This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Sole Sponsor, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China. We make no representation as to the correctness or accuracy of any of such information and, accordingly, such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

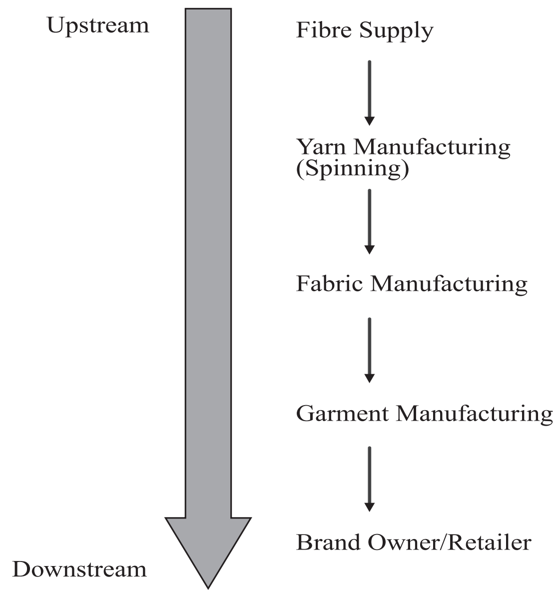
FABRIC MANUFACTURING INDUSTRY

Overview of the global fabric manufacturing industry

The cost of production is the critical competitive factor of fabric products, as fabric products are mass-produced commodities. Economies of scale, availability of raw materials and low cost production inputs have shifted key fabric production centers away from developed countries such as the United States, United Kingdom, other European countries to China, India, and Pakistan. In the recent decades, China has gradually become the global center for fabric production due to its availability of low-cost and skilled labour and efficiencies gained from the co-location of the various parts of the textile industry value chain.

The production of fabric starts at the supply of fibre, which mainly includes cotton and other natural and synthetic sources. Fibre is then used to produce commodity yarn and sold to fabric manufacturers to knit and weave the yarn into fabrics. Apparel fabrics manufacturers take orders from garment manufacturers who produces apparel products from fabrics. For some fabric manufacturers, such as our Company, may work in partnership with brand owners to produce custom-made fabrics in terms of printing patterns, coloration, and functions of fabric.

The diagram below illustrates the various steps in the textile industry production chain:



Fabric manufacturing can be categorised into two main types, namely knitting and weaving. Knitted fabric is mainly used in sports and casual wear due to its stretchable nature. Furthermore, knitted fabric are categorised into warp knitted (vertical knitting) and weft knitted (horizontal knitting). Warp knitted fabric is mainly applied in swimwear and inner wear, and weft knitted fabric is often used in T-shirts. Woven fabric is non stretchable and typically used in formal apparel. Depending on the raw materials used, both knitted and woven fabrics can be further categorised into cotton fabric, synthetic fabric, silk fabric, mixed fabric, etc.

Development trends of the global fabric manufacturing industry

Entrance barriers in the fabric industry

The Directors are in view that the rising costs to comply with increasingly stringent environmental and other regulations in the fabric industry are making a higher entry barrier for small fabric manufacturers. The rising costs pressure is creating intensity in the competition of the local fabric industry. The Directors believe that the compliance costs will be relatively easier to be absorbed by the fabric producers with a strong capital base and will encourage the smaller and less profitable business to exit. Also, the elevating costs will set barriers for new entrants trying to enter the local fabric industry.

Higher efficiency driven by improved manufacturing technique and technologies

The Directors believe that technology advances in computerised management systems and fabric manufacturing techniques have allowed the developed fabric manufacturers to enjoy shorter production time for products with higher quality, lower costs per unit and higher efficiency, and thus increase their scales of operations. The advanced manufacturing machineries and techniques have resulted in the development of fabric with bigger variety in terms of complication in patterns and functionalities. The more capitalised manufacturers in low-cost countries will have competitive advantages as they can adopt advanced machineries, which have higher costs, and hire technological advances in lower costs.

