts, pajamas into the EU. During the period from 2005 to 2009, imports of men's or boys' knitted or crocheted underpants, briefs, nightshirts, pajamas grew from approximately Euro584 million in 2005 to approximately Euro714 million in 2009, representing a CAGR of approximately 5.9%. The following tables set forth the import value of the of the top 5 countries from 2005 to 2009 and their respective market share for the year in 2009.



Source: Market Access Database provided by the Directorate-General for Trade of the European Commission 2009

## INDUSTRY OVERVIEW



Source: Market Access Database provided by the Directorate-General for Trade of the European Commission 2009

### Global OEM Clothing Industry and Competition

The clothing industry is characterised by its high demand for intensive labour that is low skilled. As a result, clothing manufacturing has continually shifted their production to countries with low wages and abundant workforce. Since early 1990s, the PRC began establishing itself as one of the major exporter and leader of OEM clothing. They have kept the reign on this leadership up till today with their low wages and abundant workforce. However, in the 21st century, many under developed Asian countries began encroaching on this dominance by taking advantage of their abundant and low cost labour. Although China still dominate this segment of the industry and the percentage gain in market share by these under developed Asian countries maybe insignificant relative to China’s large portion, the growth rates demonstrated by these countries are significant.

In the recent years, there is a noticeable shift in production from China to under developed Asian countries with cheap labour, less stringent environmental laws and the tariff free entry to the EU market. Interestingly, this shift is accelerated by China with Chinese and Hong Kong buyers increasingly sourcing their supply from Bangladesh. However, these competitors remain small relative to PRC’s production with countries such as Bangladesh doubling their export if they can shift a mere 2% of global export from China. Although these countries are showing signs of a threat to the PRC’s OEM clothing industry, China still posses the competitive edge with these under developed Asian countries lacking in value chain with everything from technology to dyes and yarn has to be imported, and quite often from China. Yarn spinning and sewing machines, buttons, zippers and dyes from China are still cheaper than their competitors, and for these under developed Asian countries, importing these materials means they are still competing at the lower value-added end of the chain.

## INDUSTRY OVERVIEW

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### China OEM Clothing Industry and Competition

The PRC is one of the world's largest producers and exporters of garments. The abundance of low cost labour and the PRC's economic growth facilitated the growth in the PRC's garment industry. Most of the PRC clothing manufacturers mainly focus on low and medium end garment products. They engage principally in export oriented OEM segment of the industry, taking advantage of scale of production and the PRC's lower cost due to labour intensive manufacturing processes required in the industry.

The PRC's OEM apparel industry did not start until the Open Door Policy whereby investors particularly from Hong Kong realised the low cost that they could take advantage of by manufacturing in the PRC. These investors began setting up factories in coastal towns under the Special Economic Zone and exporting OEM clothing to overseas destination. Over the years, various manufacturers began establishing their factories in the PRC including local businessmen. As a result, the industry became highly fragmented with intense competition. There is very low entry barrier to the apparel industry as operational complexity and financial requirement for the establishment of production facilities are not demanding due to the nature of this industry. As a result, intense competition has appeared in garment market. However, established relationships and proven track record provides continual support and purchase by customers of the Company. Differentiation among manufacturers and the Company stems from the production cost incurred by each manufacturer while maintaining the quality and standards required by the customers. As such, competition within the industry covers a wide range of manufacturers of different sizes.

The Company represents a mere fraction of the overall OEM apparel industry of the PRC with revenue of the Company in 2009 representing approximately 0.002% of the total export of the PRC. With such high fragmentation rate within the OEM garment industry in the PRC and such low product differentiation, the Directors believe there is no particular player in the market that is capable of dominating the industry. Similarly, the low differentiation and identity prohibit the Company from identifying itself within the market, which is exacerbated by its small market share within the whole industry.

