
INDUSTRY OVERVIEW

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CHINA'S TEXTILE INDUSTRY

Overview

China's textile industry is a traditional pillar industry of the national economy. In 2010, the total industry output value of textile industry above the designated size reached approximately RMB4.8 trillion, accounting for approximately 12.1% of China's GDP for the same year. According to the China National Textile and Apparel Council, in 2010, there were about 55,500 companies above the designated size (as defined by the National Bureau of Statistics of China as companies with core business revenue of RMB5 million)¹ in the textile industry, achieving the manufacturer sales value of approximately RMB4.7 trillion in 2010, up by approximately 27.5% from 2009.

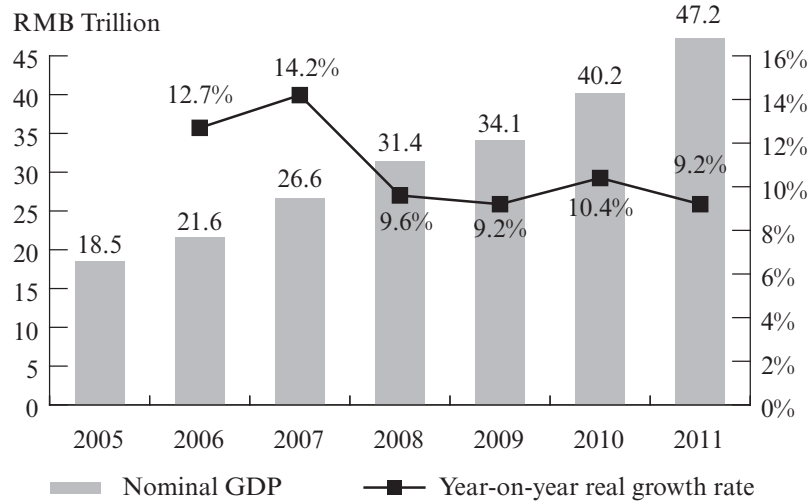
Robust domestic demand

The robust domestic demand is fueled by sustained economic growth. China's nominal GDP reached approximately RMB39.8 trillion in 2010, which pushed China ahead of Japan and placed China as the second largest economy in the world. The real GDP growth was approximately 10.4% in 2010, higher than that of 2009 when the GDP was crippled by the global financial crisis. In 2011, China's nominal GDP increased to approximately RMB47.2 trillion, up by approximately 18.6% compared to that of 2010.

¹ Given the immense size of the textile industry and the business scale of the PRC manufacturers below the designated size is usually very small, the phrase "PRC manufacturers above the designated size" is commonly adopted in the fabric manufacturing industry as a benchmark for measuring the market size and industry output, according to the Euromonitor Report.

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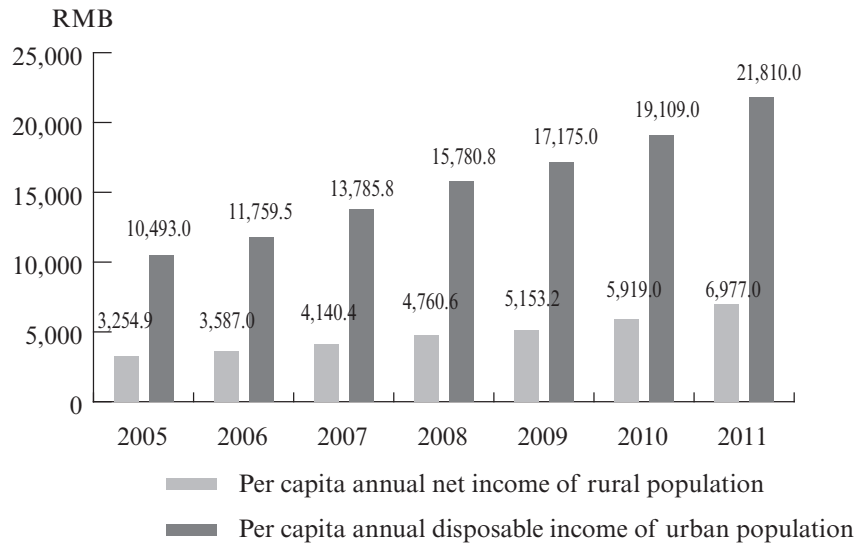
Nominal GDP and year-on-year real growth rate, 2005–2011



Source: National Bureau of Statistics of China

Benefited by the booming economy, the disposable income of both the rural and urban population recorded an impressive growth in recent years. According to the data from the National Bureau of Statistics of China, per capita annual disposable income of the urban population increased from approximately RMB10,493.0 in 2005 to approximately RMB21,810.0 in 2011, whereas the per capita annual net income of the rural population climbed from approximately RMB3,254.9 in 2005 to approximately RMB6,977.0 in 2011.

Per capita disposable income of rural population and urban population in China, 2005–2011

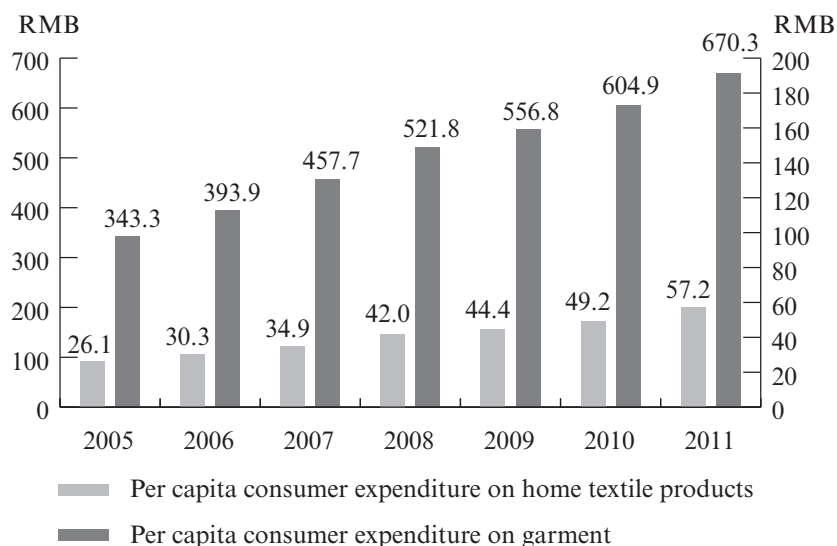


Source: National Bureau of Statistics of China

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With the increasing disposable income, per capita consumer expenditure on garment and home textile products reached approximately RMB670.3 and RMB57.2 in 2011, respectively, representing a CAGR of approximately 11.8% and 14.0%, respectively from 2005.

Per capita consumer expenditure on garment and home textile products, 2005–2011



Source: Euromonitor

It is anticipated that China's economy will continue to grow and prosper steadily in the future. In the 12th Five-Year Plan, increasing disposable income of the rural and urban population and speeding up the construction of indemnificatory housing will still be the goal of the policies and regulations made by the Chinese government, which is expected to provide a robust domestic demand for textile products. In addition, increasing urbanization will provide a bigger consumer base to garment and home textile products since urban citizens are their major consumer group.

INDUSTRY SEGMENTS

China's textile industry can be categorized, in terms of production chain, into (a) raw material supply; (b) spinning and weaving; (c) printing and dyeing; and (d) finished goods industries. Set out below are the key characteristics of the spinning and weaving industries in which we operate our business and the finished goods industry to which our Fabric Products are sold.

Spinning and weaving industries

Spinning and weaving industries can be divided into cotton textile, wool textile, silk and bast and linen fiber textile and knitting segments, depending on the raw material used in the production and the weaving methods. From January to November 2010, the PRC

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manufacturers above the designated size in the spinning and weaving industries achieved the total industry output value of approximately RMB1.7 trillion, accounting for approximately 39.1% of total industry output value of the textile industry.

Cotton textile segment

Cotton textile segment is the most important industry segment in the spinning and weaving industries. According to the China National Textile and Apparel Council, the PRC manufacturers above the designated size in the cotton textile industry realized an industry output value of approximately RMB1,153.9 billion from January to November 2010, being the largest industry sector in the spinning and weaving industries, accounting for approximately 69.1% of total industry output value of the spinning and weaving industries.

Industry output value of each of the industry segments of the spinning and weaving industries, January to November 2010



Source: China National Textile and Apparel Council

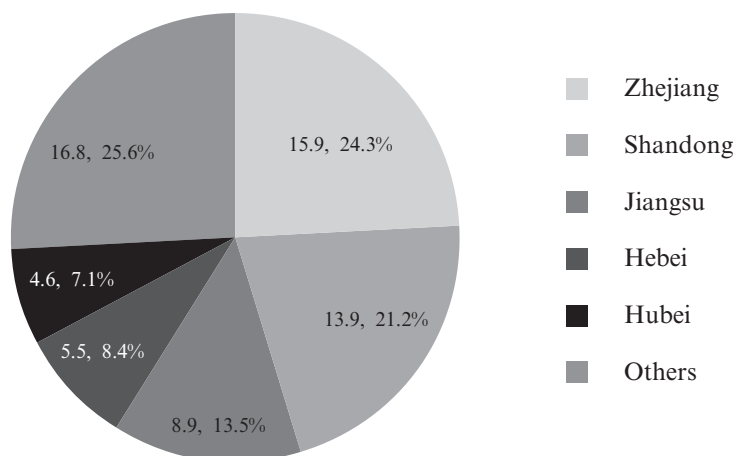
As of November 2010, there were about 12,238 manufacturers above the designated size in China's cotton textile segment, achieving the industry output value of approximately RMB1,153.9 billion, up by approximately 29.5% from approximately RMB891.0 billion in 2009.

