

OVERVIEW

Focusing on provision of apparel supply chain services

We are primarily engaged in the provision of apparel supply chain services, which comprise a whole spectrum of services including product design and development, fashion trend ascertaining and sampling, raw material sourcing, production order and merchandise sourcing management, quality control, packaging, inventory management and logistics management. Customers of our apparel supply chain services are mainly owners or agents of global reputable apparel retail brands, which products are sold in a number of countries and are widely-known to the general public. Under our current apparel supply chain services model, we outsource the labour-intensive manufacturing function to a portfolio of approximately 100 third-party manufacturers and focus on providing apparel supply chain services to our customers. Our apparel supply chain services aim at providing one-stop solution to our customers to accommodate their different needs along the supply chain of apparel products, which enable them to focus their resources on their retail business. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 96.2%, 96.0%, 95.8% and 94.0% of our total revenue were derived from our apparel supply chain servicing segment, respectively.

Under the apparel supply chain servicing segment, we provide apparel supply chain services for the production of a wide range of men's and women's woven wear and cut-and-sewn knitwear products, which are mainly casual wear, such as t-shirts, shirts, denim jeans, pants, casual jackets and coats, mainly to owners or agents of global reputable apparel retail brands, including Giordano, Baleno and Armani Exchange. Our two dedicated product design and development teams mainly focus on researching fashion trends, designs and the ever-changing consumers' tastes, developing mainly functional fabric or designs as well as formulating and developing designs for apparel products. Once our product designs are finalised, we will produce prototypes for our customers' selection and approval. Orders are then placed in bulk and we will allocate such production orders to our own production facilities or third-party manufacturers, depending on costs, production schedule, time of delivery, quality and quantity requirements from our customers after the pre-production samples are reviewed and approved by our quality control and assurance teams. Finished products are then delivered to the designated warehouses and retail outlets of our customers by us. We have established a strict quality control system and a set of in-house quality standards, which encompasses the design, development, production and procurement stages, to demonstrate our commitment to high quality. In order to be in line with our current strategy which we intend to focus on our strengths in product design and development, as well as quality control and production management, hence maintaining a lean capital base which is able to achieve a scalable business model, we have strategically increased the proportion of production orders allocated to third-party manufacturers and retained a minimal level of in-house production capacities during the Track Record Period. As at the Latest Practicable Date, we ceased to carry out any in-house production and maintained our sample room mainly for producing product samples and providing production support.

Setting a foothold in apparel retail business

During the Track Record Period, we are also engaged in the apparel retail business which mainly focuses on designing, procuring, marketing and retailing men's and women's apparel and accessory products under the *Unisex* Brands, as well as the *Republic* Brands. Products under our *Unisex* Brands are smart-casual and business-casual wear which generally target consumers from 25 to 35 years of age who appreciate fashion with contemporary, trendy and stylish designs, whereas products under our *Republic* Brands are casual wear which target the younger population in the PRC who seeks value for money products, frequently shops online

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and appreciates fashion with young, hip and casual designs. As at the Latest Practicable Date, our apparel and accessory products under the *Unisex* Brands were sold to retail consumers through 87 Unisex Outlets, including 27 self-operated, 38 cooperative and 22 franchised retail outlets that covered 47 cities in 19 provinces, autonomous regions and municipalities in the PRC. We also maintain online sales platforms or engage online sales agents from time to time to sell our *Unisex* Brands products, whereas our *Republic* Brand products are sold exclusively on our two online stores operating via www.tmall.com, namely <http://republichero.tmall.com> and <http://republicqueen.tmall.com>. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, approximately 3.8%, 4.0%, 4.2% and 6.0% of our total revenue were derived from our apparel retail segment, respectively.

In addition to our in-house apparel retail brands, as at the Latest Practicable Date, we were granted the non-exclusive right to (i) manufacture, market and sell men's and women's garment products for an international fashion brand in the PRC; and (ii) market and sell men's and women's garment products for two other international fashion brands in the PRC. Apparel products of these three Licensed Brands, our *Unisex* Brands as well as other suitable brands sourced by the Group from time to time will be sold at our Unisex Life Outlets. We launched our first Unisex Life Outlet in Chengdu, Sichuan Province, the PRC in May 2012 and have established two more Unisex Life Outlets in the PRC as at the Latest Practicable Date.

The following table shows a breakdown of the Group's revenue by business segment for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Apparel supply chain services	799,060	96.2	1,059,654	96.0	1,118,404	95.8	471,155	95.4	419,919	94.0
Apparel retail	31,147	3.8	44,067	4.0	49,530	4.2	22,872	4.6	26,890	6.0
Total revenue	830,207	100.0	1,103,721	100.0	1,167,934	100.0	494,027	100.0	446,809	100.0

The following table shows a breakdown of the Group's revenue from the apparel supply chain servicing segment by sales to different categories of customers for the years ended 31 December 2009, 2010 and 2011, and for the six months ended 30 June 2012:

	Year ended 31 December						Six months ended 30 June	
	2009		2010		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Owners of global reputable apparel retail brands	715,825	89.6	963,535	90.9	1,024,276	91.6	367,497	87.5
Agents of global reputable apparel retail brands	70,432	8.8	83,764	7.9	88,878	7.9	48,621	11.6
Others ⁽¹⁾	12,803	1.6	12,355	1.2	5,250	0.5	3,801	0.9
	799,060	100.0	1,059,654	100.0	1,118,404	100.0	419,919	100.0

Note:

- (1) Others mainly represent sales of fabrics, samples and our products to our customers other than owners and agents of global reputable apparel retail brands.

Further expanding our apparel retail business

Whilst it is our future strategy to continue develop our apparel supply chain servicing business, we also plan to allocate 85.1% of our proceeds from the Global Offering on expanding our apparel retail business. For details of our intended use of proceeds from the Global Offering for expanding our apparel retail business, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus. We plan to further develop our apparel retail sales network by establishing new Unisex Outlets in second-tier cities such as Chengdu, Wuhan, Changsha and Shenyang and third-tier cities such as Harbin and Shijiazhuang and expand our geographical coverage by penetrating into the southern region of China such as Shenzhen and Guangzhou. Furthermore, in order to enhance and diversify our brand portfolio, we plan to acquire more licenses of international and reputable young and trendy brands to produce, market and sell products under these brands and in new Unisex Life Outlets, which we plan to expand and set up new outlets in second-tier cities such as Chongqing, Suzhou and Nanjing and third-tier cities such as Fuzhou, Kunming and Harbin.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

Established market position in the PRC apparel supply chain servicing sector, strategically renders the Group's expansion of its apparel retail segment

We are an established apparel supply chain services provider in the PRC providing high quality woven wear and cut-and-sewn knitwear products under the apparel supply chain services that we offer. Customers of our apparel supply chain servicing business are mainly owners or agents of global reputable apparel retail brands, which products are sold in a number of countries and are widely-known to the general public such as Giordano, Baleno and Armani Exchange, and we believe they engage our services because of our renowned reputation for reliability and capabilities in delivering high quality products and services. We have over 80, 70, 60 and 40 customers in the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. Aggregate sales to our top five customers in the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 represented approximately 85.1%, 86.1%, 88.2% and 91.8% of the Group's total revenue derived from the apparel supply chain servicing segment in these respective periods.

We strategically develop our business downstream along the supply chain of apparel products and expand into apparel retail business. The Directors believe that our management's extensive industry knowledge and network, strong product design and development capabilities capitalising on our product design and development centre which was expanded in July 2011, and the well-established apparel supply chain platform, have been, and will continue to, contribute to a rapid and sustainable growth of our apparel retail business. As at the Latest Practicable Date, our extensive sales network comprised a total of 87 Unisex Outlets and three Unisex Life Outlets in 47 cities across 19 provinces, autonomous regions and municipalities in the PRC, and we operate two online stores selling our *Republic* Brand products exclusively. We believe that we have the market expertise, industry know-how and execution capability to further develop the apparel retail segment, and are also confident that the well-established market position and business platform of our apparel supply chain servicing business will continue to promote success in our apparel retail business expansion.