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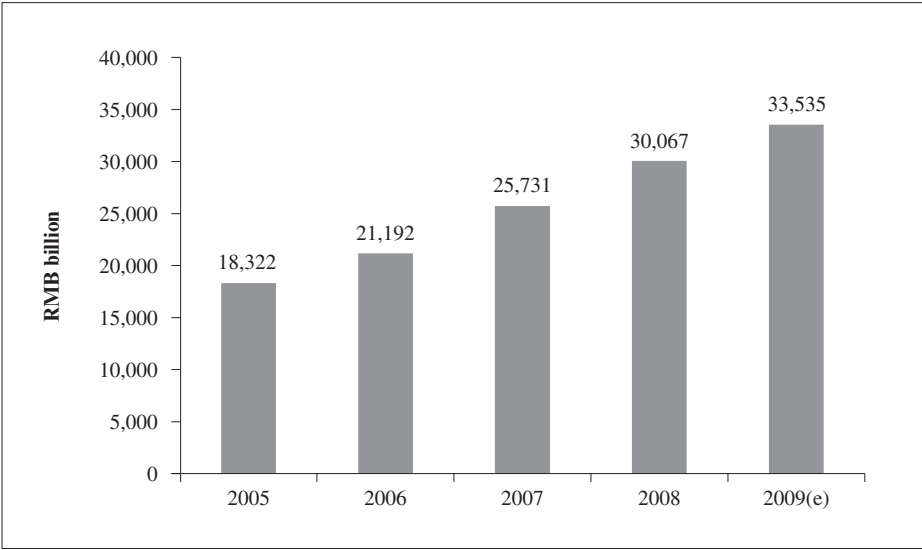
## INDUSTRY OVERVIEW

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### CLOTHING INDUSTRY IN THE PRC

#### Overview of the PRC Economy

The PRC economy has grown quite rapidly since the “Open Door” market policies advocated by the PRC government in the late 1970s. Over the past 20 years, the PRC has experienced significant growth in its economy. From 2005 to 2009, GDP of the PRC grew from approximately RMB18,321.7 billion to RMB33,535.3 billion, representing a CAGR of approximately 16.3%. The following chart sets forth the GDP between 2005 to 2008 for China.

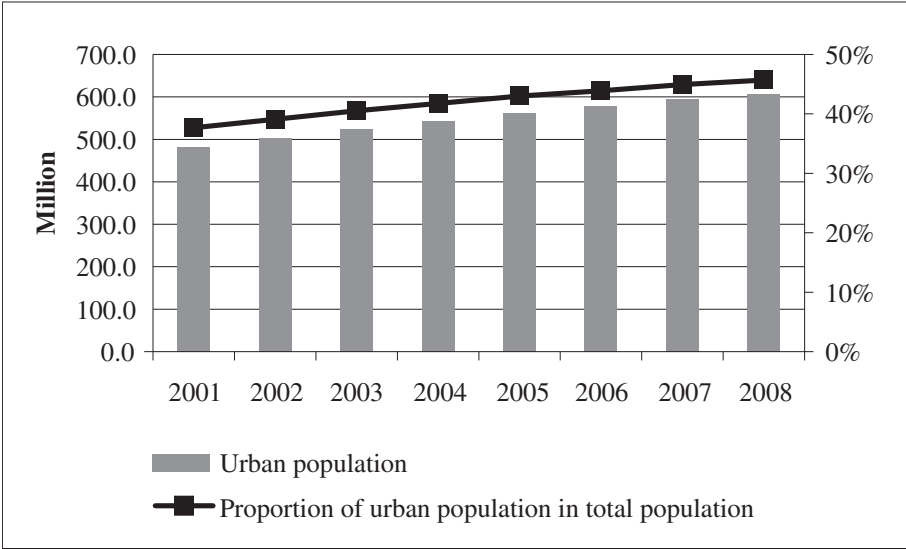


Source: GDP from 2005 to 2008 were extracted from China Statistical Yearbook 2009 and estimated GDP for 2009 was extracted from 2009年國民經濟和社會發展統計公報(2009 National Economic and Social Development Statistics Bulletin) published by the National Bureau of Statistics of China on 25 February 2010

## INDUSTRY OVERVIEW

### Urbanisation in the PRC

According to the NBS, the urbanisation in the PRC has grown steadily during the period 2001 to 2008. The total urban population in the PRC increased from approximately 480.6 million in 2001 to approximately 606.7 million in 2008, represented a CAGR of approximately 3.4% from 2001 to 2008. In 2001, urban populations accounted for approximately 37.7% of the total population. This increased to approximately 45.7% in 2008. The PRC government stated that budget priority should be given to infrastructure construction in rural areas and programs which are aimed at improving rural residents' livelihood to narrow the gap between urban and rural development. The following chart sets forth urban population and the proportion of urban population in total population in the PRC from 2001 to 2008.