The cotton textile segment can be further divided into yarn production and fabric production sectors. As to the fabric production sector, in 2010, grey fabrics (i.e. fabrics taken directly from the loom without any additional finishing operations such as dyeing or bleaching) is the main industry output and the PRC manufacturers above the designated size produced an aggregate of approximately 65.5 billion meters of grey fabrics.

Zhejiang, Shandong, Jiangsu, Hebei and Hubei were the top five provinces in terms of production volume of grey fabric in 2010. These top five provinces contributed approximately 74.4% of the total output volume of grey fabrics produced by the PRC manufacturers above the designated size in 2010.

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Top five provinces in terms of grey fabrics production volume, 2010



Source: China National Textile and Apparel Council

Note: Output volume is expressed in billion meters and the figures above refer to the total volume of grey fabrics produced by the PRC manufacturers above the designated size in 2010 in the relevant provinces

Finished goods industry

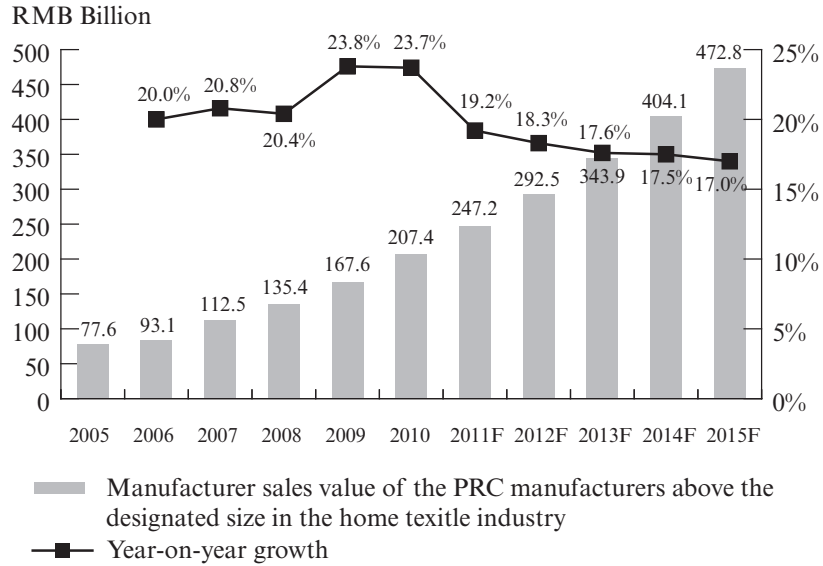
Finished goods industry comprises three segments: home textile, apparel and technical textile.

Home textile

Home textile is the generic description of a range of textile products for home decoration and home furniture, such as covering for beds and tables, quilts, quilt covers, pillow cases, bed sheets, window curtains, window shades, carpets, cooking accessories, bathrobes, sewing threads, handkerchiefs, etc. According to the data from the National Bureau of Statistics of China, there were about 2,590 home textile manufacturers above the designated size in the PRC in 2010, which altogether contributed to the manufacturer sales value of approximately RMB207.4 billion in 2010, representing a CAGR of approximately 21.73% from RMB77.6 billion in 2005. During the same period, per capita consumer expenditure on home textile products increased from approximately RMB26.1 in 2005 to RMB49.2 in 2010, representing a CAGR of approximately 13.52%. In 2011, per capita consumer expenditure on home textile products increased to approximately RMB57.2, representing a growth of approximately 16.3% from 2010. According to the Euromonitor Report, per capita consumer expenditure on home textile products in China accounted for only 1/10 and 1/15 of that in Japan and USA in 2011, respectively. Accordingly, compared to these developed countries, given the fast-growing economy of China, improving living standard and rapid increase in the spending power of PRC citizens, the PRC's home textile industry has great growth potential.

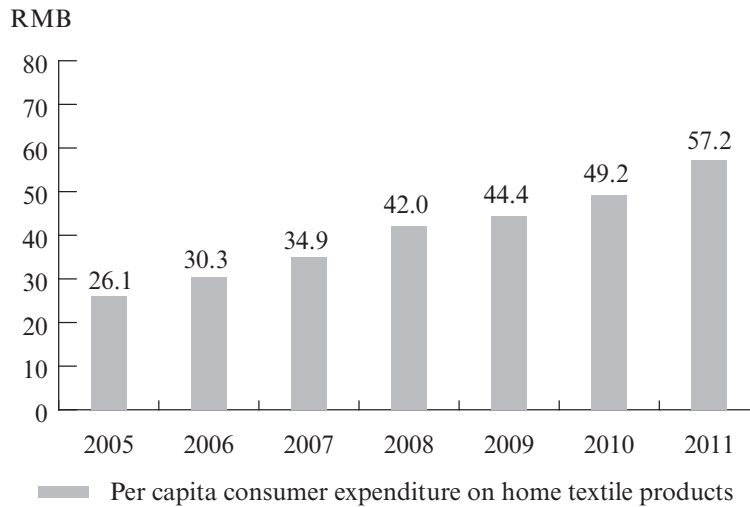
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Manufacturer sales value of the PRC manufacturers above the designated size in the home textile industry, 2005–2015



Source: National Bureau of Statistics of China
Euromonitor

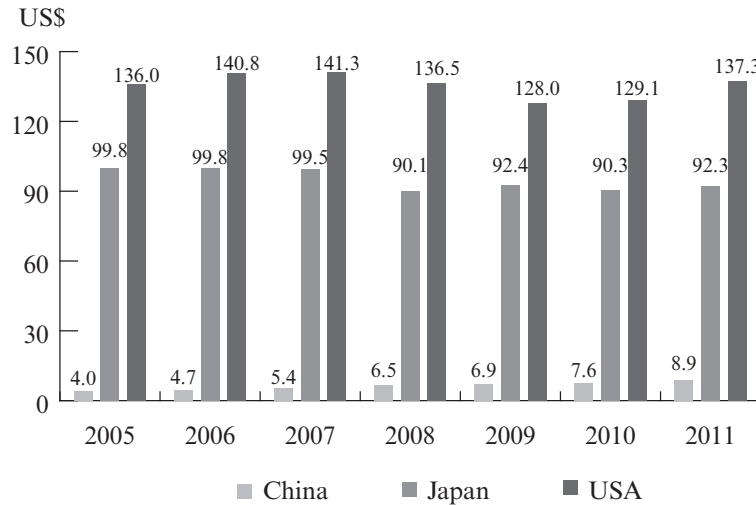
Per capita consumer expenditure on home textile products in China, 2005–2011



Source: Euromonitor

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Per capita consumer expenditure on home textile products in China, Japan and USA, 2005–2011



Source: China National Textile and Apparel Council
Euromonitor

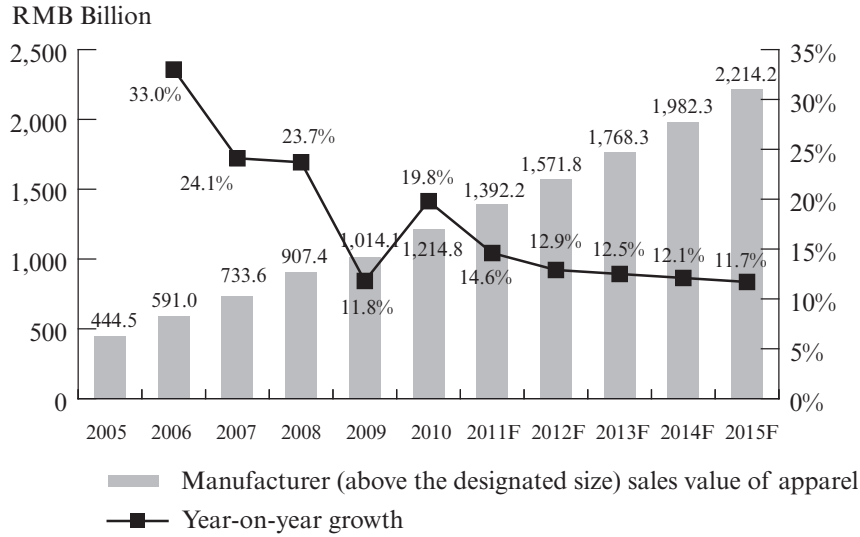
The market prospects of the home textile industry are expected to be very promising in the coming years, and it is anticipated that future demand for high-end home textile products will gradually increase. Please refer to the paragraph headed “Market drivers and constraints” below for further details.

Apparel

In 2010, approximately 19,143 apparel manufacturers above the designated size in the PRC achieved the manufacturer sales value of approximately RMB1,214.8 billion, increased by approximately 19.8% from approximately RMB1,014.1 billion in 2009. During the same period, per capita consumer expenditure on garment (being one of the segments of the apparel industry) increased to RMB604.9 in 2010, up by approximately 8.6% from 2009. In 2011, per capita consumer expenditure on garment increased to approximately RMB670.3, representing a growth of approximately 10.8% from 2010. With the rising disposable income and change of lifestyle, it is expected by Euromonitor that the manufacturer sales value of apparel will continue to have a double-digit growth rate during the forecast period from 2011 to 2013.

