

INDUSTRY OVERVIEW

This section contains information and statistics relating to the industries in which the Group operates, and other related industry sectors. The Company has derived such information and data from official publications released from various governments and trade organizations which are not commissioned by the Group.

The Directors believe that the sources of such information and statistics are appropriate and the Directors have taken reasonable care in extracting and reproducing such information and statistics. The Directors have no reason to believe that such information and statistics may be false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information and statistics have not been independently verified by the Group, the Selling Shareholders, the Sponsor, the Underwriters or any other party involved in the Share Offer and no representation is given as to their accuracy.

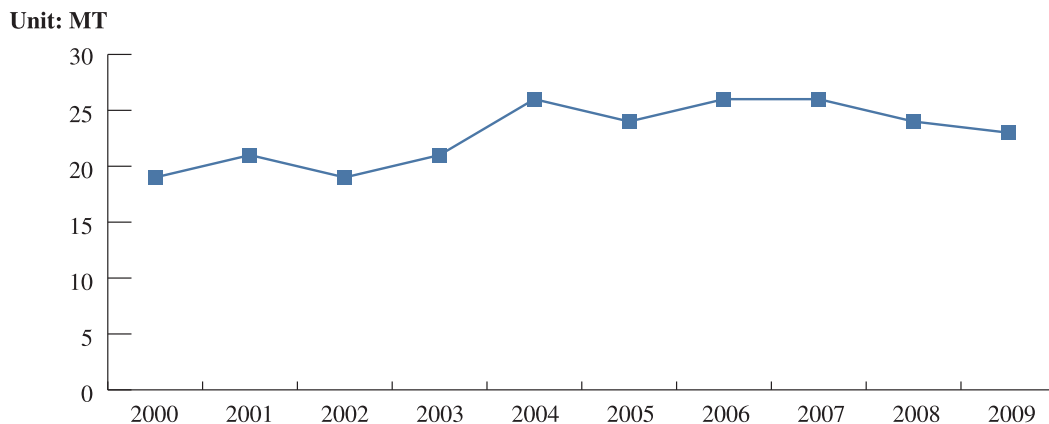
COTTON TEXTILE INDUSTRY

Cotton is one of the widely used natural fibres providing thousands of useful product applications such as clothing, home furnishing and industrial goods. The fibre is often first spun into yarn for further processing into other textile and garment products. The primary advantages of cotton over other natural and synthetic fibres include its versatility, wearing comfort, natural appearance and moisture absorbency, in which no other fibres may duplicate all of the desirable properties inherent in cotton.

Despite the invention of other chemical fibres such as polyesters and availability of other natural fibres such as wool and linen, cotton remains one of the major inputs in the garment and textile manufacturing industry. According to a report published by ICAC in September 2010, cotton still accounted for approximately 36.5% of world end-use textile fibre consumption in 2009, of which approximately 44% of the world cotton end-use consumption took place in industrial countries in North America, Western Europe and Asia/Oceania countries.

Due to extensive use of new technologies and new area dedicated to cotton plantation, the global yield of cotton has significantly improved over the last few decades. In 2009, the world production of cotton amounted to approximately 23.11 MT, representing a CAGR of 2.10% from 2000.

Global cotton production

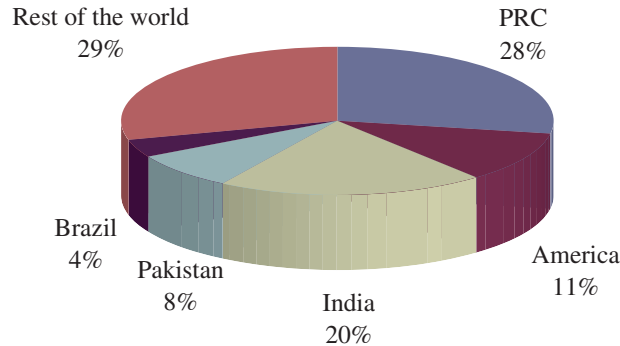


Source: China Textile Industry Development Report 2009/10

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According to ICAC, cotton is grown in more than 80 countries. However, the majority of yield is concentrated in a few countries and the top five producing countries, namely the PRC, India, the U.S., Pakistan and Brazil, in aggregate accounted for approximately 71% of the world output in 2009, in which the PRC had the largest production volume amounting to approximately 28% of the world total. With dominant position in the global textile and garment market, the PRC is not only the world's largest consumer of cotton but also the world's largest importer whereas the U.S. is the largest exporter of cotton.