Highly integrated apparel production management capabilities and extensive industry know-how laid a solid foundation for our apparel supply chain services

We are primarily an apparel supply chain services provider who offers apparel supply chain services which mainly include product design and development, fashion trend ascertaining and sampling, raw material sourcing, production order and merchandise sourcing management, quality control, packaging, inventory management and logistic management. Customers of our apparel supply chain services are mainly owners or agents of global reputable apparel retail brands, which products are sold in a number of countries and are widely-known to the general public.

Our apparel supply chain servicing business is principally located in Dongguan city and Huizhou city and were set up in 2004 and 2009, respectively. As at the Latest Practicable Date, our Dongguan plant and Huizhou plant occupied a site area of approximately 18,919 sq.m. and 6,000 sq.m., respectively. Together with approximately 100 third-party manufacturers located in Dongguan, Huizhou, Shenzhen, Shanghai and other parts of China, we operate an integrated operation capable of undertaking various tasks in the apparel supply chain servicing segment from fabric design and development, apparel design to apparel production management and quality control. In addition, the executive Directors and senior management have over 20 years of experience on average in the apparel industry and keep themselves abreast with changes in industry know-how by regularly attending trade fairs, shows and fashion events, such as the Shanghai Fashion Week 2011. The Directors believe that the above attributes are crucial to the success of our apparel supply chain servicing business and enable us to benefit from economies of scale, to effectively control costs and to maintain high quality of products that we offer, which will in turn, not only benefit the apparel supply chain servicing segment but also the apparel retail segment.

We consider ourselves a coordinator for the production of apparel products. As costs of labour and raw materials are continuously rising, the Directors also believe that owners or agents of global reputable apparel retail brands will increasingly seek to reduce the number of apparel suppliers whom they engage to manufacture their products and consolidate their suppliers for the purpose of enjoying the benefits from economies of scale. By engaging us as their apparel supply chain services provider, we believe our customers will be able to access our over 300 raw material suppliers and approximately 100 third-party manufacturers through us, thus allowing them to rely on us for one-stop manufacturing solutions so they can focus their resources on their retail business. The Directors believe that we will benefit from such consolidation given the services we provide and our established relationships with owners or agents of global reputable apparel retail brands, which will in turn enhance our market position in the PRC apparel supply chain servicing industry.

Strong product design, research and development capabilities and quick response to market trends

We consider our strong product design and development capabilities to be one of the key factors that have contributed to our past success and will continue to drive the growth of our apparel supply chain servicing business as well as apparel retail business. We have two product design and development teams under our apparel supply chain servicing business, which comprised a total of 17 members as at the Latest Practicable Date, where they are led by Ms. Tang and Mr. Chan, and both of them have over 20 years of experience in the apparel industry. The design and development team of our apparel retail business, which comprised five members as at the Latest Practicable Date, is led by Mr. Arthur Lam, who is a well-known designer in Hong Kong. Mr. Arthur Lam has over ten years of experience in the fashion industry and has been recognised for his work in the fashion design field, where he has been awarded the “Winner for the Top Ten Outstanding Designers Awards in 2011” in the Hong Kong Art and

Design Festival. According to the organising committee of the Hong Kong Art and Design Festival, this award is granted annually to excellent and innovative designers in order to highlight their personal achievements and contribution to the fashion design industry, assessed by recognised representatives from the local arts and cultural organisations. Mr. Arthur Lam is a member of the Hong Kong Fashion Designers Association and has also served as an external examiner for the Higher Diploma in Fashion Design and Product Development at the Hong Kong Design Institute in 2011 and judge in the Hong Kong Young Fashion Designers' Contest 2008 organised by the HKTDC. We established the product design and development centre in our Dongguan plant since October 2004 for product design and market research and analysis and have further expanded such centre in July 2011 by growing the size of our team, gross area of the centre by over 1,000 sq.m. and production scale, so that we are able to produce apparel prototypes immediately once designs are finalised. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, the product design, research and development costs we incurred, which represented salaries and wages for members of the product design and development teams under our apparel supply chain servicing business and apparel retail business, amounted to approximately HK\$1.4 million, HK\$2.3 million, HK\$2.5 million and HK\$1.3 million, respectively.

We believe that an acute awareness of future trends and strong and effective communication of ideas and efficiency in capturing changing market trends are vital components of the design process and we manage our in-house product design and development teams with these aims in mind. Our designers proactively observe market trends and consumer preferences both internationally and domestically in order to ensure our responsiveness to these trends and preferences. We recruit new members to our product design and development teams from time to time, who we believe, would bring us fresh and original ideas. Hence, the two product design and development teams of our apparel supply chain servicing business and the design and development team of our apparel retail business have enabled us to provide our customers with over 100 new designs for men's and women's apparel products each season during the Track Record Period.

We believe that, by leveraging our extensive knowledge of market trends and consumers' needs and our close collaborative relationships with our third-party manufacturers, we have been able to transform product concepts into commercially viable and popular products which enable us to distinguish ourselves from other market competitors. For example, we have collaborated with Giordano to develop functionality fabrics for the G-Cool series. In addition, except for apparel products such as jackets which require more raw materials to produce and entail more complicated production processes, if requested by our customers, we are able to complete the whole process of the apparel supply from initial product design and development to mass production and delivery within approximately three weeks, which we believe can effectively demonstrate our quick response to market trends.

Our ERP system ensures an effective inventory and sales control for the apparel supply chain servicing and retail segments

We believe that we have an effective apparel design and production line and a seamless delivery system which we maintain and monitor through our ERP system. During the initial stage of the provision of apparel supply chain services, we actively plan for, and continuously communicate and interact with, our customers regarding product design ideas, product details and any related technical feasibilities, if required. We will also provide advices and inputs regarding the latest trends and suggestions in relation to the designs in order to improve the quality and style of the products. Prototypes will subsequently be produced for our customers' selection and approval. Upon their approvals on the prototypes, purchase orders will be placed by our customers and are immediately being entered into the ERP system. Once the executive Directors decide the raw material procurement price and volume, we will begin to place orders

for the necessary fabrics for production. The apparel products produced are packed and delivered to the designated locations, according to our customers' requirements. All of the above steps could be closely monitored through our ERP system by our staff from different departments, so as to prevent miscommunication and could prioritise popular items to be produced if requested by our customers.

Our largest customer, Giordano, has selected us as an authorised supplier to access their in-house purchase order information systems. We perform frequent and proactive inventory monitoring of their sales and inventory information in each country where they have sales operations. As a result we believe we could efficiently and accurately prioritise the production of items that have been agreed or labelled as popular by Giordano without otherwise the need to first liaise with them, and proceed production once obtaining confirmation from them. Except for apparel products such as casual jackets which require different variety of raw materials to produce and entail more complicated production processes, under special arrangements, we are able to replenish inventories of a certain type of popular product within seven days.

Through our ERP system, we could also continuously track and monitor the inventory and sales levels of all of our POS under our apparel retail business. We are also able to monitor sales information and consumer purchase behaviour to improve the quality of our consumer services and sales strategies, and are able to immediately execute sales strategies to suit the changing market trends through our ERP system. Although pricing of each product is uniform, promotions that are offered at our POS in different cities or provinces may differ depending on consumer preferences, hence we could monitor comprehensive sales information such as the daily revenue of each retail outlet, as well as the inventory levels of different products at each of our POS. We believe that our information technology systems enable us to closely keep track of the sales performance of each POS and ensure minimal levels of inventories, and help monitor market demands of our products, which we believe will facilitate our further expansion and the successful introduction of new retail apparel products.