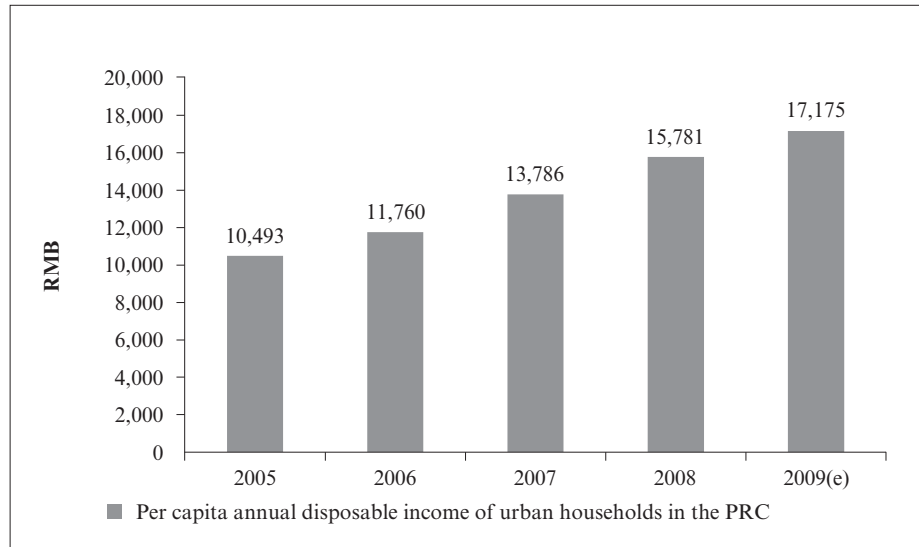


Source: China Statistical Yearbook 2009

## INDUSTRY OVERVIEW

### Per Capita Disposable Income of Urban Households in the PRC

The disposal income of the PRC urban households has been increasing significantly because of the rapid growth of the China economy. According to the NBS for the period from 2005 to 2009, the per capita annual disposable income of the PRC urban households increased from approximately RMB10,493.0 in 2005 to approximately RMB17,175.0 in 2009, representing a CAGR of approximately 13.1%. The following chart shows the per capita annual disposable income of urban households in the PRC from 2005 to 2009.

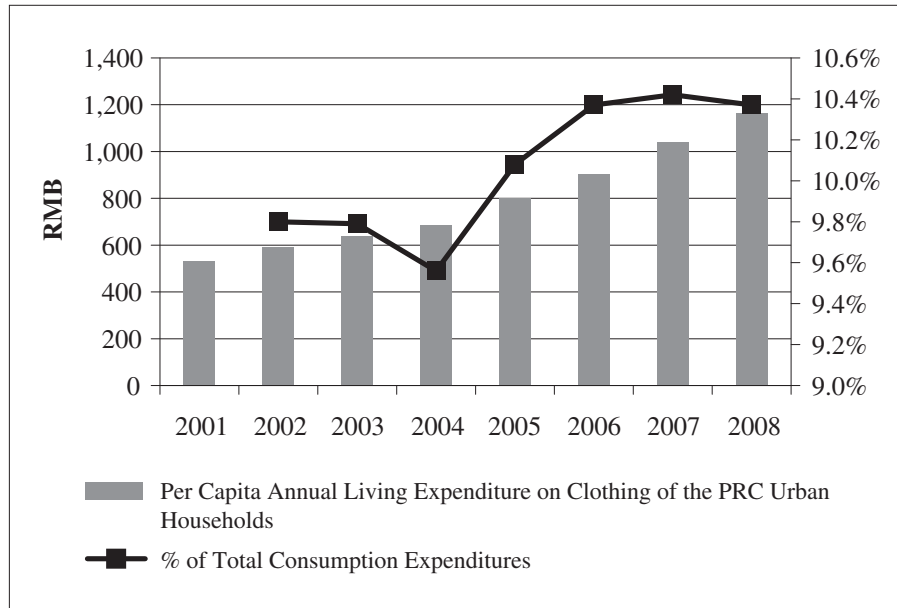


Source: Data from 2005 to 2008 were extracted from the China Statistical Yearbook 2009 and estimated data for 2009 was extracted from 2009年國民經濟和社會發展統計公報(2009 National Economic and Social Development Statistics Bulletin) published by the National Bureau of Statistics of China on 25 February 2010

## INDUSTRY OVERVIEW

### Per Capita Annual Living Expenditure on Clothing of the PRC Urban Households

As mentioned in the aforementioned paragraph, the per capita annual disposable income of the PRC urban households increased during the period from 2001 to 2008. According to the NBS, the per capita annual living expenditure on clothing of the PRC urban households has also increased from approximately RMB533.7 in 2001 to approximately RMB1,165.9 in 2008, represented a CAGR of approximately 11.8%. The following chart shows the per capita annual living expenditure on clothing of the PRC urban households from 2001 to 2008.



