

INDUSTRY OVERVIEW

For the purposes of this section, references to “the PRC” mean the People’s Republic of China excluding Hong Kong, Macau and Taiwan.

INTRODUCTION

The consumer retail industry is generally affected by the size and purchasing power of the local population and the general state of economies in the region. As an economy grows, wage levels and therefore individual disposable incomes tend to increase, leaving consumers with more purchasing power to spend on consumer retail products.

HONG KONG

Economic overview

In 2005, Hong Kong had a population of approximately 7 million. In 2005, the GDP per capita of Hong Kong was approximately HK\$199,261 and the value of retail sales was approximately HK\$205 billion. The table below shows the nominal GDP, the GDP per capita, and the population in Hong Kong for the years indicated:

	2001	2002	2003	2004	2005
GDP Per capita (nominal)					
– in HK\$	193,135	188,118	181,385	187,657	199,261
– year-on-year growth (%)	–	–2.6	–3.6	3.5	6.2
GDP (nominal)					
– in HK\$ billion	1,299	1,277	1,234	1,292	1,382
– year-on-year growth (%)	–	–1.7	–3.4	4.7	7.0
Population (thousands)					
– Male (%)	48.8	48.6	48.3	48.1	47.8
– Female (%)	51.2	51.4	51.7	51.9	52.2

Source: Hong Kong Census and Statistics Department

In the earlier part of the 21st century, the economy of Hong Kong was affected by a number of factors including assets deflation, consumption deflation, avian flu and the SARS outbreak. Statistics suggest that the Hong Kong economy has been recovering since 2004. The GDP per capita in Hong Kong has increased from approximately HK\$181,385 in 2003 to approximately HK\$199,261 in 2005, representing a compound annual growth rate of approximately 4.8%.

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Retail industry in Hong Kong

Along with the weak economic performance between 1997 and 2003, the retail industry in Hong Kong has suffered over such period. The total value of retail sales in Hong Kong dropped from approximately HK\$235 billion in 1997 to approximately HK\$173 billion in 2003. As discussed above, Hong Kong's economy has been generally picking up since 2004 which in turn benefits the overall retail sales performance. The total value of retail sales in Hong Kong rebounded to approximately HK\$205 billion in 2005. Moreover, consumer spending in Hong Kong has been recovering as evidenced by the consumer price index, which measures the changes over time in the prices paid by consumers for a representative basket of goods and services, recuperated to 100.3 in 2005. In 2005, the value of retail sales in Hong Kong on wearing apparel industry was approximately HK\$23.5 billion, representing a growth rate of approximately 10.7% as compared to that of 2004.

Set out below is the total value of retail sales, retail sales value on wearing apparel industry and consumer price indices of Hong Kong from 2001 to 2005:

	2001	2002	2003	2004	2005
Retail sales					
– in HK\$ billion	184	177	173	192	205
– year-on-year growth (%)	–	–4.1	–2.3	10.8	6.8
Retail sales on wearing apparel					
– in HK\$ million	19,958	19,499	18,001	21,255	23,519
– year-on-year growth (%)	–	–2.3	–7.7	18.1	10.7
Consumer price index (Note)	105.7	102.4	99.8	99.4	100.3

Source: Hong Kong Census and Statistics Department

Note: The index takes October 2004 – September 2005 = 100.

PRC

Overview of the PRC economy

The PRC is the world's largest consumer market with a population of approximately 1.3 billion in 2005, according to the National Bureau of Statistics of China. The natural growth rate was approximately 0.6% in 2005.

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Meanwhile, the urban population recorded an increasing trend from 2001 to 2005. In 2005, approximately 43.0% of the total population of the PRC resided in urban areas whereas approximately 57.0% of the population lived in rural areas. This represented an increase of approximately 81 million persons or a growth rate of approximately 16.8% in the total urban population during the four year period from 2001 to 2005.