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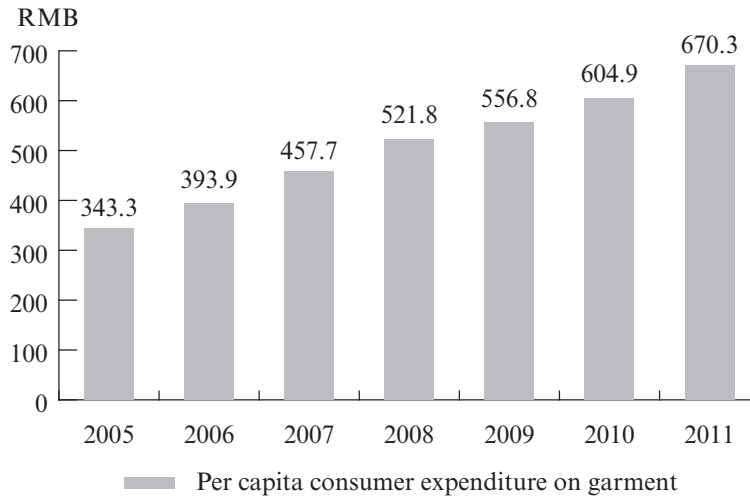
Manufacturer sales value of the PRC manufacturers above the designated size in the apparel industry, 2005–2015



Source: National Bureau of Statistics of China
Euromonitor

Note: Apparel manufacturing includes garment manufacturing, manufacturing of shoes made from textile fabrics and caps manufacturing.

Per capita consumer expenditure on garment, 2005–2011



Source: Euromonitor

Note: Garment is one of the segments of the apparel industries.

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Technical textile

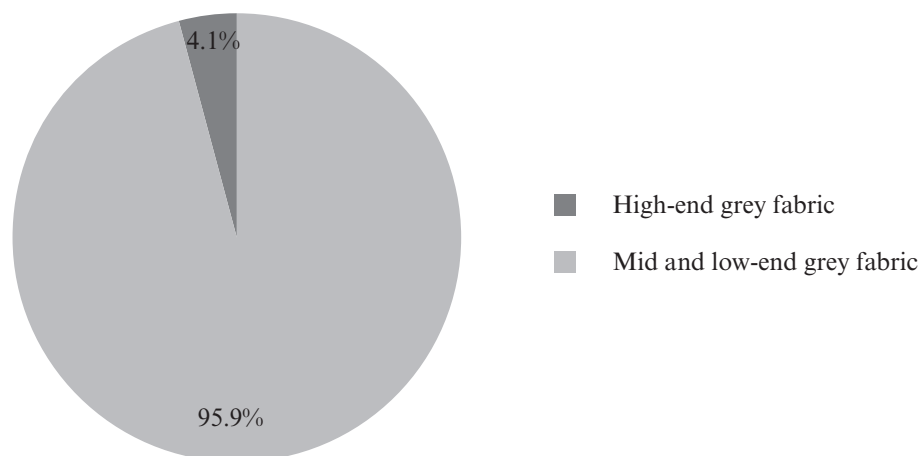
By the end of 2010, there were about 2,500 companies above the designated size in the PRC involved in the production of technical textile, realizing an industry output volume of 8.2 million tonnes valued at over RMB400 billion.

HIGH-END GREY FABRICS IN COTTON TEXTILE INDUSTRY SEGMENT

Overview

According to the Euromonitor Report, grey fabric sector in the PRC can be generally classified into high-end to mid to low-end grey fabric segments. According to the Euromonitor Report, high-end grey fabrics are generally referred to a class of woven grey fabrics made with combed yarns which are produced from high grade cotton (e.g. first-grade and second-grade local produced cotton or the imported cotton of equivalent grade, organic cotton and pima cotton) and/or new fibers (e.g. Tencel, silk, milk fiber, soybean fiber, linen, etc.). Yarns used to produce high-end grey fabrics shall be high count yarns (with yarn count over 40S) and high-end grey fabrics usually have high thread density (i.e. total number of weft and warp is above 180 in one square inch (equivalent to 709 thread/10cm). According to the Euromonitor, high-end grey fabric sector is a niche market in China compared to other sectors in the cotton textile industry segment, and the production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size represented approximately 4.1% of the total grey fabrics produced in the cotton textile industry segment in 2010.

Proportion of high-end grey fabrics produced by the PRC manufacturers above the designated size to the total production volume of grey fabrics produced by the PRC manufacturers above the designated size in cotton textile industry, 2010



Source: Euromonitor

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Compared to ordinary grey fabrics, high-count and high-density grey fabrics have durable, soft, smooth and lustrous characteristics. Due to their distinguishing features mentioned above, high-end grey fabrics can command higher selling price and gross margins. The following table sets out the pricing of bedding products (being one type of home textiles made with the grey fabrics) sold under some of the leading brands in the PRC made with high-count and high-density fabrics.

Pricing of bedding products under leading brands in China made with high-count and high-density grey fabrics

Brand	Product	Price per set (RMB)
Luolai (羅萊)	Cotton jacquard bedding set (a bed sheet, a quilt cover, two pillow cases), for bed with 1.5m width, 60s, density: 300	2,120
Lovo	Bedding set using fabric made with combed yarns which are made from long stapled cotton, 60s; density: 305; for bed with 1.8m width	2,469
Shuixing (水星家紡)	Cotton dobby and printing bedding set, 40s, density: 205; for bed with 1.8m width	2,345
Shuixing (水星家紡)	Bedding set using fabric made with yarns which are made from long stapled cotton, 60s; density: 305; for bed with 1.8m width	1,970
Shuixing (水星家紡)	Tencel Jacquard bedding set; 60s; density: 210; for bed with 1.8m width	3,500
Fuanna (富安娜)	Mercerized cotton jacquard bedding set; for bed with 1.8m width	4,980

Source: Euromonitor

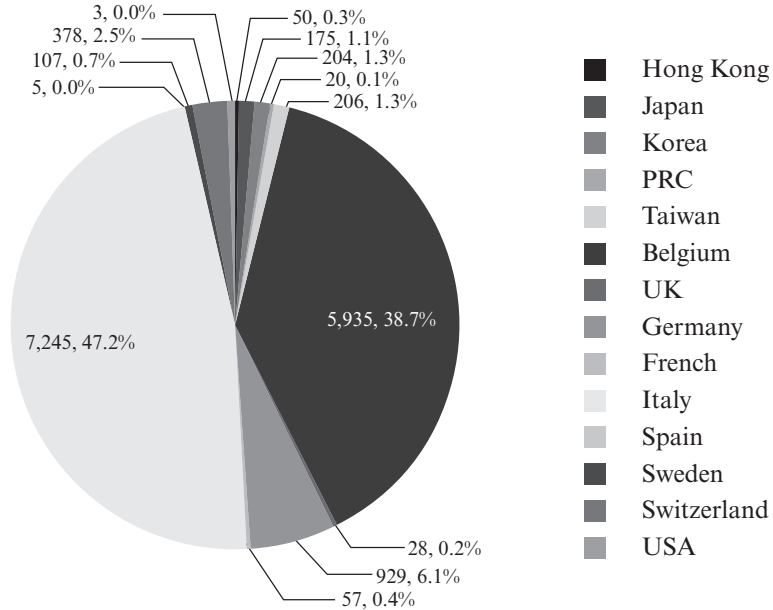
According to the Euromonitor Report, the average selling price of ordinary bedding set which is not produced from high-count and high-density grey fabrics is usually below RMB600. For bedding set producing from high-count and high-density grey fabrics, their average selling price is usually above RMB1,500.

Machineries

Imported rapier looms and air-jet looms are the major looms for producing high-end grey fabrics. According to China Customs, 15,342 sets rapier looms and 56,414 sets air-jet looms were imported from other countries during the period from 2005 to 2010. Belgium and Italy were the two largest exporting countries of rapier looms to China in 2010. Approximately 85.9% of the imported rapier looms were sourced from these two countries during the period from 2005 to 2010. Picanol from Belgium and Iteima from Italy are two leading global suppliers of rapier looms. Japan was the largest exporting countries of air-jet looms to China with 83.5% of the imported air-jet looms coming from this country during the period from 2005 to 2010. Tsudakoma is the largest supplier of air-jet looms in Japan.

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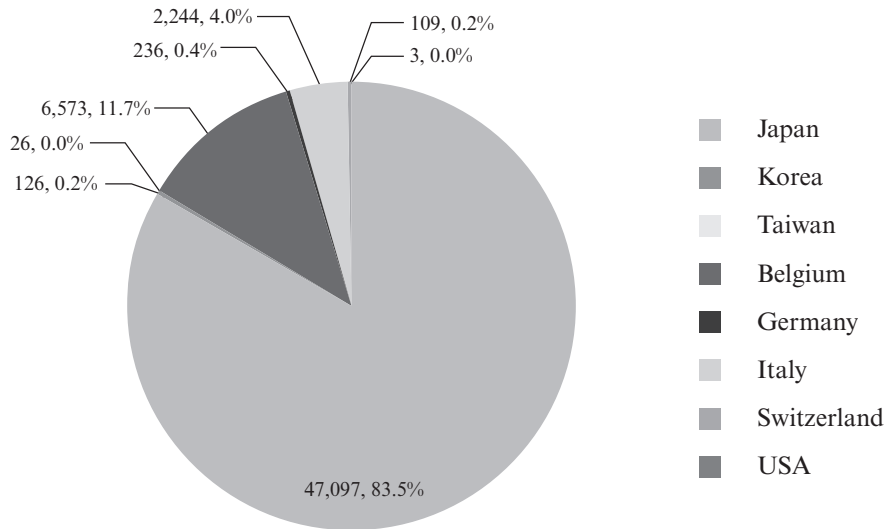
Total number of imported rapier looms by countries during 2005 to 2010