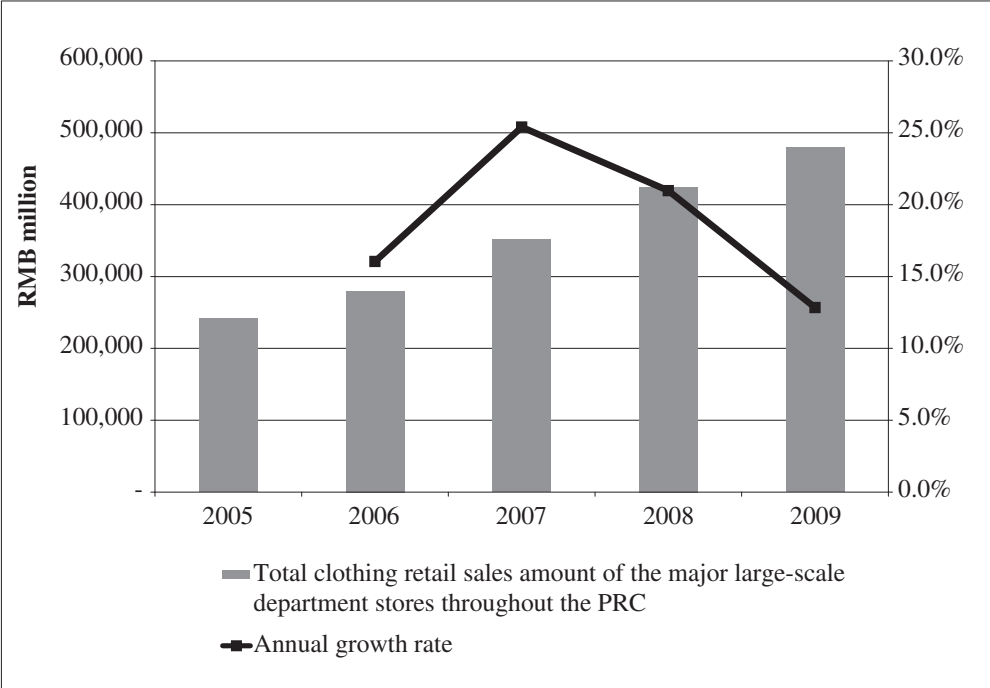
Source: China Statistical Yearbook 2009



## INDUSTRY OVERVIEW

### PRC Clothing Retail Value

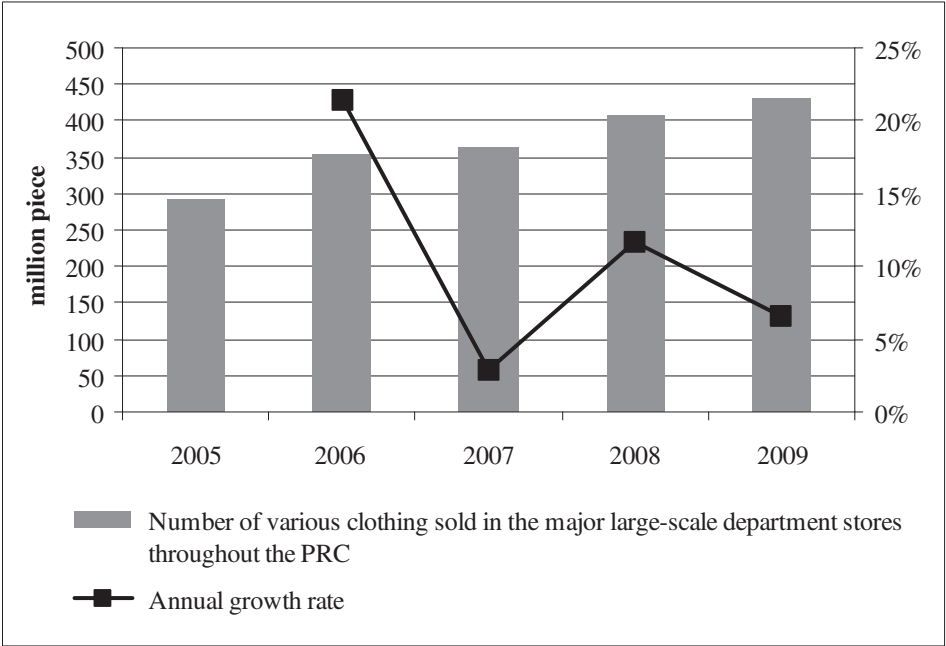
The total clothing retail sales amount of major large-scale department stores throughout the PRC has been growing from 2005 to 2009. This amount grew from approximately RMB424,495 million in 2008 to approximately RMB479,003 million in 2009, representing an increase of 12.8%. The CAGR of the total clothing retail sales amount of major large-scale department stores throughout the PRC from the period 2005 to 2009 was approximately 18.7%. The following chart sets forth total clothing retail sales value of major large-scale department stores throughout the PRC and their annual growth rate from 2005 to 2009.