Global cotton production in 2009

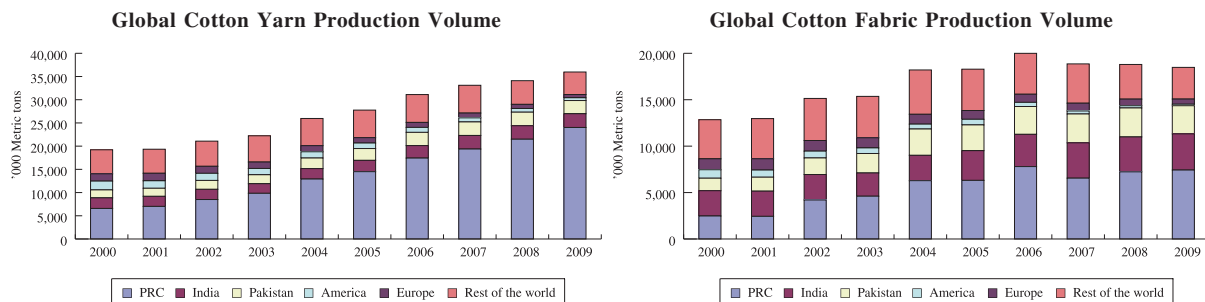


Source: China Textile Industry Development Report 2009/10

Global cotton yarn and fabric production

Since global cotton textile fibre (end use) consumption had increased from approximately 19.98 MT to approximately 23.96 MT during the period from 2001 to 2009, with such an increase in demand for cotton textile products, the production of global cotton yarn and cotton fabric has also been increased from 19.22 MT and 11.67 MT in 2000 to 35.97 MT and 17.93 MT in 2009 respectively, representing a CAGR of approximately 7.2% and 4.9% respectively.

The following charts set out the analyses of major cotton yarn and cotton fabric production countries respectively for the past decade:



Source: World Textile Demand, September 2010, ICAC

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With proximity of raw cotton and availability of low cost labour force, global cotton yarn and cotton fabric production is also dominated by certain Asia developing countries including the PRC, India and Pakistan throughout the past decade. These three countries in aggregate accounted for approximately 83% and 80% of the world total output of cotton yarn and cotton fabric in 2009 respectively, in which the PRC was also the largest producing country with approximately 67% and 41% of the world total output of cotton yarn and cotton fabric in that year. In contrast, due to relatively high labour cost, the share of cotton yarn and cotton fabric output by industrial countries in Americas and European Union had seen diminishing throughout the past decade. For example, the cotton yarn and cotton fabric production in the U.S. had declined from approximately 1.9 MT and 0.91 MT in 2000 to approximately 0.60 MT and 0.16 MT in 2009 respectively, representing a drop of 68.4% and 82.4% for the period.

GLOBAL TEXTILE TRADE

As clothing is the primary item produced with cotton, the increase in cotton yarn and fabric production in the world market also affects the world trade of garment and textile products. During the past decade, world export trade of garment and textile products had increased by approximately 54% from USD342 billion in 2001 to USD527 billion in 2009. The growth in export volume between 2001 and 2007 may be attributed to the combined effect of favourable trends of income growth, cotton prices and gradual integration of textile trade into WTO rules. With global economic downturn beginning in late 2007, the growth in export activities slowed down in 2008 and decline was seen in 2009.

According to the WTO, the PRC was the world's largest exporter with market share of approximately 32% in 2009. The major markets for China garment exports include the U.S., European Union and Japan.

Total world export trade of textile and garment products



Source: WTO International trade statistics 2001–2010

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DEVELOPMENT OF GLOBAL GARMENT AND TEXTILE INDUSTRY

During the past decade, the global garment and textile industry had undergone the following structural changes:

Liberalization of global garment and textile trade policy

Liberalisation of multilateral trade in respect of garment and textile began with implementation of Agreement on Textiles and Clothing (ATC) on 1 January 1995 under the aegis of the WTO. With transition period of 10 years under the ATC, the import quota was progressively removed to enable developing countries to export more goods and the regime of quota was completely eliminated for WTO contracting members on 1 January 2005.

