

Letter from the President of Ash City Worldwide:

As the leading Corporate Apparel Supplier to our industry, I want to take this opportunity to share some valuable insights and actions we are taking to ensure Ash City Worldwide continues to offer the best inventory and service levels that have made us Canada's most reliable apparel supplier for more than 30 years. While recent changes in the overseas supply chain have severely impacted some suppliers, rest assured that I have personally spent the last 12 months working with our factories and have invested heavily to secure reliable production and inventory levels that will easily carry us through the next 18 to 24 months.

First and foremost, I am encouraged with the modest yet upward trending of the recent economic indicators in Canada. While the news for North America is getting better, the situation elsewhere around the world is undergoing some unusual developments. Since I am in Asia many times a year visiting our company offices and production facilities, I can see change occurring in real time so let me share my views on what is transpiring overseas.

The cost of raw materials has been impacted with the softening of the US dollar as it has declined vis-à-vis other currencies. On the positive side, the opposite is the case for our Canadian dollar resulting in an offsetting benefit. Specifically impacting our cotton based apparel is the worldwide shortage of this product and with yarns being more difficult to obtain, we are seeing production delays and material cost increases everywhere.

Labour issues in Asia abound, ranging from a 50% increase in wage rates mandated by Bangladesh, to workplace labour shortages in China that originated from recessionary pressures of last year. Severe production cut backs in the last two years has shifted workers in China from the apparel production plants to Government funded infrastructure projects and domestic production. The result of this labour displacement is a significant reduction in China production capacity, where we are not a major player. In other countries, especially China, the recession resulted in a significant number of factory bankruptcies where production capacity has been substantially reduced.

Garment manufacturing capacity in other countries has also been affected as suppliers look elsewhere for replacement factories. As the economy improves, this overall lower supply of production capacity combined with a greater demand for products has led to higher prices and longer lead times.

With suppliers having greater negotiating power, there are new demands for larger garment production runs spread over the entire year before orders are accepted. Delays in getting garments to the marketplace will result from this change.

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Even when final goods have been produced, there are further issues, such as the political instability in several Asian countries, delaying shipments in getting from the factories to the ports. Once at the point of departure, another factor comes into play. As North America and Europe entered recessionary times, many container vessels were "mothballed" as a cost cutting measure by all shipping lines, given the lower demand. Now with the sudden production ramp up, there is a delay in getting ships back into service. This in turn is causing further supply issues and increased costs.

Faced with all these issues, you will ask how will this impact me as a customer of Ash City Worldwide?

I am pleased to announce that despite the immediate cost, the prices for the majority of our product for the current year will not experience any change. For the remaining 25% of the collection the increases will be modest but required because of the points outlined previously.

As you all know, my business strategy has always been based on providing the deepest inventories possible to meet our customer's requirements, despite the monetary investment that is needed to accomplish this, which will not be the case with our competitors. In that respect, my last visit to Asia was to ensure the least amount of disruption with our preferred and trusted vendors so that I can continue on this course. I am confident my team at Ash City will do their usual great job in bringing inventory to North America, however there are many factors beyond our control as it relates to our supply chain where something could go amiss. What I can promise you is a great selection of Ash City products, my continued commitment to excellent quality and my best efforts to have inventory available for you as needed.

I trust this letter has helped put our world in perspective for you. Our team will be here for you in every way and we are committed to providing you with the most reliable services, inventory, and selection available to the industry.

Thank you for your continued support and for your indulgence going forward as we experience what can only be described as challenging times. May we all be successful together in 2010 and beyond!

With Respect,

Garry Hurvitz
President & C.E.O.
Ash City Worldwide