Source: China Wool Textile Association 2009

## INDUSTRY OVERVIEW

The number of clothing units which was sold in major large-scale department stores throughout the PRC has been growing at the same time. According to the CWTA, approximately 432.3 million pieces of clothing were sold in major large-scale department stores throughout the PRC in 2009, representing an increase of approximately 6.6% from 2008. The CAGR of the pieces of clothing sold in major large-scale department stores throughout the PRC from the period 2005 to 2009 was approximately 10.4%. The following chart sets forth the number of various clothing sold in major large-scale department stores throughout the PRC and their corresponding annual growth rates from 2005 to 2009.



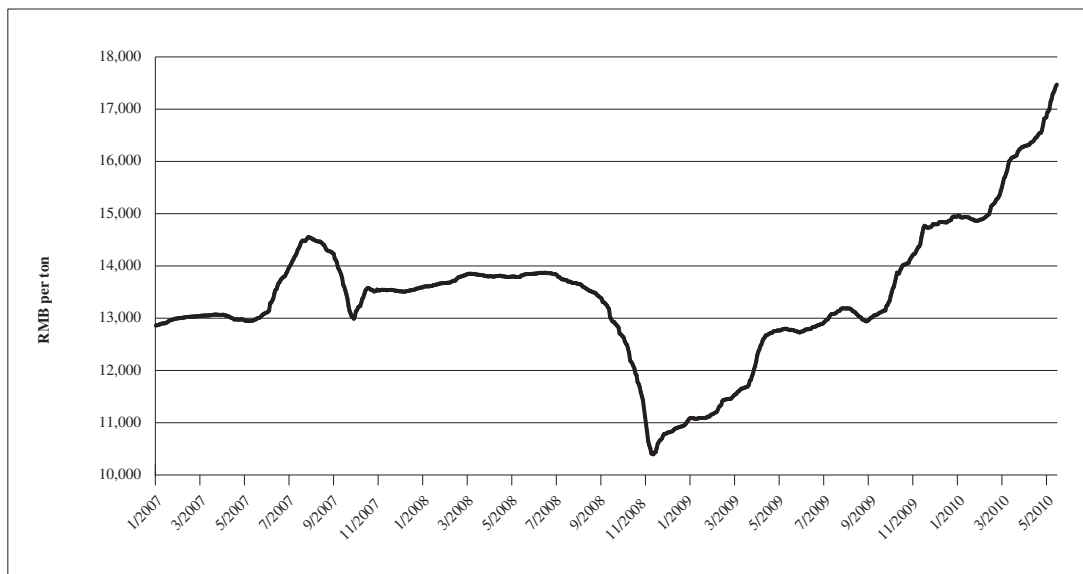
Source: China Wool Textile Association 2009

## INDUSTRY OVERVIEW

### Cotton Price Trend in the PRC

Since the major raw material the Group used for manufacturing is cotton fabric, the price fluctuation on cotton fabric in the PRC was one of the factors which affected the cost of production of the Group. The China Cotton Index as quoted by the China Cotton Association can be used as a reference for the price of cotton fabric procured in the PRC. The price of cotton in the PRC began to increase from the beginning of 2009 and reached the highest of RMB17,471 per ton as at 31 May 2010 during the Track Record Period. The China Cotton Index is the price of cotton per ton in RMB delivered to mills for manufacturing cotton fabric.

The global financial crisis which broke out in late 2008 significantly decreased the need for cotton to manufacture apparel products for exports. As a result, the price of cotton in the PRC began to decrease drastically from July 2008 to the lowest of RMB10,395 per ton at 20 November 2008 during the Track Record Period. The following graph sets forth the price of cotton per ton quoted as the China Cotton Index by the China Cotton Association from 2007 to 2009.



Source: [www.china-cotton.org](http://www.china-cotton.org), the website operated by the China Cotton Association where the quoted prices were extracted from the period between 1 January 2007 to 31 May 2010.

### REGULATIONS AND DIRECTIVES

This section sets out summaries of certain major aspects of trade-related laws and regulations of the EU which are applicable to the operations and business of the Group.