	2001	2002	2003	2004	2005
Population (millions)	1,276	1,285	1,292	1,300	1,308
– Rural population (millions)	796	783	768	757	746
– Urban population (millions)	480	502	524	543	562

Source: China Statistical Yearbook 2002-2006

The real GDP growth rate experienced a general increasing trend from approximately 9.1% in 2002 to 10.0% in 2003. Since the acceleration in 2003, China's GDP and GDP per capita growth have stayed high at around 10% for three consecutive years. The rapid growth was mainly driven by robust growth in fixed asset investments and net exports while consumption growth maintained its stable pace, with modest signs of strengthening. The table below shows China's nominal GDP, GDP per capita and real GDP growth rate from 2001 to 2005:

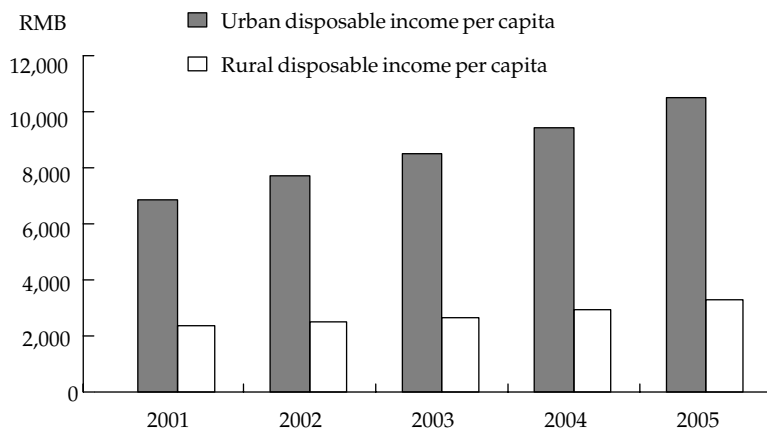
	2001	2002	2003	2004	2005
Nominal GDP (RMB billion)	10,966	12,033	13,582	15,988	18,308
GDP per capita (RMB)	8,622	9,398	10,542	12,336	14,040
Real GDP growth rate (%)	–	9.1	10.0	10.1	9.9

Source: China Statistical Yearbook 2002-2006

The growth of the PRC economy has resulted in an improvement in the PRC's living standards. This was evidenced by the gradual increase in the average income level in the PRC. The per capita annual income of urban and rural household in the PRC have increased from approximately RMB6,860 and RMB2,366 respectively in 2001 to approximately RMB10,493 and RMB3,255 respectively in 2005. The chart below illustrates the per capita

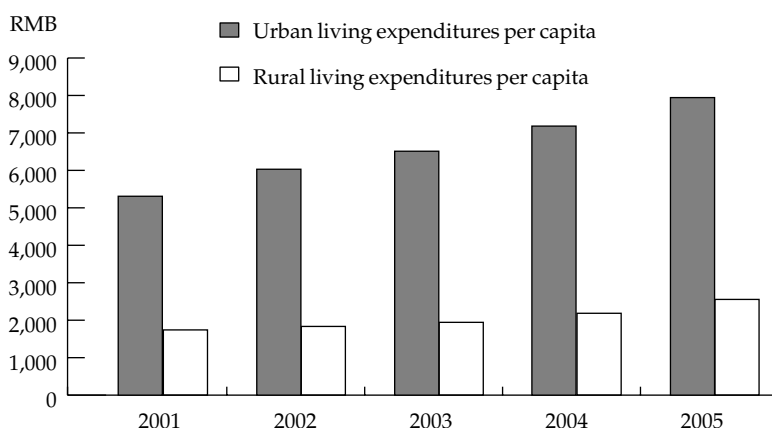
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annual disposable income of rural households and the per capita annual disposable income of urban households in the PRC from 2001 to 2005:



Source: *China Statistical Yearbook 2002-2006*

The improvement in living standards in the PRC has fuelled the growth in the per capita annual living expenditure of rural and urban households in the PRC, which has in turn contributed to the growth in the PRC consumer sector. The per capita annual living expenditures of urban and rural households in the PRC have increased from approximately RMB5,309 and RMB1,741 respectively in 2001 to approximately RMB7,943 and RMB2,555 respectively in 2005. The following chart illustrates the per capita annual living expenditures of rural and urban households in the PRC from 2001 to 2005:



Source: *China Statistical Yearbook 2002-2006*

China's rising urban population and fast-growth in disposable income of the urban households had driven the total national retail consumption and living expenditure up. Urban dwellers in China have seen their income level rising at a faster rate than their rural counterparts in recent years. In 2005, the average per capita annual disposable income among urban households reached approximately RMB10,493, represented an increase of approximately 53% from 2001, whereas the average per capita annual net income for rural households grew by only approximately 38% during the same period. The expenditure

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gap between rural and urban population was also widened. In 2001, the average per capita annual living expenditure among urban households was 3.05 times of the rural population. By 2005, this gap was widened to 3.11 times. The urban population represents stronger purchasing power with higher disposable income and living expenditures.