Despite the elimination of quotas under the ATC, full integration of global trade of clothing and textile products was not achieved and certain new safeguard measures on shipments of textiles and apparel from the PRC were still imposed by the U.S. and the European Union in the early 2005. As part of 2001 WTO accession, a provision was included to enable WTO members to restrict imports from the PRC in the textile and apparel sector if surging imports from the PRC threatened to disrupt domestic markets and production. These safeguard measures invoked by the U.S. and the European Union were phased out on 1 January 2008 and 1 January 2009 respectively. According to the WTO, upon the expiry of the European Union's growth caps on ten categories of textiles and clothing import from the PRC, exports to European Union surged by 37% in 2008. With the end of these safeguard measures, the Directors expect that promotion of international trade of cotton textile products will be further enhanced.

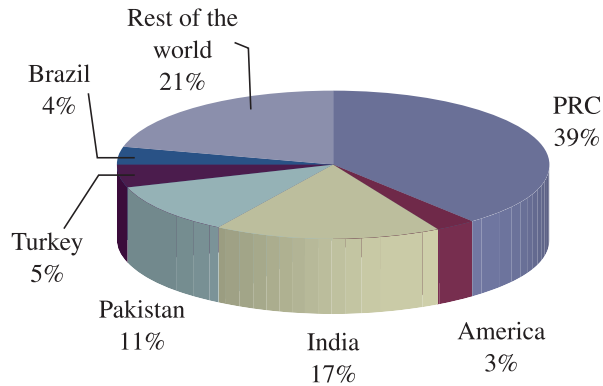
Regional shift in global textile manufacturing activities to developing countries

According to the ICAC, developing countries in Asia are the engine for cotton mill use and since 2000, consistent with the trend of cotton yarn and cotton fabric production, most of the increase in cotton mill use is taking place in the PRC, India and other developing countries. In 2009, the PRC, India, Pakistan and Turkey in aggregate accounted for approximately 72% of the global mill consumption of cotton.

Indeed, developing countries in Asia have attracted massive investments in textile industry in recent years. According to a working paper published by Asian Development Bank in January 2008, since 2000, shipments of textile machinery have been dominated by Asia, particularly by the PRC. The share of world cotton spinning capacity located within 11 major Asian textile countries rose from 64.7% in 2000 to 74.1% in 2005, with the PRC accounting for half of all Asian cotton spinning capacity. Furthermore, modernization of textile weaving capacity had also taken place rapidly in Asia during the past decade. For example, the share of shuttleless looms in nine major producers in Asia in terms of world capacity nearly doubled from 26% in 2000 to 49.2% in 2005. The Directors believe that the investment trend will continue as textile production is migrating from the East Asian newly industrialised economies such as Hong Kong, South Korea and Taiwan to the PRC and other south and southeast Asian countries such as Vietnam.

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Global cotton mill consumption in 2009



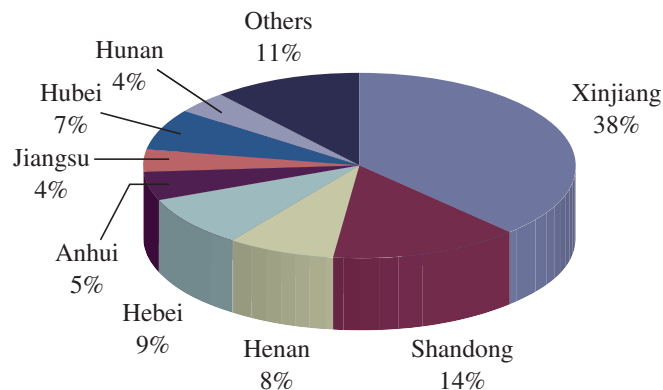
Source: *China Textile Industry Development Report 2009/10*

THE PRC COTTON TEXTILE INDUSTRY

Textile industry is recognized as one of the “pillar industries” in the PRC. In 2009, total industrial output generated by enterprises above scale in the textile industry amounted to RMB3,798 billion, representing approximately 11.32% of GDP for the same year. Cotton textile industry is one of the key sectors within the textile industry in the PRC.