#### EU Trade-related Laws and Regulations

The EU is an economic, political and cultural union of 27 member states located primarily in Europe. Committed to regional integration, the EU and its 27 EU member states have a common trade policy and act as one single jurisdiction in all trade-related matters.

Pursuant to its exclusive competence, the EU has developed a broad array of legislative instruments (regulations and trade agreements) in the trade sphere.

## INDUSTRY OVERVIEW

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### EU Import Duties and Tariff

#### *Custom duties*

One of the most important aspects of the EU trade policy is that the EU is a customs union. The same import duties are charged on imports from third countries regardless of the country of entry. The main principles of custom law are regulated at EU level, while the customs authorities of the EU member states are in charge of their application. In addition, trade remedies against unfair trade practices (i.e. anti-dumping and countervailing measures) and safeguards are adopted by the EU and imposed on the imports concerned regardless of the country of origin.

#### *Tariff and Non-tariff measures*

Products imported into the EU are distinguished at the 8-digit level of the Combined Nomenclature which lists the duty rates applicable to each product. The customs authorities in all 27 member states are obliged to impose the Common Customs Tariff on imports.

In addition to tariffs, the EU has a tradition of making significant use of various non-tariff measures to restrict imports. Non-tariff barriers include not only quantitative restrictions but also regulatory barriers. Specific examples of the quantitative restrictions include import quotas, voluntary export restraints and licensing, while examples of the regulatory barriers include prohibitions for health and safety reasons. Anti-dumping, anti-subsidy and safeguard measures are another important form of trade instruments that lead to restrictions on trade and generally affect the whole Community.

### EU Import Regulations

#### *Import licensing*

All members of the EU have adopted a common trade policy towards imports from third countries. The EU has a relatively liberal import regime. In general, import licensing is not required for products entering an EU country, except for certain sensitive products like agricultural goods, tobacco, weapons, etc., and products governed by quantitative restrictions (i.e. quotas) and surveillance.

#### *Quotas*

The EU has quantitative restrictions in place with respect to certain products coming from various countries. In particular, quotas have been established on certain categories of textiles from the Mainland China. In addition, the importation of other products (e.g. many agricultural products) may also be subject to tariff quotas.

#### *Restrictions and prohibitions*

The EU has restrictions and prohibitions in place in relation to the importation of some products such as counterfeit and pirated goods. The customs authorities of the EU member states may intervene where goods are suspected of infringing intellectual property rights. The intervention may lead to the destruction of the imported goods as well as the imposition of fines on the importer. The EU can impose

## **INDUSTRY OVERVIEW**

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safeguard measures against textile and non-textile products from the Mainland China by using the general safeguard instrument. The instrument was adopted in 2003 pursuant to the Mainland China’s Protocol of Accession to the WTO and therefore only applies to the Chinese mainland-origin imports. The safeguards can be triggered if textile imports of Mainland China origin which are covered by the WTO Agreement on Textiles and Clothing threaten to impede, owing to market disruption, the orderly development of trade in those products within the EU.

### *Patents, copyrights and use of trademarks with respect to imports*

Goods imported into the EU must not infringe any intellectual property rights, including patents, copyrights and trademarks, which other operators may hold in the EU. Exporters should inquire into whether the goods they want to export to the EU are already subject to a patent, copyright, trademark or any other intellectual property right in any of the EU member states, and obtain, if necessary, an appropriate licence from the right-holder.

### **Product Safety and Environmental Protection in the EU**

The EU aims to achieve a high level of product safety protection directly linked to the protection of consumer health and environment across all the member states of the EU.

#### *General Product Safety – Directive 2001/95/EC (the “GPSD Directive”)*

Directive is a form of the legal acts of the EU which require the member states to achieve certain result while leaving the member states discretion as to how to achieve the results. The GPSD Directive generally applies to all the member states of the EU on ensuring the consumer products sold in the EU are safe. The original GPSD Directive was adopted in 1992 and had been revised once in the form of Directive 2001/95/EC, which had to be implemented in the member states of the EU by 15 January 2004.

The objective of the GPSD Directive is to protect the health and safety of the consumers of the products in the EU. It requires manufacturers to place only safe products on the EU market. In case, the manufacturer is not based in the EU, this obligation applies to its representative in the EU or, in the absence of a representative, to the importer.