Primary strengths of China's fabric industry

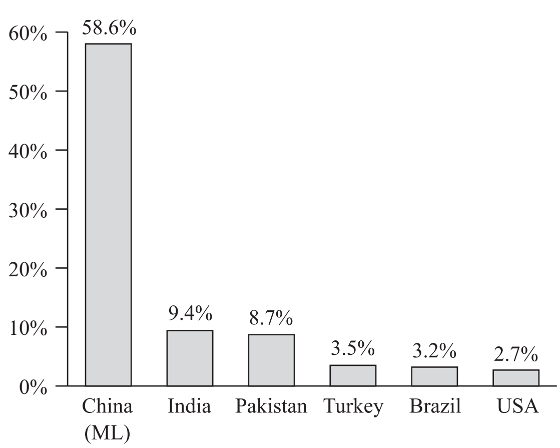
Strong growth in the domestic market growth

According to the National Bureau of Statistics of China, China's gross domestic product was approximately US$4.4 trillion in 2008, and was ranked the fourth highest globally. China's population was about 1.34 billion in 2008 and is the world's most populated country. The rapid growth on China's economy and its large population keep expanding its domestic market in fast pace. According to Datamonitor, China's apparel retail industry generated total turnover of RMB516 billion in 2007, representing 32% of the Asia-Pacific apparel retail market. In 2012, China's apparel retail turnover are projected to reach RMB731 billion, representing a compound annual growth rate of 7.2%.

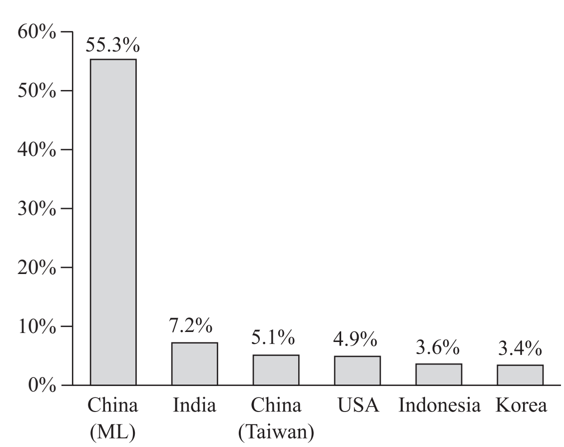
Abundant supply of raw materials

China's fabric manufacturing industry enjoys advantages in terms of the availability of and proximity to raw materials. China is the world's largest producer of cotton yarn and synthetic yarn, and continues to increase its share of the world's cotton and synthetic yarn production. The ICAC recorded that China accounted for 57% of world yarn production in 2008, up from 28% in 2000 and 18% in 1990. In 2007, China produced 58.6% of the world's cotton yarn and 55.3% of the world's synthetic yarn.

Leading Producers of Cotton Yarn in 2008
% of global production



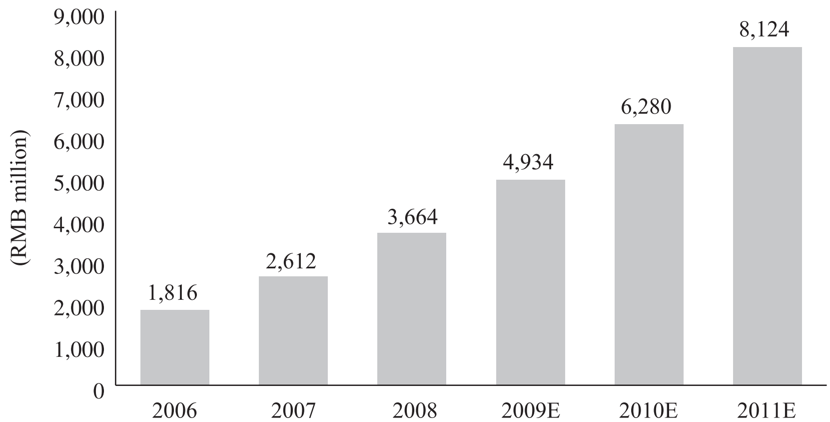
Leading Producers of Synthetic Yarn in 2008
% of global production