Stringent quality assurance and control measures ensure the consistent high-quality of our products

We have adopted stringent quality assurance and control measures to continuously keep up or enhance the quality of our products. We believe that our responsibility to ensure product quality begins at the raw material procurement stage, where our procurement department performs detailed evaluations of our fabric suppliers. Our sales team and quality assurance departments also work closely together to evaluate and choose suitable third-party manufacturers to produce orders. We select and evaluate our suppliers and third-party manufacturers based on their financial strength, experience, reputation, technical capabilities, ability to produce high-quality products on-time, quality control effectiveness and ethical practice. Our quality assurance departments under our apparel supply chain servicing business and apparel retail business as well as independent qualified laboratories that we engage will conduct sample comprehensive fabric tests on apparel quality and trials for each batch of the fabrics we purchased as well as the semi-finished and finished products produced by our third-party manufacturers or us. Such tests and trials are performed to ensure that the raw materials we use or the final product fully comply with applicable international or PRC standards for garment products such as the Standard for Fibre Content in Textile Products (紡織品纖維含量標識), the National General Safety Code for Textile Products (國家紡織產品基本安全技術規範), the Standard for Cotton Apparel Products (棉服裝標準) and the REACH standards applicable in the European Union.

We have also instituted an in-house quality policy to ensure the raw materials, semi-finished and finished goods we source from our suppliers or third-party manufacturers are of high-quality. As at the Latest Practicable Date, our quality control and assurance departments of

our apparel supply chain servicing business and apparel retail business consist of 35 and two employees, respectively. Members of our quality control and assurance departments are responsible for running quality controls for apparel products offered under our apparel supply chain servicing business, such as sample checking during the production process, quality control on raw materials procured from our suppliers and apparel products produced by our third-party manufacturers by carrying out on-site inspections. Mass production of the products allocated to our third-party manufacturers only commences upon our approval after our on-site inspection and quality check on the pre-production samples that they produced. For further details of our quality control process, please refer to the paragraph headed “Quality Control” in this section of the prospectus.

We believe that by setting a high standard for the quality of our products, we will also be able to increase trust and confidence of customers from our apparel supply chain servicing business and consumers from our apparel retail business, which in turn may result in increased sales of our products.

Our capable management team with extensive industry experience ensures the successful development of our business

We are led by a capable management team with extensive industry expertise. Our executive management team includes Mr. Huang, Mr. Chan, Mr. Au and Ms. Tang, and each of them has over 18 years of experience in the apparel industry. The combination of their foresight and in-depth industry knowledge has enabled the executive Directors and senior management to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preferences, and capture significant market opportunities. Furthermore, the executive Directors and senior management have played a key role in instilling and fostering a distinct corporate culture that promotes responsibility, achievement and innovation, which in turn encourages the delivery of consistent and quality apparel designs and products. Our sales team is stable and also possesses extensive product knowledge and experience, thereby ensuring effective sales and marketing activities. We believe the executive Directors and senior management possess the leadership, commitment and qualifications to sustain our business and ensure our continued growth.

OUR BUSINESS STRATEGIES

Our principal business objective is to maintain and further strengthen our position as an established apparel supply chain services provider for woven wear and cut-and-sewn knitwear and expand overseas, whilst expanding our market share in the apparel retail industry. According to the commissioned report from Ipsos Hong Kong Limited, driven by the continual support from the PRC government to boost local consumption, retail sales value of apparel products in the PRC is expected to grow at a CAGR of approximately 13.7% from 2012 to 2015 and reach approximately RMB2,120.7 billion by 2015, representing an average annual growth of approximately RMB225.5 billion from 2012 to 2015. Moreover, retail sales of middle to high-end smart casual apparel products and the sales contribution from the younger generation in the age group of 25 to 35 years is expected to be the major driver of the growth in the apparel retail market, driven by the rising standard of living and disposable income in the PRC. Coupled with the changing purchasing behaviour in the PRC, the retail sales value of middle to high-end smart casual apparel products is expected to grow at a CAGR of approximately 15.6% from 2012 to 2015. Given the considerable growth potential of the apparel retail market in the PRC, the executive Directors strive to further develop the apparel retail segment in the future. In order to ensure that our expansion plan is reasonable and achievable, the Group has appointed and recruited experienced and senior personnel to manage the expansion plan, identified cooperative partners or franchisees which the Group considers as experienced and reputable

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and is in the process of negotiating or has already signed cooperative or franchise agreements with them. We aim to achieve our future expansion plans by pursuing the following key strategies:

Further develop the apparel retail segment by expanding our retail sales network and improving our existing Unisex Outlets

As we anticipate the continuous growth of the PRC economy and the increasing spending power of PRC consumers, we intend to continue expanding the apparel retail segment to capture the expected growing demands of consumer products in the PRC. As at the Latest Practicable Date, we sold our *Unisex* Brands products through 87 Unisex Outlets. In order to increase our market share in this market segment, we aim to set up 52, 115 and 145 new Unisex Outlets in the years ending 31 December 2013, 2014 and 2015, respectively. In addition to Shanghai and Beijing, we plan to particularly establish more Unisex Outlets in second-tier cities such as Chengdu, Wuhan and Shenyang and third-tier cities such as Harbin and Shijiazhuang, where the average spending power of consumers is growing strongly, thus we consider expanding in those geographical areas as our strategic priorities, hence further expand our geographical retail coverage to major cities in southern China such as Shenzhen and Guangzhou. We believe that the increase of numbers in Unisex Outlets will generate higher revenue and serve as a model to attract more potential franchisees to join our apparel retail network in other cities in China to strengthen our market presence.

The following table sets out the breakdown of the number and location of new Unisex Outlets we expect to open for the years ending 31 December 2013, 2014 and 2015:

Location	Year ending 31 December								
	2013			2014			2015		
	Self-operated	Cooperative	Franchised	Self-operated	Cooperative	Franchised	Self-operated	Cooperative	Franchised
East China ⁽¹⁾	—	2	13	7	15	20	12	24	32
South China ⁽²⁾	—	12	7	—	12	16	—	12	21
Southwest China ⁽³⁾	—	—	—	—	3	5	—	3	12
Northeast China ⁽⁴⁾	—	8	—	—	15	—	—	15	—
North China ⁽⁵⁾	—	8	2	4	9	6	2	2	2
Northwest China ⁽⁶⁾	—	—	—	—	3	—	—	3	5
Total	—	30	22	11	57	47	14	59	72

Notes:

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Shandong, Fujian and Anhui.
- (2) South China includes Hubei, Hunan, Henan and Guangdong.
- (3) Southwest China includes Chongqing and Tibet.
- (4) Northeast China includes Heilongjiang and Liaoning.
- (5) North China includes Beijing, Tianjin, Hebei and Inner Mongolia.
- (6) Northwest China includes Shaanxi, Ningxia and Gansu.

In order to manage the future growth of our apparel retail business, we plan to further utilise our well-established apparel supply chain platform and our third-party manufacturers network to develop, procure and produce our apparel retail products. We will also enhance our

sales and marketing strategy by establishing an official microblog to increase brand awareness and promote interaction between our target consumers and us, providing attire sponsorships to famous individuals and attending national fashion and related events. In addition, we also plan to train and employ more experienced employees in the apparel retail segment to build up our talents, further improve our ability in designing and procuring fashion styles and provide more operational support to our franchisees. For example, we have launched a graduate recruitment programme since March 2012 which we intend to recruit graduates from universities in the PRC each year who possess relevant background and experience in art and design as assistants in our design and development team or interior design team. Furthermore, we will continue to provide training to all newly recruited retail personnel in all of our Unisex Outlets and regular training to all retail personnel on information about new products, sales technique development, product display, servicing techniques and promotional schemes. We will also engage professional consultants in reviewing the locations and operations of our existing POS as well as advising us on the feasibility of potential new POS. At the same time, we will continue to adopt strict selection procedures and standards when selecting our franchisees, and will continue to closely monitor their sales performance by requiring them to provide us with daily sales reports, in order to maintain the quality of our franchised retail outlets hence providing consumers and potential franchisees confidence in our brand management. We will also continue to conduct assessments on the location and surrounding retail environment before a POS is opened. We believe that the increase in Unisex Outlets in second and third-tier cities through cooperation with our cooperative partners and franchisees will lead to an increase in our revenues and profitability, while enhancing the exposure of our brand and products in the PRC. Based on the above additional measures, coupled with our accumulated experience in the apparel retail segment, the Directors are of the opinion, and the Sole Sponsor concurs, that we will be able to expand our apparel retail business in the future.