As primary input for the cotton textile industry, cotton is grown in most of the PRC’s provinces, municipalities and autonomous regions. The major plantation area in the PRC can be divided into three regions: the Yellow River valley, the Yangtze River valley and the Northwest. The Yellow River valley region includes the northern provinces of Shandong, Hebei, Henan, Shanxi, Shaanxi and the municipalities of Beijing and Tianjin; the Yangtze River valley region includes Jiangsu, Anhui, Hunan, Jiangxi and Zhejiang Provinces; the Northwest region primarily includes Xinjiang and northwestern Gansu Province. The following diagram shows the major cotton producing provinces and their respective shares in terms of the PRC’s total production in 2009:

PRC cotton production distribution in 2009



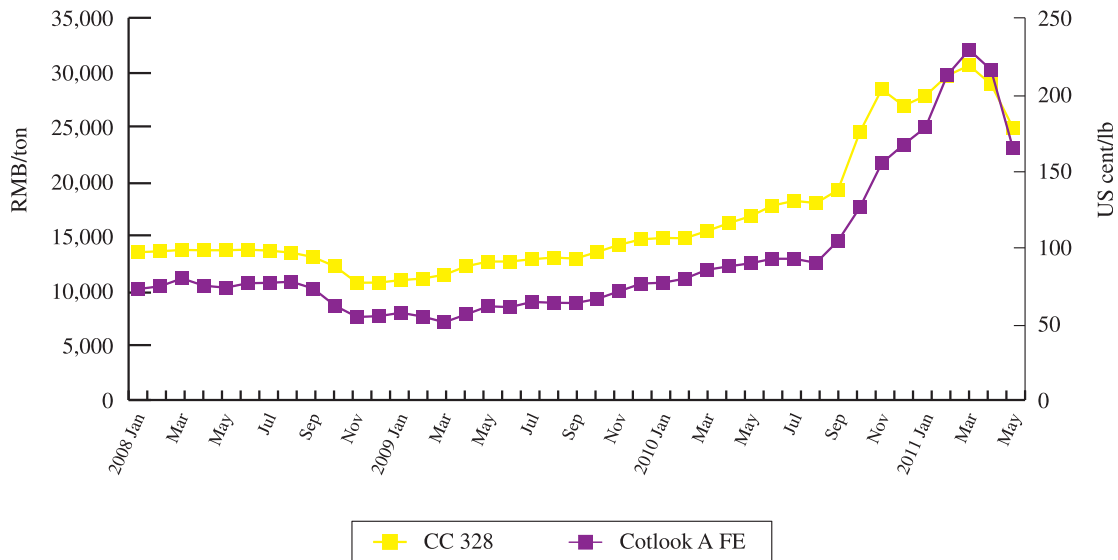
Source: *National Bureau of Statistics of China*

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As illustrated in the diagram, in 2009, the top three cotton producing autonomous region and provinces, namely Xinjiang, Shandong and Hebei, accounted for over 50% of the country's production and Xinjiang was the single largest producer with approximately 38% of the country's output.

The following chart illustrates movement of the domestic (CC Index 328 type) and international (Cotlook A Far East) cotton indices from January 2008 to May 2011:

Comparison of International cotton price index and domestic price index



Source: China Cotton Association (<http://www.china-cotton.org>)

As an agricultural product, the supplies and quality of lint cotton are vulnerable to various factors beyond the Group's control, including weather, infestations and other forces of nature that can result in shortage and inferior quality in supplies and an increase in cotton price. As a domestically and internationally traded commodity, the market prices of lint cotton are also subject to fluctuation from time to time.