Source: China Customs

Note: Imported rapier looms include rapier looms which can produce grey fabrics with width over 30cm

Total number of imported air-jet looms by countries during 2005 to 2010



Source: China Customs

Note: Imported air-jet looms include air-jet looms which can produce grey fabrics with width over 30cm

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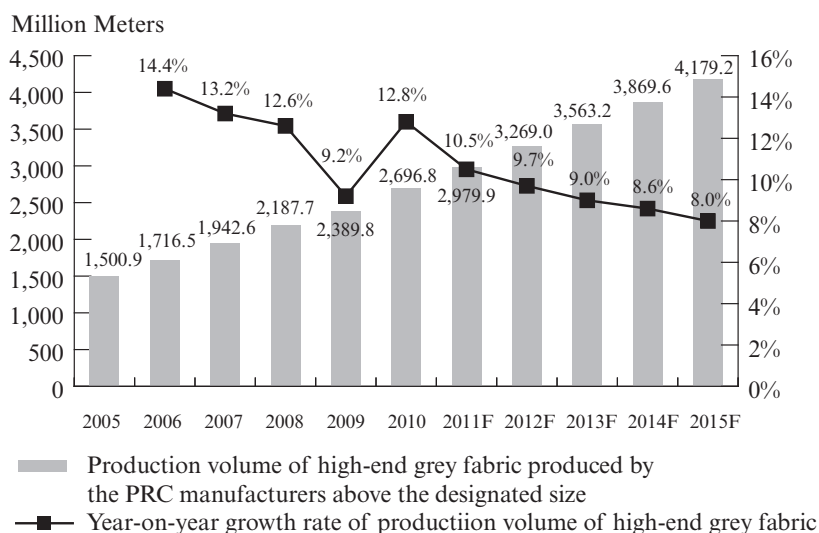
According to Euromonitor, compared to shuttle weaving looms, rapier looms and air-jet looms bear the advantages of high production performance and causing smaller damage to the yarns during fabric production. Compared to water jet looms, rapier looms and air-jet looms are capable of producing greater variety of grey fabrics as the types of yarns that can be processed by water jet looms are mainly chemical fiber yarns. Cotton yarns are generally not suitable for processing by water jet looms due to the shrinking feature of cotton, thereby reducing the range of fabrics which can be woven on water jet looms. Compared to local produced rapier looms and air-jet looms, imported looms generally have longer life span, higher production performance and are capable of producing higher quality grey fabrics.

To produce jacquard fabrics, the loom is equipped with specialised device called jacquard machine. Stäubli and Bonas are two leading brands of electronic jacquard machines in the global as well as China markets. According to the Euromonitor Report, in 2010, there were around 1,200 sets Stäubli and Bonas electronic jacquard machines used by the PRC grey fabric manufacturers to produce jacquard grey fabrics, with Stäubli having the largest market share in terms of number of machines.

High-end grey fabrics market in the PRC

During the period from 2005 to 2010, the production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size increased from approximately 1.5 billion meters to approximately 2.7 billion meters, representing a CAGR of approximately 12.5%. In 2010, the manufacturer sales value of high-end grey fabric produced by the PRC manufacturers above the designated size reached approximately RMB40.8 billion, grew by approximately 46.6% from 2009 due to the price hike of cotton as a result of the decrease in production and supply of cotton in 2010.

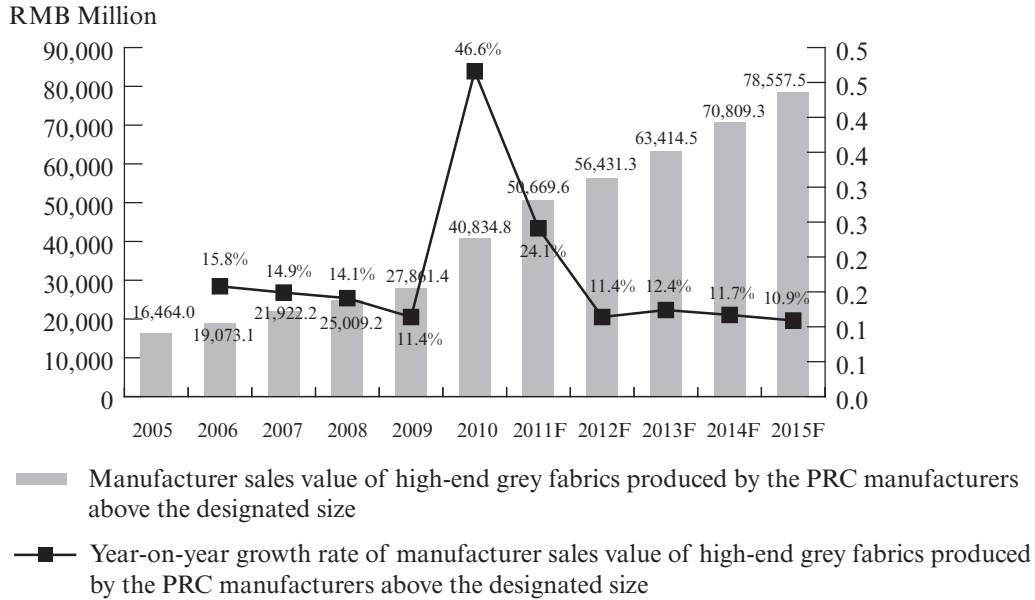
Production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

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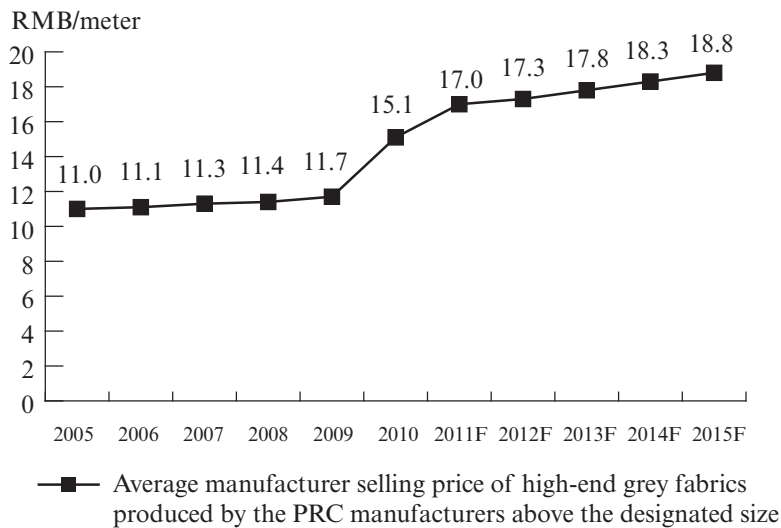
Manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

According to the Euromonitor, unit price of high-end grey fabric increased by approximately 30% in 2010, leading to a rapid increase in the manufacturer sales value of high-end grey fabrics in that year.

Average manufacturer selling price of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



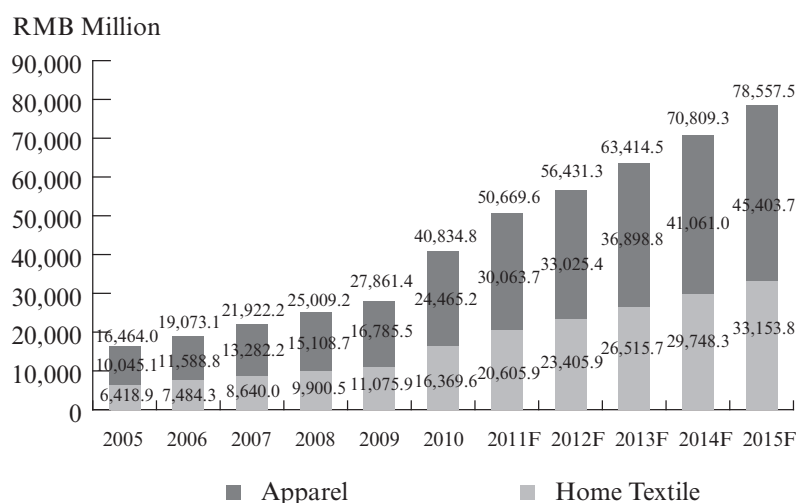
Source: Euromonitor

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Increasing demand for high-end grey fabrics in the home textile industry

The demand for high-end grey fabrics in the home textile industry has been increasing in recent years due to the increasing consumers' requirements on the quality and branding of home furnishing with the improvement of life quality and the booming growth of high-end hotels. In 2010, the manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry increased from approximately RMB6,418.9 million in 2005 to approximately RMB16,369.6 million, representing a CAGR of approximately 20.6%. Meanwhile, the manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry grew steadily from RMB10,045.1 million in 2005 to approximately RMB24,465.2 million in 2010, representing a CAGR of approximately 19.5%.

Manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in home textile industry versus apparel industry, 2005-2015



Source: Euromonitor

High-end cotton grey fabrics dominate the high-end grey fabric market

Due to its softness, strong moisture absorbency, breathability, good anti-static performance and ease of dyeing, cotton is widely used by fabric manufacturers to produce high-end grey fabrics. In 2010, the production volume of high-end cotton grey fabrics produced by the PRC manufacturers above the designated size reached approximately 2.5 billion meters, accounting for approximately 92.4% of total production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size, and the manufacturer sales value of high-end cotton grey fabrics produced by the PRC manufacturers above the designated size reached approximately RMB35.3 billion, accounting for approximately 86.4% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size.