Furthermore, in order to enhance and upgrade the image of our *Unisex Brands*, we are seeking to renovate or assist our cooperative partners and franchisees in renovating our existing Unisex Outlets. The Directors expect that the total investment for the renovation, fixtures and rental deposits for the abovementioned set up of retail outlets selling our *Unisex Brands* products and the improvement of our existing Unisex Outlets will be approximately HK\$34.7 million, which is planned to be financed by internally generated funds and proceeds from the Global Offering. As at the Latest Practicable Date, we had not incurred any expenditure on this expansion plan.

Further expand and strengthen our brands portfolio and set up Unisex Life multi-brand retail outlets

With an aim to maintain a competitive position, sustain growth in the PRC apparel retail market and effectively reduce our operational risk, we plan to expand our brands portfolio and apparel retail products offerings by obtaining licence rights to produce, market and sell more recognised global brands. As at the Latest Practicable Date, we have entered into two distributorship agreements pursuant to which we were granted the non-exclusive right to (i) manufacture, market and sell men's and women's garment products for an international fashion brand in the PRC; and (ii) market and sell men's and women's garment products for two other international fashion brands in the PRC. In addition, in order to test market response, we source and sell products under brands which we consider are suitable from time to time. Apparel products of these three Licensed Brands, our *Unisex Brands* as well as other suitable brands sourced by the Group from time to time will be sold at our Unisex Life Outlets. We launched our first Unisex Life Outlet in Chengdu, Sichuan Province, the PRC in May 2012. We intend to identify more global renowned brands, which products are sold in a number of countries and are widely-known to the general public, with growth potential and introduce to the PRC apparel retail market and we also plan to develop more in-house brands in order to tap into different consumer groups in the PRC. When identifying or selecting new brands, we intend to take into account (i)

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whether such brands are globally recognised and possess growth potentials; and (ii) whether the designs and products of such brands are acceptable in the PRC apparel retail market or can complement our existing in-house apparel retail brands. We will continue to identify or select new brands to enhance our licensed brand portfolio and strive to ensure that the Licensed Brands are in-line with the ever-changing market trends. As at the Latest Practicable Date, the Group is still in the process of identifying potential brands for acquiring licences and planning of the establishment of new in-house brands and no binding agreement has been entered into in this regard.

We plan to set up more Unisex Life Outlets in second-tier cities such as Chongqing, Suzhou and Nanjing and third-tier cities such as Fuzhou, Kunming and Harbin, aiming to set up approximately 6, 20 and 16 Unisex Life Outlets in the years ending 31 December 2013, 2014 and 2015, respectively. We believe the setting up of Unisex Life Outlets which offer products from a range of global apparel brands will enable us to provide a more comprehensive product offering, differentiate and segment our target markets with unique brand names, thus create synergies for our retail operations. The Directors believe that the offering of our products under *Unisex* Brands in the Unisex Life Outlets will uplift our brand positioning and further increase the retail coverage of our own in-house apparel retail brands.

The following table sets out the breakdown of the number and location of new Unisex Life Outlets we expect to open for the years ending 31 December 2013, 2014 and 2015:

Location	Year ending 31 December								
	2013			2014			2015		
	Self-operated	Cooperative	Franchised	Self-operated	Cooperative	Franchised	Self-operated	Cooperative	Franchised
East China ⁽¹⁾	1	2	—	3	2	—	—	7	—
South China ⁽²⁾	1	1	—	1	3	—	2	4	—
Southwest China ⁽³⁾	—	1	—	—	5	—	—	—	—
Northeast China ⁽⁴⁾	—	—	—	—	2	2	—	—	—
North China ⁽⁵⁾	—	—	—	2	—	—	1	—	—
Northwest China ⁽⁶⁾	—	—	—	—	—	—	—	2	—
Total	<u>2</u>	<u>4</u>	<u>—</u>	<u>6</u>	<u>12</u>	<u>2</u>	<u>3</u>	<u>13</u>	<u>—</u>

Notes:

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Shandong and Fujian.
- (2) South China includes Hubei, Hunan, Henan and Guangdong.
- (3) Southwest China includes Sichuan, Yunnan and Chongqing.
- (4) Northeast China includes Heilongjiang and Liaoning.
- (5) North China includes Beijing and Tianjin.
- (6) Northwest China includes Shaanxi.

The Directors expect that the total investment for the renovations, fixtures and rental deposits for the abovementioned set up of Unisex Life Outlets and acquisition of additional licence rights of recognised global brands will be approximately HK\$41.1 million, which is planned to be financed by internally generated funds and proceeds from the Global Offering. As at the Latest Practicable Date, we had not incurred any expenditure on this expansion plan.

Continue to develop different brands and set up online sales platform to capture the rapidly growing online sales market

According to the “Statistical Report on Internet Development in China” published by the China Internet Network Information Centre (CNNIC) in 2012, the number of internet users in China rose to 538 million at the end of June 2012, representing an increase of over 24.5 million users as compared to the previous year and including 146 million users in the rural areas. Although we have only derived minimal revenue from online sales (2009: Nil; 2010: HK\$0.5 million; 2011: HK\$2.7 million; first half of 2012: HK\$1.5 million), with the anticipation of further growth of internet users in China and the increasing purchasing power of PRC consumers, we believe sales of our apparel products via the internet will continue to grow remarkably in the coming years. We have, therefore, maintained online sales platforms or engaged online sales agents from time to time to sell our *Unisex Brands* products. Furthermore, we have established and launched our new in-house brand, the *Republic Brands*, in October 2011, and have begun to offer such products on our two online stores operating via www.tmall.com, namely <http://republichero.tmall.com> and <http://republicqueen.tmall.com>, in December 2011. Products under the *Republic Brands* are young, hip and casual and target the younger population in the PRC, who seeks value for money products and tailored to be offered online without fitting. By taking into account the increasing popularity of online shopping, we aim to set up approximately 7, 8 and 8 new online stores for selling products of the *Republic Brands* in the years ending 31 December 2013, 2014 and 2015, respectively. We believe the online platform will help us further explore new areas of consumer demand and drive the growth of our sales. Furthermore, we plan to introduce online retailing for all of our *Unisex Brands* products around spring season of 2013 to further capture the online sales market, so as to help us maximise the exposure of our products to a higher volume of targeted consumers, hence increase sales and enhance our brand recognition.

The Directors expect that the total investment for the relevant marketing and promotional expenses and set up cost of such online stores is approximately HK\$10.7 million, which is planned to be financed by internally generated funds and proceeds from the Global Offering. As at the Latest Practicable Date, we had not incurred any expenditure on this expansion plan.

Further enhance our information technology systems, and develop our design and development capabilities of our apparel supply chain servicing business

We operate an apparel supply chain model which seeks to minimise production and operation costs. A substantial portion of our production orders are allocated to qualified third-party manufacturers who have been previously evaluated and approved by us, as we believe that such arrangements enable us to focus on our strengths in product design and development as well as quality control and production management, hence maintaining a lean capital base while being able to achieve a scaleable business model. During the Track Record Period, we have been establishing an extensive network of third-party manufactures that comprises approximately 100 third-party manufacturers as at 30 June 2012. We believe that a reliable and sophisticated ERP system to handle needs of our production management operation is crucial for the future development of our apparel supply chain servicing business. Our ERP system also integrates the functions of merchandising, stock replenishment, inventory distributions and sales, to support our operations and administrations. In order to further improve efficiencies in our apparel supply chain servicing business and to stay competitive in the industry, we will continue to upgrade our software and enhance our information technology systems, such as our ERP system.

