OVERVIEW

We are one of the leading branded bedding products companies in the PRC and Hong Kong. We primarily design, manufacture and sell bedding products with a focus on the high-end and premium markets under our proprietary Casablanca and Casa Calvin brands, respectively. We generally offer our bedding products under three main categories: (i) bed linens; (ii) duvets and pillows; and (iii) home accessories such as blankets, towels and cushions. We also design, manufacture and distribute bedding products under certain international brands, such as Elle Deco and Centa-Star, under licences in the Greater China Region. In connection with our proprietary brands, we also manufacture and distribute a small portion of bedding products using certain popular cartoon characters. Our broad product portfolio and our commitment to deliver high quality products have helped us to secure a large and loyal customer base.

Leveraging on nearly two decades of experience in the Hong Kong bedding products market, we believe that we have established a leading market position and a broad presence in the PRC and Hong Kong. According to Euromonitor, (i) our Casa Calvin brand was ranked first in the premium bedding products segment and our Casablanca brand was ranked second in the high-end bedding products segment, in terms of market share value for the year ended 31 December 2011 in the Hong Kong market; and (ii) our Casa Calvin brand was ranked fourth in the premium bedding products segment and our Casablanca brand was ranked tenth in the high-end bedding products segment, in terms of market share value for the year ended 31 December 2011 in the PRC market.

We seek to differentiate ourselves from our competitors by our product quality and uniqueness of designs. We place great emphasis on product design, especially for bed linen products, which is inspired by Italian architecture. We have established a product development centre in Shenzhen and our design team is experienced in choosing colour, themes and patterns for our bedding products. Typically, our bedding products are categorised into two segments: spring/summer and autumn/winter. We generally create approximately 100 new designs for each of the two seasons every year. During the Track Record Period, we have won a number of awards for our bedding products, including the 2011 Hong Kong Top Brand by both the Chinese Manufacturers' Association of Hong Kong and the Hong Kong Brand Development Council and the Shenzhen Top Brand by the Shenzhen Top Brand Evaluation Committee. We have also been recognised as an accredited brand under the Quality Tourism Services Scheme of the Hong Kong Tourism Board since 2005.

We have a sales network across the Greater China Region. Our points of sale include concession counters in department stores and home furnishing malls as well as stand-alone retail stores which are operated either by ourselves or by our distributors. As at 30 June 2012, we had established a sales network comprising 358 points of sale, which included 203 self-operated points of sale and 155 distributor-operated points of sale in 77 cities across 25 provinces, municipalities, autonomous regions and special administrative regions in the Greater China Region. We strategically locate our self-operated points of sale in Hong Kong and in major cities in the PRC, including, Shenzhen, Guangzhou, Shanghai and Beijing, which we consider to be our core markets, to capture customers with high purchasing power. In this regard, during the Track Record Period, we were able to secure our self-operated points of sale in well-known department stores and shopping malls such as JUSCO, UNY, YATA, Citistore, Parkson, Tianhong, Grandbuy and Jiu Guang. In addition, we leverage on our distributors to capture market share in other regionally significant cities in the PRC, such as Tianjin, Chongqing, Chengdu, Xi'an, Hangzhou, Qingdao and Fuzhou, with lower capital expenditure requirements than establishing self-operated points of sale.

We strive to deliver quality products to our customers by implementing stringent quality control procedures to ensure our products meet customers' expectations. We believe the quality control procedures we apply are consistent with international standards and comply with relevant laws and regulations. In addition, we have obtained the ISO 9001 certification, which represents an international consensus on good management practices, for the quality management system in our Shenzhen Production Facility in 2007 and we renewed this certification in 2012. We also impose stringent selection criteria on our raw materials suppliers in order to maintain a stable and high quality supply of raw materials and outsourced finished products.

We have enjoyed strong growth in our revenue and profit during the Track Record Period. Our revenue increased by 22.0% from HK$266.7 million for the year ended 31 December 2009 to HK$325.3 million for the year ended 31 December 2010, further increased by 32.3% to HK$430.3 million for the year ended 31 December 2011, and increased by 4.1% from HK$198.7 million for the six months ended 30 June 2011 to HK$206.8 million for the six months ended 30 June 2012. Profit also increased by 50.8% from HK$21.8 million for the year ended 31 December 2009 to HK$32.8 million for the year ended 31 December 2010 and further increased by 39.7% to HK$45.9 million for the year ended 31 December 2011. Our profit decreased by 18.2% from HK$16.2 million for the six months ended 30 June 2011 to HK$13.3 million for the six months ended 30 June 2012 due to the incurrence of listing expenses of approximately HK$9.4 million. We expect to incur total listing expenses of approximately HK$18.5 million relating to our Global Offering in the combined statement of comprehensive income, of which approximately HK$9.1 million will be incurred for the six months ending 31 December 2012.

The following table sets forth a breakdown of our revenue by brand for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
							(unaudited)			
Proprietary Brands										
Casa Calvin	51,502	19.3%	61,659	19.0%	90,471	21.0%	50,102	25.2%	45,499	22.0%
Casablanca	185,289	69.5%	210,774	64.8%	275,508	64.1%	121,771	61.3%	123,045	59.5%
Others(1)	876	0.3%	795	0.2%	2,314	0.5%	767	0.4%	2,279	1.1%
Subtotal	237,667	89.1%	273,228	84.0%	368,293	85.6%	172,640	86.9%	170,823	82.6%
Licensed and Authorised Brands	29,000	10.9%	52,056	16.0%	61,970	14.4%	26,091	13.1%	36,002	17.4%
Total	**266,667**	**100.0%**	**325,284**	**100.0%**	**430,263**	**100.0%**	**198,731**	**100.0%**	**206,825**	**100.0%**

Note:

(1) "Others" includes Forcetech and Casatino brands.

The following table sets forth a breakdown of our revenue according to sales channel for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
							(unaudited)			
Self-operated retail sales										
Concession counters	186,219	69.8%	237,532	73.0%	296,468	68.9%	131,084	66.0%	131,250	63.5%
Retail stores	13,371	5.0%	16,886	5.2%	33,207	7.7%	16,338	8.2%	20,574	9.9%
Subtotal	199,590	74.8%	254,418	78.2%	329,675	76.6%	147,422	74.2%	151,824	73.4%
Sales to distributors	30,419	11.4%	31,405	9.7%	43,041	10.0%	17,332	8.7%	35,882[1]	17.4%
Others[2]	36,658	13.8%	39,461	12.1%	57,547	13.4%	33,977	17.1%	19,119	9.2%
Total	**266,667**	**100.0%**	**325,284**	**100.0%**	**430,263**	**100.0%**	**198,731**	**100.0%**	**206,825**	**100.0%**

Notes:

(1) Our sales to distributors increased from approximately HK$17.3 million for the six months ended 30 June 2011 to approximately HK$35.9 million for the six months ended 30 June 2012, despite the number of our distributor-operated points of sale remaining unchanged at 155 as at 31 December 2011 and 30 June 2012. This increase was mainly attributable to the growth of sales from our 41 distributor-operated points of sale that were newly opened for the year ended 31 December 2011, over 50% of which were newly opened in the second half of 2011.

(2) "Others" includes sales to wholesale customers in Hong Kong and the PRC and also exports to overseas markets including Belarus, Canada, Colombia, Dubai, India, Lebanon, Malaysia, Mongolia, Morocco, Russia, Saudi Arabia, South Korea, Taiwan, Ukraine and Vietnam.

We manufacture the majority of our bedding products, including bed linens, duvets and pillows. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 68.5%, 89.2%, 69.6% and 61.5%, respectively, of our cost of goods sold was attributable to products produced by us. Apart from self-manufacturing, we outsource a portion of our products which we currently do not have the requisite machinery to produce internally, including down duvets and pillows, silk duvets, towels, blankets and mattresses, to external manufacturers who have the relevant manufacturing expertise and required facilities in place for such production. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 31.5%, 10.8%, 30.4% and 38.5%, respectively, of our cost of goods sold was outsourced to independent external manufacturers.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success as a market leader in our industry and distinguish us from our competitors:

Market leading position and strong brand recognition in the bedding products markets

We are one of the leading branded bedding products companies in Hong Kong and the PRC. Leveraging on nearly two decades of experience in the Hong Kong bedding products market, we believe that we have established a leading market position and a broad presence in the PRC and Hong Kong. According to Euromonitor, (1) our Casa Calvin brand was ranked first in the premium bedding products segment and our Casablanca brand was ranked second in the high-end bedding products segment, in terms of market share value for the year ended 31 December 2011 in the Hong Kong market; and (2) our Casa Calvin brand was ranked fourth in the premium bedding products segment and our Casablanca brand was ranked tenth in the high-end bedding products segment, in terms of market share value for the year ended 31 December 2011 in the PRC market. According to Euromonitor, the retail sales value of the Hong Kong and PRC bedding textile market is estimated to grow at a CAGR of 14.0% and 25.3%, respectively, from 2012 to 2016.

During the Track Record Period, we have won a number of awards for our bedding products, including the 2011 Hong Kong Top Brand conferred by both the Chinese Manufacturers' Association of Hong Kong and the Hong Kong Brand Development Council and the Shenzhen Top Brand conferred by the Shenzhen Top Brand Evaluation Committee. We have also been recognised as an accredited brand under the Quality Tourism Services Scheme of the Hong Kong Tourism Board since 2005. We believe our leading market position will enable us to take advantage of the fast-growing bedding products industry in these markets and continue to expand our market share and enhance our brand recognition.

Extensive sales network concentrated in strategic geographical regions

We have established a sales network primarily comprising self-operated and distributor-operated points of sale across the Greater China Region. As at 30 June 2012, our sales network consisted of 203 self-operated points of sale and 155 distributor-operated points of sale in 77 cities across 25 provinces, municipalities, autonomous regions and special administrative regions in the Greater China Region. We strategically locate our self-operated points of sale in Hong Kong and in major PRC cities including Shenzhen, Guangzhou, Shanghai and Beijing, which we consider to be our core markets, to capture customers with high purchasing power. We currently leverage on our distributors to capture market share in regionally significant cities in the PRC, such as Tianjin, Chongqing, Chengdu, Xi'an, Hangzhou, Qingdao and Fuzhou. According to the Jones Lang LaSalle Research Report 2012, 50 regionally significant cities, including those cities listed above and various provincial capitals, which accounted for approximately 26% of PRC's GDP in 2011, will continue to grow at a faster pace than the rest of the PRC. We utilise our distributors to expand our sales network and establish our presence in most of these regionally significant cities because it generally requires lower capital expenditure than establishing self-operated points of sale. We believe our balanced mix of self-operated and distributor-operated points of sale allows us to expand and continue to benefit from the fast-growing bedding products market in the PRC.

During the Track Record Period, we and our distributors established our points of sale in well-known department stores, including JUSCO, UNY, YATA, Citistore, Intime, Parkson, Tianhong, Maoye, Grandbuy and Jiu Guang in Hong Kong and the PRC. We believe this reflects our strong reputation and the quality of our products. We believe leveraging our long established relationships with well-known department stores will provide opportunities to secure our sales networks at strategic locations in Hong Kong and the PRC to maximise the exposure of our products to our targeted customers.

As at 30 June 2012, our self-operated points of sale accounted for approximately 56.7% of our total points of sale in our entire sales network in the Greater China Region, and contributed 73.4% of our total revenue for the six months ended 30 June 2012. Located primarily in our core markets, our self-operated points of sale provide us direct contact with our targeted customers, allowing us to obtain first-hand feedback on their preferences in order to optimise our future marketing efforts. We believe that our presence in core markets facilitates the awareness of our brand in geographically adjacent regions.

We believe we have established good relationships with department store operators that will enable us to secure retail space for our self-operated points of sale in well-known department store chains, allow us to increase our revenue and attract new customers, and enable us to increase brand recognition and value in different markets.

Strong product design and product development capabilities resulting in high brand recognition

Our strong design capabilities have allowed us to develop products with distinctive styles and contemporary appearance with an emphasis on product functionality. Our product designs, especially for bed linen products, are inspired by Italian architecture. We place a heavy emphasis on keeping abreast of the latest market preferences and developments in new designs and types of fabrics. For example, we solicit feedback from our retail customers and our distributors to improve our products. In addition, our designers participate in trade exhibitions both in the PRC and overseas to maintain a fresh perspective on design trends and consumer preferences. We have also implemented in-house training programmes for our design team to keep them abreast of recent technological developments in the textile and bedding products industries.

We have established a product development centre in Shenzhen and our design team is experienced in choosing colour, themes and patterns for our bedding products. Typically, our bedding products are categorised into two seasons: spring/summer and autumn/winter. We generally create approximately 100 new designs for each of the two seasons every year. As at the Latest Practicable Date, we have obtained copyrights for 72 of our classic designs.

In addition to creating new designs, we also focus on improving the functionality and quality of our products by adopting new textile technologies, fabrics and natural fill materials. For instance, we incorporated soybean and milk protein fibres in our duvet series to improve its temperature retention performance as well as its breathability, softness and body moisture absorbency.

Our continued development of a range of innovative products allows us to cater to a wide range of consumer preferences and quickly adapt to emerging market trends and changing consumer tastes in the bedding products market, while differentiating our products from those of our competitors.

Emphasis on product quality

To better control the quality of our raw materials, we engage in a strict review process for our existing and potential raw materials suppliers and external manufacturers. We also consider other factors including relevant experience, operating scale and the condition of their production facilities and manufacturing equipment.

We prefer to select raw materials suppliers with quality control certifications, such as Oeko-Tex®. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 16.9%, 23.9%, 19.2% and 14.5%, respectively, of our total purchases have Oeko-Tex® certifications.

We have implemented regular quality control inspections throughout the entire production process to ensure each individual product has a consistent level of quality. In addition, we have obtained the ISO 9001 certification, which represents an international consensus on good management practices, for the quality management system in our Shenzhen Production Facility in 2007, and we renewed this certification in 2012.

We also impose strict quality standards on our outsourced finished goods. In selecting our external manufacturers, we consider their production capacities, manufacturing techniques and the condition of their production facilities and equipment. We pay close attention to the quality of outsourced finished goods that are manufactured by external manufacturers to ensure compliance with our requirements and specifications. In particular, we generally require our external manufacturers to provide us with sample finished goods for quality inspection prior to mass production.

As a recognition of our product quality, Cotton Council International has authorised us to include their "Cotton USA Mark" on our cotton products that meet certain requirements set by the Cotton Council International. We have also obtained permission to apply the "Woolmark" logo on our products that are manufactured with 100% wool.

The quality of finished goods manufactured by us and our external manufacturers is inspected on a sampling basis to ensure they meet the national and industrial standards, as well as our internal standards. We send samples of our new products to national quality assessment centres, such as the Shenzhen Academy of Metrology and Quality Inspection, to certify they meet the national quality standards. Please refer to "Quality Control" in this section of this Prospectus.

Experienced and committed management team

We have assembled a highly talented group of management personnel with extensive experience and an in-depth understanding of the bedding products industry. Our chairman and executive Director, Mr. Cheng Sze Kin (鄭斯堅), has over 20 years of experience in the bedding products and textile industries and is responsible for our strategic planning. Our vice-chairman and executive Director, Mr. Cheng Sze Tsan (鄭斯燦), has over 18 years of experience in the bedding products industry and is focusing on product development and PRC operations. We believe that our management team has the experience and vision to implement the appropriate design, production, distribution and sales strategies to respond to consumer preferences and market trends in order to facilitate our future growth. Please refer to the section headed "Directors and Senior Management" in this Prospectus.