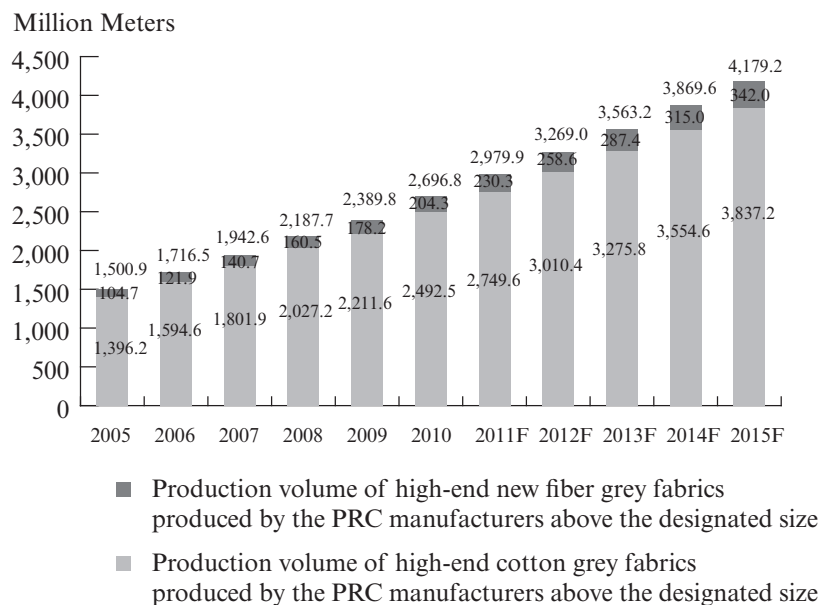
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Stronger growth momentum for high-end new fiber grey fabrics

New fibers, with their natural and green origin, unique functions such as anti-bacterial function of bamboo fiber and anti-ultraviolet function of silk fiber, are commonly used by manufacturers to produce high-end grey fabrics. In most cases, high-end new fiber grey fabrics are produced by blending cotton with new fibers, or interweaved by cotton yarns and new fiber yarns, in order to produce a piece of fabric possessing the functional characteristics of cotton and new fibers.

In 2010, the production volume of new fiber grey fabrics produced by the PRC manufacturers above the designated size reached approximately 204.3 million meters, accounting for approximately 7.6% of total production volume of high-end grey fabrics produced by the PRC manufacturers above the designated size. According to the Euromonitor Report, due to their distinguishing functional features, higher-added value and the promotion of government policies (such as the 2011 version of Guiding Catalog for Adjustment in Structure of Industries (產業結構調整指導目錄 (2011年本)) which encouraged the use of new and recyclable materials such as bamboo and linen to produce new fibers by utilizing green and environmental friendly technology and equipment), by 2015, share of production volume of new fiber grey fabrics produced by the PRC manufacturers above the designated size is expected to increase to approximately 8.2%, and share of manufacturer sales value of new fiber grey fabrics produced by the PRC manufacturers above the designated size will increase to approximately 14.8%, up from approximately 13.6% in 2010.

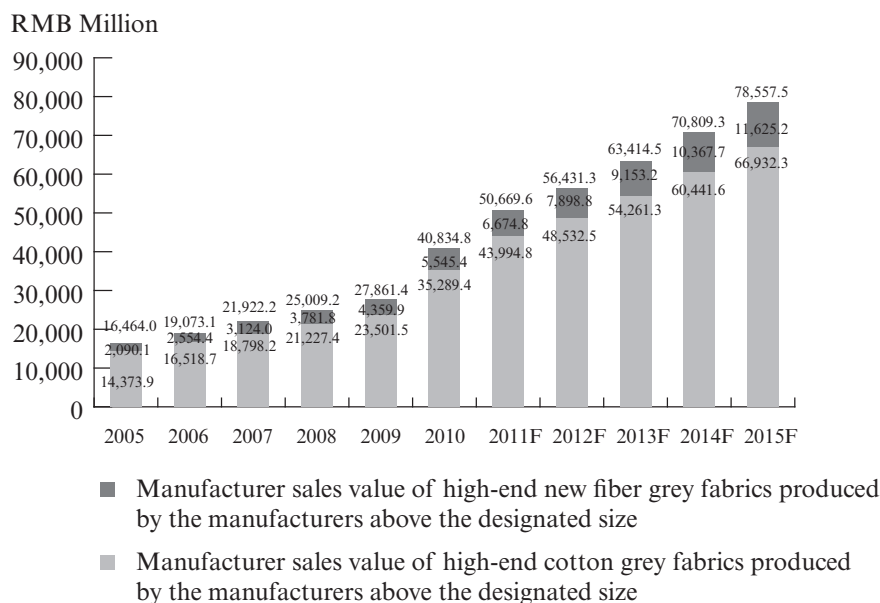
Production volume of high-end cotton grey fabrics versus high-end new fiber grey fabrics produced by the PRC manufacturers above the designated size, 2005–2015



Source: Euromonitor

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Manufacturer sales value of high-end cotton grey fabrics versus high-end new fiber grey fabrics produced by the manufacturers above the designated size, 2005–2015



Source: Euromonitor

HIGH-END JACQUARD AND DOBBY GREY FABRIC MARKET IN THE PRC

According to the Euromonitor Report, grey fabrics can be classified, by their weaving constructions, into jacquard fabrics, dobby fabrics and other fabrics such as plain weave fabrics and twill weave fabrics, etc. Jacquard fabric is a type of woven grey fabrics and has patterns with intricately woven raised designs such as brocade, damask, and matelasse, woven by specialised jacquard loom and equipment. The key difference of this type of fabric from other fabrics is that the figures and patterns are woven into the fabric instead of printing on it. According to the Euromonitor, due to its complicated woven design process and stringent production requirement, and the high quality and rich combination of raw materials used in their production, jacquard fabrics are commonly viewed as belonging to the class of high-end grey fabric and are mainly used as raw materials for manufacturing high-end home textile products such as the high-end bedding products, curtains and sofa covers.

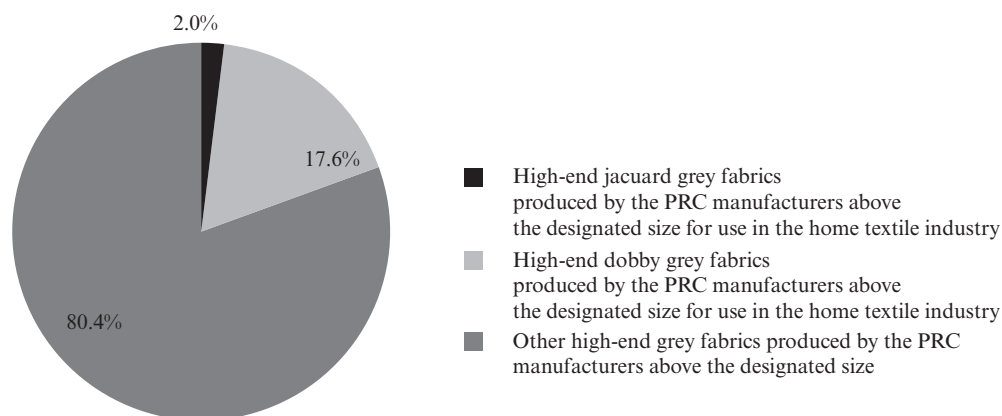
Dobby fabric refers to woven grey fabrics with geometric woven patterns produced by the selective control of groups of yarns on the dobby looms. Dobby weaving machines raise or lower the warp threads during the weaving process to create patterns such as stripes, checks and designs. Dobby fabrics have more complicated woven patterns than plain weave fabrics, but such woven patterns are not as intricate as jacquard fabrics. Dobby fabrics are widely used in the production of bedding products and apparel such as fashion garment.

High-end jacquard grey fabrics

In 2010, the PRC manufacturers above the designated size altogether produced approximately 34 million meters of high-end jacquard grey fabrics, growing at a CAGR of approximately 14.3% during the period from 2005 to 2010. High-end jacquard grey fabric and high-end dobby grey fabric market is a niche market segment in the high-end grey fabrics market. In terms of the production volume, in 2010, the high-end jacquard grey fabrics and high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry amounted to approximately 442.1 million metres, representing approximately 16.39% and 0.67% of the total high-end grey fabrics and the total grey fabrics produced by the PRC manufacturers above the designated size in that year. In terms of the manufacturer sales value, in 2010, the high-end jacquard grey fabrics and high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry amounted to approximately RMB8,000.4 million, representing approximately 19.59% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size.

Due to the fabric width of the high-end jacquard grey fabrics which makes them suitable for manufacturing a range of home textile products, most of the high-end jacquard grey fabrics produced are used in the home textile industry. According to the Euromonitor Report, the manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represented approximately 95.1% of the total manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size. Further, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry was approximately 21.9% higher than that in the apparel industry.