Furthermore, we believe that our strong product design and development capacity has led to the success of our apparel supply chain servicing business. To continuously uphold and enhance our product design and development capabilities, we intend to recruit additional

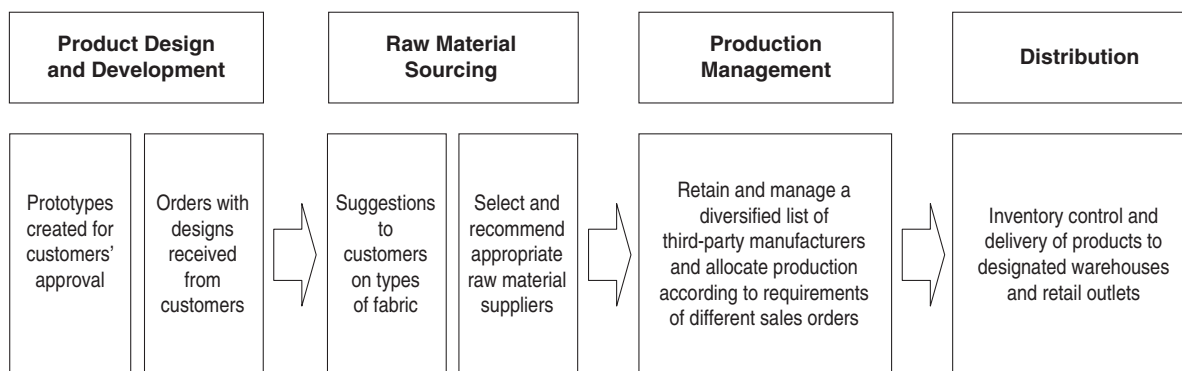
experienced product design and development staff, upgrade the facilities of our product design and development centre and improve our showroom and office in our Dongguan plant. In addition, we intend to set up overseas sales offices in North America and participate in industry exhibitions to capture the business opportunities from the recovering economies in North America as well as to further promote the apparel supply chain services that we provide.

The Directors expect that the total investment for the relevant strategy is approximately HK\$15 million, which is planned to be financed by internally generated funds and proceeds from the Global Offering.

APPAREL SUPPLY CHAIN SERVICING SEGMENT

Our Business Model

The following diagram illustrates our business model for the apparel supply chain servicing segment:



Services

The services we provide under the apparel supply chain servicing segment primarily include product design and development, fashion trend ascertaining and sampling, raw material sourcing, production order and merchandise sourcing management, quality control, packaging, inventory management and logistics management. Under our current apparel supply chain services model, we outsource the labour-intensive manufacturing function to a portfolio of approximately 100 third-party manufacturers and focus on providing apparel supply chain management services to our customers. Our apparel supply chain services aim at providing one-stop solution to our customers to accommodate their different needs along the supply chain of apparel products, which enable them to focus their resources in their retail business. A wide range of woven wear and cut-and-sewn knitwear products for men and women, which are mainly casual wear including denim jeans, shirts, coats, casual jackets, t-shirts, tracksuits and pants are being produced under the services we provide to our customers, who are mainly owners or agents of global reputable apparel retail brands, which products are sold in a number of countries and are widely-known to the general public.

We usually develop products for our customers or custom-make our woven wear and cut-and-sewn knitwear products according to their seasonal apparel collections to be offered. Once our designs are finalised and prototypes have been approved by our customers, we allocate in whole or part of the production orders to third-party manufacturers according to their production capabilities and capacities. In some circumstances, production management services are offered to our customers according to their own designs and specifications. Finished products are then delivered to the designated warehouses or retail outlets of our customers. A strict

quality control system and a set of in-house quality standards, which encompasses the design, development, production and procurement stages, are established to demonstrate our commitment to high quality.

Products being produced are designed for two main fashion seasons each year: spring/summer and autumn/winter. Below are photographs of some of our designs of the woven wear and cut-and-sewn knitwear products:

Woven wear products



Cut-and-sewn knitwear products



Our revenue derived from the apparel supply chain servicing segment amounted to approximately HK\$799.1 million, HK\$1,059.7 million, HK\$1,118.4 million and HK\$419.9 million for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively, representing approximately 96.2%, 96.0%, 95.8% and 94.0% of our total revenue during the Track Record Period, respectively. During the same periods, we sold approximately 17.8 million, 25.0 million, 23.8 million and 10.4 million pieces of apparel produced under the apparel supply chain servicing segment, respectively.

Product design and development

We take the initiative to demonstrate to our customers that we are focused on and market-oriented in providing quality product design and development services to our customers. During the product design and development stage, we actively plan for, and continuously communicate with our customers regarding product design ideas, product details, types of fabric to be used and any related technical feasibilities, if required. We also provide advices and inputs regarding the latest trends and suggestions in relation to the designs in order to improve the quality and style of the products. Prototypes will subsequently be produced for our customers' selection and approval.

We have two dedicated product design and development teams under our apparel supply chain servicing business who work closely together in our design and development centre situated in our Dongguan plant. They are mainly responsible for researching fashion trends and consumers' tastes, developing mainly functional fabric or designs, and designing apparel products. In relation to the functional fabrics that we developed, some of them were designed to provide higher breathability, quick-dry, keep-warm and light-weight functions. Our design and development centre, which was first established in October 2004 and expanded in July 2011 to enhance our product design and development capabilities, is equipped with comprehensive facilities which allows us to produce prototypes immediately once designs are finalised. As at the Latest Practicable Date, the two product design and development teams comprised of 17 personnel. They are led by Ms. Tang and Mr. Chan, and both of them have over 20 years of experience in the apparel industry. Majority of our personnel in our product design and development teams have experience in fashion design. Members of our product design and development teams travel within the PRC and overseas to study the latest trends and styles in order to offer a wider range of design to our customers. They also remain up to date with the corresponding industry knowhow by regularly attending trade fairs, shows and fashion events, such as the Shanghai Fashion Week 2011.

Our strong product and design development teams have enabled us to provide our customers with over 100 new designs of woven wear and cut-and-sewn knitwear products each season during the Track Record Period. In addition to formulating new product designs, our product design and development efforts support and improve our ability to introduce innovative functional fabric to meet ever-changing consumers' tastes. For example, we have been actively involved in the development of functional fabrics with our customers aiming to improve the quality of their products. We plan to strengthen our product design and development teams by allocating more resources and upgrading the facilities of the product design and development centre in our Dongguan plant, as well as recruiting personnel with in-depth industry knowledge and experience in order to maintain and enhance our market position and competitiveness.

Raw material sourcing

As part of the supply chain services we offer, we actively plan for or suggest types of fabric and ancillary raw materials to be used in the designs provided by us to our customers or our customers' own designs. According to fashion trends and consumer preferences, design and cutting of the specific products and the production budget of the apparel products, we provide

suggestions to our customers on the types of fabric to be used, including those functional fabrics developed by us which are tailored for product items with specific functions. We may also suggest alternative raw materials to our customers for their consideration and approval in cases where the price of a specific raw material is too high or it is not readily available, if such substitution is appropriate for the type of product. In order for our customers to market their products by emphasising such functions, qualified independent laboratories are engaged to prepare test reports to prove that such functions meet national or international standards. In addition, we select and recommend quality raw material suppliers to our customers and third-party manufacturers from the list of credible raw material suppliers that we maintain internally.

During the Track Record Period, we purchased a majority of our raw materials, including fabric, buttons and zippers, from suppliers based in the PRC. We maintain an extensive list of raw material suppliers for a spectrum of raw materials of different quality requirements and price range and such list is updated by us from time to time upon our satisfaction of the quality of the raw material supplied to us. Our extensive portfolio of over 300 raw material suppliers provides us with flexibility in accommodating our sourcing needs. Any new raw material supplier that we engage or recommend to our customers is required to pass our internal quality control procedures. We evaluate our suppliers based on certain evaluation standards which include their background, quality and the price. Raw materials that we purchase will be inspected by our quality control and assurance personnel and fabric test reports prepared by independent external laboratories are also provided to us once the raw materials or fabrics are delivered to our production facilities.