OUR BUSINESS STRATEGIES

We aim to maintain our growth in the Greater China Region bedding products market and enhance our overall competitiveness and market share. We intend to achieve our overall objectives by pursuing the following key strategic initiatives:

Further expand our network and sales in the PRC

According to Euromonitor, the high-end and premium bedding products segments in the PRC are projected to grow at a CAGR of approximately 28.1% and 29.9%, respectively, from 2012 to 2016, reaching a projected retail sales value of approximately RMB49.7 billion and RMB8.5 billion, respectively, in 2016. Based on such projection, we believe there are significant opportunities for growth of our brands, especially in the regionally significant cities in the PRC. We intend to further increase our market share by:

(i) increasing the number of our self-operated points of sale in our core markets, namely Beijing, Shanghai, Guangzhou and Shenzhen in the PRC and starting to expand our geographical coverage to regionally significant cities. We plan to open 47 self-operated points of sale, including 40 in the PRC and 7 in Hong Kong, during the year ending 31 December 2012, which will involve an estimated expenditure of approximately HK$24 million. The budgeted initial costs and working capital requirement for a self-operated retail store and concession counter, including deposits, setup costs and inventory, are expected to be approximately RMB0.8 million and RMB0.3 million, respectively, in the PRC and approximately HK$0.6 million and HK$0.3 million, respectively, in Hong Kong. Our Directors believe that the net proceeds from the Global Offering will be sufficient to cover the costs of our currently planned expansion. Any deficiency in funding for such expansion will be financed by our internal funds as appropriate; and

(ii) further growing our presence in the northeast, northern and southwest regions by leveraging on our distributors' local networks and knowledge to expand our geographical coverage.

From 1 January 2012 up until and including the Latest Practicable Date, we have opened 46 self-operated points of sale, including 38 in the PRC and 8 in Hong Kong.

In order to better leverage on our market reputation and strong relationships including the existing distribution channels and to increase our market share in the high-end and premium markets for bedding products, we plan to further penetrate into the core cities, namely Beijing, Shanghai, Guangzhou and Shenzhen, and other neighbouring regionally significant cities, in which we currently do not have distributor-operated points of sale, in the PRC. As a result, we will not be opening stores only in Hong Kong and Guangdong province.

Furthermore, given the extensive range of social and economic environments in the different provinces of the PRC, we consider it to be more effective and economic to leverage on our distributors to expand into inland provinces in the PRC, so that our distributors will further expand our sales network in new cities or markets within the PRC where we do not yet operate.

Hence, in order to properly manage the expansion of our sales network, we (i) have established a business development team with three members to oversee the implementation of our expansion plans of our self-operated retail stores in the PRC; (ii) intend to set up a new regional office in Nanjing in the second half of 2012 in order to better coordinate the expansion and operation of our business in Jiangsu province; (iii) plan to increase the number of sales personnel and enhance sales and marketing training to our existing staff; and (iv) have commenced the installation of point-of-sale terminals in all of our self-operated points of sale in the PRC.

Increase same store sales and profitability

We intend to focus on improving the same store sales and profitability of our self-operated points of sale through a variety of marketing initiatives. We plan to boost the sales of our proprietary brands through continued product innovations, increase the frequency of our promotional activities and improve the marketing campaign for the launch of our seasonal new products. We plan to encourage our store managers to increase their sales performance through a performance-based incentive plan.

To cater to the increasing demand for our bedding products, we plan to enhance our design capabilities and increase the variety of product offerings under proprietary and licensed brands. We also intend to add more international licensed brands to our existing brand portfolio. We believe that the above strategies will further improve our comparable store sales. Additionally, we will continue to improve the appearance and attractiveness of our self-operated points of sale from time to time in order to present a more trendy and fashionable appearance, which will in turn lead to greater customer attention and consumption.

Further enhance our brand awareness

We started our bedding products business in 1993 and began to build our two proprietary brands, Casablanca and Casa Calvin. We believe that brand awareness and customer loyalty are critical to establishing a successful retail brand. We plan to increase the intensity and frequency of our marketing efforts, such as placing advertisements on television, public transportation and print media such as magazines and newspapers, in order to increase our overall popularity and consumer awareness of our brands in the Greater China Region. We plan to further expand and promote our VIP membership reward programme and offer additional discounts to particular credit card holders in order to gain more customer loyalty.

To further promote our brand image and increase our visibility, we intend to continue participating in various trade exhibitions and fashion shows in the PRC and Hong Kong where we could showcase our new designs of the season. We will continue to focus on our multi-brand strategy in our brand enhancement process.

Increase our production capacity

We are currently expanding our production capacity and enhancing our production efficiency to meet increasing consumer demand. We commenced construction of our Huizhou Production Facility in December 2011. Our Huizhou Production Facility has two planned phases and, upon completion of phase I, we expect our Huizhou Production Facility will have a gross floor area of approximately 40,807 square metres, including workshops, warehouse area, office space and employee dormitories. The workshops in phase I are expected to have a gross floor area of approximately 13,991 square metres, and we intend to utilise part of the capacity in phase I so that its designed capacity is expected to increase our existing production capacity by 30% upon completion. Depending on business development, we may eventually further increase capacity by installing more new machinery in phase I. We also plan to increase the amount of new machinery and equipment to improve our overall efficiency and to reduce our reliance on labour work.

We believe that our Huizhou Production Facility will enable us to enjoy greater flexibility in adjusting our production scale to meet market demand while controlling our costs of production. We further believe the expanded production capacity will help to support our future growth and at the same time solidify our leading position in the bedding products industry in the Greater China Region.

Upgrade information infrastructure to enhance management efficiency

As our business continues to grow, we plan to invest in enhancing our management information systems. Currently, our point-of-sale terminals only update our inventory levels at our warehouses and a limited number of our self-operated points of sale. By upgrading the management information systems and installing point-of-sale terminals in all of our self-operated points of sale in the PRC, we will be able to obtain timely sales and inventory data, thereby allowing our management to further improve their decision making and management capabilities. We expect this upgrade to be completed by the end of 2014. We also plan to upgrade our accounting systems and create an interface with our management information systems to enhance the efficiency of our management and to support our growth going forward.

OUR PRODUCTS AND BRANDS

We are principally engaged in the sale of high-end and premium bedding products in the Greater China Region under our proprietary, licensed and authorised brands.

Our Products

We offer a comprehensive range of bedding products, including (1) bed linens; (2) duvets and pillows; and (3) other home accessories. The following table sets forth a breakdown of our revenue by product categories during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
							(unaudited)			
Bed linens	136,799	51.3%	173,554	53.3%	237,257	55.1%	115,465	58.1%	114,131	55.2%
Duvets and pillows	106,385	39.9%	133,905	41.2%	176,390	41.0%	72,465	36.5%	83,623	40.4%
Other home accessories	23,483	8.8%	17,825	5.5%	16,616	3.9%	10,801	5.4%	9,071	4.4%
Total	266,667	100.0%	325,284	100.0%	430,263	100.0%	198,731	100.0%	206,825	100.0%

Bed linens

Our bed linen products include bedsheets, pillow cases, duvet covers and bedspreads that incorporate a variety of fabrics. We sell these items individually and in sets with different combinations of items. Our wide range of products offers customers a choice in customising their bed linen sets according to the weaving technologies of the particular fabric.

We offer bed linens under six product series by using different types of fabrics and processing techniques, such as print or embroidery, as set forth below:

	Product Series[1]	Product Style	Fabrics Used	Processing Techniques
CASABLANCA HOME	Massa 	Simple and natural	Cotton	Printing
CASABLANCA HOME	Massa-basic 	Modern	Cotton	Printing
CASABLANCA HOME	Siena 	Aesthetic	Cotton	Embroidery
Casa Calvin	Palermo 	Noble	Satin and sateen	Printing
Casa Calvin	Catania 	Luxurious	Silk and cotton	Jacquard
Casa Calvin	Euphoria 	Neutral	Plain brush cotton	Printing

1. According to our classifications in Hong Kong.

Duvets and pillows

We offer duvets and pillows with a wide variety of fill materials to meet the different needs of our consumers. Our fill materials include natural fillings (such as silk fibres, wool, camel hair, cotton and down) and synthetic fibres with specific functions (such as milk protein fibres and soy bean protein fibres). Our duvets with the same fill materials can be further differentiated by three levels of warmth preservation. In addition, we offer a series of high-tech functional pillows that incorporate memory foam technology materials which are moldable to body shape and offer support for the head, neck and shoulders.

Other home accessories

We offer a variety of home accessories that complement our bedding products offerings to enrich our product portfolio. For instance, we offer three series of mattresses in different sizes and firmness levels with a range of choices of spring coil. Other home accessories include towels, blankets, cushions, cushion covers, bathrobes and home apparel.

Brands

We offer a wide range of high-end to premium bedding products under our proprietary, licensed and authorised brands, through our self-operated and distributor-operated points of sale across the Greater China Region.

Proprietary Brands

The following table sets forth a summary of our two main proprietary brands:

Brand	Year of Establishment	Brand Description
Casablanca CASABLANCA HOME 卡撒天嬌	1993	**Brand theme:** Simple, fashionable and colourful **Products series:** Massa Massa-basic Siena **Target market:** High-end **Products range:** Bed linens, duvets and pillows and home accessories
Casa Calvin Casa Calvin 卡撒·珂芬	1995	**Brand theme:** Noble, elegant and luxurious **Product series:** Palermo Catania Euphoria **Target market:** Premium **Product range:** Bed linens, duvets and pillows and home accessories

In addition, we offer a line of pillows and mattresses under the Forcetech FORCETECH brand and made-to-order products for wholesale customers under the Casatino Casatino brand.

The following table sets forth the revenue generated from sales of our proprietary brands during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
							(unaudited)			
Casa Calvin	51,502	21.6%	61,659	22.6%	90,471	24.6%	50,102	29.0%	45,499	26.6%
Casablanca	185,289	78.0%	210,774	77.1%	275,508	74.8%	121,771	70.5%	123,045	72.0%
Other[1]	876	0.4%	795	0.3%	2,314	0.6%	767	0.5%	2,279	1.4%
Total	237,667	100.0%	273,228	100.0%	368,293	100.0%	172,640	100.0%	170,823	100.0%

Note:

(1) "Other" includes Forcetech and Casatino brands.

Licensed and Authorised Brands

In addition to our proprietary brands, we also offer bedding products under certain licensed and authorised brands in the Greater China Region. Licensed brands refer to those products which we have the right to design, manufacture and distribute in the specified regions while authorised brands refer to those products for which we only have distribution rights. During the years ended December 31, 2009, 2010 and 2011 and the six months ended 30 June 2012, revenue from our sales of licensed and authorised brands accounted for 10.9%, 16.0%, 14.4% and 17.4%, respectively, of our total revenue.

Licensed brands

We became a licencee of Elle Deco for bedding products and home accessories, which originate from France and portray a sense of romance and elegance through warm colours and delicate floral patterns, in the Greater China Region in 2006. According to two licensing agreements (collectively the "Elle Deco Agreements"), we have been granted a non-exclusive licence to use the trademark ELLE DECO in the PRC from 1 January 2012 to 31 March 2017 and in Hong Kong and Macau from 31 December 2011 to 31 December 2016. Moreover, we have the exclusive right in Hong Kong and Macau to distribute bedding products and home accessories under the Elle Deco brand up to 31 December 2016. As at 30 June 2012, we had 24 self-operated points of sale in the Greater China Region that offer Elle Deco's products. In addition, apart from the Greater China Region, we have also been granted an authorisation to export the bedding products under the Elle Deco brand to the Philippines in 2012.

As at the Latest Practicable Date, we had entered into five licensing agreements for certain popular cartoon characters ("Cartoon Agreements"). In addition, we have also entered into agreements with other licensors to licence the following characters: Moomin, Garfield and B. Duck.

On 9 October 2012, we entered into a licensing agreement to produce bedding and bed linen products under the "Centa-Star" brand, in the PRC ("Centa-Star Agreement"). According to the licensing agreement, we have been granted a non-exclusive licence to produce products with the brand name/label CENTA STAR® the bed & bath company in the PRC until 31 December 2016, renewable upon mutual consent.

The major terms of the Elle Deco Agreements, the Cartoon Agreements and the Centa-Star Agreement are set forth below:

- *Royalty payments.* We must pay royalties to licensors, which are generally calculated as a percentage of our revenue generated from the sales of products under the licensed brand or featuring licensed characters. Most of our licensing agreements include a minimum amount of royalty payments.

- *Exclusivity.* We have an exclusive right to distribute bedding products and home accessories under the Elle Deco brand in Hong Kong and Macau. Our rights to design, manufacture and sell home bedding products granted under the Centa-Star Agreement and the Cartoon Agreements are not exclusive.

- *Warranties and representations.* We have provided certain warranties to licensors under the licensing agreements in relation to (i) products' quality control and safety measures, (ii) protection of the brands' reputation, and (iii) our compliance with laws, treaties and regulations of relevant jurisdictions.

- *Contract term.* The licensing agreements are typically for one to five year period. Although the licensing agreements do not contain an automatic renewal clause, they may be renewed upon mutual consent. We typically commence renewal negotiations with our licensors two to three months prior to the relevant agreements' expiry dates.

Please refer to the paragraph headed "Licensed trademarks, intellectual property, etc." in Appendix V to this Prospectus for further details of these licensing agreements. During the Track Record Period and up to the Latest Practicable Date, we have fully complied with the terms of the licensing agreements in all material respects and were not aware of any material breaches in relation to the licensing agreements.

Authorised brands

As at the Latest Practicable Date, we have also entered into agreements to distribute bedding products for certain overseas bedding products brands, including Tru-Trussardi, Norman Hayordal and Move in Hong Kong and Macau, and Centa-Star in the Greater China Region (the "Authorised Brands").

Brand management

We have established a unified brand management system for our proprietary brands as well as our licensed brands. Our product development plans, marketing strategies, packaging and graphic design vary in accordance with different brand positionings, which allow us to maintain each brand's unique positioning while catering to a wide range of consumer preferences.

All of our self-operated and distributor-operated points of sale must comply with our brand image management policy in terms of decoration style and product placement, so that our brand image is consistent, unique and easily identifiable to consumers. We adopt unified product placement methods, price tags, uniforms, cashier counters in retail stores, business cards, suggestion boxes and storage boxes and have established codes of business etiquette and employee conduct to embody our unified service standard.

OUR PRODUCT DESIGN PROCESS

We design the majority of our products, consisting primarily of bed linens, for both proprietary brands and licensed brands. As at 30 June 2012, we had 12 designers in our in-house design team located in Shenzhen, led by our two founding Directors, Mr. Cheng Sze Kin (鄭斯堅) and Mr. Cheng Sze Tsan (鄭斯燦). Our in-house designers specialise in either print designs or embroidery designs, and are subdivided into units in accordance with each specific product series in order to develop and preserve a unique design perspective for that particular product series. We frequently recruit new members to our design team from established universities in the PRC who we believe would bring us fresh ideas. We also offer comprehensive on-the-job training to our designers on a regular basis to ensure that they are equipped with sufficient knowledge and skill to develop new designs.

During the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012, we incurred approximately HK$0.6 million, HK$0.8 million, HK$1.3 million and HK$0.8 million, respectively, in design expenses, which include staff remuneration expenses, travel expenses for visiting local and overseas exhibitions, and registration fees for our trademarks. The increase in design expenses during the Track Record Period was primarily due to the increase in staff costs and travelling expenses relating to overseas exhibitions.

Cultivation Stage

At the initial stage of the design process for our proprietary brands, our designers will collaborate with the sales and marketing department to understand the latest market trends and consumer preferences as well as our brand strategies and market positions. Our designers will carry out market research by visiting our self-operated points of sale, interviewing our store managers and reviewing our sales data in order to get a better understanding of sales performance for each particular product and identify design themes that may garner greater market acceptance. For licensed products, our designers take into consideration the design guidelines provided by the licensors.

Our design team usually develops two seasonal themes each year, namely the spring/summer seasons and the fall/winter seasons with approximately 100 designs for each of the seasonal themes.