During the period, the domestic cotton price exhibited a similar upward trend as with international cotton price. The Cotlook A Far East index increased from approximately 73.25 US cents per pound in January 2008 to approximately 167.7 US cents per pound in December 2010, representing an increase of approximately 128.9% during the Track Record Period. According to ICAC, the international cotton prices have been increasing since April 2009 as a result of shortage in supply and decrease in world stock principally caused by the loss in cotton growing area to other competing crops such as soybeans, maize and wheat. The CC Index 328 type increased from approximately RMB13,622 per tonne in January 2008 to approximately RMB27,034 per tonne in December 2010, representing an increase of approximately 109.2% over the Track Record Period. According to the U.S. Department of Agriculture (USDA), the increase in domestic cotton prices was also driven by shortage in supply due to higher actual consumption than forecast in 2009/10 cotton marketing year (i.e. the period between August 2009 and July 2010). As a result, cotton prices continued to escalate in the first quarter of 2011 and the monthly average of Cotlook A Far East Index and CC Index 328 type reached 229.7 US cents per pound and RMB30,732 per tonne respectively in March 2011. Since then, the monthly average cotton prices (CC Index 328) were decreased to approximately RMB29,005 per tonne for April 2011 and further to

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approximately RMB25,042 per tonne for May 2011. The decline was resulted from the market adjustment following the upsurge in international (Cotlook A) and domestic cotton prices for approximately 7 consecutive months since September 2010 and decline of mill consumption of cotton.

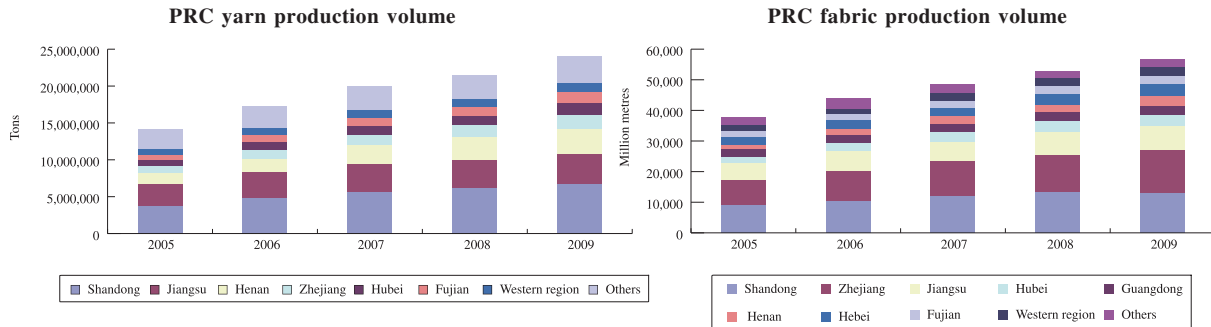
The following chart illustrates the comparison between movement of domestic (CC Index 328) cotton indices and the Group's actual purchase prices of major lint cotton grades:



The CC Index is constructed by actual transaction price data in the PRC and is used by the Group as the key price reference for its lint cotton procurement. As such, the Group's actual lint cotton price movement is in general in line with the movement of CC Index but with a short period of time interval lagged behind the index as the Group enters into medium term procurement contracts with duration of 3 to 6 month and the contract prices are determined with reference to then CC price Index level.

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PRC yarn and fabric production



Source: China Textile Industry Development Report 2006–2010

Source: China Textile Industry Development Report 2006–2010

The production of yarn and fabric in the PRC for the past 5 years had increased from approximately 14.12 MT and 37,761 million metres in 2005 to 24.06 MT and 56,744 million metres in 2009 respectively, representing a CAGR of approximately 14% and 11% respectively.

Yarn-spinning and cloth-weaving activities are primarily located in cotton producing provinces. As illustrated in the above charts, the eastern region of the PRC, including provinces of Shandong, Zhejiang and Jiangsu, accounted for approximately 50% of the country’s output of yarn and fabric in 2009 and is traditionally known as the main cotton textile production and garment and textile export region in the PRC.

The yarn-spinning activities in central region of the PRC are also significant. Henan Province alone accounted for approximately 14% of the country’s cotton yarn output in 2009 whereas cloth-weaving activities in the region are less prominent.

For western region of the PRC, although production of yarn and fabric had increased from 0.78 MT and 1,961 million metres in 2005 to 1.26 MT and 2,792 million metres in 2009 respectively, representing a CAGR of 13% and 9%, its share in the country’s total output remains low. Comparison of regional shares of yarn and cotton production for 2009 indicates that most of the cotton produced in the Northwest was shipped to other regions for spinning, and the development of spinning and weaving activities within the Northwestern region remained comparatively low.