We generally purchase raw materials in accordance with our production management plans, with certain buffer to ensure that we have sufficient amount of raw materials to meet our production schedule. In some cases, we are requested to source raw materials or ancillary raw materials from suppliers specified by our customers. Our suppliers are responsible for the transportation costs incurred for delivering raw materials to us. In some occasions, third-party manufacturers are responsible for purchasing raw materials from suppliers specified by us. Due to the rapid changes occurring in the fashion industry, we do not enter into any long-term agreement with, or commit any minimum quantities to, our raw material suppliers. Instead, we regularly obtain market information obtained from various sources including public domains and communicate with our suppliers on the latest trend of raw material prices, and obtain quotations from at least three raw material suppliers before entering into a purchase contract with the selected raw material supplier. As a result, the Directors believe that we could make an assessment of the future trend of raw material prices based on our experience and estimation. The Directors confirm we did not experience any shortage in the supply of raw materials from our raw material suppliers, nor did we experience any disputes with our raw material suppliers during the Track Record Period.

Production management

Our production management services mainly focus on managing and monitoring the overall production process of apparel products rather than engaging in the labour-intensive manufacturing work. We maintain a portfolio of approximately 100 third-party manufacturers to produce the finished products. Hence, we consider ourselves a coordinator for the production of apparel products. By engaging us as their apparel supply chain services provider, we believe our customers, which are mainly owners or agents of global reputable apparel retail brands, will be able to access our vast network of raw material suppliers and third-party manufacturers through us, thus allowing them to rely on us for one-stop manufacturing solutions so they can focus their resources in their retail business.

During the Track Record Period, we received sales orders from Giordano on average at least a few orders per day and from our other major customers would be more irregular throughout each year. On average, our other major customers will generally place at least 100 orders per year during the Track Record Period. Our customers normally require us to deliver finished goods three to six months after placing the purchase order, hence our production management plans are normally based on the schedule requested by our customers.

Once our designs are finalised or after we have received the designs from our customers, we will produce prototypes for our customers' selection and approval. Orders are then placed by our customers in bulk. Before we ceased our in-house production in November 2011, we would allocate the orders to our own production facilities or third-party manufacturers. The allocation of orders depends on costs, production schedule, time of delivery, quality and quantity requirements from our customers after the pre-production samples are reviewed by our quality control and assurance teams. For production orders allocated in whole or in part to third-party manufacturers, our customers do not specify the third-party manufacturer in their respective purchase orders. However, being in line with our current strategy which we intend to focus on our strengths in product design and development, as well as quality control and production management, hence maintaining a lean capital base while being able to achieve a scalable business model, we have strategically increased the proportion of production orders allocated to third-party manufacturers. Production facilities that we previously used for in-house production at four different premises had been leased out to different third-party manufacturers. As a result, since November 2011 and up to the Latest Practicable Date, we have maintained our sample room mainly for producing product samples and providing production support and ceased to carry out any in-house production.

Under the apparel supply chain servicing segment, there are different types of costs incurred under different production arrangements, as detailed below:

- for sales orders that we allocate to our third-party manufacturers in whole (generally known as “**Merchandise purchase arrangements**”), they generally involve relatively less internal resources for production management. For this arrangement, we mainly incur cost of merchandise purchased;
- for sales orders that we (i) produce in-house; (ii) allocate partially to our third-party manufacturers; or (iii) supply all the raw materials and our third-party manufacturers are only responsible for processing (generally known as “**Non-merchandise purchase arrangements**”), they involve more of our internal resources for the production management such as the procurement of raw materials, production support and logistics arrangement. Under such arrangements, we incur cost of raw materials, processing fees and operating costs and overheads of our Dongguan plant and our Huizhou plant for fulfilling the orders.

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The following table sets out a breakdown of our revenue of the apparel supply chain servicing segment under the different arrangements as mentioned above.

	Year ended 31 December						Six months ended 30 June	
	2009		2010		2011		2012	
	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue
Revenue contributed from sales orders under:								
– Merchandise purchase arrangements	458,799	57.4	677,831	64.0	814,051	72.8	334,893	79.8
– Non-merchandise purchase arrangements	340,261	42.6	381,823	36.0	304,353	27.2	85,026	20.2
	<u>799,060</u>	<u>100.0</u>	<u>1,059,654</u>	<u>100.0</u>	<u>1,118,404</u>	<u>100.0</u>	<u>419,919</u>	<u>100.0</u>

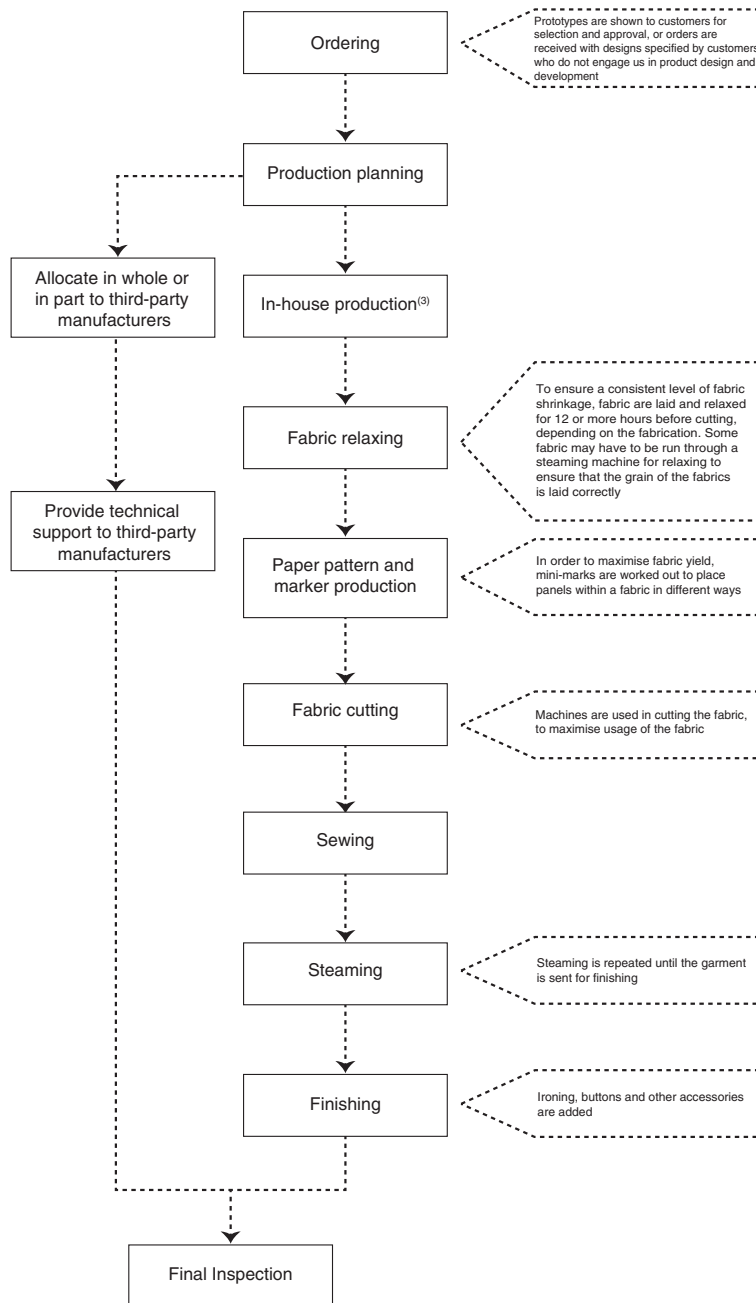
As discussed above, given more internal resources incurred under the Non-merchandise purchase arrangements than the Merchandise purchase arrangements, the increase in proportion of our production under the Merchandise purchase arrangements contributed to the improvement in our gross profit margin during the Track Record Period.