After gathering the material information, our designers will begin to work on developing the new designs together with our sales and marketing team. Our sales and marketing team provides input that helps to shape the new designs to better address the needs and preferences of our target customers.

Selection And Approval Stage

All new designs are subject to several rounds of selection and an approval process. As a first step, the designs will go through colour, craft and marketability reviews conducted by an internal design selection committee comprised of our senior management and regional sales managers. The committee approves which designs will be used in our products for the coming seasons. For licensed products, the new designs are further subject to approval by the licensors.

Sampling Stage

Once the designs are approved, we will work with our raw materials suppliers and external manufacturers to create prototypes and samples. Sample products will then be reviewed by the internal design selection committee before they are approved for mass production. For licensed products, product samples will also be reviewed by licensors before mass production.

OUR PRODUCTION PROCESS

We manufacture the majority of our products. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 68.5%, 89.2%, 69.6% and 61.5%, respectively, of our cost of goods sold was attributable to products produced by us. We generally manufacture bed linens, duvets and a small portion of pillows, and we outsource a portion of our products which we currently do not have the requisite machinery to produce internally, including down duvets and pillows, silk duvets, towels, blankets and mattresses, to external manufacturers who have the relevant manufacturing expertise and required facilities in place for such production. We believe that this combination of in-house and outsourced production processes enables us to control production costs more effectively and to react more rapidly to consumer demand, which is favourable to our business development and expansion.

To enhance productivity and conduct effective cost control measures, we schedule our overall production plans taking into account the utilisation rate of our machinery, warehousing capacity, inventory turnover rates and market trends.

Production Facilities

Shenzhen Production Facility

Our Shenzhen Production Facility has a gross floor area of approximately 23,480 square metres which includes workshops, warehouse space, employee dormitories and office buildings. Our Shenzhen Production Facility is mainly used for inspecting raw materials, preparing fill materials for our duvets and pillows, cutting and sewing, embroidering, ironing, packaging and other post-finished processing of the products processed by external manufacturers. Our production machinery primarily includes fabric cutting machines, carding machines, sewing machines and embroidery machines.

The following table shows the annual designed production capacity, annual production volume and overall utilisation rates during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2009	**2010**	**2011**	**2012**
	('000)(1)	*('000)*(1)	*('000)*(1)	*('000)*(1)
Annual designed production capacity(2)	890	1,112	1,524	762
Annual production volume(3)	1,076	1,225	845	570
Overall utilisation rates(4)	120.9%	110.2%	55.4%	74.8%

Notes:

(1) Equivalent to four-piece bed linen sets.

(2) The increase in production capacity can be attributed to the increase in the number of sewing machines during the Track Record Period.

(3) Our annual production volume decreased in 2011 primarily due to the change of our product mix which lead to an increase in purchases in our outsourced finished products. The change of product mix was primarily due to the change of preferences by our customers.

(4) Designed production capacity is calculated based on the two eight-hour working shifts. For the two years ended 31 December 2010, the facilities worked overtime, hence the utilisation rates exceeded 100%.

Our overall utilisation rate is calculated by taking our actual production volume for a particular year and dividing it by the designed production capacity during that particular year. The dramatic decrease in our overall utilisation rate in 2011 was primarily due to (i) an approximately 37% increase in the overall production capacity by increasing the number of sewing machines and (ii) the approximately 15% decrease in our labour for the year ended 31 December 2011.

The lease of our Shenzhen Production Facility will expire at 31 March 2023. As at the Latest Practicable Date, the landlord of the Shenzhen Production Facility cannot provide us with the relevant building ownership certificates with respect to these structures as required under the relevant PRC laws and regulations. According to our PRC legal advisor, Grandall Law Firm (Shenzhen), it is unlikely that we will be evicted from our Shenzhen Production Facility, and as at the Latest Practicable Date, we have not received any notification to vacate from this structure. In addition, our landlord has provided us a written undertaking to indemnify us for the relocation costs and damages in the event that we are evicted from the premises due to the lack of relevant building ownership certification. Our Controlling Shareholders have also undertaken to indemnify us for relocation costs in the event that we are evicted from the premises due to lack of relevant building ownership certificates.

As at the Latest Practicable Date, we had not yet obtained the fire safety inspection and acceptance certificates for the fourth and fifth floors of our Shenzhen Production Facility. We primarily use these two floors for warehousing and manufacturing our products. According to our PRC legal advisor, Grandall Law Firm (Shenzhen), the landlord is responsible for obtaining the requisite safety inspection and acceptance certificates, and it is not likely that we will be ordered to cease operation on the fourth and fifth floors because (i) we have not received any complaints or challenges from the relevant authority with respect to our lack of fire safety inspection and acceptance certificates; (ii) we have not experienced any fire disasters since we commenced our operation in the Shenzhen Production Facility in 2003; (iii) we have formulated our internal guidance for fire safety and plan for firefighting and emergency evacuation in order to prevent any fire disasters, and all of our employees are required to comply and strictly adhere to these guidance and plans to ensure the production safety; (iv) we conduct periodic fire safety inspections and have not received any order from the relevant authority to cease our operation so far. Our Directors confirmed that, should we be so ordered, it is not likely that there will be any material impact on our business, since (i) we do not anticipate difficulties in finding alternative warehousing facilities in areas nearby; (ii) we have contingency plans for continuing production by outsourcing our production to the two designated existing external manufacturers which we have engaged as back-up; (iii) the overall expense associated with relocation to other floors within the same building is expected to be no more than RMB10,000; and (iv) our Controlling Shareholders have undertaken to indemnify us against any costs, expenses, claims, losses, liabilities and proceedings which may be incurred due to the lack of fire safety inspection and acceptance certificates.

Huizhou Production Facility

Because our Shenzhen Production Facility was operating at over 100% capacity for both of the years ended 31 December 2009 and 2010, and in anticipation of continued growth in our operations and sales revenue, we have begun construction of our new Huizhou Production Facility. We conducted a feasibility study regarding the construction of, and relocation to, the Huizhou Production Facility in July 2011. Our Huizhou Production Facility has two planned phases. Phase I commenced construction in December 2011. Upon the completion of phase I, we intend to utilise part of its capacity so that the designed capacity is expected to increase our existing production capacity by 30% upon completion, and we will have a total gross floor area of approximately 40,807 square metres for operation. Phase I will include workshops with a gross-floor area of approximately 13,991 square metres, a new warehouse with a gross floor area of approximately 17,218 square metres, office space as well as dormitories. We expect the construction of phase I to be completed by the second half of 2012 and to commence operations in the first quarter of 2013. As at the Latest Practicable Date, we have finished construction of the dormitories and substantially completed construction of the main building for phase I, with ancillary facilities to be installed. We do not anticipate any delay in completion of construction for phase I. For details relating to the risks associated with delays in our construction and our commencement of operations of our Huizhou Production Facility, please refer to the section headed “Risk Factors – Risks Relating to Our Business – Our failure to commence operation of our Huizhou Production Facility on time would have a material adverse effect on our growth, operations or financial condition” of this Prospectus. Depending on the market demand, we will commence construction of phase II when we anticipate the overall utilisation rate of phase I will reach 100% and no more capacity can be practically added.

During the transition period when we relocate from our Shenzhen Production Facility to our Huizhou Production Facility, we will have parallel manufacturing operations at both facilities and do not anticipate any stops in production. We plan to relocate our production lines from our Shenzhen Production Facility to our Huizhou Production Facility upon completion, and no write-off of any of our property, plant and equipment is expected as a result of the relocation. The relocation budget is estimated to be approximately RMB3.3 million, primarily consisting of approximately RMB0.3 million in transportation costs and the cost of installing machinery, and approximately RMB3.0 million for the redundancy payment. We have also engaged two existing external manufacturers as a back-up to assist in manufacturing our products during the relocation period. Should we experience delays in the construction of phase I or phase II, we will engage additional external manufacturers on an as-needed basis. Products from these external manufacturers will be inspected in the same manner as those of our other external manufacturers.

Our Directors confirmed that the relocation plan is not expected to have any material impact on our financial performance. Immediately after the relocation, our annual operating cost is expected to increase by approximately RMB0.8 million, primarily due to the increase in the amortisation cost of land use rights and the depreciation cost of property, plant and equipment of approximately RMB0.5 million and RMB3.5 million, respectively, which costs are offset by a reduction in rent for our Shenzhen Production Facility of approximately RMB3.2 million. We expect the increase in transportation costs to be marginal. In the long run, the operating cost of our Huizhou Production Facility is expected to be lower than that of our Shenzhen Production Facility due to the lower cost of labour and rent.

Since the lease for our Shenzhen Production Facility does not expire until 31 March 2023, we may consider terminating such lease when we move to our Huizhou Production Facility upon its completion. We estimate the maximum penalty for such early termination is approximately RMB1.0 million.

In order to maintain a stable work force for our production during and after the relocation period, we plan to relocate some of our existing workers from Shenzhen to Huizhou and start the recruitment and training processes before the completion of our Huizhou Production Facility. We will settle the redundancy payment for the existing workers who are not willing to be relocated to Huizhou. Currently we have not yet reached any relocation or redundancy agreements with our existing workers, but we plan to approach and negotiate with our existing workers in one to two months prior to the completion of our Huizhou Production Facility.

Upon completion of phase I of our Huizhou Production Facility and under our current plan of usage, the total designed capacity is expected to increase our existing production capacity by 30%. We also plan to increase the amount of new machinery and equipment to achieve better quality control and improve overall efficiency.

On the basis of the information available to us so far (including contracts, agreements and contractor estimates so far provided) and based on an assessment by our senior management, we currently estimate the total capital expenditure for completion of phase I of our Huizhou Production Facility as set out in the table below[1]:

	Estimated Capital Expenditure	**Payments made as at 30 June 2012**	**Outstanding Capital Expenditure**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
Land site acquisition	30.0	30.0	–
Phase I site work and facilities	98.3	46.3	52.0
Total	**128.3**	**76.3**	**52.0**

Note:

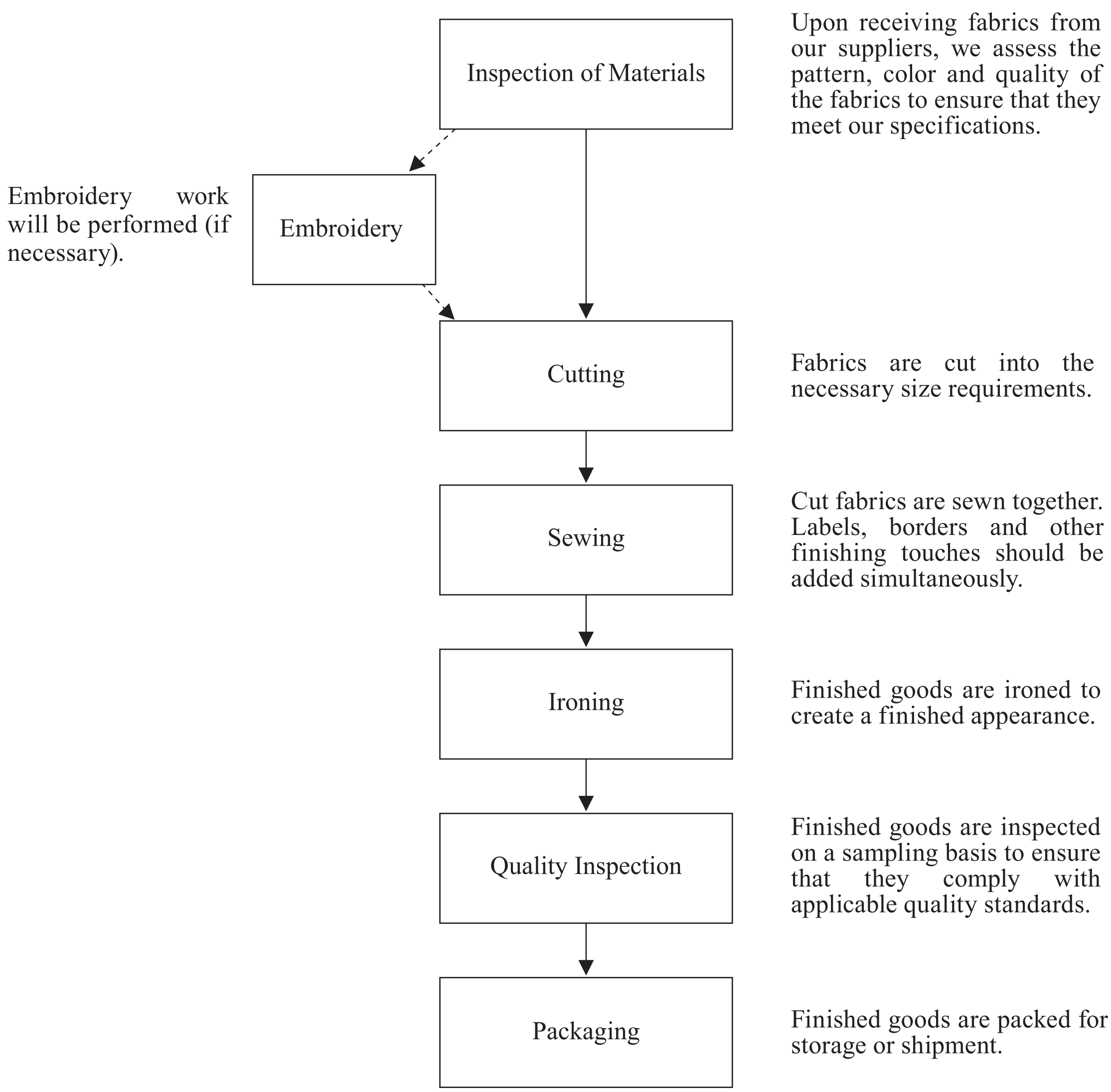
(1) We do not anticipate the construction of phase II to commence during the next two years under our current plan. As a result, we do not yet have a concrete capital expenditure plan for the construction of phase II.

The outstanding capital expenditure of approximately HK$52.0 million will be funded partially through loan facilities and from our internal sources.

