



TURNING POINT AHEAD?

August 2008

Pressure on textile and garment exporters' margins could ease in the second half thanks to the 2% VAT rebate increase, higher ASPs and a slower Rmb rise (3% vs. 7% in 1H). With 30% of the industry operating at or close to a loss this year, a significant part of China's low-end textile and garment capacity could finally shut down. Tighter supply should support manufacturers' pricing power, already stronger for dyed-fabric leaders, sparking a turnaround when export demand recovers.

Industry: New Policies Support Exporters

- VAT Rebate Increased 2% to 13%
- Slower Rmb Appreciation Expected in 2H
- Should Ease Exporters Margin Pressures
- But Restructuring Continues As
- 30% of Companies Operate at or Close to a Loss
- Small Plant Closures: Less Lower-End Overcapacity
- More Supplier Pricing Power
- Export Prices 5-10% Higher In 1H08

Demand: Exports Still Up 11% in 1H08

- Driven by the 26% Increase in Yarn, Fabric
- Garment Exports 3.4% Higher in Jan-Jun
- Exports to the US Almost Flat y-o-y
- Offset by Quota-Free EU: Over 45% Growth
- China Garment Sales Still Up 26% in 1H
- China Consumes About 75% of Industry Sales

Raw Materials: Average Cotton Cost Up 10%

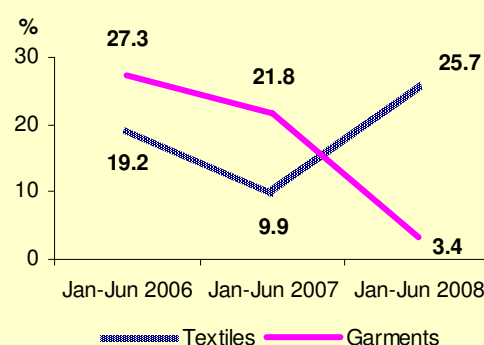
- Chinese Cotton Price Only 6% Higher y-o-y
- International Cotton Prices Up 15% y-o-y
- Polyester Staple 11% Higher y-o-y

Companies:

- Texwinca: Fabric Leader, Retail Improving, Maintain Buy
- Victory City: 45% of Fabric Sales to China, Buy
- Weiqiao Textile: Doubts About Long-term Strategy, Sell

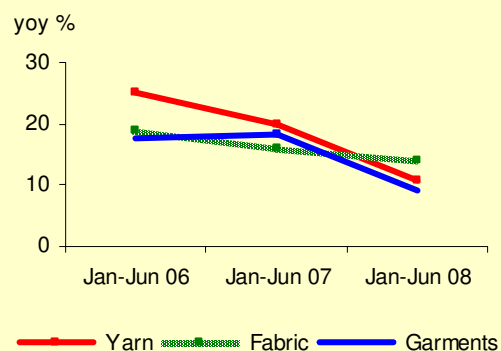
Garments Much Weaker, Textiles Stronger

Textile/Garment Exports From China



Slower Growth

First Half Output



Buy Recommendation

- *Texwinca*

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