Proportion of the manufacturer sales value of high-end jacquard and dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry to the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size, 2010

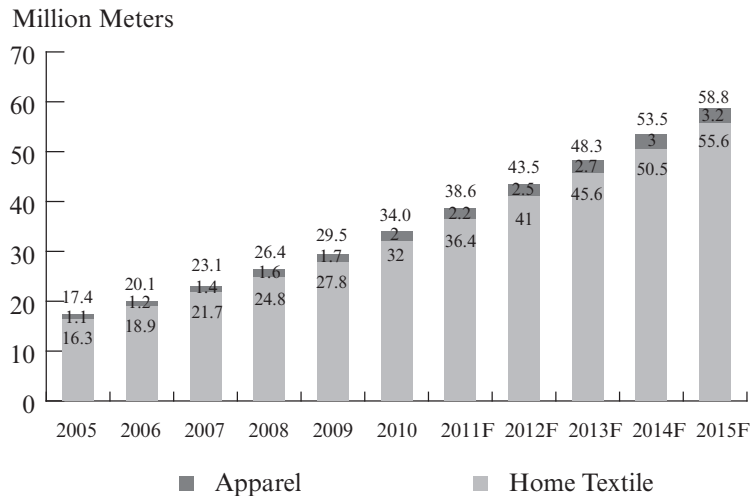


Source: Euromonitor

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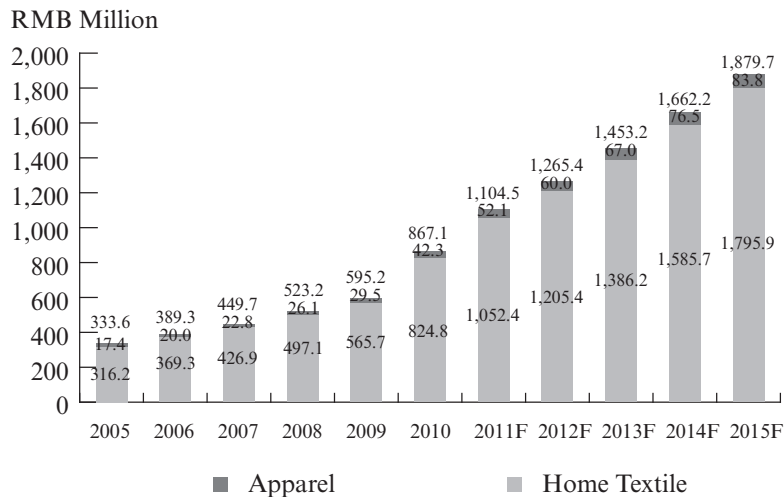
Due to stronger demand for home textile products made with high-end jacquard fabrics (e.g. bedding products, curtains), it is expected that high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry will post stronger growth potential than in the apparel industry. According to the Euromonitor Report, the proportion of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry is expected to expand to approximately 95.5% in terms of manufacturer sales value by 2015.

Volume of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



Source: Euromonitor

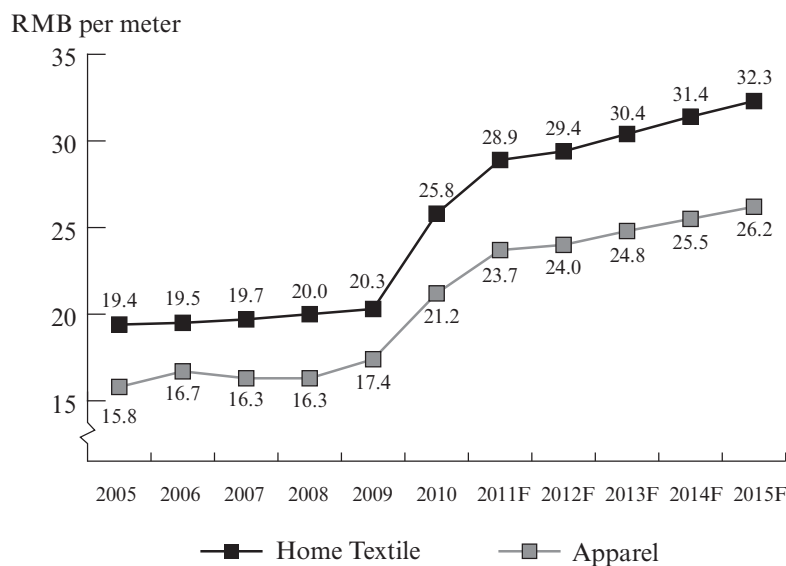
Manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



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Driven by the rapid increase in production cost and increasing popularity of high-end grey fabrics contributed largely by the rising living standard and spending power in the PRC, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in apparel and home textile industries both demonstrate an upward trend. According to the Euromonitor Report, the average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry and home textile industry increased from approximately RMB15.8 per meter and RMB19.4 per meter respectively in 2005 to approximately RMB21.2 per meter and RMB25.8 per meter respectively in 2010, up by approximately 34.2% and 33.0%, respectively. According to Euromonitor, given that the price of raw materials, labour cost and market demand will continue to increase in the future due to blooming economy in China, this rising trend is expected to continue.

Average manufacturer selling price of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile Industry, 2005–2015



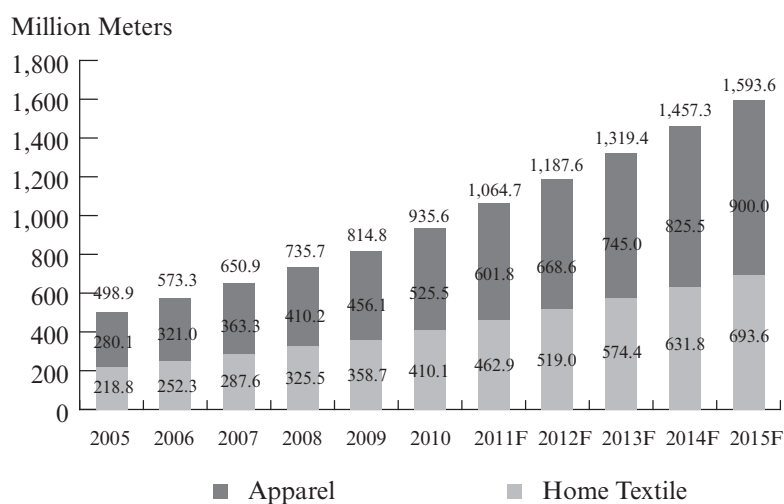
Source: Euromonitor

INDUSTRY OVERVIEW

High-end dobby grey fabrics

In 2010, the PRC manufacturers above the designated size produced approximately 935.6 million meters of high-end dobby grey fabrics, growing at a CAGR of approximately 13.4% during the period from 2005 to 2010. Approximately 43.8% of high-end dobby grey fabrics output was produced by the PRC manufacturers above the designated size for use in the home textile industry and approximately 56.2% for use in the apparel industry in 2010. In terms of the manufacturer sales value, the proportion of high-end dobby grey fabrics produced for use in the home textile industry accounted for approximately 48.5% of the total manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size in 2010.

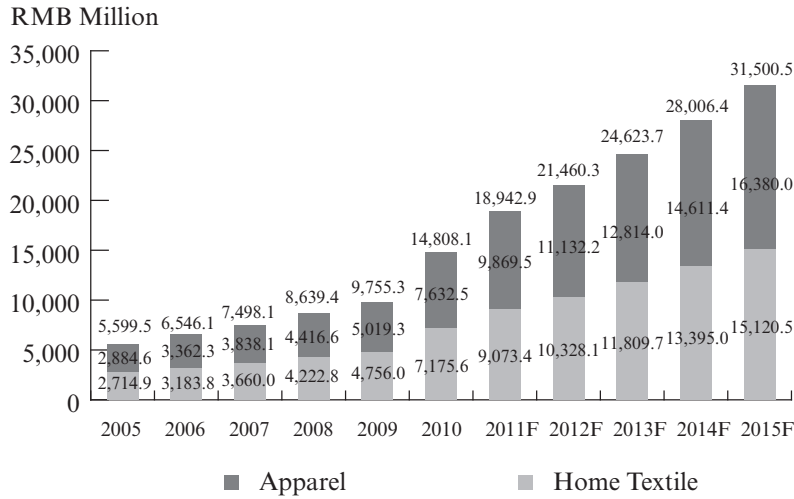
Volume of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



Source: Euromonitor

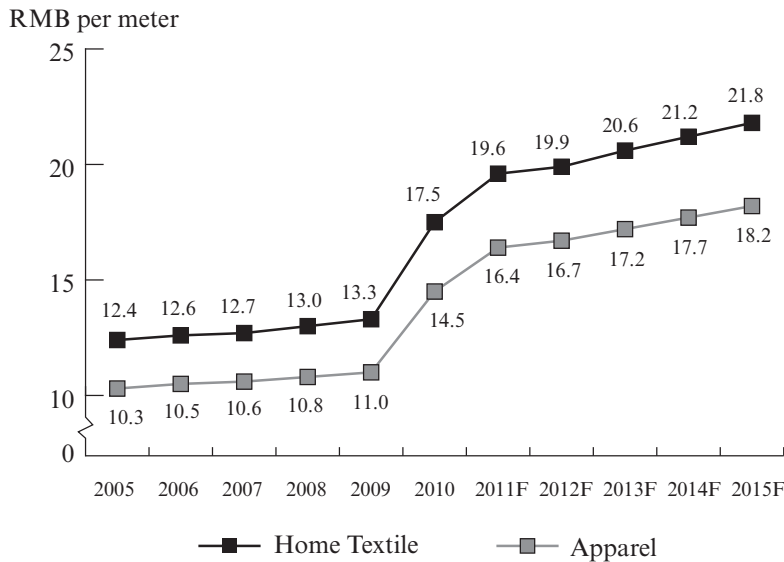
INDUSTRY OVERVIEW

Manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005–2015



According to the Euromonitor Report, in 2010, the average manufacturer selling price of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry was approximately RMB17.5 per meter, which was approximately 20.7% higher than that in the apparel industry, and is expected to continue to increase due to the combined driving force of the increasing production cost and market demand created by the sustained economic development in China.