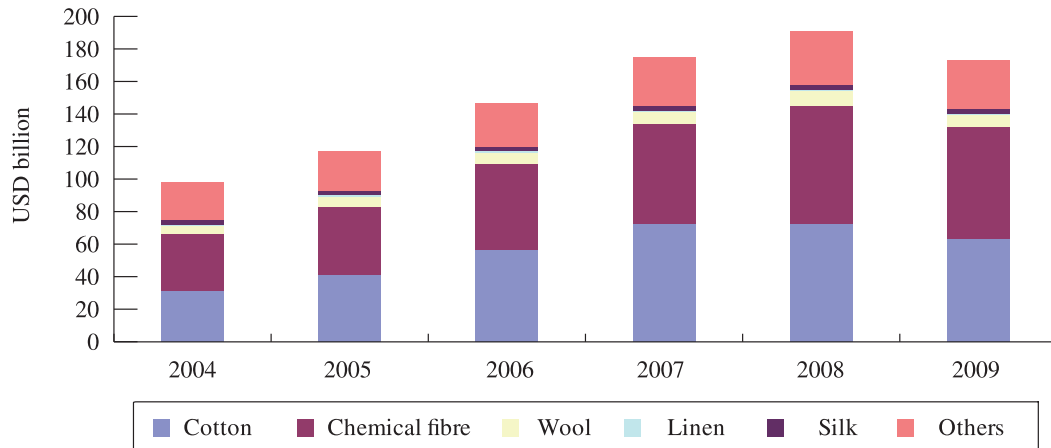
According to the statistics published in 2009/10 China Textile Industry Development Report, the production volume of yarn and fabric in the PRC and in Shaanxi Province in 2009 amounted to approximately 24.06 MT and 56,744 million metres and 0.25 MT and 746 million metres respectively. Based on the above figures, the Directors estimate that the Group’s market share in terms of production volume of yarn and fabric in 2009 was approximately 0.09% and 0.16% of the PRC and approximately 8.97% and 12.5% of Shaanxi Province.

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Export of cotton textile products in the PRC

As the world's largest exporter of garment and textile products, the PRC's total export value of garment and textile in 2009 amounted to approximately USD171 billion, representing an increase of approximately 76.28% over 2004. The following chart sets out the export trend and composition of different textile and garment products for the period from 2004 to 2009:

Composition of PRC export trade of textile and garment products



Source: China Textile Industry Development Report

As illustrated in the chart, cotton and chemical fibre made garment and textile products are the major components in the PRC export trade. In 2009, cotton and chemical fibre textile products in aggregate accounted for approximately 77% of the total garment and textile export trade, in which the market share of cotton textile export trade amounted to approximately 37% of the PRC's total.

As also noted in the chart, the growth in garment and textile export was decelerated in 2008 and declined in 2009 due to the impact of the global economic downturn beginning in the late 2008.

DEVELOPMENT TRENDS OF THE COTTON TEXTILE INDUSTRY IN THE PRC

In the wake of the global economic downturn beginning in the late 2008, the PRC government has introduced a revitalization plan for the textile industry — Consolidation and Development Plans for Textile Industry (紡織工業調整和振興計劃) for the period from 2009 to 2011 with a view to maintain sustainable development of the industry and accelerate the industry structural reform to maintain its competitiveness. Among different measures, the Directors believe the following will have more profound impact on the development of the cotton textile industry in the PRC:

Growth in fixed assets investment with focus on the western region development

According to the PRC's 11th Five Year (2006–2010) Plan for Development of the Textile Industry, with the abundant supply of natural fibres such as cotton and wool and low wage labour force, the western region is positioned to develop as a natural fibre processing base so that it can integrate with the eastern region, which focuses more on other higher value-added activities in

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order to optimize the industry structure and develop a comprehensive textile industry production chain in the PRC. The idea of western region development is reiterated as one of the key measures in the Consolidation and Development Plans for Textile Industry.

In 2009, total fixed asset investment in the garment and textile industry amounted to approximately RMB310.20 billion, of which new cotton textile processing projects amounted to approximately RMB79.42 billion, representing approximately 25.6% of the total investment in the PRC and an increase of approximately 11.25% over 2008, and is the second largest investment area ranked behind the garment sector in the PRC.