Source: World Textiles Demand, April 2009, International Cotton Advisory Committee (ICAC)

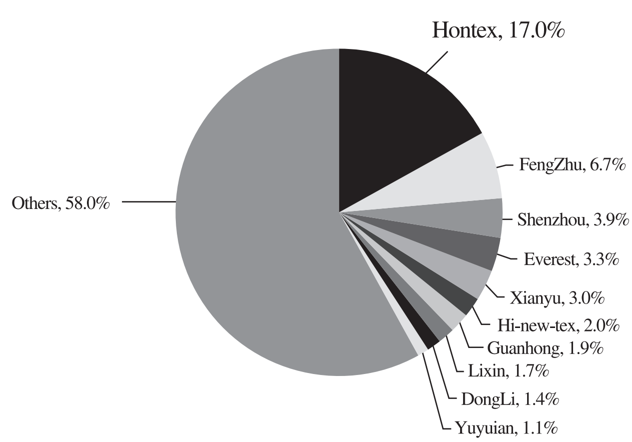
Fast growing multi-functional fabrics market

As consumers become more familiar with the advantages of the functional fabrics, the market size continues to grow in recent years. According to Euromonitor, the high tech, multi-functional, high quality polyester based knitted fabric market is expected to grow from RMB3.7 billion in 2008 to RMB8.1 billion in 2011, represent a CAGR of 30.4%.



Source: Euromonitor

The 2008 market share of total value sales of top 10 leading players in the high tech, multi-functional, high quality polyester based knitted fabric industry are set out as follow:



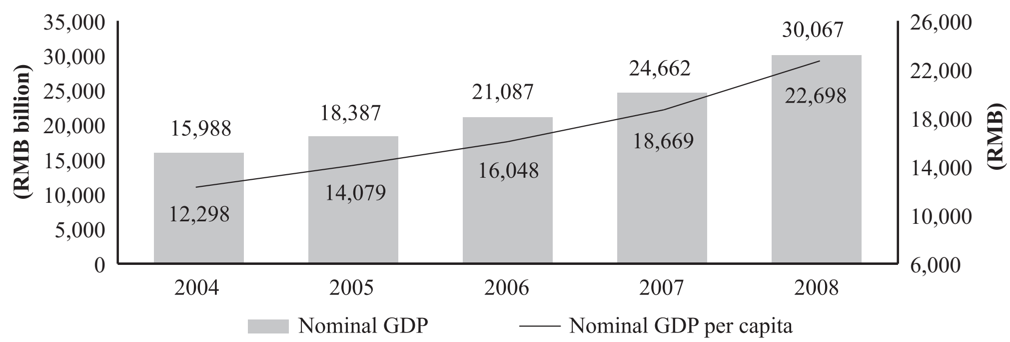
Source: Euromonitor

RAPID GROWTH OF THE CHINESE ECONOMY AND ITS CONSUMER SPENDING POWER

Growth of the PRC economy

The PRC economy has been growing rapidly since the implementation of market liberalisation policies by PRC Government in the late 1970s. Economic growth was further reinforced by the launch of special economic zones along coastal PRC in the early 1990s. According to the National Bureau of Statistics of China, the nominal gross domestic product increased from RMB15,988 billions in 2004 to RMB30,067 billions in 2008, and the CAGR of the period is 22.3%, which reflects a steady growth. The nominal gross domestic product per capita increased from RMB12,298 in 2004 to RMB22,698 in 2008, and the CAGR of the period is 17.1%.

2004–2008 Nominal GDP and nominal GDP per capita in the PRC[1]



Source: National Bureau of Statistics of China

Accelerating urbanisation trend

The urbanisation of PRC has been lifted by the rapid economic growth. Populations in urban cities have expanded with the influx of people from rural and less developed areas. During 2004 to 2008, the total urban population in PRC increased by approximately 66.9 million or approximately 11.8%. In 2008, the total urban population was approximately 606.7 million and accounted for approximately 45.7% of the total population. The table below shows the growth of the urban population from 2004 to 2008 in the PRC.

