

Crafts, Gifts & Novelties



May 2009

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CRAFTS, GIFTS & NOVELTIES

Supplier capability in China

EXECUTIVE SUMMARY

Suppliers of crafts, gifts and novelties in China are cutting prices, exploring new markets and expanding their product range to attract orders amid the financial crunch that crippled many companies at the start of the year.

The massive industry is anticipating better sales, with some makers projecting export growth of 20 percent in the next 12 months.

Additionally, China government initiatives such as facility upgrades in key manufacturing zones, subsidies to international trade show participants and increased export tax rebates help bolster the positive outlook.

To enliven the business climate further, most craft, gift and novelty suppliers are continuously releasing new designs. This is being done mainly through the more-creative use of finishes, surface treatments and accessories.

Others are also attracting buyers by reducing prices between 5 and 15 percent.

The following are some of the key trends we see in China's crafts, gifts and novelties industry:

- More companies are venturing into South and Central America, the Middle East and Africa to prop up revenue, even as the EU and the US remain the chief export markets. The emphasis on domestic sales is likewise increasing.
- The use of innovative accessories is becoming more popular mainly to broaden product differentiation, especially in the high-volume crafts segment. Polyresin figures accentuated with wire, optical fiber and glass trimming are examples of these.
- Multiple functionality is the key trend in the electronic gifts segment. For instance, novelty digital clocks that work as photo frames, radios and speakers are being produced in greater numbers.

- More gift packaging exporters are taking the environment-friendly route, with the heightened use of recycled paperboard, water-based adhesive and paint, and nontoxic dyes.

- Quotes are likely to decline or stay the same in the months ahead as suppliers respond to the aggravated price sensitivity and weaker purchasing power of buyers.

The scope of this report includes craft items and photo frames in various materials, gift packaging supplies such as boxes, tins, bags and ribbons, and electronic novelties.

For each product, the report describes the latest designs, materials and surface treatments employed by companies. It also highlights key factors that influence the price and quality of low-end, midrange and high-end releases.

Projections for the next 12 months for prices, overseas sales, capacity expansion plans and R&D focus are detailed in the Supplier Survey.

The Industry Overview section stresses the key issues surrounding makers of crafts, gifts and novelties in China, and their means of coping with these challenges. The industry composition and main export hubs of each product segment are likewise discussed here.

Reflecting the industry structure, about 70 percent of the companies interviewed for this report are mainland-China owned. The rest is backed investors from Hong Kong, Taiwan or Western enterprises.

Most are manufacturers with direct export rights. As such, nearly 90 percent of the featured suppliers have the capability to ship their production output overseas.

Many of them boast more than a decade worth of experience in the line. In fact, three-fourth of the suppliers in this report have been operating for at least 10 years.

In this report

- 27 in-depth company profiles
- 85 additional suppliers
- 91 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For each company profile, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in-person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capabilities of each supplier.

All suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry in the next 12 months. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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INDUSTRY OVERVIEW

Suppliers of crafts, gifts and novelties in China are taking a number of steps to boost exports amid weaker demand from their key destinations, the US and the EU.

Foremost, companies are increasing shipments to alternative markets, particularly emerging economies. In Yiwu, Zhejiang province, exports to the Middle East and Africa are now higher than sales to the EU and the US, while orders from India, Russia and Brazil have nearly doubled. Further, South America absorbed \$190 million worth of shipments from the city in 2008, a year-on-year increase of about 25 percent.

Yiwu is a significant production hub for crafts.

In addition, a growing number of makers are paying more attention to the domestic market. The local share at Guangzhou Panyu Pearl Clock & Watch Co. Ltd, for example, is expected to reach 50 percent of the company's output in 2009.

The government is also taking steps to boost the competitiveness of the industry. The export tax rebate for ceramic and porcelain crafts was reduced from 13 to 8 percent in 2007. After lobbying by the China Ceramic Industry Association, this was raised to 11 percent last year. The adjustment, according to the CCIA, is expected to inject more than \$180 million back into the industry.

Rates for polyresin and glass products have returned to their previous rate of 11 percent as well.

In Dehua, Fujian province, the administration is encouraging companies to enhance their operating efficiency. Last year, it aided in the improvement of 17 kilns, reducing production costs by about \$620,000. In 2009, \$1.4 million has been allocated for R&D and technical revamps, including the upgrading of kilns at 30 suppliers. The government in this city also provides subsidies for enterprises that join exhibitions aimed

at increasing trade in Southeast Asia and the Middle East.