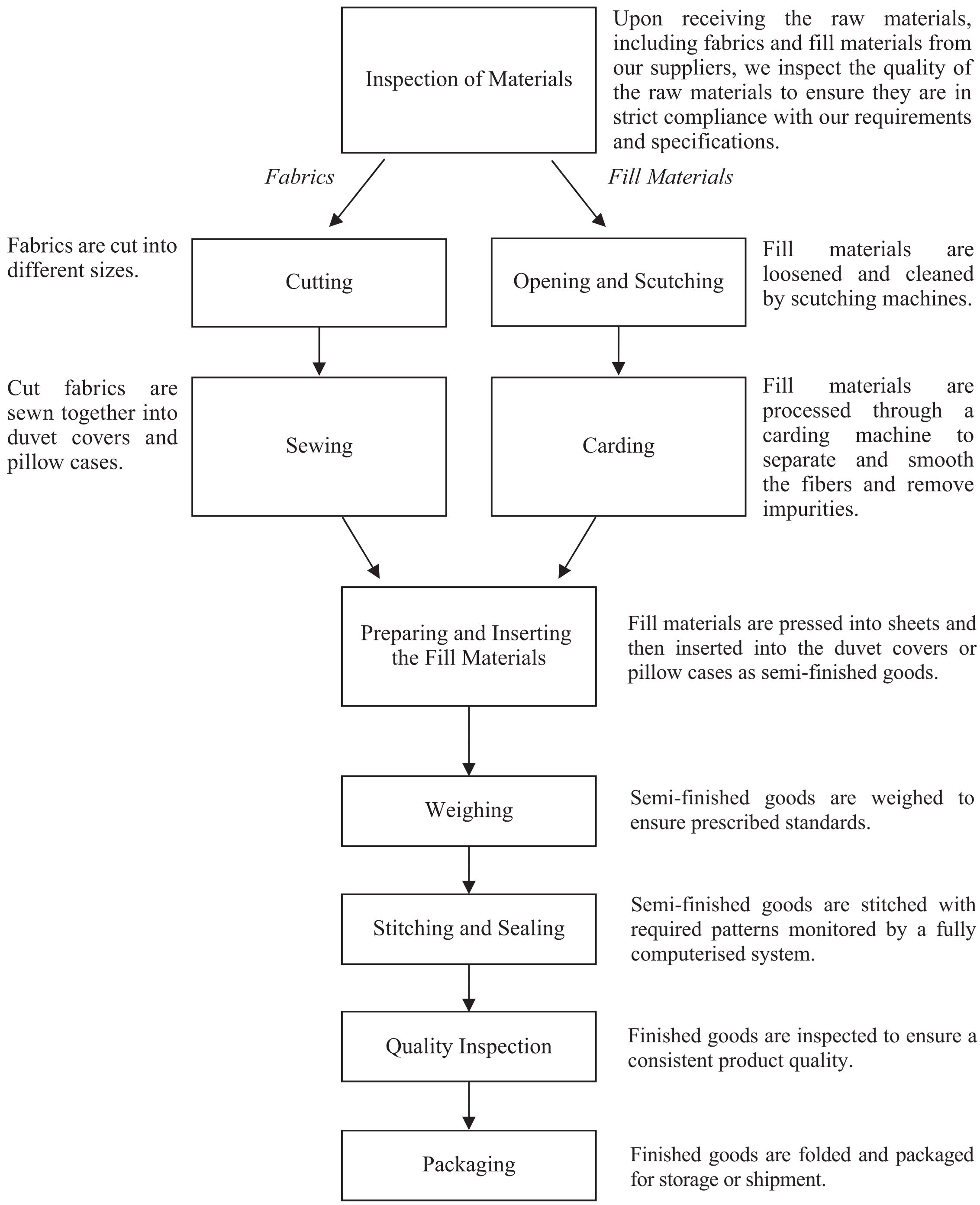
Production Process

During the Track Record Period, we generally manufacture bed linens, duvets and a small portion of pillows internally. The charts below illustrate our production processes for: (1) bed linens and (2) duvets and pillows.

(1) Bed Linens



(2) Duvets and Pillows



RAW MATERIALS SOURCING

The principal raw materials that we use in manufacturing our products are fabrics, fill materials and other ancillary materials. The fabrics used in our bedding products include both natural fabrics (such as cotton, silk, sateen and Tencel fabric) and synthetic fabrics. Our raw materials fabrics also include fabrics with printed designs, jacquard or embroidery. We use wool, cotton, silk and synthetic fibres such as milk protein fibres and soybean protein fibres for the fill materials in our duvets and pillows.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our raw materials accounted for approximately 87.7%, 89.7%, 88.7% and 86.8% of our total cost of production, respectively, and the cost of our principal raw materials, namely cotton fabrics, accounted for approximately 72.5%, 62.7%, 65.9% and 63.6% of our total cost of raw materials, respectively. The price of raw materials may experience fluctuations due to reasons that are beyond our control. We usually adjust the selling price of our products should there be fluctuations in the price of raw materials. However, there is no assurance that we can pass increases in raw materials costs to our customers in a timely manner or at all, which could result in an adverse impact on our profit margins. For example, the greatest increase in the cost of our raw materials during the Track Record Period was a 51.3% increase in the price of cotton. If such an increase had occurred in the price of cotton fabric, our primary raw material, during the six months ended 30 June 2012, with all other factors remaining the same, our gross profit would have decreased by 11.1%, and our gross profit margin would have decreased from 61.0% to 54.3%. In order to pass on the entirety of such an increase in costs to our customers, we would have to increase the price of our products by approximately 17.4%. For more information relating to the risks associated with the price of raw materials, please refer to the section headed "Risk Factors – Risks Relating to Our Industry – We are subject to fluctuations in the price, availability and quality of our raw materials" in this Prospectus.

We sourced all of our raw materials from the PRC during the Track Record Period. In order to maintain the quality of our products, we apply stringent criteria in the selection of our raw materials suppliers, approximately 90% of which are producers instead of agents as at 30 June 2012. In particular, the availability of quality raw materials is one of the principal factors in assessing potential raw materials suppliers. In addition, we take into account other factors including operating scale, relevant experience, reputation, price, technology, the condition of the production facilities and manufacturing equipment. We may also conduct a site visit to the supplier's production site. In addition, we prefer to select raw materials suppliers with the Oeko-Tex® label.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, our top five raw materials suppliers, all supplying fabrics, collectively accounted for approximately 43.4%, 50.1%, 47.3% and 46.0%, respectively, of our total purchases. For the same periods of time, our purchases from our largest raw materials suppliers accounted for approximately 16.9%, 23.9%, 19.2% and 14.5%, respectively, of our total purchases. We have established stable relationships with the majority of our suppliers. As at 30 June 2012, two of our top five raw materials suppliers had maintained business relationships with us for greater than four years. Our Directors confirmed that each of our five largest raw materials suppliers are Independent Third Parties and none of our Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interest in any of these five largest raw materials suppliers during the Track Record Period.

OUTSOURCING TO EXTERNAL MANUFACTURERS

We outsource a portion of our products which we currently do not have the requisite machinery to produce internally, including down duvets and pillows, silk duvets, towels, blankets and mattresses, to external manufacturers who have the relevant manufacturing expertise and required facilities in place for such production. Given the relatively low volume of such products, our Directors have decided not to make investments in the requisite machinery at present. Before deciding on the appropriate course of action, we evaluate the costs and benefits of adding the required internal production capability against that of outsourcing. As at 31 December 2009, 2010 and 2011 and 30 June 2012, we had 28, 28, 30 and 24 external manufacturers, respectively. The decrease in the number of external manufacturers from 30 as at 31 December 2011, to 24 as at 30 June 2012, was primarily due to the expected and typical change in season and preferences by our customers, which involves a change in seasonal demand and product mix. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 31.5%, 10.8%, 30.4% and 38.5% of our cost of goods sold was outsourced to independent external manufacturers, respectively. For the year ended 31 December 2010, in anticipation of an increase in the cost of raw materials and finished goods produced by external manufacturers, instead of outsourcing the whole production process to our external manufacturers, we purchased and supplied raw materials to our external manufacturers directly in order to control and stabilise our cost of goods sold. As the price trend of raw materials stabilised in 2011, we resumed our normal practice by reducing the direct supply of raw materials to our external manufacturers.

Our external manufacturers are primarily located in the provinces of Guangdong, Zhejiang and Jiangsu. Similar to our assessment of raw materials suppliers, we conduct site visits to our external manufacturers to better understand their operations. In selecting our external manufacturers, we consider their use of safe quality raw materials for users, their emphasis on safe and environmentally friendly manufacturing techniques, their ability and capacity to produce quality finished products at our requested volumes at a reasonable price and their experience in the industry. We pay close attention to overseeing the quality control of our finished products that are manufactured by external manufacturers to ensure compliance with our requirements and specifications. In particular, we require our external manufacturers to provide us with sample finished products for quality inspections prior to mass production. Except in 2010, where we increased our supply of raw materials to our external manufacturers, we generally require our external manufacturers to procure from our designated raw materials suppliers with whom we typically have established working relationships. As a result, we are able to better control the quality of finished goods produced by our external manufacturers.

We maintain a stable relationship with our external manufacturers and a majority of our external manufacturers have been working with us for more than five years. Our Directors confirmed that we had not experienced any material difficulties in sourcing external manufacturers or any production disruption due to shortage of supply during the Track Record Period and up to the Latest Practicable Date, and we do not envisage any such difficulties in the future due to easy and convenient access to alternative external manufacturers.

As at 30 June 2012, we had 24 external manufacturers. During the Track Record Period, the total purchases from our top five external manufacturers amounted to approximately HK$17.7 million, HK$22.8 million, HK$27.7 million and HK$7.8 million, accounting for approximately 16.3%, 15.3%, 16.3% and 12.4% of our total purchases, respectively. During the Track Record Period, purchases from our largest external manufacturer amounted to approximately HK$7.1 million, HK$9.3 million, HK$7.0 million and HK$2.8 million, accounting for approximately 6.5%, 6.3%, 4.2% and 4.5%, respectively, of our total purchases during the respective periods.

Our Directors confirmed that each of our top five external manufacturers are Independent Third Parties and none of our Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interest in any of these five external manufacturers during the Track Record Period.

LOGISTICS

We occupy five warehouses in Hong Kong and in our core markets in the PRC to serve as regional storage areas for our finished products. All of our regional warehouses are self-operated.

Raw materials supplied by our suppliers are delivered to our Shenzhen Production Facility for our production at the suppliers' own cost and risk. Finished products supplied by our external manufacturers are generally delivered directly to our warehouse in Shenzhen for storage and post-finished processing at the external manufacturers' own cost and risk. Currently, we do not maintain our own logistics team. For delivering and reallocating inventories among our points of sale beyond Shenzhen and Guangzhou, we primarily engage third-party logistics companies. We engage a number of logistics service providers for different regions in the PRC.

During the Track Record Period, we did not experience any material loss in the delivery of our products and also did not experience any material delays or adverse effects due to the actions of any logistics providers.

All of our logistics providers were Independent Third Parties during the Track Record Period.

INVENTORY MANAGEMENT

Our inventory primarily consists of raw materials and finished goods. We strive to maintain an appropriate level of raw materials and finished products in our inventory while meeting the demands from our distributors and our self-operated points of sale. We attempt to maintain optimal levels of inventory in accordance with our sales plan, keeping track of material price changes and by making reference to the confirmed purchase orders from our distributors during seasonal sales fairs as well as from internal orders placed by our regional sales managers.

We employ point-of-sale terminals in our Hong Kong and PRC warehouses which provide us with real-time information for our inventory levels. As at the Latest Practicable Date, we had installed point-of-sale terminals in all of our self-operated points of sale in Hong Kong and 37 of our self-operated points of sale in the PRC. Each point-of-sale terminal collects data on sales and inventory movements and transmits the information back to our head offices on a real time basis. We are in the process of installing point-of-sale terminals in all our self-operated points of sale in the PRC. As a result, we are able to use such data to make timely adjustments in our procurement, production and inventory management processes to improve productivity and efficiency in our operations.

To better manage inventory at our distributor-operated points of sale, we generally implement the following measures: (i) request that our distributors submit their monthly inventory and sales data reports to us; and (ii) require that our regional sales managers visit our major distributors on a monthly basis and our small distributors on a quarterly basis. Though we do not maintain control over the products after selling to our distributors, we strive to monitor the sales performance and inventory position of our distributors so as to gather information and data regarding the market acceptance of our products in a particular region.

We monitor our inventory levels on a monthly basis and the aging inventory on a semi-annual basis, in order to reduce the risk of building up obsolete inventory. We also carry out physical stock counts on a periodic basis to identify obsolete and slow moving or damaged inventories. We sell excess out-of-season inventory in our self-operated points of sale, in conjunction with promotional activities during holidays or festivals and seasonal sales organised by department stores and home furnishing malls. We generally make provisions for obsolete and slow-moving inventories when they are aged for one year, or when the carrying amount of these inventories is lower than their net realisable value.

QUALITY CONTROL

As a manufacturer of bedding products, we are subject to various PRC rules and regulations including the the General Principles of the Civil Law (中華人民共和國民法通則) of the PRC, the Product Quality Law of the PRC (中華人民共和國產品質量法) and the Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法).

As at 30 June 2012, our quality control team consisted of 24 persons who oversee and implement the quality control policies and procedures for our raw materials and finished goods.

Raw Materials

We select our raw materials suppliers and external manufacturers based on a stringent set of criteria. Please refer to the sections headed "Business – Raw Materials Sourcing" and "Business – Outsourcing to External Manufacturers" in this Prospectus. To ensure consistency in the quality of our raw materials, we spot check our fabrics and fill materials upon their delivery to our premises. We inspect the fabrics to ensure they match our design and colour and also perform technical testing to assess factors such as pH and the water resistance levels of the fabrics. We also inspect the fill materials to confirm that they comply with our quality specifications. We return raw materials that we deem substandard to suppliers. During the Track Record Period and up to the Latest Practicable Date, there were no material raw materials returns to our suppliers nor disruptions in raw materials supply.

Production

We emphasise quality control throughout our production process. We implement a strict quality control process for our in-house production process, which includes quality control inspections throughout the production process. We utilise computer programmes in certain aspects of our production process, primarily in embroidery, in order to minimise inconsistencies in our designs and in our finished products. Our production team also monitors the entire production process to make necessary adjustments. Our quality control team performs inspections on randomly selected samples for each order of finished products prior to packaging and shipment.

We strive to deliver quality products to our customers by implementing stringent quality control procedures to ensure our products meet the expectations of our consumers. We believe the quality control procedures we apply are consistent with international standards and comply with relevant laws and regulations. In addition, we have obtained the ISO 9001 certification, which represents an international consensus on good management practices, for the quality management system in our Shenzhen Production Facility in 2007. We have recently renewed this certification for 2012 through 2015. During the Track Record Period and through the Latest Practicable Date, we have complied with all applicable standards, laws and regulations related to quality control.

Finished Products Certification

Under relevant PRC laws and regulations, as well as pursuant to the standard practice of certain department stores in the PRC, certain of our finished products that are to be sold in department stores in the PRC are required to be certified by an independent quality assessment agency. We send product samples in accordance with relevant requirements of laws and regulations to national quality assessment centres, such as the Shenzhen Academy of Metrology and Quality Inspection, to certify that the finished products meet national or industrial quality standards. The Shenzhen Academy of Metrology and Quality Inspection is an independent evaluation centre that was established by the Shenzhen Municipal Government and authorised by the National Quality Supervision and Inspection Bureau and the Guangdong Quality Supervision and Inspection Bureau to perform, among other things, quality inspection and product testing for consumer products.

In addition, we place an emphasis on offering safe products for our consumers. We generally require our external manufacturers produce finished products which comply with the PRC National Textile Product Safety and Technology Code.

We also regularly solicit feedback from our distributors and sales personnel in our efforts to improve and maintain a high quality standard for our products.

