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Fast Fashion & E-commerce Fuel Investments in China's Clothing Sector

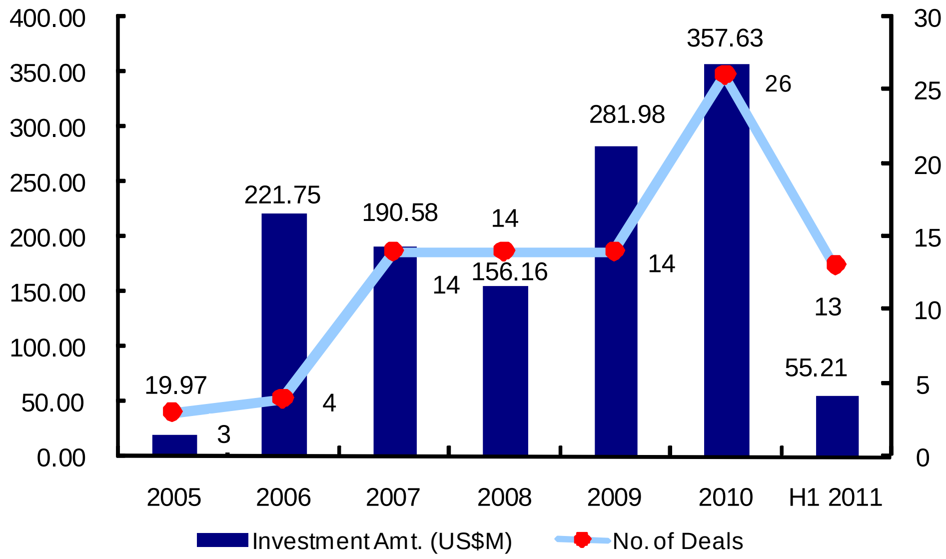
Written By Yolanda Zhang, Analyst with Zero2IPO Research Center

According to incomplete statistics, China's clothing market achieved annual sales of RMB 1.26 trillion in 2010, up 20.07% year-on-year from RMB 1.05 trillion in 2009. Furthermore, as per the statistics complied by National Bureau of Statistics, China's clothing enterprises above designated size realized a total output value of RMB58.72B, an increase of 20.37% annually from RMB48.79B in 2009 (Note: enterprises above designated size refer to those with production of RMB50.00M and above). From the perspective of the comparison between output of clothing enterprises above designated size and sales of China's clothing market, Zero2IPO Research Center observes that China's clothing market saw a lower concentration, as clothing SMEs still occupy a fairly big share in the market.

China's Clothing Industry in Need of Transformation

Since 2009, increased labor cost, RMB appreciation, raw material price volatility and raised loan interest rate have posed much pressure to Chinese textile enterprises and their international competitiveness. Due to rising production cost pressure, Chinese textile and clothing enterprises have witnessed an evident trend in losing overseas orders. According to the statistics of the Ministry of Industry and Information Technology, China textile industry saw a noticeable slowed development, in spite of stable growth in production, export and profit, for instance, clothing export from China to the U.S. dropped by 0.8% during January-May, 2011. In contrast, Vietnam, Bengal and Indonesia sustained growth in clothing exported to the U.S. Furthermore, new trade protection measures and raised green standard threshold of developed countries have narrowed the extensive development of Chinese clothing enterprises. There is every sign that China's clothing industry is bound to transform from low-price marketing to lean production and brand development.

Figure Year-on-year Comparison of Investment in China's Textile & Clothing Industry in 2005-H1 2011



Source: Zero2IPO Research Center

Fast Fashion and E-commerce Accelerate Development of China's Textile & Clothing Industry

Relying on the large population, China boasts sustained consumption demands. According to the latest statistics of the National Bureau of Statistics, Chinese clothing CPI reached 102.1 in June 2011, 102.2 for urban population and 101.6 for rural population, slightly higher than the growth of CPI in the same period. Besides the demands, Zero2IPO Research Center observes that the development of China's clothing market is driven by two factors as follows:

Firstly, fast fashion has been a typical mode in China. As clothing products feature fashion and seasonality, manufacturers have to rely on timely response and flexible operation in fierce competition. Following successful fast fashion brands such as ZARA, H&M and UNIQLO, Chinese clothing enterprises will seek their way of fast fashion. Generally speaking, by means of integrating fast production, logistics and sale chains, the clothing firms could bring novel and fashionable products to the market in a fast manner, so as to meet target consumers' demands in fashion. Moreover, fast fashion would help reduce storage cost in a sense. However, most of Chinese clothing companies are weak to integrate the industry chains, especially the insufficient design and logistics chains which would undermine the fast fashion capability of Chinese clothing enterprises. Nevertheless, we are confident that fast fashion will accelerate the building of Chinese clothing brands to some extent, greatly benefiting the development of clothing sector.