#### *The Registration, Evaluation, Authorisation of Chemicals (“REACH Regulation”)*

The REACH Regulation was first published on 18 December 2006 and later enforced on 1 June 2007. The aim of the REACH Regulation is to protect human health and environment through the better and earlier identification of the intrinsic properties of harmful chemical substances contained in the consumer products.

The REACH Regulation takes into account of the use of specific chemical substances in consumer products. These specific chemical substances are being included in a candidate list of Substances of Very High Concern for Authorisation (the “Candidate List”) on the website of the European Chemicals Authority. If a chemical substance listed on the Candidate List is contained in a consumer product, this may trigger additional obligations for the manufacturers, importers and retailers to supply this consumer product in the EU.

## INDUSTRY OVERVIEW

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### *Packaging and Packaging Waste (the "Directive 94/62/EC")*

The EU law in Packaging and Packaging Waste Directive 94/62/EC was adopted in 1994 and revised ten years later as Directive 2004/12/EC. It aims at harmonising national measures concerning the management of packaging and packaging waste to protect the environment by avoiding the build-up in the waste-stream of packaging waste throughout the member states of the EU.

### **Consumer Protection in the EU**

Consumer protection legislation and policy are central to the EU objectives of achieving a high standard of quality for its citizens. Articles 153 and 95 of the EC Treaty lay out the aims for promoting the interests, health and safety of consumers in the EU. Such articles govern the economic and health protection of consumers, the safety of products and the free movement of only safe goods within the EU.

### *The Sale of Consumer Goods and Associated Guarantees (the "Directive 1999/44/EC")*

The Directive 1999/44/EC, which was adopted in May 1999 and required to be implemented in the member states by 1 January 2002, is a directive at the EU level for all sellers of goods. The relevant provisions of the Directive 1999/44/EC provide consumer with a uniform minimum level of legal rights to remedies in the event of non-conformity of a product with the sale contract at the time of delivery. According to the Directive 1999/44/EC, sellers must deliver only such goods to the consumer that are in conformity with the contract seller's description in the sale fit for the purposes required by the consumer as made know by him to the seller, fit for their normal intended purpose and quality and performance normally as expected to products of this type.

### *The Liability for Defective Products (the "Directive 85/374/EEC")*

The Directive 85/374/EEC, a directive issued by the Council of the EU and published on 7 August 1985, states that manufacturers shall be liable for damage caused by defects in their products to their product consumers. The Directive 85/374/EEC is important for all sellers in the EU as any defect in the goods leading to damage, defined as death or personal injury or damage to any item of property, can make more than one party in the chain between the manufacture and sale liable thereof.

### **Other Trade-Related Measures**

#### *Labelling, Packaging and Marking Requirements*

Textile Name (Directive 96/74/EC), which was published on 3 February 1997, provides a framework of rules governing the labeling of products as regards their textile fibre content in order to ensure that the rules are harmonized EU-wide and consumers are kept informed. Textile products may only be marketed within EU where they comply with the Directive. All products containing at least 80% by weight of textile fibres, including raw, semi-worked, worked, semi-manufactured, manufactured, semi-made, or made-up products are covered in the Directive 96/74/EC and therefore require labeling whenever the product are put on the market for production or commercial purposes. Labelling indicating fibre composition is mandatory in all stages of the industrial processing and commercial distribution of a product.

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## INDUSTRY OVERVIEW

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### REGULATIONS ON APPAREL MANUFACTURING BUSINESS IN THE PRC

Set forth below are summaries of certain PRC laws and regulations applicable to the operations and business of the Group and Koko Garment Factory:

#### Applicable to the Group

##### *Processing Trade Business Procedures and Regulations*

加工貿易審批管理暫行辦法 (The Administration of the Examination and Approval of Processing Trade Tentative Procedures) was issued on 27 May 1999 and become effective as of 1 June 1999 (the “**Procedures**”). It aims to further strengthen the administration of processing trade, safeguard the order to normal business operation and ensure the healthy development of processing trade.

According to the Procedures, the operating enterprises engaging in processing trade, that is the business activity of bonded import from abroad of all or some raw materials, components, parts, mechanical components and packing materials and the re-export thereof as finished products after processing or assembling by an enterprise in the PRC, must first be examined and approved by the authority of foreign economic relations and trade.

Furthermore,《廣東省對外加工裝配業務條例》(the Regulations of Guangdong Province on the Foreign Processing and Assembling Business) (the “**Regulations**”), promulgated on 1 June 1993 and amended on 29 July 2004 and 28 November 2008 respectively, are applicable to those foreign processing and assembling businesses that are carried out by legally established enterprises within Guangdong Province (excluding foreign-funded enterprises).