Although the eastern and central regions accounted for most of the new cotton textile project investments in 2009 with approximately 54.53% and 37.73% of the total investment amount respectively, western region recorded a relatively high investment growth rate of 28.94% as compared to 5.27% and 17.60% in the eastern and central regions respectively. In the western region, Sichuan, Shaanxi and Xinjiang were the most favoured places for new investments whereas higher investment growth rate was achieved in Guizhou Province, Chongqing Municipality and Shaanxi Province. As such, with the support of the State's policy, the Directors expect that fixed asset investment growth in the western region will persist and more new investment projects in the cotton textile will be made in the western region in future.

Acceleration of technology upgrade and elimination of backward production capacity

In order to enhance productivity and product quality, the Consolidation and Development Plans for Textile Industry also encourages the acceleration of adoption of advanced spinning and weaving technology in order to increase the ratio of high margin products such as combed and knotless yarns and functional fabrics in the industry's product spectrum.

With continuous investments over the past few years, the rate of adoption of advanced technology grows rapidly. For example, the production capacity of compact spinning machinery had increased from approximately 2 million spindles to 4 million spindles between 2007 and 2009 and the number of rotor spinning machinery reached approximately 2.5 million units in 2009. Certain indicators in respect of high margin products also exhibit steady increment. For example, the percentage of combed yarn and knotless yarn with respect to total cotton yarn production in the PRC had increased approximately from 27.1% and 64.13% in 2008 to 27.82% and 65.39% in 2009 respectively.

As part of the environmental conservation strategy, the Consolidation and Development Plans for Textile Industry also aim to reinforce the State policy regarding the elimination of low efficiency and high pollutive backward production technology. For the cotton textile industry, certain spinning and weaving machineries classified as "eliminated" group in the year 2005 version of Guiding Catalog for Adjustment in the Structure of Industries (產業結構調整指導目錄(2005年本)), including all spinning machines produced prior to the establishment of the new China in 1949 and spinning machines model A512 and A513 produced before 1979, are key area for elimination.

With continuous adoption of new technology and elimination of backward production capacity, the Directors expect that the competitiveness of the PRC cotton textile industry will be further enhanced.

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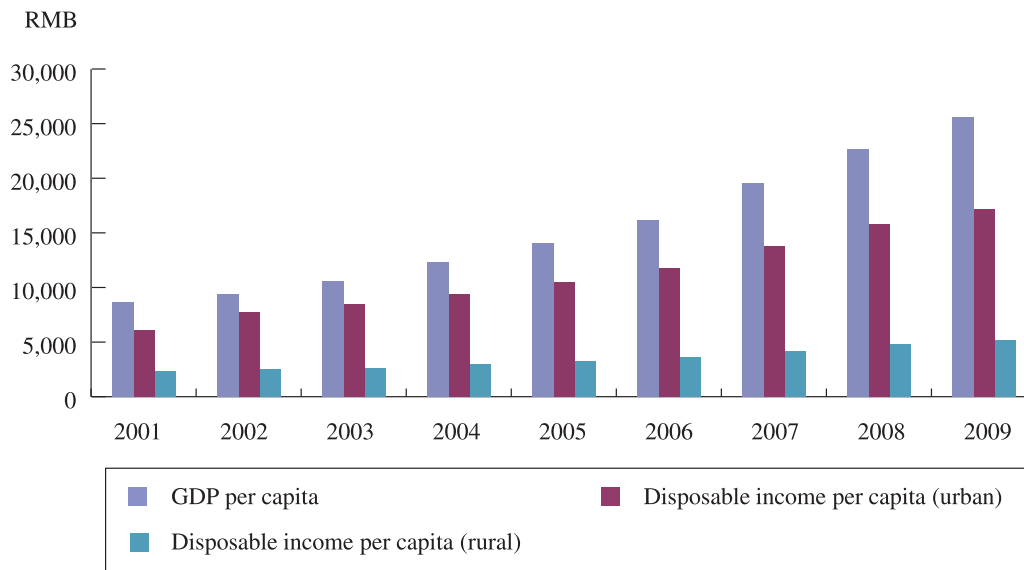
Stimulation of domestic consumption of garment and textile products

The global economic downturn led to decrease in PRC garment and textile export in 2009. In view of the decline in external demand, the PRC government has introduced a series of macroeconomic measures to further stimulate domestic consumption in order to reduce reliance on foreign exports for economic growth. The China Textile Industry Association (CTIA) estimates domestic consumption in 2009 accounted for approximately 80% of total industry sales, up from 77% in 2008.