Secondly, e-commerce has served as a fastest-growing sale channel for clothing industry. In accordance with the statistics of Zero2IPO Research Center, China's clothing industry realized online sales of RMB107.33B in 2010, and RMB46.92B in Q2'11, up 17.01% quarter-on-quarter from Q1'11. Along with the development of clothing B2C industry and popularization of online retail, traditional clothing corporations will see a definite development towards e-commerce. Analysts estimate that China's clothing online sales will hit RMB170.00B in 2011, with a growth rate of 50.0%.

China Clothing Industry to Hit New High in Investment in 2011 since 2005

According to the latest statistics of Zero2IPO Research Center, China's clothing industry closed a high number of investment deals during 2005 and H1'11. The textile & clothing sector hit record highs both in the number of investment deals and the aggregate amount in 2010, as 26 deals were closed with US$357.63M involved. The statistics surely excluded clothing e-commerce firms, i.e. Masa Maso, Sugargirl.taobao.com, HStyle, etc.

China's clothing industry is estimated to sustain rapid growth. In 2011, VC/PE investment in China's clothing industry would outperform historical levels since 2005. According to Zero2IPO Research Center, the clothing market is characterized by intense competition and instable landscape. Despite increase large-scale enterprises and brand leaders, latecomers boast strong momentum and sustain high growth, posing much influence to those industry leaders. The changing market landscape suggests opportunities, especially for capitalists, which will enjoy rich returns with exact targets and timing. ■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Ftuan.com Completes Series B Financing Totaled US$60.00M

Sept. 28, 2011, TechWeb

Lin Ning, CEO of Ftuan.com, a domestic group buying site, disclosed on September 28 that Ftuan.com has closed its series B financing at US$60.00M, with participation of four firms and co-investment from Tencent.

Ftuan.com holds a press conference today

on the outsourcing cooperation with Kaixin001.com. At the press conference, Mr. Lin Ning disclosed more details about the financing to the media. Before that, Ftuan.com has remained silent about the investment and even claimed that the investment details won't be released until the next month.

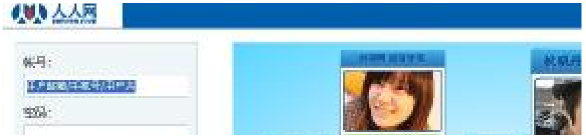
Ftuan.com was online in March 2010. It

Renren Inc. Buys 56.com for US $80.00M

Sept. 27, 2011, PEdaily.cn, Christina Chao

Renren Inc. announced that it will buy out 56.com for US$80.00M, which is expected to be closed within Q4 2011. Upon the completion of the deal, 56.com will become a wholly-owned subsidiary of Renren Inc. and Ms. Zhou Juan, Co-founder and CEO of 56.com will join the management and serve as the Vice President of Renren. This marks the first important strategic acquisition of Renren since its NYSE listing.

According to information disclosure, 56.com has completed two rounds of financing totaled US$30.00M since its inception. Specifically, in June 2007, it closed its series A financing of US $10.00M, with investors including Steam Boat Ventures, an investment arm of Disney, Sequoia Capital and SIG; and in December 2007, 56.com announced its completion of its series B financing totaled US$20.00M. Apart from investors in series A financing, HIKARI private equity, Adobe, CID and China Renais sance Partners



contributed to the fund raising.

Xinyuan Filter Invested by Zhejiang Venture Goes Listed On SMEB

Sept. 27, 2011, PEdaily.cn,

Hangzhou Xingyuan Filter Technology Co., Ltd. goes public on SMEB today, at an issue price of RMB26.00 per share and P/E Ratio of 38.81 times. The Company issues 14.00 million shares this time, making the total share capital reach 56.00 million after the issuance. Fund raised is expected to be totally used in the project with an annual production of 800 large and medium-scale membrane filter presses and the construction project of the R&D Center.

The Prospectus indicated that the Company has won investment from two VC firms, of which, Zhejiang Venture holds 11.5% of shares before the issuance while Merrill Capital possesses 8.5% of shares before the listing.

Back in May 2009, Zhejiang Venture Capital Group Co., Ltd. subscribed to RMB2.16M registered capital, while Zhejiang Merrill Venture Capital Group Co., Ltd. subscribed