2004–2008 Growth of urban population in the PRC

	2004	2005	2006	2007	2008	CAGR
Urban population (millions)	543	562	577	594	607	3.2%
Total population (millions)	1,300	1,306	1,314	1,321	1,328	0.6%
Urbanisation rate (%)	41.8%	43.0%	43.9%	44.9%	45.7%	

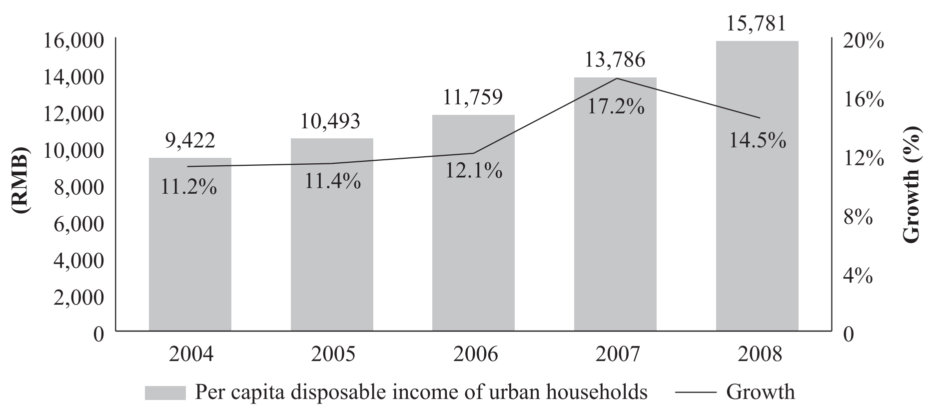
Source: National Bureau of Statistics of China

[1] Nominal GDP per capita calculated based on nominal GDP and total population.

Disposable Income Growth of Urban Residents

Associated with the fast growth of GDP, income levels of urban residents have increased and living standards have improved with better purchasing power. Per capita annual disposable income levels of urban PRC residents have increased from RMB9,422 in 2004 to RMB15,781 in 2008 according to the National Bureau of Statistics of China. The CAGR during this period is 13.8%, and the chart below illustrates the per capita disposable income levels in the PRC from 2004 to 2008.

2004–2008 Per capita disposable income of urban households in the PRC

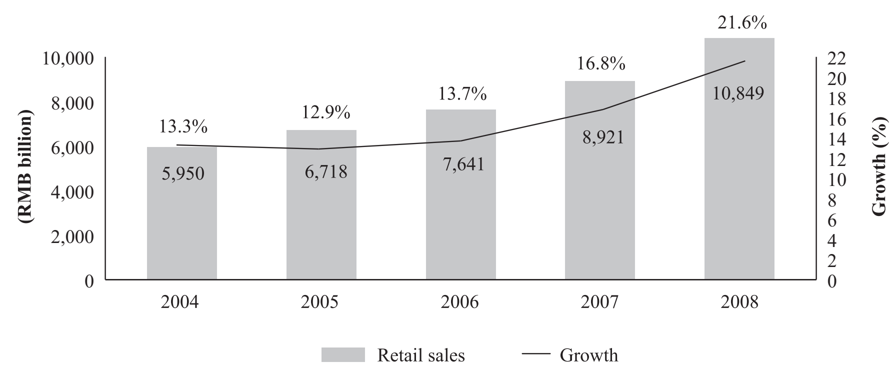


Source: National Bureau of Statistics of China

THE BOOMING RETAIL INDUSTRY IN THE PRC

The retail sales of consumer goods in the PRC had experienced rapid growth amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics have coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. Consumer spending, as measured by the total value of retail sales of consumer goods, has grown from approximately RMB5,950.1 billions in 2004 to approximately RMB10,849 billions in 2008, with a CAGR of approximately 16.2%. The following chart sets forth the historical total retail sales of consumer goods in the PRC.