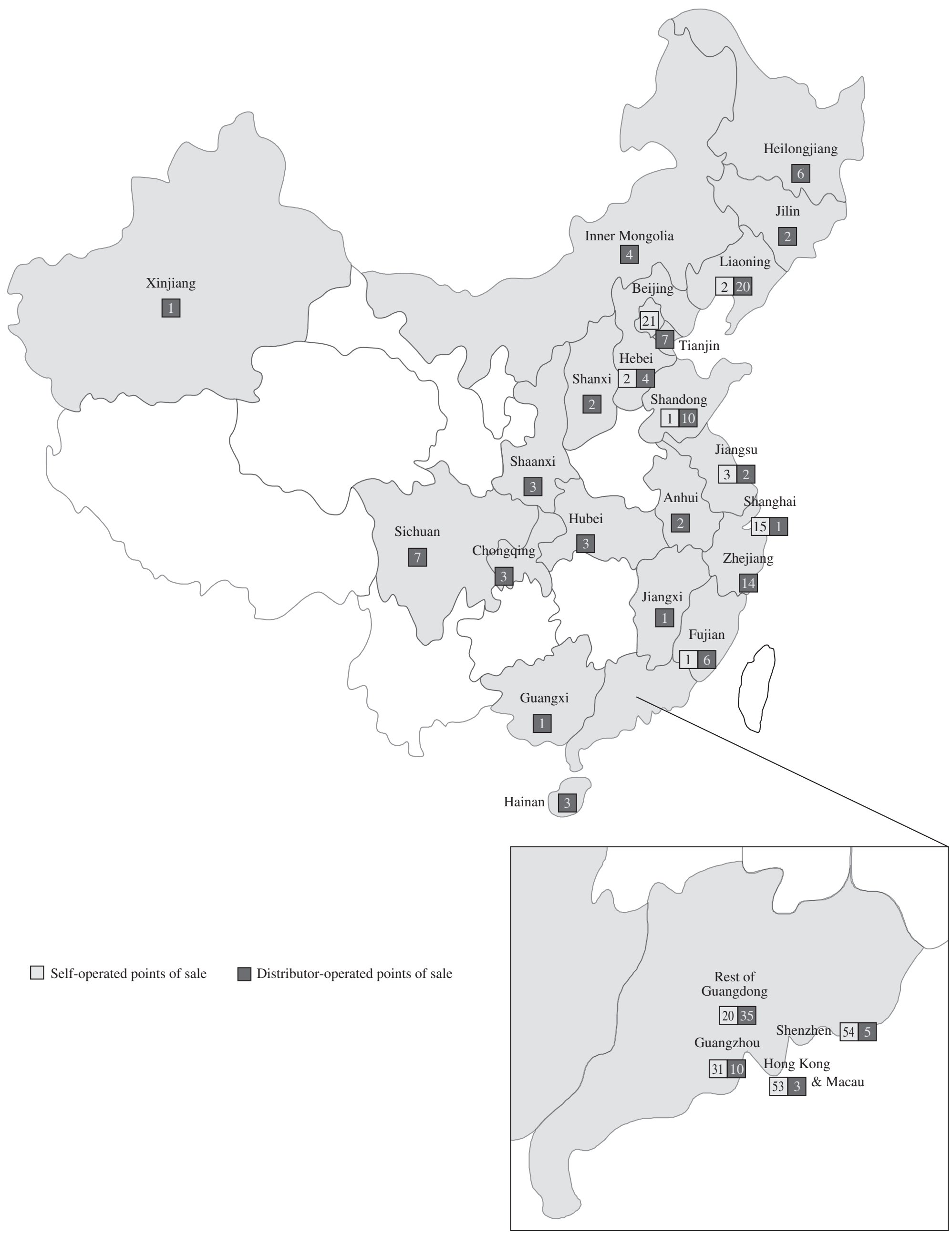
During the Track Record Period, we were not a party to any material product liability claims and did not initiate any product recalls.

SALE AND DISTRIBUTION

During the Track Record Period, we primarily utilised two channels to distribute our bedding products: (i) retail sales to end consumers in our self-operated points of sale and (ii) sales to our distributor customers. In addition, we generate additional revenues through other channels, including sales to wholesale customers in Hong Kong and the PRC and also through exports to overseas customers.

Our Retail Network

As at 30 June 2012, we have established a retail network comprising 203 self-operated points of sale and 155 distributor-operated points of sale in 77 cities across 25 provinces, municipalities, autonomous regions and special administrative regions in the Greater China Region. The following map illustrates the geographical distribution of our retail points of sale in the Greater China Region as at 30 June 2012:



Both self-operated and distributor-operated points of sale consist of concession counters and stand-alone retail stores. The following table sets out a breakdown of the points of sale into concession counters and stand-alone retail stores as operated by ourselves and by distributors in the Greater China Region during the Track Record Period:

	As at 31 December									As at 30 June		
	2009			2010			2011			2012		
	Concession counters	Stand-alone retail stores	Total	Concession counters	Stand-alone retail stores	Total	Concession counters	Stand-alone retail stores	Total	Concession counters	Stand-alone retail stores	Total
Self-operated												
Hong Kong and Macau	25	9	34	29	13	42	36	14	50	38	15	53
PRC	104	1	105	138	1	139	140	1	141	146	4	150
Sub-total	129	10	139	167	14	181	176	15	191	184	19	203
Distributor-operated												
Hong Kong and Macau	–	–	–	–	–	–	–	–	–	1	2	3
PRC	81	32	113	86	34	120	103	52	155	101	51	152
Sub-total	81	32	113	86	34	120	103	52	155	102	53	155
Total	210	42	252	253	48	301	279	67	346	286	72	358

The following table sets out a breakdown of our self-operated and distributor-operated points of sale by geographical regions in the Greater China Region during the Track Record Period:

	As at 31 December									As at 30 June		
	2009			2010			2011			2012		
	Self-operated points of sale	Distributor-operated points of sale	Total points of sale	Self-operated points of sale	Distributor-operated points of sale	Total points of sale	Self-operated points of sale	Distributor-operated points of sale	Total points of sale	Self-operated points of sale	Distributor-operated points of sale	Total points of sale
Hong Kong and Macau total(1)	34	–	34	42	–	42	50	–	50	53	3	56
PRC												
Southern(2)	79	38	117	92	36	128	101	52	153	105	54	159
Northern(3)	15	15	30	22	12	34	18	16	34	23	17	40
Eastern(4)	7	30	37	15	39	54	18	44	62	20	36	56
Northeast(5)	2	16	18	5	22	27	4	25	29	2	28	30
Southwest(6)	2	4	6	4	6	10	–	12	12	–	10	10
Central(7)	–	5	5	1	2	3	–	3	3	–	3	3
Northwest(8)	–	5	5	–	3	3	–	3	3	–	4	4
PRC subtotal	105	113	218	139	120	259	141	155	296	150	152	302
Total	**139**	**113**	**252**	**181**	**120**	**301**	**191**	**155**	**346**	**203**	**155**	**358**

Notes:

(1) As at 30 June 2012, we have one self-operated point of sale and three distributor-operated points of sale in Macau (operated by the same sole distributor in Macau). Our sales to Macau was approximately 2.3%, 2.6%, 2.3% and 2.3% of our total revenue for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

(2) "Southern" includes Guangxi, Guangdong and Hainan.

(3) "Northern" includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.

(4) "Eastern" includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.

(5) "Northeast" includes Heilongjiang, Liaoning and Jilin.

(6) "Southwest" includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.

(7) "Central" includes Henan, Hubei and Hunan.

(8) "Northwest" includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

During the Track Record Period and up to the Latest Practicable Date, we have not received any notices of early termination of (i) leases from our landlords and (ii) concession agreements with department store operators for our self-operated points of sale in Hong Kong.

The following table sets forth the respective movement of the number of our self-operated and distributor-operated points of sale during the Track Record Period:

	Newly opened points of sale		Change in points of sale		Change in points of sale		Closed points of sale		Total number points of sale		
Year/period ended	Self-operated	Distributor-operated	From Self-operated	To Distributor-operated	To Self-operated	From Distributor-operated	Self-operated	Distributor-operated	Self-operated	Distributor-operated	Total
31 December 2009	+28	+27	0	0	+3	-3	-17	-12	139	113	252
31 December 2010	+54	+39	-2	+2	+7	-7	-17	-27	181	120	301
31 December 2011	+31	+41	-9	+9	0	0	-12	-15	191	155	346
Six months ended 30 June 2012	+24	+14	-3	+3	0	0	-9	-17	203	155	358

As part of our business strategy, we generally establish self-operated points of sale in our core markets in the PRC. For other regionally significant cities, we generally leverage on our distributors to capture market share. For those PRC cities where we have existing self-operated points of sale, we aim to increase our presence by adding new self-operated points of sale. For those PRC cities where we do not have existing points of sale, we will selectively establish self-operated points of sale in those cities we consider to be regionally significant with a potential base of affluent consumers, while allowing distributors to establish points of sale in other cities. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, we have converted nil, two, nine and three self-operated points of sale to distributor-operated points of sale, respectively, in certain regionally significant cities in the southwest and northeast PRC, primarily due to (i) unsatisfactory performance of these self-operated points of sale during the periods; (ii) our identification of appropriate local distributors who have knowledge, experience and capacity for developing the local retail networks; and (iii) our decision to consolidate our market position and strategically focus our resources in our core markets and neighbouring cities. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, we closed 33, 44, 27 and 26 points of sale, respectively. The closures were primarily due to (i) unsatisfactory sales performance of the particular points of sale; (ii) the expiration and non-renewal of the concession agreements; and (iii) the termination or non-renewal of the distributorship agreements.

Regardless of the distribution channel, it is our strategy to locate our retail network in well known department stores and well known shopping areas. Currently, a significant portion of our self-operated and distributor-operated points of sale are located in established department stores and home furnishing malls. In addition to our two primary distribution channels, we sold a portion of our bedding products to wholesale customers in Hong Kong and the PRC and also through exports to overseas customers during the Track Record Period.

Self-operated Concession Counters

As at 31 December 2009, 2010, and 2011 and 30 June 2012, we had a network of 129, 167, 176 and 184 self-operated concession counters, respectively, in the Greater China Region. The increase in the number of self-operated concession counters during the Track Record Period was primarily due to our strategy to increase our market share in our core markets. Most of our self-operated concession counters are located in well known department stores and home furnishing malls in our core markets in the PRC, such as Parkson, Tianhong, Grandbuy, Jiu Guang. As at 30 June 2012, approximately 83.7% of our self-operated concession counters were located in Hong Kong and our core markets in the PRC. It is our strategy to increase and directly manage our self-operated concession counters in our core markets in order to increase our brand awareness and reinforce our brand image.

Offering our bedding products through self-operated concession counters in department stores and home furnishing malls has enabled us to increase the exposure of our brands as well as benefit from the high volume of customer traffic, reputation and marketing campaigns of the department stores and home furnishing malls where our counters are located. We believe our established relationships with department stores and home furnishing malls enhance our brand promotion and attract potential distributors to carry our products in order to further develop our distributorship network.

Major terms of the concession agreements

We have entered into concession agreements with department stores or home furnishing malls for counter space with respect to our self-operated concession counters. Specific terms of the respective concession agreements vary from each other, but contain the following standard provisions:

- *Term:* The term is typically one to two years and may be renewed subject to annual performance review and by mutual consent.

- *Termination:* Termination is typically on a mutual basis. However, the department store or home furnishing mall reserves the right to terminate our concession agreement if we, among other things, (i) fail to pay concession fees; (ii) are facing possible bankruptcy; or (iii) act against the goodwill or image of the department store or home furnishing mall.

- *Geographical exclusivity:* Each concession counter is located in designated department stores or home furnishing malls.

- *Commission fees:* Instead of paying fixed rental fees, we pay commissions to department stores or home furnishing malls on a monthly basis in an amount equal to approximately 20% to 30% of our revenue from the respective department store or home furnishing mall.

- *Other fees*: We are required to pay department stores or home furnishing malls certain fees including (i) fees charged through point-of-sale devices; (ii) fees for our employees' usage of their facilities; (iii) fees charged by credit card companies; and (iv) other management fees.

- *Collection of sales proceeds:* Sales proceeds from our self-operated concession counters are collected by the respective department stores or home furnishing malls upon completion of a sale, and then paid to us after deducting fees and commission on a monthly basis.

- *Refundable deposit:* Upon signing the concession agreement, we are required to pay each department store or home furnishing mall a fixed amount on a case by case basis, which is refundable after the expiry of the agreement and not refundable if we terminate the concession agreement unilaterally before the expiry date or breach of any terms of such agreement. The refundable deposit does not accrue any interest.

- *Employees:* We are required to provide promoters for each concession counter. Our employees are subject to the specific attire and attendance requirements of the respective department stores or home furnishing malls.

- *Product loss:* We bear the product loss in case of missing or destroyed products.

Sales proceeds from our self-operated concession counters are collected by the respective department stores or home furnishing malls. We recognise as revenue the gross value of goods sold to end customers through department stores and home furnishing malls, and the corresponding concession fees, management fees and other applicable expenses as selling expenses. We invoice to and collect from each department store or home furnishing mall on a monthly basis the net sales proceeds, based on the total revenue less the concession fees, management fees and other applicable expenses charged by the department store or home furnishing mall.

The following table sets forth information regarding the movement of our self-operated concession counters during the Track Record Period.

	Year Ended 31 December			Six months ended 30 June
	2009	**2010**	**2011**	**2012**
Existing	120	129	167	176
Newly opened(1)	26	56	30	18
Terminated(2)	(17)	(18)	(21)	(10)
Total	129	167	176	184

Notes:

(1) Includes concession counters converted from distributors.

(2) Includes concession counters converted to distributors.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, 17, 18, 21 and 10 self-operated concession counters were terminated, respectively, due to department store closings or renovations, unsatisfactory sales performance or the adjustment of concession agreements. During the Track Record Period and up to the Latest Practicable Date, no concession agreement was terminated by us due to a dispute between the Group and the department store or home furnishing mall.

Self-operated Retail Stores

As at 31 December 2009, 2010 and 2011 and 30 June 2012, we had 10, 14, 15 and 19 self-operated retail stores, respectively, in the Greater China Region. We believe our retail stores offer an opportunity to showcase a greater selection of our products and further increase consumer awareness of our brands. Unlike our concession counters, we have direct control over all sales proceeds in our self-operated retail stores immediately following each sales transaction. Operating costs of our stand-alone retail stores include minimum monthly rent, turnover rental, staff salary and commission, and management and utility fees.

Lease agreement

For our self-operated retail stores, the term of the lease agreements we enter into with our landlords is generally one to three years. Under a typical lease agreement for our self-operated retail stores in the PRC, we are required to pay a fixed rent to our landlords. Under a typical lease agreement for our self-operated retail stores in Hong Kong, we are required to pay (i) a fixed rent to our landlords, and/or (ii) variable rental, namely an amount equal to approximately 6% to 15% of that store's monthly revenue to the extent that the monthly sales revenue exceeds the fixed rent. As at the Latest Practicable Date, we have 14 self-operated retail stores in Hong Kong which are subject to the variable rental clause. The goods sold in our self-operated retail stores are generally the same as those sold in our concession counters with similar price ranges and thus result in similar gross profit margins.

We are generally able to renew our leases with the landlords of our self-operated retail stores at the end of the lease period, if we choose to do so, although such renewals are subject to possible rent increases. We typically negotiate with the landlords for our self-operated retail stores three to six months prior to the expiration of a lease in order to determine whether renewal will be beneficial to our operations. In deciding whether to renew a lease, we primarily consider the extent of any rent increases and the sales performance of the retail store concerned. As of the Latest Practicable Date, a total of one lease will expire (which is in relation to a self-operated retail store in Hong Kong) during the remainder of the year ending 31 December 2012, which we plan to renew.

Rent and rates

All of our self-operated retail stores in Hong Kong and the PRC paid fixed rentals, which were negotiated between our landlords and us. The aggregate fixed rental paid by us was approximately HK$3.8 million, HK$5.4 million, HK$6.4 million and HK$3.4 million for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2012, respectively. In addition, nil, 1, 3 and 4 of our self-operated retail stores (all of which were located in Hong Kong) had paid variable rental when that store's monthly revenue exceeded a specified threshold for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

Distributor-operated Points of Sale

Our distributors directly purchase products from us at a wholesale discount and re-sell them to retail customers through points of sale that they operate. We recognise sale of our products to our distributors upon delivery of the goods. Similar to our self-operated points of sale, our distributor-operated points of sale are also comprised of concession counters in department stores and home furnishing malls as well as stand-alone retail stores. Our distributors are either corporations or individuals with relevant retail and management experience in the PRC and Macau. We believe our distributorship model is typical for our industry. During the Track Record Period, we did not have any ownership interests or management positions in our distributors. As at 31 December 2009, 2010 and 2011 and 30 June 2012, we had 60, 61, 69 and 63 distributors, respectively.

The following table sets forth information regarding the growth of our distributors during the Track Record Period.

	Year Ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
Existing	59	60	61	69
Newly Appointed	16	17	15	1
Terminated	(15)	(16)	(7)	(7)
Total	60	61	69	63

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, we decided not to renew the distributorship agreements with 15, 16, 7 and 7 distributors respectively due to their unsatisfactory sales performance. During the Track Record Period and up to the Latest Practicable Date, no distributorship agreement was terminated by us due to a dispute between the Group and the distributor.