We believe that our production arrangement in that the majority of production orders are allocated to third-party manufacturers benefits us economically by leveraging external production capacities according to our production schedule, thus enabling us to meet our customers' demand in a timely manner. Through minimising administrative work for managing production facilities and workers, we believe that we are able to optimise and flexibly utilise our internal resources to focus on our strengths in providing apparel supply chain services, such as product design and development and the allocation of production orders to the most suitable third-party manufacturer, rather than on manufacturing. Furthermore, we believe that it is more cost-effective to allocate production orders to our third-party manufacturers than to keep in-house production capacities as we consider our third-party manufacturers are each specialised in producing a particular type of product. As we do not possess all the skills or machineries to manufacture each type of products requested by our customers, we believe that it is more efficient to increase our product offerings by managing and utilising our network of over 100 third-party manufacturers instead of having to employ workers with all different specialised skills or procure specialised machineries to produce all types of design of products our customers place with us. In addition, by ceasing to carry out any in-house production, we believe we have more flexibility in choosing production orders as we will not be required to accept relatively less lucrative sales orders to cover the fixed costs and labour costs of a manufacturing plant and avoid idle production capacities. By maintaining our own portfolio of raw material suppliers and third-party manufacturers, we are of the opinion that our customers could rely on us for managing their supply chain, so that they could focus their resources on the retail business.

As at the Latest Practicable Date, our production management team comprised of an aggregate of 221 personnel, and they are mainly responsible for producing product samples, providing production support, procurement of raw materials and managing production orders allocated to our third-party manufacturers. Our production arrangement in retaining a minimal level of in-house production capacities as a sample room mainly for producing product samples has led to a gradual decrease in employment benefit expense for our production workers during the Track Record Period, which amounted to approximately HK\$73.8 million, HK\$52.1 million, HK\$33.9 million and HK\$9.1 million for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

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The diagram below generally illustrates the principal steps involved in our production process ⁽¹⁾ & ⁽²⁾ during the Track Record Period:



Notes:

- (1) We also perform the interfacing, printing/embroidery or washing processes if requested by our customers for certain products.
- (2) Our quality control system and set of in-house quality standards encompasses each stage of the production process.
- (3) Since November 2011 and up to the Latest Practicable Date, we have ceased to carry out any in-house production.

In-house production

We have two operation facilities namely, our Dongguan plant which is situated in Changan Town, Dongguan, Guangdong Province and our Huizhou plant which is situated in Boluo County, Huizhou, Guangdong Province, which we previously used for our in-house production. Our Dongguan plant occupies a total site area of approximately 18,919 sq.m. and Huizhou plant occupies a total site area of approximately 6,000 sq.m., both under a lease term of three years which will expire on 31 December 2014.

As we have been and will continue to focus on our strengths in product design and development, as well as quality control and production management, hence maintaining a lean capital base while being able to achieve a scaleable business model by minimising labour-intensive production process, during the Track Record Period, we have strategically increased the proportion of production orders allocated to third-party manufacturers. Production facilities that we previously used for in-house production at four different premises had been leased out to different third-party manufacturers since November 2009 and the current term of the respective lease agreements is for a period of three years commencing on 1 July 2010, 1 June 2011 and 1 March 2012 (which replaced a previous lease commenced on 1 November 2011 for the same premises) and a period of one year commencing 1 November 2012. As a result, since November 2011, we have maintained our sample room mainly for producing product samples and providing production support and ceased to carry out any in-house production. We have no plan to recommence in-house production in the near future. For further details of the lease arrangement, please refer to the paragraph headed “Apparel supply chain servicing segment — Production management — Third-party manufacturers” in this section of the prospectus.

For the years ended 31 December 2009, 2010 and 2011, our in-house production quantity was approximately 3.7 million pieces, 1.5 million pieces and 0.5 million pieces, respectively. Our average utilisation rate for the years ended 31 December 2009, 2010 and 2011 was approximately 73%⁽¹⁾, 77%⁽¹⁾ and 79%⁽¹⁾, respectively. Our overall utilisation rate represents the average of our utilisation rate for each sewing machine, which is our actual annual production output divided by our estimated annual production output for each sewing machine. We did not have any production output and utilisation rate for the six months ended 30 June 2012. During the Track Record Period, the Directors confirm that we did not experience any major disruption in our manufacturing operations due to constraints on our output capacity.

Third-party manufacturers

During the Track Record Period, apart from utilising our own production facilities to produce orders received from our customers, our sales team also allocated in whole or certain part of the production orders or certain production processes that we did not produce in-house to our third-party manufacturers. For the years ended 31 December 2009, 2010, 2011 and the six months ended 30 June 2012, apparel products allocated and produced by our third-party manufacturers were approximately 12.9 million pieces, 24.8 million pieces, 22.2 million pieces and 10.8 million pieces, respectively. According to the purchase agreements with the third-party manufacturers, they are either required to produce apparel products with raw materials that we provide to them and charge a processing fees, or required to procure the kind of fabric that we specify from our designated fabric suppliers. Furthermore, under the purchase agreements, our quality control and assurance personnel are granted the right to conduct checks on all production materials and purchase orders of the third-party manufacturers to ensure that they

Note:

- (1) Utilisation rate is calculated based on the conversion of production quantity of each type of apparel items produced by our production facilities, where such number of items are being converted into a standardised unit by different applicable conversion rates and compared with the average number of estimated standardised unit of apparel items that could be produced by one sewing machine per day.

comply with our specifications. Our third-party manufacturers are also not permitted to sub-contract any part of the production process to other manufacturers without our prior consent. We are not required to pay any deposit upon placing an order with our third-party manufacturers according to the purchase agreements. The Directors confirm that we had not instructed our third-party manufacturers to procure raw materials for our products from our related parties or the Excluded Group during the Track Record Period.

We carefully evaluate our third-party manufacturers and consider various factors during evaluation and selection process, including their technical capability, financial strength, experience, reputation, ability to produce high-quality products on-time, quality control effectiveness and ethical practice. For any new third-party manufacturer, we will pay an inspection visit to its production facilities in order to understand its production capability before placing any purchase orders with them. Trial purchases will then be conducted until upon our satisfaction of the pre-production sample's product quality, we will proceed to commence mass purchases from the qualified third-party manufacturer. To ensure the quality of the products produced by our third-party manufacturers, we maintain a list of credible third-party manufacturers, which is updated by us from time to time upon our satisfaction of the quality of the products being produced. Furthermore, we actively request all of our key third-party manufacturers to provide a quality work environment to their workers and satisfy our in-house social responsibilities standards and human rights criteria, hence our quality assurance team performs regular checkings on the compliance of such criteria.

Before we place purchase orders with third-party manufacturer, we generally obtain a number of quotations from our list of credible third-party manufacturers, and we select the most suitable ones based on their fee quotes, quality of goods delivered and their previous experience. In addition to the cost, we usually negotiate with them on other terms of purchase including terms of payment, method and time of delivery. During the production process, we designate our quality control and assurance personnel to conduct site visits of the third-party manufacturer and examine the quality of goods that are undergoing the production process. We also provide technical support and advices on production details and product quality to our third-party manufacturers to ensure the quality of all their final products are consistent. Finished products will be inspected by our quality control and assurance personnel and warehouse staff when they are delivered to our warehouse or before they are delivered to our customers' designated warehouses or retail outlets.

As mentioned in the paragraph headed "Apparel supply chain servicing segment — Production management — In-house production" in this section of the prospectus, we currently lease out our production machineries and equipment to four of our third-party manufacturers, which include one of our five largest suppliers during the Track Record Period. We have business relationships with these four third-party manufacturers for an average of two years. The lessees are responsible for the operation and maintenance of our production machineries and equipment and they are not restricted from using the leased production machineries and equipment to produce apparel products for other apparel supply chain services providers, including our competitors. However, pursuant to the lease agreements, these third-party manufacturers are required to provide production services to us in first priority or commit a minimum monthly production capacity for us. The rental of the production machineries and equipment is a fixed amount calculated according to the quantity and the value of such machineries and equipment leased, taking into account the expected remaining lifespan of such machineries and equipment over the lease terms. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, merchandise purchased from and processing fees paid to the third-party manufacturers who we leased out our production facilities during the Track Record Period amounted to approximately HK\$3.8 million, HK\$55.6 million, HK\$104.5

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million and HK\$55.9 million, respectively, representing approximately 0.8%, 7.5%, 13.3% and 18.1% of our merchandise purchased from and processing fees paid to third-party manufacturers during the same periods, respectively.