2002–2008 Retail sales and growth rate in the PRC

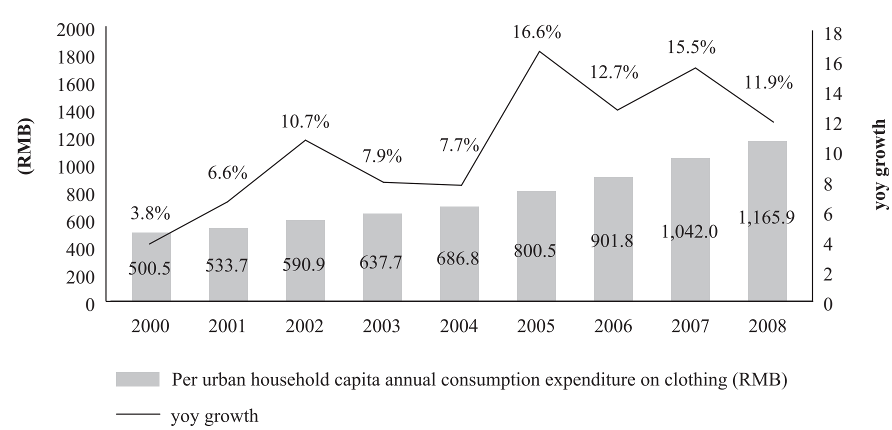


Source: National Bureau of Statistics of China — China Statistical Yearbook (2009)

Annual consumption expenditure on clothing of urban households

The annual consumption expenditure on clothing per urban household capita has grown from RMB638 in 2003 to RMB1,042 in 2007, with a CAGR of approximately 13.0%, which suggests an expanding target customer base for us who is interested in apparel products. Besides, the increasing size of the PRC's middle class and growing affluence in the PRC overall have greatly contributed to the increasing consumption. As the level of disposable income increases among these people, their purchases decisions become increasingly less driven by price and functionality, but more by brand image, product design and style.

2000–2008 Per urban household capita annual consumption expenditure on clothing (RMB)



Source: China Statistical Yearbook (2009)

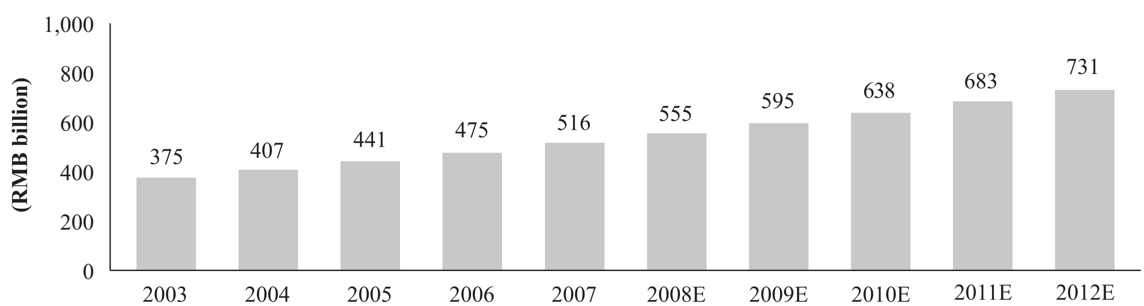
Key drivers of the growth of PRC's retail market

The Directors believe that the increase of disposable income among the people in the expanding middle class and the increased purchasing power of the PRC overall are the main drivers to the increased consumption of lifestyle-enhancing products such as entertainment, leisure, technology and fashion apparel. People will be less concerned with the price and functionality but more focused on the style and image of the brands.

THE GROWING APPAREL RETAIL MARKET IN THE PRC

Since joining the World Trade Organisation in 2002, the PRC has benefited from freer trade and liberalisation from many trade restrictions on textile and apparel products. According to Datamonitor, these liberalisations are expected to result in a gradual upward growth trend in apparel sales over the next few years. As shown in the chart below, apparel sales in the PRC are expected to grow from approximately RMB516 billion in 2007 to reach approximately RMB731 billion by 2012, representing a CAGR of 7.2%.

2003–2012 Annual apparel retail market value in the PRC



Source: Apparel Retail in China, Datamonitor, October 2008