

Supply Chain Market Summary

June, 2013

To Our Royal Family:

As your trusted supplier, we want to keep you up-to-date regarding market conditions associated with the products we manufacture, import and distribute. As our valued customer, we are pleased to provide this update on the current market conditions.

Currency

The Yuan has continued to appreciate against the US Dollar. In our last update in January 2012, the Chinese Yuan had just fallen to 6.3 RMB/USD. Since January 2012, the Chinese Yuan has continued to appreciate to the current level of 6.14 RMB/USD, representing an approximate 2.5% increase in cost. We expect that the Chinese Yuan will continue to appreciate against the US Dollar throughout 2013, increasing the burden on importers and overseas manufacturers.



International Logistics

Space on ocean vessels continued to tighten in the trans-pacific U.S. east coast lane for the 2012-2013 ocean freight season. The ocean carriers were able to obtain a peak season rate increase as well as two other rate increases: one in late 2012 and one in early 2013. After the increases were implemented, rates increased on average \$400.00 from 2012 to 2013. Space is expected to remain tight over the upcoming year with the possibility of new increases in 2013.

Labor

Increased labor wages in China continues to be a significant cost driving factor. Although minimum monthly wages in China vary by province, as a whole, labor rates are increasing nationwide. Labor rates from 2012 to 2013 have increased anywhere from 10% on the low side to 25%. The below graph illustrates the fluid changes in China's workforce.



Chinese Government Policies

For many years, exporters in China received substantial benefits from the Chinese government. Companies had previously received tax credits and additional benefits to aid them in developing their export business. The overwhelming sentiment is that the focus of the Chinese government is changing from Export business, to the domestic market. Tax credits which suppliers have traditionally factored into their business models are dwindling down and many are concerned that at some point these may be limited altogether. Manufacturers are concerned about the changes in their governments' policies and how these changes will affect their cost structures as they continue to export their goods around the world.

We would like to thank all of our customers for your past and continued support. You can rest assured Royal will continue to do everything possible to ensure we maintain a consistent supply of our entire line of disposable items at competitive prices.