According to the CTIA, increase in disposable income is the key driver for domestic consumption.

As illustrated in the chart below, GDP per capita in the PRC had increased from approximately RMB8,600 to RMB25,600 between 2001 and 2009, representing a CAGR of 15%. The disposable income level for urban residents was approximately 3.3 times over rural residents in 2009, indicating urban residents has significantly higher purchasing power.

PRC citizen income level

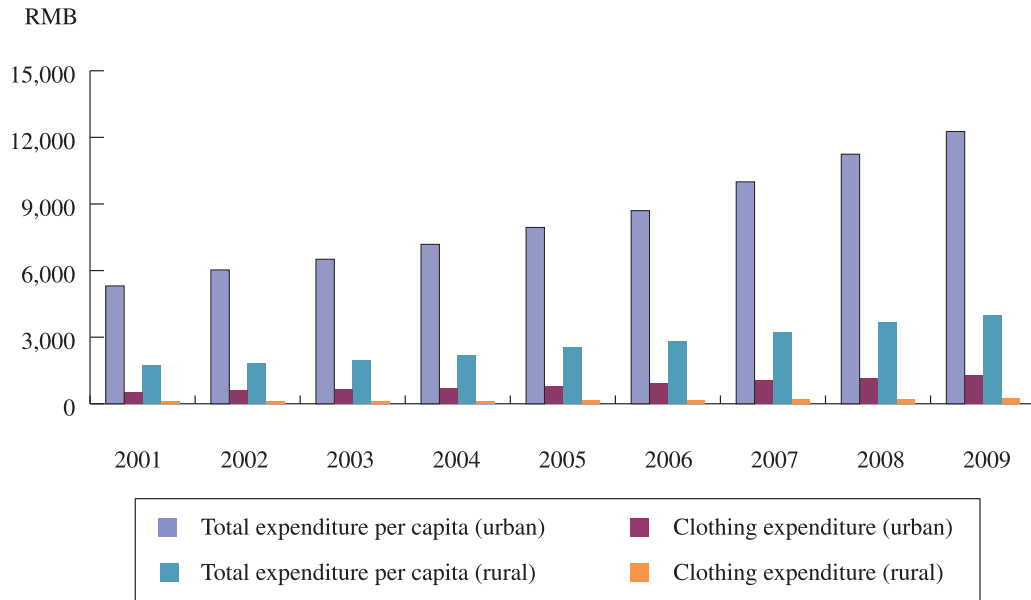


Source: *China Statistical Yearbook 2002–2010*

The following chart sets out the expenditure trend of PRC citizens between 2001 and 2009. With higher disposable income level, total expenditure per capita of urban residents is approximately 3.07 times over rural residents. With higher purchasing power, clothing consumption in the PRC is also dominated by urban residents. From 2001 to 2009, per capita clothing expenditure by urban residents had doubled from approximately RMB534 to RMB1,284. According to a survey conducted by the Hong Kong Trade Development Council in 2009, spending on clothing in certain more affluent cities such as Shanghai, Hangzhou, Tianjin and Beijing reached as high as RMB3,500 during the past 12 months prior to the 2009 survey.

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PRC citizen expenditure level



Source: *China Statistical Yearbook 2002–2010*

With urban residents being the major consumer group of garment and textile products in the PRC, their consumer preference as to materials used in their purchase may have significant influence on the cotton textile industry development. In the same survey, over 90% of the respondents prefer pure cotton as their choice of purchase, followed by wool and silk. As such, the Directors believe demands for cotton made products in the PRC present positive prospect for domestic cotton textile manufacturers.

For details of the regulatory framework in the PRC, please refer to the section headed “Description of Relevant PRC Laws and Regulations” in Appendix V to this prospectus.