Average manufacturer selling price of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the apparel industry versus home textile industry, 2005-2015



Source: Euromonitor

INDUSTRY OVERVIEW

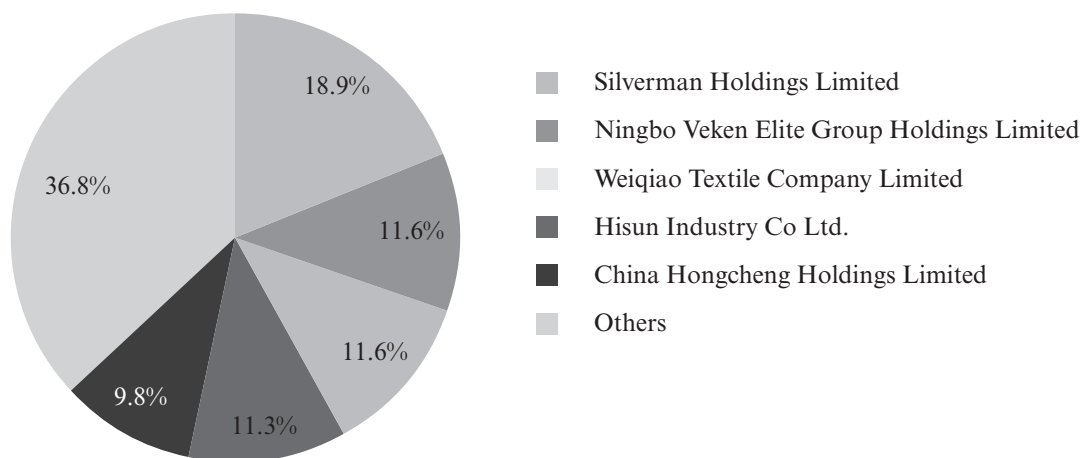
COMPETITIVE LANDSCAPE

Overview

The high-end home textile jacquard grey fabric market in China is much more consolidated when compared to China's textile industry as a whole due to higher entry barrier as a result of its higher capital requirement and know-how required to operate advanced machineries. According to the Euromonitor Report, the top five companies in high-end home textile jacquard grey fabric market accounted for approximately 63.2% of the total manufacturer sales value of high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry in 2010.

Within the high-end home textile jacquard fabric market, our Group (comprising Yinshilai Textile and Huiyin Textile) was ranked as the largest high-end home textile jacquard fabric manufacturer in the PRC with the market share of approximately 18.9% of the total manufacturer sales value of the high-end jacquard grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry in 2010, followed by Ningbo Veken Elite Group Holdings Limited and Weiqiao Textile Company, both with a market share of approximately 11.6%. Hisun Industry Co Ltd. and China Hongcheng Holdings Co Ltd are ranked as 4th and 5th, respectively.

Top five manufacturers of high-end home textile jacquard fabrics in terms of manufacturer sales value in 2010



Source: Euromonitor

Note: The manufacturer sales value of high-end jacquard fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represents approximately 5.04% and 2.02% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry and all kinds of high-end grey fabrics produced by the PRC manufacturers above the designated size in 2010, respectively

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Due to higher capital requirement, there are only few grey fabric manufacturers which are equipped with over 100 sets of jacquard machines in the cotton textile industry. According to the Euromonitor Report, as of June 2011, only our Group, Ningbo Veken Elite Group Holdings Limited and Hisun Industry Co Ltd. have been equipped with over 100 sets of jacquard machines.

Number of jacquard machines of top 5 manufacturers, as of June, 2011

Company Name	Number of jacquard machines for producing grey fabrics
Silverman Holdings Limited	256
Ningbo Veken Elite Group Holdings Limited	226
Weiqiao Textile Company Limited	85
Hisun Industry Co Ltd.	100
China Hongcheng Holdings Limited	72

Source: Euromonitor

INDUSTRY OVERVIEW

The table below sets forth the brief information of the top five manufacturers in the high-end home textile jacquard grey fabric market of the PRC, in terms of manufacturer sales value, for year 2010:

Company Name	Location of Headquarter	Principal Businesses	Location of Production Bases
Silverman Holdings Limited	Zibo, Shandong Province	Manufacturing of high-end jacquard and dobby grey fabrics	A production base located in Zibo, Shandong Province
Ningbo Veken Elite Group Holdings Limited	Ningbo, Zhejiang Province	Home textile products manufacturing, weaving, knitting, yarn production, dyeing	Five textile production bases located in Beilun District, Zhenhai District, Ningbo, Zhejiang Province; Zhenjiang Jiangsu Province; Huai'an, Jiangsu Province and Jiujiang, Jiangxi Province.
Weiqiao Textile Company Limited	Zou Ping, Shandong Province	Manufacturing of cotton yarn, grey fabrics and denim	Four production bases located in Shandong Province
Hisun Industry Co Ltd	Zhoushan, Zhejiang Province	Manufacturing of cotton yarn, grey fabrics and bedding products	A production base located in Zhoushan, Zhejiang Province
China Hongcheng Holdings Limited	Zouping, Shandong Province	Manufacturing of grey fabric and bedding products	Two production bases both located in Zouping, Shandong Province

In high-end home textile dobby grey fabric market segment, Weiqiao Textile Company Limited, our Group (comprising Yinshilai Textile and Huiyin Textile) and Nanyang Textile Group Limited were ranked as the top three companies with the market share in terms of manufacturer sales value of high-end dobby grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry of approximately 10.0%, 9.4% and 5.4% in 2010, respectively. The top five companies in high-end home textile dobby grey fabric market contributed to approximately 32.6% of the total manufacturer sales value of high-end dobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry, indicating a more fragmented market than high-end home textile jacquard fabrics market as a result of lower capital investment and technical requirements resulting in a larger number of industry players carrying on the manufacturing of dobby fabrics business.

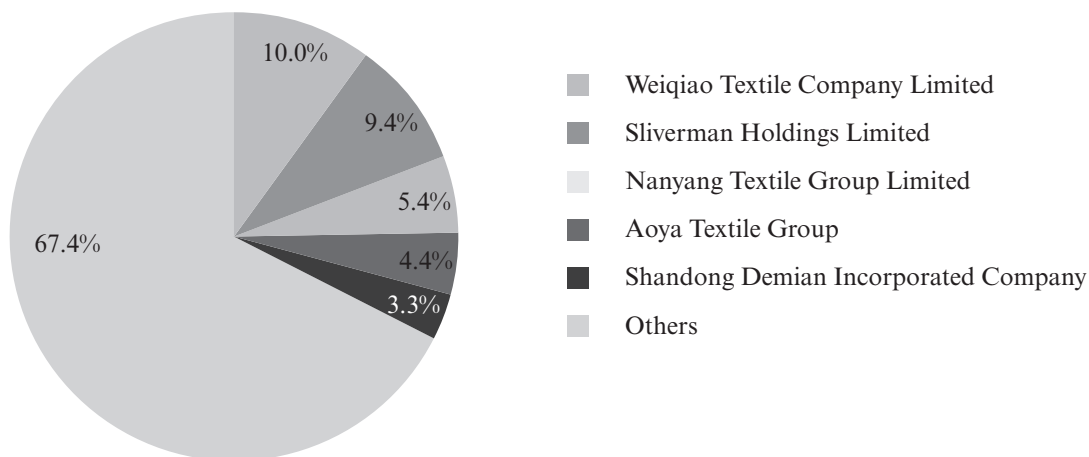
INDUSTRY OVERVIEW

The table below sets forth the brief information of the top five manufacturers in the high-end home textile doobby grey fabric market of the PRC, in terms of manufacturer sales value, for year 2010:

Company Name	Location of Headquarter	Principal Businesses	Location of Production Bases
Wei qiao Textile Company Limited	Zou Ping, Shandong Province	Manufacturing of cotton yarn, grey fabrics and denim	Four production bases located in Shandong Province
Silverman Holdings Limited	Zibo, Shandong Province	Manufacturing of high-end jacquard and doobby grey fabrics	A production base located in Zibo, Shandong Province
Nanyang Textile Group Limited	Nanyang, Henan Province	Manufacturing of yarns and grey fabrics	A production base located in Nanyang, Henan Province
Aoya Textile Group Limited	Guangrao, Shandong Province	Manufacturing of yarns, grey fabrics and bedding products	A production base located in Guangrao, Shandong Province
Shandong Demian Incorporated Company	Dezhou, Shandong Province	Manufacturing of yarns, grey fabrics, knitting products, bedding products and apparel	A production base located in Dezhou, Shandong Province

INDUSTRY OVERVIEW

Top five manufacturers of high-end home textile doobby fabric in terms of manufacturer sales value in 2010



Source: Euromonitor

Note: The manufacturer sales value of high-end doobby fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry represents approximately 43.83% and 17.57% of the total manufacturer sales value of high-end grey fabrics produced by the PRC manufacturers above the designated size for use in the home textile industry and all kinds of high-end grey fabrics produced by the PRC manufacturers above the designated size in 2010, respectively

MARKET DRIVERS AND CONSTRAINTS

Market drivers

- Chinese young consumers are increasingly in pursuit of life quality

Due to rapid economic development in China, consumers in China born after 1980s have been enjoying comparatively higher standards of living and spending power with stronger brand consciousness. As an important kind of soft furnishing, these consumers pay increasing attention to the quality, functions and designs of home textile products. Thus, they are willing to pay more to purchase branded products for their reputations and designs. At present, many young consumers born after 1980s have married and formed new families, further driving the demand for high-end home textile products which in turn, driving the growth of the demand for high-end grey fabrics.