As at 30 June 2012, our distributors operated a total of 155 points of sale covering 69 cities across 23 provinces, municipalities, autonomous and special administrative regions in the Greater China Region. We engage our distributors to operate points of sale in regionally significant cities in the PRC, which include Tianjin, Chongqing, Chengdu, Xi'an, Hangzhou, Qingdao and Fuzhou. Working with distributors enables us to increase the exposure of our brands and benefit from increased revenue with less capital expenditure associated with establishing self-operated points of sale and also to penetrate into different regions in the PRC and to capture market share in a more efficient manner. We are able to achieve growth by leveraging the resources of our distributors, our expertise in retail distribution and retail management and the local relationships of our distributors in certain markets where we believe the distributors have better competitive advantages.

To avoid cannibalisation among our distributors, we generally grant geographical exclusivity to each of our distributors over the city in which they operate. However, in Guangdong province, our largest market among all PRC provinces, we grant geographical exclusivity to each of our distributors over each designated district or town in which they operate. We believe this can lead to increased loyalty and provide greater incentives to our distributors to expand our market share within their respective exclusive territory.

In order to avoid direct competition between the Group and our distributors, we have adopted a balanced approach to manage and minimise the overlap between our self-operated and distributor-operated points of sale within the same city, region or municipality in close proximity. Prior to setting up a distributor-operated point of sale, the relevant distributor is required to provide us with details of that particular point of sale. Such details include the exact sales location, date of commencement of operation, and the brand of distributed products.

In case there is any overlap between our self-operated and distributor-operated points of sale in the same city, region or municipality in close proximity, we typically adopt the following approaches:

(i) offering through different sales channels. For example, in Shanghai, Guangzhou and Shenzhen, most of our self-operated points of sale are concession counters while our distributors operate retail stores;

(ii) offering different brands of products. For example, in Dalian and Fuzhou, our distributors are only permitted to distribute Elle Deco's bedding products; and

(iii) we and our distributors are required to follow the standardised nationwide retail price for all products offerings.

As at the Latest Practicable Date, we have overlapped with our distributors in 14 cities and regions. Through the above approaches and by assessing market conditions and factors such as the location's accessibility, set-up costs, present coverage of existing points of sale, the desired sales coverage and the potential market growth, we strive to optimise our sales network despite the overlap.

Our aggregate sales to our top five independent distributors accounted for approximately 5.7%, 4.0%, 2.2% and 6.9% of our total revenue, and sales to our largest independent distributor accounted for approximately 2.5%, 1.4%, 0.6% and 2.0% of our total revenue, for the years ended 31 December 2009, 2010, and 2011 and the six months ended 30 June 2012, respectively. As at 30 June 2012, three out of these top five independent distributors had business relationships with us for more than five years. Our Directors confirmed that each of these top five largest independent distributors are Independent Third Parties and none of our Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interest in any of these five largest distributors during the Track Record Period.

Starting from 2010, we entered into distributorship agreements with our Connected Distributors. Please refer to the section headed "Connected Transactions" in this Prospectus. If the Connected Distributors were to be considered collectively as one distributor, such group of Connected Distributors would be our largest distributor for the year ended 31 December 2011 and the six months ended 30 June 2012. Sales to this group of Connected Distributors would amount to approximately nil, 0.2%, 1.5% and 2.8% of our total revenue, for the years ended 31 December 2009, 2010, and 2011 and the six months ended 30 June 2012, respectively. Accordingly, our aggregate sales to our top five distributors would account for approximately 5.7%, 4.0%, 3.4% and 8.8%, respectively of our total revenue during the Track Record Period. Other than these Connected Distributors, all of our distributors during the Track Record Period were Independent Third Parties, and none of them have any past or present relationships (including family or employment relationships other than as our third-party retailer) with us, our Directors, any member of our senior management, any of the Controlling Shareholders, or their respective associates.

Major terms of the distributorship agreements

Our distributorship agreements typically contain the following standard provisions:

- *Duration:* The term is typically one year and may be renewed subject to annual performance review and by mutual consent.

- *Geographical exclusivity:* Each distributor must sell our products exclusively within a defined geographical area.

- *Payment term*: We generally deliver the products upon receipt of full payment for a purchase order. We shall not bear any cost due to delay of delivery if we, for any reason, cannot confirm receipt of the payment from a distributor.

- *Points of sale:* Each distributor is required to adopt our standardised design layout for each of their points of sale.

- *Pricing:* Each distributor is required to follow a standardised nationwide retail price range for our products, which can be adjusted according to the consumption capacity in different regions, but should be within the range of 15%.

- *Product exclusivity:* Each distributor is only permitted to sell products supplied by us as set out in the agreement at its points of sale.

- *Purchase target:* Each distributor is required to meet our annual purchase target. During the term of the agreement, if a distributor fails to meet the purchase target, we may cancel or refuse to renew the distributorship agreement.

- *Refundable deposit:* Each distributor is required to pay us a deposit upon signing the distributorship agreement, which is a fixed amount determined by us on a case by case basis and is refundable after the expiry of the agreement. The refundable deposit does not accrue any interest.

- *Return of products:* Products sold to distributors cannot be returned except for instances of quality defects or the unsuitability of products for a specific market. All product returns are subject to our approval.

- *Termination*: We reserve the right to terminate our distributorship agreement if our distributors, among other things, (i) fail to meet the purchase target; (ii) sell our products outside of the defined geographical area; (iii) fail to comply with our pricing and discount guidelines; or (iv) fail to adhere to our designated store renovation and design standard.

- *Transportation*: For orders that are greater than RMB3,000 and do not require express deliveries, we shall (i) bear the cost of ordinary highway transportation and (ii) deliver the ordered products to the location designated by each distributor.

Management of distributors

We believe that maintaining a nationwide unified image for each of our brands and building the public's perception of our brands is critical to our success. Accordingly, our distributors have certain contractual obligations to operate and manage the sale of our products, including the decoration of the interior and exterior of the store, the display of our products, the use of our logos and trademarks, the training of personnel and the placement of exhibits. We typically provide guidance and training to the distributors on brand image and product features. Our distributors may initiate promotional or other activities along with us from time to time in order to stimulate sales or under request of the department stores. We have the discretion to jointly organise these promotion events with our distributors after reviewing and approving their proposed promotion products and plans for such events. We require our distributors to submit sales and inventory reports to us on a monthly basis and we generally visit our distributors and their points of sale on a monthly or quarterly basis to ensure strict compliance with our requirements.

Prior to the sale of our products to our distributors, we work together with them to assess the appropriate merchandise for their markets, introduce the theme of the new collections and provide our distributors with ideas about the current and future trends of the bedding industry. We work together to establish annual sales targets and review the purchase orders placed by our distributors to better understand their market status and purchasing requirements.

We intend to continue expanding our sales network by adding more distributor-operated points of sale, particularly in the northeast, northern and southwest regions of the PRC. While selecting distributors, we consider a number of factors, including their geographical coverage, retail and management experience, financial resources and capacity for future growth.

We generally require our distributors to report sales status and inventory levels to us on a monthly basis. We oversee the accuracy of such reports by analysing the historical sales and inventory levels for each of distributor and compare their purchase orders placed with us. We believe the amount of orders placed by our distributors corresponds to the actual sales and inventory status of our distributors. By reviewing sales and the inventory data and making reference to the orders placed by our distributors, our Directors believe that our distributors have not accumulated stock in an amount which exceeds their actual sales demands.

Sales to Other Customers

We also generate additional revenue through sales to wholesale customers in Hong Kong and the PRC and also exports to overseas customers.

Our wholesale customers generally include large corporate clients, such as supermarkets and banks. We also provide bulk purchase and made-to-order services to certain entities.

During the Track Record Period, we also exported bedding products to our overseas customers located in Belarus, Canada, Colombia, Dubai, India, Lebanon, Malaysia, Mongolia, Morocco, Russia, Saudi Arabia, South Korea, Taiwan, Ukraine and Vietnam. Two of these nations, namely Belarus and Lebanon, to which we exported bed linens and duvets during the Track Record Period, have been subject to international sanctions unrelated to the bedding textile products industry. The combined sales to Belarus and Lebanon accounted for 0.2%, 0.2%, 0.1%, and 0.3% of our total revenue for each of the years ended 31 December 2011 and the six months ended 30 June 2012, and there were no contingent liabilities related to the sales. We believe and the Sole Sponsor concurs that the exports made by us during the Track Record Period to Belarus and Lebanon should have no material implications or risks to the Group in relation to the List of Specially Designated Nationals or any sanctions list of the United States, the United Kingdom, Hong Kong or the PRC. We have ceased our exports to those two nations commencing 31 July 2012.

Product Returns

We offer refunds for our products under certain conditions. Our retail customers and wholesale customers may return products if the quality of the products are not fit for their purpose, do not correspond with the description or sample, or are not of merchantable quality. During the Track Record Period and up to the Latest Practicable Date, we have received an immaterial amount of product returns or complaints due to quality issues, and we have not issued any product recalls due to defects. In addition, our product return policy put into place in 2008 strictly provides that we only accept product returns from our distributors under the following three circumstances: (i) when there is an initial order with respect to the new products or designs, which can be returned by the distributor at the original price within the first three months after sale during which no second order is placed; (ii) unsold products of no more than 20% of the respective sales to distributors under promotional sales jointly organised by us and our distributors, and such return must be done within seven days after the end of promotional sales; and (iii) we may also buy back residual products at a discounted price from terminated distributors within one month of the termination of a distributorship agreement. We purchase such residual products at a discount to the original sales price from our distributors to (i) ensure that distributors will not sell the residual products on the market, at an extreme discount or in ways that may contravene the terms of the distributorship agreement, after we terminate the distributorship agreements with them, in order to maintain the reputation and image of our products in the market, and (ii) give assurance to distributors that we take responsibility for the quality of our products. All residual products, once returned to us, will be checked to ensure that they are in proper condition for resale. Such product return procedure involves review of the claim by the retail store manager, delivery of the returned product to our warehouse and reporting of the claim to our department of finance. As the amount of product returns did not account for more than 0.3% of our total sales during the Track Record Period, we are of the view, and the Sole Sponsor concurs that the influence from product returns is immaterial to us.

The following table sets forth the amount of product returns from our distributors in each of the circumstances described above during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Initial order for new products/designs	–	–	10	–
Unsold products during promotional sales	71	55	775[(1)]	450
Quality problems	–	–	–	8
Buy-backs due to terminated distributorships	–	–	–	133[(3)]
Total	71	55	785[(2)]	591

Notes:

(1) The increase in the amount of product returns is due to unsold products during promotion sales in 2011, primarily attributed to an increase in the number of distributor-operated points of sale from 120 to 155 from 2010 to 2011 and a total of 4 product return claims from distributors at promotion sales events which were of a larger scale, on average, as compared with those events in 2010.

(2) The increase in the amount of product returns from our distributors in 2011 is primarily attributed to the increase in number of returns of promotional items by our distributors.

(3) The increase in the amount of product returns is due to the buy back of residual products from a terminated distributor.

Pricing Policies

We apply a standardised retail pricing policy to our self-operated and distributor-operated points of sale in order to maintain a consistent brand image and avoid price competition between our distributors and ourselves. We require our distributors to comply with our standardised retail pricing policy.

We offer our bedding products under different product categories and brands, each of which target different markets and customer bases. The retail price range for each product category can be considerably wide, depending on, among other things, the seasonality, materials in use and discounts offered during the promotional sales.

We sell our products to distributors at a wholesale price that is discounted from the standardised retail price. In determining our standardised retail prices, we take into account factors including the purchasing power of the targeted consumer groups of each brand, market positioning of each of our brands, production costs and expected profit margin. Under the distributorship agreements, our distributors are prohibited from selling our products at a discount exceeding the range of 15% to our standardised retail price without our consent.

For detailed discussion of our pricing policies with respect to our adjustments to retail prices to account for fluctuations in the price of raw materials, please refer to the section headed "Financial Information – Cost of Raw Materials Consumed and Fees Payable to External Manufacturers" in this Prospectus.

SALES PROCEEDS COLLECTION

Self-operated concession counters

Sales proceeds are first collected by department stores or home furnishing malls and are typically paid on a monthly basis to us within two months after deducting the concession fees, promotional costs and other applicable fees and expenses. We check the amount of net sales proceeds receivable from and the monthly concession fees payable to the department stores or home furnishing malls by reconciling our monthly sales records with the sales records maintained by the department stores or home furnishing malls. We receive net sales proceeds from the department stores and home furnishing malls by funds transferred to our bank accounts or by cheques. We normally deposit cheques to our bank accounts during the next working day.

During the Track Record Period, we did not experience any material default in collecting net sales proceeds from the department stores or home furnishing malls.

Self-operated retail stores

Regarding our self-operated retail stores, sales are paid for at the time of purchase primarily by credit card or debit card. For the year ended 31 December 2011, approximately 30% of sales were settled by cash payments. We have adopted strict internal control procedures for handling cash received at our self-operated retail stores, which include:

(i) in general, all cash receipts are required to be deposited into a designated bank account if the accumulated amount of cash exceeds a specific amount, but at least once a week even if the accumulated amount is less than the specific amount;

(ii) the monthly reconciliation of sales is required to be recorded by the point-of-sale terminals and actual cash proceeds; and

(iii) the settlement by debit or credit cards shall be checked against bank statements to ensure proper receipt, and any discrepancies will be followed up with bank or credit card operators.

Distributors

We typically require our distributors to make full upfront payment prior to the delivery of merchandise. However, we may grant a credit limit and credit period to certain long-term distributors. For instance, we may allow a credit period up to 60 days. Distributors with a credit limit do not have to make immediate payments for their product orders prior to delivery of their goods if the total invoice amount does not surpass the credit limit amount. All credit terms are subject to our senior management's approval.

Others

We typically require our wholesale customers to make full upfront payment prior to delivery of merchandise. We may also grant a credit limit and credit period to certain long-term customers under this category, such as wholesale customers or overseas customers. We accept payments in the form of cheques, telegraphic transfers, or letters of credit.

The internet websites collect our customer payments. After deducting handling fees, the internet websites forward the net payments to us on a monthly basis. In addition, we perform a monthly audit on our internet transaction data, taking into account the daily transaction reports and the actual payments received.

SALES FAIR

We generally hold seasonal sales fairs semi-annually, at which our new season collections are showcased. We generally schedule our sales fairs for the fall/winter collections and spring/summer collections in May and November of each year. During the sales fairs, our sales and marketing team introduce the theme of the new collections and provide distributors with ideas about the current and future trends of the bedding industry. Our distributors can also evaluate our products, share their knowledge and place orders for our new products.

Purchase orders from our distributors are generally required to be confirmed during the sales fairs. After our distributors submit their purchase orders during sales fairs, we will start analysing and determining the production schedule and scale for each product in the coming season in order to better manage our supply chain and minimise the production of surplus or unpopular products.

MARKETING

The key marketing and promotional activities that we carry out for our brands are as set forth below:

- *Media advertisements.* We place general advertisements in print and online media as well as on billboards and signage in high traffic areas and on public transportation in order to increase brand awareness.

- *Trade exhibitions.* We regularly participate in various trade exhibitions in the PRC and Hong Kong to increase our visibility among potential customers and strategic partners.

- *Fashion shows.* We occasionally participate in fashion shows with media coverage that can increase awareness of our brands and new designs for the season. Our bed linen products are worn by runway models during these fashion shows providing customers with a different perspective of our product offerings.

- *VIP membership programme.* When a customer spends at least HK$1,500 on one single purchase or HK$1,800 within three months in our self-operated points of sale in Hong Kong, the customer is eligible to become a VIP member. Our VIP membership is normally valid for one year. Our VIP member earns membership points on each purchase at our self-operated points of sale. They can earn 10 points for every HK$200 spent and they are entitled to an extra 10% off discount on his or her birthday purchases. Membership points can be deducted on the next purchase on a one point-to-one dollar basis. All unutilised membership points will be forfeited within twelve months of grant.