The administration of Chaozhou, Guangdong province, invested nearly \$150 million in 2007 and 2008 on efforts to improve the facilities of suppliers based there. This enabled large enterprises to enhance their roller, tunnel and shuttle kilns, reducing energy consumption by 30 percent.

The primary reason for such measures is the global economic crisis, which has caused international orders in many industries to shrink. The continued appreciation of the yuan last year was another factor, although the currency's value has since stabilized.

These challenges have adversely affected the industry, forcing many companies to fold. In Chaozhou, one-third of all makers of ceramic crafts makers did not resume operations after the Chinese New Year in 2009.

Even large enterprises are not exempt. Xiamen Star Arts, one of the

Supplier summary

Suppliers surveyed	27
Export sales	\$194.4mn
Export ratio	72%
OEM business	69%
Capacity utilized	59%
Annual R&D spending	\$7.3mn
Full-time employees	20,172

Data: All surveyed suppliers

country's largest manufacturers of polyresin crafts, declared bankruptcy at the start of this year.

Nevertheless, most crafts, gifts and novelties makers are hopeful that sales will rise in coming months. This positive outlook extends across enterprises of all sizes, with most anticipating an increase of between 10 and 20 percent.

In line with this, the majority of small companies will be boosting their capital expenditure to meet the expected rise in demand. Midsize and large suppliers, on the other hand, see their current capacity as adequate.

Major customers

Company	
Andefia	QVC (US)
Canfine	Auchan (France); Tesco (UK); Wal-Mart (US)
Clever Care	Lidl (Germany); Achat Direct (France)
Dongguan City Yiguan	Disney (US)
Dongguan Heli	Wal-Mart, Disney, Victoria's Secret (US); BMW (Germany)
Dongguan Jian	Disney, Coca-Cola (US); Porsche (Germany); Renault (France)
Fuzhou Shanhecheng	Distribuciones Hermanos Garcia (Spain); Isco (Italy)
Jinjiang Guanghua	Disney (US)
K-Pro	Disney, Coca-Cola (US)
Qingdao Head	Sears (US)
Quanzhou Licheng Hongfa	Bacardi (UK); Heineken (Netherlands); Red Bull (Thailand); Coca-Cola (US)
Shanghai Charmkey	Wilkinson (UK)
Shenzhen J.W.	ThreeSixty Sourcing (US)
Sky	Kristine Accessories (US); Spel (France); ATM (Mexico)

Canfine Toys Ltd

ISO 9001:2000-certified Canfine exports an average of 10,000 electronic novelties each month. Plush radios with miniature digital photo frames are among the best-sellers. Products are shipped to North America, Europe, the Asia-Pacific region and the Middle East.

A group of 20 specialists handles design work. Each year, 1.3 percent of sales is allotted to product development. Eighty employees are assigned to implement QC. The workforce totals 2,000.

Export revenue in the line is

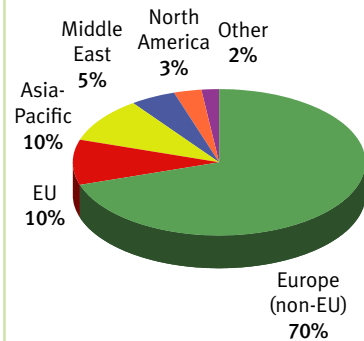
expected to increase by up to 10 percent in the next 12 months. Currently, it amounts to \$2.4 million. The company plans to boost shipments to North America. Wal-Mart in the US, Auchan of France and the UK's Tesco are among the clients.

Canfine was established in 1991 and generated \$8 million in total sales last year. Apart from electronic novelties, it offers MP3 and MP4 players, digital phones, and plush toys.

Prices are anticipated to increase between 5 and 10 percent in coming months.

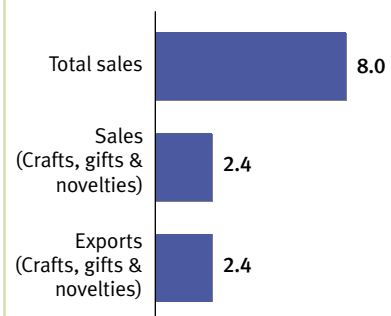
Profile

Export markets



Sales

\$mn/year



Contact details

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Company facts

Year established	1991
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Dongguan (Guangdong)
Number of factories	2
Factory location(s)	Dongguan (Guangdong); Ganzhou (Jiangxi)
Total factory area	20,000sqm
No. of full-time employees	2,000
No. of R&D/design staff	20
No. of QC staff	80
Annual sales (all products)	\$8.0mn
Annual R&D spending	\$100,000
ISO certification	Yes