With the improvement of life quality, Chinese people concern more about outlook than ever before. In terms of apparel consumption, there is a conceptual shift from the primary concern of durability to the modern day concerns of fashion, individuality, comfort, etc. Under this trend, apparel manufacturers tend to use more high-end fabrics to upgrade their products in order to appeal to modern consumers which also increase the demand for high-end grey fabrics.

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- *Booming hotel market boost up the demand for high-end home textile products*

With the sustained economic development and booming travel industry, more hotels will be opened to meet the growing needs of businessmen and travellers which will boost the demand for high-end home textile products, and in turn, drive the development of the high-end grey fabrics market. According to the data from the National Tourism Administration of the PRC, the number of star-rated hotels increased from 11,828 in 2005 to 13,552 in 2011, providing a strong consumer base for high-end home textile products which are commonly produced with high-end grey fabrics.

- *Government policies promote the development of high-end grey fabrics market*

The “Outline for Science & Technology Progress of Textile Industry in the 12th Five-Year Plan (紡織工業「十二五」科技進步綱要)” published by China National Textile and Apparel Council in late 2010 encouraged the textile manufacturers in China to adopt more advanced spinning and weaving technology in order to increase productivity and produce more high margin products such as functional fabrics and new fiber fabrics. Underpinned by government stimulation, the pace to upgrade the management, production facilities and technology in China’s textile industry is expected to accelerate during the 12th five-year period from 2011 to 2015.

The 2011 version of Guiding Catalog for Adjustment in Structure of Industries (產業結構調整指導目錄(2011年本)) also encourages the textile manufacturers in China to use new and recyclable materials such as bamboo and linen to produce new fibers, utilize green and environmental technology and equipment, and also use more advanced equipment to produce high-end textile products such as high count and high thread density jacquard and dobby fabrics. According to the “Notice of Opinions on Accelerating Industrial Restructuring and Upgrading in Textile Industry” (《關於加快紡織行業結構調整促進產業升級若干意見的通知》) jointly promulgated by ten ministries and commissions of the State Council on 29 June 2006, government authorities should provide supports for textile projects which fall within the “Encouraged Category” of the Guiding Catalogue for Adjustment in the Structure of Industries. As advised by our PRC legal advisers, subject to the discretion of the relevant authority and the applicable laws and regulations, such supports range from promulgating implementation policies in favour of the application of new textile materials, provision of tax incentives, facilitating the financing of qualified textile enterprises as well as other governmental supports. Under the government’s promotion, high-end grey fabric market is expected to expand rapidly in the future.

Constraints

- *High inflation may affect Chinese people’s purchasing power, constraining the growth in demand for high-end products*

China’s economy experienced mild inflation since mid of 2010. By June 2011, the CPI has surpassed 6%, which was the highest within the recent three years. High inflation will weaken the purchasing power of consumers in China. If high inflation continues, people’s consumption will trade down, affecting the development of high-end products including high-end apparel and textile products.

INDUSTRY OVERVIEW

- *Heavy investment and requirement on knowledge of the operation of weaving machines set high barriers to new entrants, affecting the growth potential of high-end grey fabrics industry*

According to the Euromonitor Report, the production of high-end grey fabrics (especially high-end jacquard grey fabrics) has higher technical requirements on the weaving machineries and equipment compared to the production of ordinary fabrics and that they are normally manufactured by imported rapier looms and air-jet looms which require advanced know-how in their operations. Further, prices of imported rapier looms and air-jet looms are relatively higher. These factors will impose high capital requirement on the existing manufacturers whenever they decide to increase their production capacity, and also pose significant barriers to entry for new manufacturers, which altogether affect the pace of future growth of high-end grey fabric industry.

- *Soaring labour cost push up the production cost of high-end grey fabrics*

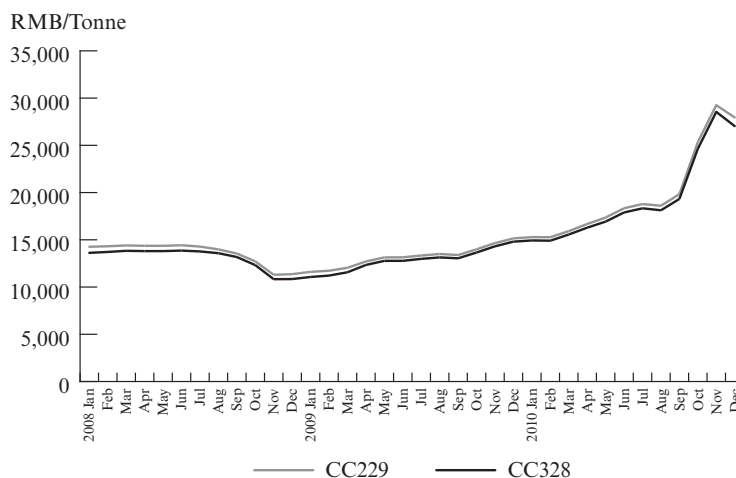
With the booming economy, labour cost is accelerating during the historic period. According to the Euromonitor Report, the wage per hour in the manufacturing industry in China increased from approximately RMB8.5 in 2005 to approximately RMB18.5 in 2011. Increasing labour cost will squeeze the profit of the manufacturers, hindering the growth potential of high-end grey fabrics market. In addition, manufacturers in China are experiencing shortage in labour supply which will also have adverse impact on the development of high-end grey fabric industry.

- *Shortage of raw materials may impose heavy pressure on the production cost of high-end grey fabrics*

High-end grey fabrics have pretty high requirement on the raw materials. If raw materials such as high-grade cotton are in shortage, price of high-grade cotton and other high-grade non-cotton based raw materials such as Tencel will soar up, which will increase the production cost of high-end grey fabrics, and even reduce the manufacturers' profit margins. Due to the shortage and falling quality of cotton supplies as a result of bad weather of major cotton production regions in 2009, cotton prices have shown an upward trend since 2009. According to the data from the China Cotton Association, the average price of 229 grade cotton and 328 grade cotton increased by approximately 50.9% and 51.6% in 2010, respectively.

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Price of cotton-CC Index 328 and CC Index 229, 2008–2010



Source: China Cotton Association

Note: CC Index is the abbreviation of “China Cotton Index” which is calculated from the prices at which cotton is offered to textile manufacturers. CC Index is published by the China Cotton Association at 9 am on every workday. According to level of maturity, colour and quality of ginning, cotton is divided into 7 grades from 1st to 7th. The 3rd grade is the standard grade and grades above 3rd grade, namely 1st grade and 2nd grade, are the high grades. CC index reflects both the grade and the length of fibers of cotton. For instance, CC Index 328 means price index of cotton at 3rd grade with length of its fibers between 28.0mm to 28.9mm. CC index 229 means the price index of a high-grade cotton which is at 2nd grade with length of its fibers between 29.0mm to 29.9mm.

The price hike of cotton boosts the price of cotton yarns as cotton is the major raw material for cotton yarns. According to the Euromonitor Report, the average manufacturer selling price of cotton yarn increased by approximately 29.8% to approximately RMB23,326.6 per tonne in 2010.

Average manufacturer selling price of cotton yarn, 2005–2010



Source: Euromonitor

SOURCES OF INFORMATION

Euromonitor

In connection with the Global Offering, we have engaged Euromonitor to conduct detailed market analysis of and provide a research report on the home textile and high-end grey fabric markets in China with focus on high-end jacquard grey fabric and dobby grey fabric segments in the PRC. Established in 1972, Euromonitor is a global research organisation with staff and field-based analysts in over 80 countries worldwide researching and tracking FMCG, industrial, service and B2B markets and remains independent and privately owned. Euromonitor has been actively researching in the PRC for over 15 years.

The aggregate contractual amount for the Euromonitor Report and services provided by Euromonitor is US\$55,000, the payment of which was not contingent upon our successful Listing or on any of the results obtained from the Euromonitor Report. The Euromonitor Report dated June 2012 consists of, among others, historical data for the period from 2005 to 2010, and forecasts for the period from 2011 to 2015.

Research methodology

Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of the home textile and high-end grey fabric markets in China. Euromonitor's research and analysis were mainly based on the following sources: (a) authority statistics, reports and/or databases (e.g. China National Statistics Yearbook); (b) trade associations and other semi-official sources, such as China National Textile and Apparel Council; (c) independent analysts' and research group's reports; (d) background information obtained from competitive company profiles, and where relevant, sources such as annual reports and accounts (if available) published by major manufacturers in the industry; and (e) other secondary sources available in Euromonitor's database.

Euromonitor also conducted qualitative and quantitative based trade interviews. To generate an industry consensus and provide perspective on the market size and growth of the high-end grey fabrics market, Euromonitor conducted trade interviews with multiple organizations such as trade associations, raw material suppliers, high-end grey fabric manufacturers and finished goods manufacturers such as home textile manufacturers.

Data validation, integrity assessment and projection

A reliable data set and valid conclusions are reached by independently building segment consensus. Euromonitor used multiple secondary and primary sources to validate the data and information collected with no reliance on any single-source. Furthermore, a test of each respondent's information and views against those of others is applied to ensure reliability and to eliminate bias from various sources. Specifically for ensuring forecasting accuracy, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecasting in terms of the market size, growth trends, etc, on the basis of a

INDUSTRY OVERVIEW

comprehensive and in-depth review of the market development history, and a cross check with established government/industry figures, trade interviews, and statistical analysis tools where possible.

China National Textile and Apparel Council

China National Textile and Apparel Council (中國紡織工業協會) is a national industry organisation authorised by the PRC government providing business consultation, constructing of market intelligence system and facilitating market development for the textile industry in the PRC.