Pursuant to Article 5 of the Regulations, a written processing agreement shall be concluded for carrying out the foreign processing and assembling businesses. When concluding the processing agreements, the PRC laws and regulations shall be abided by, and the social public interests of the PRC shall not be damaged.

##### *The Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”)*

Pursuant to Article 2 of 中華人民共和國海關關於執行《內地與香港關於建立更緊密經貿關係的安排》項下《關於貨物貿易的原產地規則》的規定 (Provisions of the Customs of the People’s Republic of China on Executing the Rules of Origin for Trade in Goods under CEPA), these provisions shall be applied to the goods imported from Hong Kong under the CEPA, however, the goods imported by the way of processing trade shall be excluded. Furthermore, pursuant to section 2.3.2(c) of Guide to Doing Business in China published by Hong Kong Trade Development Council, the amount of imported materials and parts actually used in the making of the finished products for export is exempt from tariffs and import-related taxes under the system of processing trade administration.

## INDUSTRY OVERVIEW

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### **Applicable to the Group after development of domestic sales in the PRC**

#### *Product Quality Law*

The principal legal provisions governing product liability in the PRC are set out in the 《中華人民共和國產品質量法》(Product Quality Law), which was adopted at the 30th Meeting of the 第七屆全國人民代表大會 (Standing Committee of the Seventh National People's Congress) on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

#### *Consumer Protection Law*

The principal legal provisions for the protection of consumer interests are set out in the 《中華人民共和國消費者權益保護法》(Consumer Protection Law), which was promulgated on 31 October 1993 and came into effect on 1 January 1994.

According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of living consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

### **Applicable to Koko Garment Factory**

#### *Environmental Protection Law*

The 《中華人民共和國環境保護法》(Environmental Protection Law) was adopted at the 11th Meeting of the Standing Committee of the Seventh National People's Congress on 26 December 1989, promulgated by Order No. 22 of the President of the People's Republic of China on 26 December 1989, and took effect on the date of promulgation.

The 《中華人民共和國環境保護法》(Environmental Protection Law) is formulated for the purpose of protecting and improving people's environment and the ecological environment, preventing and controlling pollution and other public hazards, safeguarding human health and facilitating the development of socialist modernization.



## INDUSTRY OVERVIEW

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### *Labour Contract Law*

According to the 《中華人民共和國勞動合同法》(Labour Contract Law) of the PRC effective as of 1 January 2008, labour contracts shall be entered into if labour relationships are to be established between the units and the labourers. The unit cannot require the labourers to work in excess of the time limit and shall provide wages not lower than the local standards on minimum wages as specified in the labour contracts. The unit shall establish and perfect its system for labour safety and sanitation, strictly abide by rules and standards on labour safety and sanitation, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities of the unit shall meet such standards and the unit shall provide labourers with labour safety and sanitation conditions meeting the State stipulations and necessary articles of labour protection.

### *Production Safety Law*

According to the 《中華人民共和國安全生產法》(PRC Production Safety Law) effective as of 1 November 2002, the production facilities shall be equipped with the conditions for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production and business operation activities. The unit shall offer education and training program to the employees thereof regarding production safety. The design, manufacture, installation, use, checking, maintenance, reform and claim as useless of safety equipments shall be in conformity with the national standards or industrial standards. In addition, the production facilities shall provide labour protection articles that meet the national standards or industrial standards to the employees thereof, supervise and educate them to wear or use these articles according to the prescribed rules.

### *Social Insurance Regulations*

According to 《企業職工生育保險試行辦法》(Interim Measures concerning the Maternity Insurance) effective as of 1 January 1995, the employers in the PRC shall pay the maternity insurance fees for their employees.

According to 《社會保險費徵繳暫行條例》(Interim Regulations concerning the Levy of Social Insurance) effective as of 22 January 1999 and 《社會保險登記管理暫行辦法》(Interim Measures concerning the Management of the Registration of Social Insurance) effective as of 19 March 1999, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

The Company, Koko Garment Factory, the Processing Party and the Processing Agreement have complied with the relevant laws, regulations and measures both in the EU countries and the PRC which are relevant to the operations and business of the Group in all material respects and have obtained all necessary licenses, approval and permits from relevant regulatory authorities which are material for the operations in the PRC save for the non-compliance with the PRC regulatory requirements as disclosed in the paragraphs headed "Non-compliance with housing provident fund", "Non-registration of lease agreement" and "Unauthorised lease properties" in the section headed "Risk Factors" in this prospectus.