The PRC retail and lingerie industry

With approximately one-fifth of the world's total population, the PRC has a large consumer base which provides tremendous opportunities for manufacturers and distributors of consumer goods. The real growth rate of retail sales kept high at around 10% since 2001, reached approximately RMB6,718 billion in 2005. The table below sets out China's nominal retail sales of consumer goods and annual growth rate from 2001 to 2005:

	2001	2002	2003	2004	2005
Total retail sales of consumer goods (RMB billion)	4,306	4,814	5,252	5,950	6,718
Year-on-year growth (%)	–	11.8	9.1	13.3	12.9

Source: *China Statistical Yearbook 2002-2006*

Set out below is the total retail sales and year-on-year growth rate of enterprises (which comprises all state-owned and other enterprises with annual sales of over RMB5 million), on clothing, shoes and textile industries from 2001 to 2005:

	2001	2002	2003	2004	2005
Total retail sales of clothing, shoes and textiles (RMB billion)	106	116	132	167	202
Year-on-year growth (%)	–	9.4	13.8	26.5	21.0

Source: *China Statistical Yearbook 2002-2006*

Coupled with the rapid economic growth, the PRC represents a growing sales and marketing opportunity for retailers of consumer goods, particularly the clothing, shoes and textiles sector.

Meanwhile, the increase in personal wealth and purchasing power for many people in the PRC has therefore led to an increase in expenditures on clothing. The average annual per capita expenditure of urban households on clothing grew at a rate of approximately 16.6% in 2005. The following table shows the average annual per capita expenditure of urban households on clothing in the PRC from 2001 to 2005:

	2001	2002	2003	2004	2005
Average annual per capita expenditure of urban households on clothing (RMB)	533.7	590.9	637.7	686.8	800.5
Year-on-year growth (%)	–	10.7	7.9	7.7	16.6

Source: *China Statistical Yearbook 2002-2006*

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Almost all female in the PRC are potential customers of the Group. According to the National Bureau of Statistics of China, the female population in China has increased by approximately 2.3% from 620 million in 2001 to 634 million in 2005. Its contribution in the total population has maintained steadily at approximately 48.5% between 2000 and 2005.

The female population of the age between 15 and 59 comprised approximately 32.4% of the total population in 2000. This has risen to approximately 33.4% in 2003 and increased further to approximately 33.9% of the total population in 2005. The population in this age group was approximately 411 million in 2000. This has risen by approximately 5.1% to approximately 432 million in 2003. In 2005, the female population in this age group was approximately 443 million, which is approximately 7.8% higher than that in 2000.

The lingerie industry is a highly labour-intensive and the competition in the PRC is fragmented but intense. Industry participants include multi-brand and single brand companies, both foreign and domestic, that compete for customers in different demographics. According to the 2005 Consumer Goods Market Survey Report on Lingerie (2005消費品市場調查報告：女內衣), published in February 2006, by China Industrial Information Issuing Center (中國行業企業資訊發佈中心), an affiliated institution of the National Bureau of Statistics China whose principal function is to issue industrial and enterprise reports in the PRC, the brand concentration in the lingerie market has increased in 2005. Based on the survey on 30 major brands published in the report, the top 10 lingerie brands (including *EMBRY FORM* and *FANDECIE*) contributed approximately 55.6% of the total sales volume of these brands, increased approximately 4.9% from the previous year. On the other hand, in terms of sales amount, the top 10 lingerie brands (including *EMBRY FORM* and *FANDECIE*) contributed approximately 67.3%, showing that the top brands achieve a higher average selling price than the other brands in China.

RELEVANT RULES AND REGULATIONS ON THE PRC RETAIL INDUSTRY

In general, the principal laws and regulations applicable to the Group's operation in the PRC include the following:

- The "Product Quality Law of the PRC" (中華人民共和國產品質量法) was enacted in 1993 and amended in 2000. This law applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provision of the law and have to produce or market their products in compliance with the law.
- The "Consumer Protection Law of the PRC" (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and enacted on 1 January 1994 which protects consumers' rights when they purchase or use goods and accept services. All manufacturers or distributors have to ensure that their products and services will not cause damage to person and properties.
- The "Regulation on Promotion Activities of Retailers" (零售商促銷行為管理辦法) became effective on 15 October 2006. All promotional activities (including but not limited to the display of products and prices) must not be the activities prohibited by this law. Local government can impose fines and/or other punishment to the manufacturers or sellers who breach the above regulation.