Sales & output: Crafts, gifts & novelties

Annual sales	\$2.4mn
Share of total sales	30%
Annual export sales	\$2.4mn
Total monthly capacity	10,000 pieces
Average monthly output	10,000 pieces
Capacity utilized	100%
Average monthly exports	10,000 pieces
Export ratio	100%
OEM % of exports	100%
ODM % of exports	—
OBM % of exports	—
Major customers	Auchan (France); Tesco (UK); Wal-Mart (US)
Other products made	Radios, MP3 and MP4 players, digital phones, plush toys

Capability

Production checklist

Plastic-injection machines	—
Spray-painting guns	—
Laser-engraving machines	—
In-house surface treatment	No
Makes molds in-house	No
Weaving machines	—
Automated painting lines	—

Exports by product

Crafts	—
Gift packaging	—
Photo frames	—
Electronic novelties	100%

Exports by market

North America	3%
European Union	10%
Europe (non-EU)	70%
Asia-Pacific	10%
Middle East	5%
Other	2%

Outlook

- **Export prices**
Increase
- **Export price increase**
5-10%
- **Export sales**
Increase less than 10%
- **Target market**
North America
- **Capital expenditure**
Increase up to 50%
- **Major challenge**
Stricter overseas standards
- **Export capability**
Improve operating efficiency
- **R&D focus**
Novelty shapes/designs

Popular export models



Electronic novelty

Model	CF080130B
Minimum order	5,000 pieces
Packaging type	Plastic bag
Delivery time	60 days
Indicated price	•

Description: Novelty digital photo frame; plush football design; 1.44 to 1.8in TFT CSTN display; 8GB Samsung Hynix storage; supports JPG, BMP; 4:3 aspect ratio; USB 2.0 port; 3 AA batteries; 100hr service life; 12in diameter; 0.4kg



Electronic novelty

Model	CF080415B
Minimum order	5,000 pieces
Packaging type	Plastic bag
Delivery time	60 days
Indicated price	•

Description: Novelty digital photo frame; plush basketball design; 1.44 to 1.8in TFT CSTN display; 8GB Samsung Hynix storage; supports JPG, BMP; 4:3 aspect ratio; USB 2.0 interface; 3 AA batteries; 100hr service life; 12in diameter; 0.4kg



Electronic novelty

Model	CF020446
Minimum order	5,000 pieces
Packaging type	Plastic bag or gift box
Delivery time	60 days
Indicated price	•

Description: Novelty radio; plush heart design; 1 speaker; 3 AA batteries; 12in height; 0.3kg

• Information not disclosed

PRODUCT GALLERY

Crafts



Dongguan Huangjiang Hengfu
(profile page 44)
Model: HF005
Minimum order: 1,000 pieces
Packaging type: On request
Delivery time: 10 days
Indicated price: •
Description: EVA; water lily; assorted floral designs; fade-resistant colors; 15, 20 and 27cm diameter



Dongguan Huangjiang Hengfu
(profile page 44)
Model: HFFW002
Minimum order: 1,000 pieces
Packaging type: On request
Delivery time: 10 days
Indicated price: •
Description: EVA; water lily; assorted floral designs; fade-resistant colors; 15, 20 and 27cm diameter



Dongguan Huangjiang Hengfu
(profile page 44)
Model: HFFWL003
Minimum order: 1,000 pieces
Packaging type: On request
Delivery time: 10 days
Indicated price: •
Description: EVA; water lily; assorted floral designs; fade-resistant colors; 15, 20 and 27cm diameter



Fuzhou Shanhecheng
(profile page 50)
Model: KS/MB019
Minimum order: 2,000 pieces
Packaging type: Carton
Delivery time: 20 days
Indicated price: \$0.82
Description: Ceramic; PU surface treatment; mole design; 14.5x12x18cm; 875g



Fuzhou Shanhecheng
(profile page 50)
Model: KS/MB010
Minimum order: 2,000 pieces
Packaging type: Carton
Delivery time: 20 days
Indicated price: \$0.64
Description: Ceramic; PU surface treatment; ladybird design; 10.5x9x7cm; 210g



Fuzhou Shanhecheng
(profile page 50)
Model: KS/MB300
Minimum order: 2,000 pieces
Packaging type: Carton
Delivery time: 20 days
Indicated price: \$0.70
Description: Ceramic; PU surface treatment; bee design; can be used as coin bank; 9.5x8.5x14.5cm; 226g

• Information not disclosed