- *Joint promotion programmes.* We have established partnerships with certain banks in Hong Kong. As a result, holders of credit cards issued by our partnership banks will receive an additional discount on certain purchases of our products.

Our marketing initiatives are coordinated through our marketing teams in Hong Kong and Shenzhen. As at 30 June 2012, our marketing team was comprised of 15 persons.

MANAGEMENT INFORMATION SYSTEMS

In terms of inventory management, we employ point-of-sale terminals in all our warehouses in Hong Kong and the PRC, which provide us with real-time information of our inventory levels. As at the Latest Practicable Date, we had also installed point-of-sale terminals in all of our self-operated points of sale in Hong Kong and 37 of our self-operated points of sale in the PRC. Each terminal collects data on sales and inventory movements and transmits the information to our head offices on a real time basis. Based on the information collected from the terminals, we are able to timely adjust our procurement, production and inventory management processes to improve our overall productivity and efficiency. In addition, we intend to install point-of-sale terminals in all of our self-operated points of sale in the PRC by the end of 2014. Furthermore, we intend to update our accounting system and create an interface with our management information systems. This will enhance our decision-making by allowing us to perform further analyses on revenue, cost structure and product margins.

During the Track Record Period, we did not experience any incidents of malfunction of any part of our management information systems which materially affected our operations.

INTELLECTUAL PROPERTY

We believe our success depends largely on our trademarks and other intellectual property rights, including copyrights and patents. As at the Latest Practicable Date, we had registered seven registered trademarks in Hong Kong. Our registered trademarks with the Trade Marks Registry of the Intellectual Property Department in Hong Kong include CASABLANCA® HOME, Casa Calvin® and FORCETECH. Please refer to "Appendix V – Statutory and General Information – 6. Further Information about the Business – B. Intellectual Property Rights of the Group" in this Prospectus. We had also registered 26 trademarks and submitted applications for 17 trademarks in the PRC as at the Latest Practicable Date. Our registered trademarks with the Trademark Bureau of the State Administration of Industry and Commerce in the PRC include Casablanca and Casa Calvin®. Please refer to "Appendix V – Statutory and General Information – 6. Further Information about the Business – B. Intellectual property rights of the group" in this Prospectus. In addition, we had one registered trademark in Germany as at the Latest Practicable Date.

As at the Latest Practicable Date, we had registered 72 copyrights for our patterns and were in the process of registering copyrights for 36 more patterns in the PRC. We rely on intellectual property laws in the PRC and other jurisdictions to protect our intellectual property rights. We also rely on a combination of confidentiality and contractual provisions to protect our intellectual property rights.

According to our PRC legal advisor, Grandall Law Firm (Shenzhen), "Casablanca" refers the city in Morocco, and under the PRC laws and regulations, we are not able to register trademarks that represent geographical locations. Although we are not able to register the "CASABLANCA 卡撒天嬌" and "CASABLANCA® HOME" trademarks that we typically use on our products, other companies including our competitors would face similar challenges in registering such trademarks. Since we have not registered the "CASABLANCA 卡撒天嬌" and "CASABLANCA® HOME" trademarks, we cannot prohibit other companies from producing and selling non-bedding products using the same or similar trademarks. However, since we have successfully registered an alternative trademark "Casablanca" with the appropriate regulatory authority in the PRC, in the event that other companies use a trademark which is identical with or similar to "Casablanca" to sell the bedding products or similar commodities without our consent, we will be able to take actions as a registered owner with respect to "Casablanca" in accordance with the PRC Trademark Law.

We believe that the above has no material adverse impact on our business due to (i) our strong brand recognition leveraging on nearly two decades of experience and brand history in the market; (ii) our stringent and unified brand management system for our proprietary brands as well as our licensed brands; and (iii) our "CASABLANCA 卡撒天嬌" and "CASABLANCA® HOME" trademarks being registered in Hong Kong. Because "Casablanca" has been a well-known and recognizable brand in the bedding textile market in the Greater China Region, according to our PRC legal advisor, Grandall Law Firm (Shenzhen), even in the absence of statutory trademark protection, we would still be able to protect ourselves from any third party who infringes on our brand names for similar products pursuant to the PRC's Anti-Unfair Competition Law.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of our intellectual property rights, nor are we aware of any such claims either pending or threatened. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that there were no incidents of similar products being marketed by others under the same or similar brand names to ours and which caused damage to us. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – We may not be able to adequately protect our intellectual property, which could result in damage to our brands and a material and adverse effect on our business, financial condition and results of operations" in this Prospectus.

AWARDS AND RECOGNITIONS

We have received various awards and recognitions as set forth below:

	Award	Primary Awarding Body
2005-2012	Quality Tourism Services	The Hong Kong Tourism Board
2007	Most Popular Brand of the Year	Shenzhen Textile Industry Association and the others
2008	Best Supplier	Walmart China, Sam's Club
2009-2011	Shenzhen Top Brand	Shenzhen Top Brand Evaluation Committee
2010	Ten Most Popular Products for Consumers	China Resource Vanguard Co., Ltd.
2010	第二十五屆深圳國際家具展覽會原輔材料系列質量環保優秀獎	Shenzhen Furniture Trade Association
2011	歲寶百貨誠意合作品牌	Shirble Department Store
2011	Outstanding User for UFIDA Enterprise Management Software in Home Textile Industry	UFIDA Software Co. Ltd.
2011	Hong Kong Top Brand	The Chinese Manufacturers' Association of Hong Kong; and Hong Kong Brand Development Council
2012-2014	Shenzhen Top Brand	Shenzhen Top Brand Evaluation Committee

ENVIRONMENTAL MATTERS

Our Shenzhen Production Facility is, and our Huizhou Production Facility will be, subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Law of the PRC on the Prevention and Control of Pollution From Environmental Noise and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

Under the current PRC national and local environmental protection laws and regulations, any company that discharges wastewater, waste products and polluted air, among others, shall report and register any discharge with the relevant environmental protection authorities. The relevant PRC laws and regulations also require any such enterprise to have treatment facilities for wastewater, waste products and polluted air, among others, that meet the relevant environmental standards and to have the pollutants treated before being discharged. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and fines for the discharge of pollutants which are insufficiently treated. The relevant laws and regulations also empower relevant governmental authorities to close down any enterprise that causes serious pollution.

According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public health hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Due to the composition of the products that we produce, we believe there is minimal waste discharge, noise, water or air pollution. Our production process does not involve the production or dying of fabrics, and consequently, waste water treatment is not a necessary component of our production process. Nevertheless, we strive to comply with environmental protection best practices in order to produce a quality product. For instance, we have obtained ISO14001 certification for our focus on the environmental management of our production process.

In addition, according to the PRC environmental protection related laws, prior to commencing production activities, waste discharge permits must be obtained and the construction projects must undergo inspection and obtain approval for their environmental protection facilities from relevant environmental protection authorities. Our Shenzhen Production Facility did not obtain such approvals prior to the commencement of production activities. We may be subject to a maximum fine of RMB100,000 or ordered to cease the production due to such non-compliance. Our Controlling Shareholders have undertaken to indemnify us against any costs, expenses, claims, losses, liabilities and proceedings which may be incurred due to such non-compliance. We have also received a confirmation letter dated 6 June 2012 from the relevant environmental protection authority certifying that the Shenzhen Production Facility had not caused any material pollution to the environment and there had been no breach of environmental regulations for the past three years. In addition, we intend to relocate our current operations to our Huizhou Production Facility, which we anticipate to commence operations in the first quarter of 2013.

Our PRC legal advisor, Grandall Law Firm (Shenzhen) has confirmed that it is not likely that our business and operations will be subject to a material adverse effect as a result of the failure in obtaining the approval prior to commencing production activities at our Shenzhen Production Facility.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, we have incurred approximately HK$38,664, HK$83,959, HK$12,623 and HK$121,014, respectively, in expense related to environmental protection compliance, including fees related to environmental compliance certification, expenses related to staff training with respect to environment protection measures, and expenses for facilities and services related to environmental protection.

Since our production facilities have not caused any material pollution to the environment in the past and our Directors do not foresee that our operation will be subject to any significant restrictions or measures with respect to environmental protection laws and regulations in the future, we have not formulated any detailed plans or set aside a budget to address the potential future risks in relation to environment matters. Further, our Directors confirm that the expected costs of compliance with applicable rules and regulations regarding environmental obligations going forward will be approximately HK$180,000 and HK$250,000 in the fiscal year ending 31 December 2012 and 2013, respectively.

OCCUPATIONAL HEALTH AND SAFETY

We focus on providing a working environment that prioritises the occupational health and safety of our employees. We have established a dedicated safety committee to oversee the implementation of our safety standards and to ensure that we comply with applicable labour, hygiene and safety rules and regulations. In addition, we provide safety education training to our employees on a regular basis, including instructions regarding the proper operation of machinery and awareness training on workplace safety. During the Track Record Period and up to the Latest Practicable Date, there were no incidents related to our operations that jeopardised the occupational health or safety of our employees.

PROPERTY INTERESTS

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, save and except the disclosure set out in the appendix to this Prospectus headed "Appendix III – Valuation Report," this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all the Group's interests in land or buildings.

According to the Group's combined statements of financial position set out in Appendix I to this Prospectus, the carrying amount of total assets as at 30 June 2012 was approximately HK$307.9 million and the carrying amount of the leasehold land and building as at 30 June 2012 was approximately HK$4.3 million. As such and pursuant to Rule 5.01A of the Listing Rules, our Directors confirm that:

- the Group does not have any property interest that forms part of property activities as at 30 June 2012; and

- save and except the disclosure set out in the appendix to this Prospectus headed "Appendix III – Valuation Report" in relation to a parcel of land in Huizhou, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of the Group's total assets as at 30 June 2012.

Hence, according to the due diligence report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, below is a summary of those real properties:

Owned Property

Hong Kong

As at the Latest Practicable Date, we owned a property in the New Territories, Hong Kong, with an aggregate gross floor area of approximately 2,308 square metres. Our owned property in Hong Kong is used for our offices and as warehouse space for our finished products.

The PRC

We have obtained the appropriate land use rights certificates for a parcel of land in Huizhou, Guangdong Province, the PRC with an aggregate site area of approximately 86,691 square metres. Construction of our Huizhou Production Facility will take place in two phases and we are in the process of constructing workshops, warehouse areas, office space and employee dormitories on this land. We expect to complete the construction of phase I by the second half of 2012 and commence operations in the first quarter of 2013, subject to receiving the requisite approvals and licences.

According to a due diligence report dated 13 November 2012 and issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, the property interest of the above construction in Huizhou, which does not form part of our property activities, has a carrying amount of 15% or more of total assets. Accordingly, the text of the letter and the valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are set out in the appendix to this Prospectus headed "Appendix III – Valuation Report."

Leased Property

Hong Kong

As at 30 September 2012, we leased 17 properties in Hong Kong for our self-operated retail stores with an aggregate gross floor area of approximately 1,359.75 square metres.

The PRC

As at 30 September 2012, we also leased buildings with a gross floor area of approximately 23,480 square metres in Bao'an District, Shenzhen, the PRC. These leased properties at our Shenzhen Production Facility are used for our workshops, warehouse space, office buildings and employee dormitories. In addition, we leased four properties in the PRC for our self-operated retail stores, with gross floor area of approximately 384.72 square metres.

As at the Latest Practicable Date, the landlord of our Shenzhen Production Facility, all of which comprises a total gross floor area of approximately 23,480 square metres, could not provide us with the relevant building ownership certificates with respect to such structures. In addition, as at the Latest Practicable Date, the landlord of the Beijing office that we rent with a total gross floor area of approximately 88 square metres could not provide us with the relevant building ownership certificate.

In addition, we have not yet registered the lease agreements for the following properties that we occupy: (1) our regional offices and warehouses in Guangzhou, Shanghai and Beijing, and (2) the warehouse, dormitories and offices located at our Shenzhen Production Facility. As at the Latest Practicable Date, we were not aware of any challenges to our rights to occupy the leased properties. Nevertheless, we may be required to leave the premises and/or pay administrative penalties. Please refer to the section headed "Risk Factors – Risk Relating to Our Business – Our failure to fully comply with PRC property regulations may render the properties occupied or leased by us subject to irregularities" in this Prospectus.

The table below summarises all non-compliance issues relating to our leased properties as at 30 June 2012.

	Non-compliance incidents and reasons	Legal consequences	Rectification measures taken or to be taken by us
1.	The respective landlords of our Shenzhen Production Facility, two self-operated retail stores in Shenzhen, our office in Beijing and our employee dormitory in Shanghai all cannot provide us with the relevant building ownership certificates. The above incidents were primarily due to: (i) inadequate government land planning and construction management during past urbanisation and nationalisation of rural collective lands in Shenzhen, which led to the erection of many structures, including our Shenzhen Production Facility, without the approval of the relevant land planning authorities. The Shenzhen government has required that all such structures be reported to the relevant department to be dealt with on an individual basis. Although the owner of the Shenzhen Production Facility reported the existence of the structure in 2007, in accordance with the relevant regulations of Shenzhen, the Shenzhen government currently has no timeline for dealing with the structures and no operational method for confirming the related land rights. As a result, our Shenzhen Production Facility's landlord has not received the government's confirmation of its land rights and temporarily has no way of obtaining the building ownership certificate; (ii) the respective landlords' reluctance to show the ownership certificates for the two self-operated retail stores and our employee dormitory in Shanghai; and (iii) the landlord's failure in obtaining the ownership certificate for our offices in Beijing.	The validity of the relevant lease agreements is uncertain. If the title to any of the leased properties is deemed defective, we may be required to leave these premises.	(i) We intend to relocate our current operations from our Shenzhen Production Facility to our Huizhou Production Facility upon completion. We estimate the total costs associated with our relocation to be no more than RMB3.3 million. Our landlord has agreed to indemnify us for the relocation costs and damages in the event that we are evicted from the premises due to lack of relevant building ownership certificates. As a contingency plan, we have also engaged two existing external manufacturers as a back-up to assist in the manufacture of our products. (ii) With respect to the two self-operated retail stores in Shenzhen, the lease agreements have been registered with the local housing bureau for such premises even though the relevant building ownership certificates have not been obtained. If we are still required to leave the premises, we estimate the cost of relocation to be no more than RMB10,000. (iii) Regarding our Beijing office, we plan to relocate the office to another commercial building upon the lease's expiration on 14 May 2015 and we estimate the cost of relocation to be no more than RMB5,000. (iv) Regarding our employee dormitory in Shanghai, we plan to relocate the dormitory to another building upon the lease's expiration on 3 June 2013 and we estimate the cost of relocation to be no more than RMB1,000.

	Non-compliance incidents and reasons	Legal consequences	Rectification measures taken or to be taken by us
2.	We have not yet registered the lease agreements for the following properties that we occupy: (i) our regional offices and warehouses in Beijing, Shanghai and Guangzhou; and (ii) our employee dormitory in Shanghai. The above incidents were primarily due to the refusal by the landlords, who were primarily responsible for registering the agreements with relevant government authorities, to register those lease agreements.	The lack of registration of these lease agreements does not affect the validity and enforceability of the lease agreements. However, we may be subject to fines up to RMB10,000 for such failure to register within the required registration period.	(i) For our Beijing office, we are unable to register the lease agreement because the office is located in a building which is zoned for residential use. After the lease expires, we plan to move to another commercial building immediately and we estimate the cost of relocation to be no more than RMB5,000. For our Beijing warehouse, the landlord has refused to register the lease agreement. After the lease expires on 5 January 2013, we plan to move to new premises and we estimate the cost of relocation to be no more than RMB5,000. (ii) The landlords of our Shanghai office and warehouse have refused to register the lease agreements. We plan to move to new premises upon the expiration of the leases of office and warehouse on 15 January 2014 and 10 December 2012, respectively, and we estimate the cost of relocation to be no more than RMB5,000 and RMB5,000, respectively. (iii) The landlords of our Guangzhou office and warehouse have refused to register the lease agreements. We plan to move to new premises upon the expiration of the leases of office and warehouse on 31 July 2013 and 30 December 2015, respectively, and we estimate the cost of relocation to be no more than RMB5,000 each.

	Non-compliance incidents and reasons	Legal consequences	Rectification measures taken or to be taken by us
			(iv) The landlord of our Shanghai employee dormitory refused to register the lease agreement. We plan to move to new premises upon the lease's expiration on 3 June 2013 and we estimate the cost of relocation to be no more than RMB1,000.
3.	We have not yet obtained the fire safety inspection and acceptance certificates for the fourth and fifth floors of our Shenzhen Production Facility. We primarily use these two floors for warehousing and manufacturing our products. The above incident was primarily due to the failure of the landlord, who was responsible for obtaining the fire safety inspection and acceptance certificates, to arrange the fire safety inspection and acceptance certificates.	We may be ordered to cease our operations on the fourth and fifth floors and may be subject to an administrative penalty up to RMB300,000. According to our PRC legal advisor, Grandall Law Firm (Shenzhen), the landlord is responsible for obtaining these certificates and it is not likely that we will be ordered to cease operations on these floors.	We intend to relocate our current operations from our Shenzhen Production Facility to our Huizhou Production Facility upon completion. We estimate the total costs associated with our relocation to be no more than RMB3.3 million. Should our Huizhou Production Facility not be ready at the time we are forced to cease operations on the fourth and fifth floors and move to other floors within our Shenzhen Production Facility, we estimate the costs associated with such relocation to be no more than RMB10,000.
4.	Our Beijing office is located in a building which is zoned for residential use. The above incident was primarily due to (i) the landlord's refusal to show the ownership certificate when we initially approached the landlord for a potential lease; (ii)the landlord advertised and promised us that the building could be used as either office or residence; and (iii) the building is currently leased by both business and residential tenants.	We may be subject to a fine of up to RMB500 for non-compliant use of the premise.	The office will be moved to a building which is zoned for commercial use upon the lease's expiration on 14 May 2015 and we estimate the cost of relocation to be no more than RMB5,000.

Our Directors are of the view that except for our Shenzhen Production Facility, other properties involved in non-compliance incidents are not crucial to our operation as it is neither difficult nor costly for us to find alternative places to serve a similar purpose, and that their relocations will not materially affect our business and financial position.

Material Property Analysis

The two production plants located in Shenzhen and Huizhou, Guangdong Province, the PRC have a substantial impact on the operation of the Group. Save for these two properties, no encumbrances, liens, pledges, mortgages against the property or use of the property is found that may impact our operations. Jones Lang LaSalle Corporate Appraisal and Advisory Limited is of the view that except for the two production plants located in Shenzhen and Huizhou, there is no material property held by us.

The table below shows a summary of the material property interests occupied by the Group:

Material Property No. 1

(1)	General description of location of the property	:	A parcel of land, four buildings and various structures located at Block 88, Longwangmiao Industrial Zone, Fuyong Jiedao Baishisha, Bao'an District, Shenzhen, Guangdong Province, the PRC. The Longwangmiao Industrial Zone is situated at the eastern side of Fuyong Town, north to Shenzhen Bao'an International Airport. The subject property is situated on the eastern side of the G4/G15 Highway and within 15 minutes driving distance to the Airport.
(2)	Use and approximate area	:	The property comprises an office building, two industrial buildings and a staff quarter with a total gross floor area of approximately 23,480 square metres.
(3)	Restriction on the usage	:	The property is rented and occupied by the Group for bedding products manufacturing, storage, ancillary office and staff quarter purposes.
(4)	Terms of tenure	:	N/A
(5)	Details of encumbrances, liens, pledges, mortgages against the property	:	Pursuant to an undertaking and a letter of certification, the property was constructed and legally owned by Shenzhen Baishixia Joint-Stock Company, the lessor. Shenzhen Baishixia Joint-Stock Company has the right to lease the property. There is no title dispute against the property. However, due to historical problems, no title certificate has been obtained from the lessor. As advised by our PRC legal advisor, there is no significant adverse effect to our business operation.

(6)	Environmental issue	:	According to the confirmation letter issued by the relevant environmental protection authority, our use of the property did not breach any environmental regulations as at the Latest Practicable Date.
(7)	Details of investigations, notices, pending litigation, breaches of law or title defects	:	As advised by our PRC legal advisors, proper title documents are absent. However, since the lessor has obtained consent from the local residential committee and made relevant enquiries over the title defects with the government, such that without obtaining any objections, we have the right to occupy and use the property in accordance with the tenancy agreement. Therefore, there is no significant adverse effect to our business operation.
(8)	Future plans for construction, renovation, improvement or development of the property and estimated associated costs	:	No plans for future expansion or construction or renovation of the property.
(9)	Plans to dispose of or change the use of the property	:	Nil
(10)	Any other information considered material for investors	:	Nil

Material Property No. 2

(1)	General description of location of the property	:	A parcel of land, 3 buildings and various structures under construction (phase 1), located at Dongjiang High Technology Park, Zhongkai High Technology Industrial Development Zone, Dongxing District, Huizhou, Guangdong Province, the PRC.
(2)	Use and approximate area	:	The property comprises a parcel of land with a site area of approximately 86,691 square metres and various buildings and ancillary structures under construction thereon.
(3)	Restriction on the usage	:	Industrial purpose.

(4)	Terms of tenure	:	The land use right of the property has been granted to us for a term expiring on 5 July 2061 for industrial purpose.
(5)	Details of encumbrances, liens, pledges, mortgages against the property	:	The property is free and clear of any and all liens, charges, encumbrances, equities, claims, defects, options or restrictions.
(6)	Environmental issue	:	Pursuant to a "Reply to the Environmental Influence Feasibility Report of Casablanca (Huizhou)" (《關於卡撒天嬌家居(惠州)有限公司環境影響報告表的批覆》), the Huizhou Environmental Protection Department – Zhong Kai High Technology Industry Development Zone (惠州市環境保護局仲愷高新技術產業開發區分局) has approved Casablanca (Huizhou) to invest and construct bedding production project in the industrial zone. There is no environmental issue as at the Latest Practicable Date.
(7)	Details of investigations, notices, pending litigation, breaches of law or title defects	:	As advised by our PRC legal advisor, the property is free and clear of any and all liens, charges, encumbrances, equities, claims, defects, options or restrictions.
(8)	Future plans for construction, renovation, improvement or development of the property and estimated associated costs	:	The CIP is divided into two phases, phase I and phase II. Phase I comprises a staff quarter, an industrial building and an ancillary building with a total gross floor area of approximately 40,807 square metres. It is scheduled to be completed in 2012. Depending on the market demand, we will commence construction of phase II when we anticipate the overall utilisation rate of phase I reaches 100% where practically no more capacity can be added to phase I.
(9)	Plans to dispose of or change the use of the property	:	Nil
(10)	Any other information considered material for investors	:	Nil

INSURANCE

We carry limited insurance for our business, properties and vehicles in the Greater China Region. In Hong Kong and the PRC, we carry asset insurance, covering our inventory, fixed assets and personal property. We do not have any business interruption or litigation insurance coverage for our operations in the Greater China Region. We carry product liability insurance in Hong Kong, Macau and the PRC. We did not purchase any product liability insurance for products sold to overseas markets, which we believe is in line with general industry practice. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material product liability claims, nor did we initiate any product recalls.

EMPLOYEES

As at 31 December 2009, 2010, and 2011 and 30 June 2012, our employee headcount was 742, 823, 812 and 930, respectively.

The table below sets forth the aggregate number of employees, categorised by function and by region, and the percentage of each category of our total employees as at 30 June 2012.

Function	Number of Employees			Percentage of Total Employees
	In the PRC	In Hong Kong	Total	
Management	5	7	12	1.3%
Administration, Human Resources & Information Technology	30	6	36	3.9%
Sales & Customer Services	483	103	586	63.0%
Purchasing & Logistics	37	11	48	5.2%
Production	202	0	202	21.7%
Marketing	13	2	15	1.6%
Design	12	0	12	1.3%
Accounting and Finance	14	5	19	2.0%
Total	796	134	930	100%

All of our sales personnel and distributors undergo initial training at our Hong Kong or PRC offices prior to being dispatched to our points of sale to ensure that all retail consumers receive a consistent level of customer service. We provide further training on a semi-annual basis so that our sales personnel and our distributors are aware of the new designs and the latest products for the upcoming seasons.

In Hong Kong, we make contributions to the mandatory provident fund scheme ("MPF") and medical benefits plans for our employees. In the PRC, we currently participate in social insurance contribution plans organised by the relevant local governments, under which we are required to pay, in respect of each of our relevant employees, a monthly contribution of an amount that is equal to a specified minimum amount. The amount of contribution as a percentage of the specified minimum amount may vary depending on a number of factors, including the requirements of the relevant local government and the income of the employee. Prior to May 2012, we did not pay the requisite contribution for social insurance for some of our employees in the PRC. Based on our calculation, the entire unpaid amount is RMB0.75 million. We consider the amount of total unpaid social insurance immaterial to us and thus no provision had been made in the combined financial statements. In May 2012, we commenced paying social insurance contributions for all of our employees in the PRC. We are in the process of negotiating with our existing employees for payment of unpaid social insurance, and we intend to settle with them prior to Listing. We will settle the unpaid social insurance with any former employees who demand such payment in the future. According to our PRC legal advisor, Grandall Law Firm (Shenzhen), as a result of our past non-compliance, we may be required to fully settle the amount of unpaid social insurance, as well as a late payment surcharge imposed on a daily basis at a rate of 0.05% of the total unpaid amount. As at the Latest Practicable Date, the late payment surcharge is approximately RMB0.25 million. In the event of continuous non-payment for the social insurance, we may also be subject to a maximum fine equal to three times the total unpaid amount. Despite our past non-compliance, the relevant government authority has issued a confirmation letter certifying that we were not subject to any penalties relating to the past non-compliance of social insurance regulations and requirements. The Controlling Shareholders have agreed to indemnify us for penalties resulting from the non-payment of social insurance contributions.

Although the Shenzhen Municipal Housing Provident Management Temporary Method (深圳市住房公積金管理暫行辦法) came into effect in December 2010, we commenced paying the requisite payments for the housing provident fund for some of our employees in December 2011 and started to pay the housing provident fund for all of our employees in May 2012. According to our PRC legal advisor, Grandall Law Firm (Shenzhen), we may be subject to a maximum fine of RMB50,000 and we may be ordered by the relevant authority to pay the outstanding housing provident contributions, which we estimate to be approximately RMB0.4 million. We have fully provided the outstanding housing provident contributions for the year ended 31 December 2011, and the Controlling Shareholders have agreed to indemnify us for penalties resulting from the non-compliance with housing provident fund contributions.

We currently provide employees with benefits such as a pension insurance programme, a medical insurance programme, an unemployment insurance programme, an individual work injury programme, maternity insurance contributions and employee public housing reserve contributions.

For the year ended 31 December 2011, labour intensive industries in the PRC, particularly in coastal provinces such as Guangdong, have faced increasing difficulty recruiting and maintaining migrant workers. As a result of factors such as (i) greater work opportunities and higher salaries in inland provinces; and (ii) increasing agricultural incomes due to rising food prices, which led to a greater number of our workers choosing to work in their home provinces. In order to maintain a stable production force, we have adopted a more market competitive remuneration plan and recruited 23 additional workers to join our production team for the six months ended 30 June 2012.

Despite a decrease in our total number of employees from 823 as at 31 December 2010 to 812 as at 31 December 2011, our staff remuneration increased by approximately 24%. This was attributable to (i) salary increases for our employees in Hong Kong in 2011, and (ii) increases in the wages paid to our labour force for our Shenzhen Production Facility corresponding to an increase in the statutory minimum wage in Shenzhen, as well as an increase in their social insurance contributions and other benefits in 2011.

COMPETITION

In line with economic growth and the urbanisation trend in the Greater China Region, the demand for bedding textile products has been growing steadily in recent years. While the Hong Kong market is dominated by established brands, new entrants have distinguished themselves based on new product initiatives focusing on design and functionality. In the PRC market, the bedding textile industry is highly fragmented, with market players aiming to enhance their product features to accommodate changing consumer preferences.

In both Hong Kong and the PRC, we face competition from both local and domestic companies as well as companies from overseas. The principal bases of competition in the PRC and Hong Kong bedding textile markets include, among other things, brand recognition, responsiveness to changing consumer and market trends, strength and breadth of sales network and product range.

Our brands aim to target the premium and high-end segments of the bedding textile market in Hong Kong and the PRC. We believe that we have distinguished ourselves from competing brands on the basis of the following characteristics:

- our extensive sales network, including points of sale located in prime locations in Hong Kong and the PRC;
- our ability to select, position and manage our brands;
- our strong product design and product development capabilities and our ability to adapt and respond to consumer preferences; and
- our emphasis on product quality.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

Save for the following incidents:

- our non-compliant use of certain leased properties in the PRC as further described in the section headed "Business – Property Interests" in this Prospectus;

- our non-compliance with housing provident fund contributions, which was primarily due to (i) the lack of measures or regulations in Shenzhen in relation to the enforcement and mechanism of housing provident fund contributions before December 2010, and (ii) the refusal of most of our employed migrant workers to contribute to their respective portion of the housing provident fund;

- our failure to obtain approvals from the relevant environmental protection authorities prior to the commencement of production activities of our Shenzhen Production Facility, which was primarily because (i) the operation of our Shenzhen Production Facility does not cause significant environmental pollution, and (ii) as at the Latest Practicable Date, we had not received any objection or punishment from the relevant governmental authorities; and

- our failure to pay social insurance contributions for some of our employees, which was primarily due to our employed migrant workers' refusal to contribute to their respective portion of social insurance primarily due to difficulties in transferring the contributed fund from one province to another,

all of which have been disclosed in this Prospectus, our Directors and our PRC legal advisor, Grandall Law Firm (Shenzhen), confirmed that we had complied with all applicable laws, rules and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC legal advisor, Grandall Law Firm (Shenzhen), save as disclosed in the paragraphs headed "Environmental Matters," "Shenzhen Production Facility," "Leased Property" and "Employees" in this section of this Prospectus, we had obtained all valid licences and permits for the operations of our business in the PRC during the Track Record Period and up to the Latest Practicable Date.

In order to prevent future non-compliance with applicable laws and regulations generally and, in particular, those mentioned above, in addition to (i) the rectification measures described in the section headed "Business – Property Interests" relating to our leased properties and (ii) the rectification measures taken by us described in the section headed "Business – Employees" relating to the housing provident fund contributions and social insurance contributions, we have implemented the following internal control measures since July 2012:

- We will enhance our internal rules to clearly indicate the responsibility of each personnel in each area of our operation to ensure compliance with laws and regulations throughout our operation. For example, our business development department and finance department are responsible for overseeing our lease related matters and making sure prior to entering into agreements with our landlords, both parties are in compliance with relevant laws and regulations. Our human resources department will develop a system to monitor housing provident fund contributions and social insurance contributions by employees and make sure the transfer of such funds are smooth for new and departing employees.

- Our human resources department, which is responsible for overseeing the payment of social security insurance and housing provident fund contributions, will from time to time seek advice from external legal advisors on the latest requirements of applicable laws and regulations.

- Our Audit Committee will be responsible for reviewing and overseeing our internal control measures from time to time and will discuss such measures with our management to ensure our management has performed its duty to have in place the effective internal control measures.

- We have complied with all relevant environmental regulations and obtained all requisite approvals from relevant PRC government authorities for the construction of our Huizhou Production Facility. Given increasing standardization of environmental regulation and compliance procedures in the PRC, our management will ensure that all of our properties and operations moving forward are in strict compliance with all such regulations and that our landlords have obtained all required permits before we enter into any lease agreements.