We have established a stable working relationship with our third-party manufacturers. During the Track Record Period, we engaged approximately 100 third-party manufacturers. The following table sets out the total number of our third-party manufacturers and their respective movement (including additions and terminations) during the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 December			Six months ended 30 June	From 1 July 2012 up to the Latest Practicable Date
	2009	2010	2011	2012	
Number of third-party manufacturers at year/period-end ⁽¹⁾	119	155	109	95	110
Number of additional third-party manufacturers	74	90	49	49	24
Number of terminated third-party manufacturers ⁽²⁾	76	54	95	63	9

Note:

- (1) Out of the total of 119, 155, 109 and 95 third-party manufacturers as at 31 December 2009, 2010, 2011 and 30 June 2012, 22, 31, 38 and 31, respectively, are third-party manufacturers approved by our customers. The remaining 97, 133, 71 and 64 third-party manufacturers were selected by us without the need to obtain approval from our customers.
- (2) We terminated cooperation with these third-party manufacturers mainly because they could not satisfy our requirements on price, quality and time of delivery. The relatively large number of terminations in 2011 was mainly because we engaged in a lot of new third-party manufacturers in 2010 and only chose to retain those that satisfied our requirements in 2011. The Directors confirm that we have not incurred any loss resulting from unsatisfactory performance of terminated third-party manufacturers and the termination of third-party manufacturers will not impact on our performance in the foreseeable future.

As fashion industry is characterised by rapid changes of style and trends, we do not enter into any long-term agreement with, or commit any minimum quantities to, our third-party manufacturers. With an aim to minimise our exposure on unexpected increases in processing fees, the product design and development team explores with the production management team collaboratively on ways to streamline the production process hence improving productivity and reducing processing fees. During the Track Record Period, the Directors confirm that we did not experience any material delays from or disputes with our third-party manufacturers in relation to the delivery of finished goods, or any material adverse consequences from any unsatisfactory products produced by our third-party manufacturers.

Our pricing strategy and procurement policy

The prices of products offered under the apparel supply chain servicing segment are negotiated and agreed with our customers once the designs are finalised and prototypes have been approved by them. Individual orders are then entered with our customers and price adjustments are not allowed thereafter. As such, any changes to prices of raw materials and finished goods we procure from our third-party manufacturers as well as processing fees

subsequent to individual orders being entered with our customers may affect the result of our operations. We price our products offered under our apparel supply chain services separately for each order based on the estimated cost of the product, such as the product design and development costs and processing fees to be charged by our third-party manufacturers which are based on a number of factors such as (i) the complexity and number of steps involved in the production process; and (ii) the estimated cost of raw materials which, the executive Directors confirm, would take into account of expected fluctuations in raw material prices. On top of the estimated cost of the product as determined based on the factors above, we will add on our target profit margin to calculate the final price. In determining the target profit margin, we take into consideration of a variety of other factors including our relationship with the customer placing the order, the volume and the delivery schedule of the order. For example, we generally set a higher gross profit target for purchase orders which require quick delivery, or when production costs charged by our third-party manufacturers are expected to increase. Since late 2010, we have strengthened the implementation of our pricing policy of which product prices must be set with reference to a minimum gross profit target in view of the rapidly increase in raw material prices during the year.

As prices of cotton fabrics affect our costs of raw materials and consumables used and merchandise purchased, we have therefore established a procurement policy to account for fluctuations in the cost of raw materials. The following sets out a general procedure of the procurement steps under our procurement policy:

1. after receiving indicative sales orders from our customers, our sales personnel will then obtain quotations from at least three raw material suppliers and gather market information from various sources including public domains, commodity index and communications with our suppliers on the latest trend of raw material prices;
2. our sales personnel will then pass such information to our sales manager for consolidation and review. Our sales manager will assess the information and formulate an estimated unit price of raw material ("**Estimated Price**"), which considered to be the reasonable costs of the raw materials, and conduct preliminary negotiation with our suppliers. From the result of this preliminary negotiation, our sales manager will determine whether our targeted gross profit margin of the product could be achieved;
3. the result of preliminary negotiation and the Estimated Price prepared by our sales manager will be passed to the executive Directors for review and approval. The executive Directors will decide the final unit price and procurement quantity of raw materials. Where necessary, the executive Directors will further negotiate with raw material suppliers as further described under different criteria detailed in the table below; and
4. once procurement decision is made by the executive Directors, procurement instructions will be passed to our sales manager for execution. All of our procurement orders must be approved by one executive Director if the transaction amount is below HK\$10 million, otherwise, must be approved by two executive Directors.

After taking into consideration of all the above factors, we will make bulk purchases of raw materials if we anticipate there will be an increase in the raw material prices to avoid subsequent increase in purchase costs of raw materials, or make split purchases if we anticipate that there will be a decrease in the raw material prices to take benefit from the decreasing trend of raw material prices.

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We make procurement plans based on comparing the market price of raw material, being the cost of fabric, quoted from suppliers (“**Market Price**”) with the Estimated Price and the expected price trend of raw materials. Generally, we procure raw materials to meet the usage and delivery schedule based on the following criteria:

Criteria	Anticipated price trend of raw materials	Purchase decision of raw materials sufficient for the production of apparel products to be delivered (in number of months) according to orders on hand
When Market Price ⁽¹⁾ is comparable to Estimated Price ⁽²⁾	Increase Decrease	3 months usage 1 to 2 months usage
When Market Price ⁽¹⁾ is lower than Estimated Price ⁽²⁾ by 5% or above	Increase Decrease	6 months usage 2 to 3 months usage
When Market Price ⁽¹⁾ is higher than Estimated Price ⁽²⁾ by 5% or above	Increase Decrease	To negotiate ⁽³⁾ To negotiate ⁽³⁾

Notes:

- (1) Market Price is calculated based on the quotations obtained from at least three raw material suppliers.
- (2) Estimated Price is estimated by the executive Directors based on cotton prices quoted from public domain and relevant commodity index, which our management considers to be the reasonable price of raw materials to be procured. Our sales managers will assist the executive Directors by compiling the cotton prices and the estimated cotton fabric costs quoted from various suppliers.
- (3) If the raw material price quoted by suppliers is above the Estimated Price, we will negotiate with them and obtain quotes from other suppliers until the price, quantity and delivery schedule of relevant raw materials could be compromised in our best possible interest.

The abovementioned pricing strategy and procurement policy is determined, monitored and reviewed by the executive Directors. However, under such procurement policy, as we do not lock in profits on sales orders by immediately purchasing raw materials to meet the sales orders, our results of operations depend on our ability to accurately estimate the raw material price trend over the production period of the respective order and our ability to pass on the expected increase in raw material price, if any, when we negotiate product prices with our customers. Furthermore, as we receive purchase orders from our customers of the apparel supply chain servicing business normally three to six months ahead of the delivery of the products, fluctuations in the prices of raw materials and processing fees may significantly and adversely affect our profitability, especially if such prices are volatile on an increasing trend during the course of production. The cotton prices increased rapidly in late 2010 and peaked in the first quarter of 2011 and gradually decreased over the year. We recorded a windfall gain of approximately HK\$45.8 million in the year ended 31 December 2011, without taking into account of other operating expenses, as a result of the abovementioned pricing strategy and procurement policy. However, the executive Directors believe that windfall gain of this kind is unlikely to occur during any period when prices of our raw materials remain stable. For further details, please refer to the sections headed “Risk Factors — Risks relating to our business — Fluctuations in the price, availability and quality of raw materials could disrupt our production

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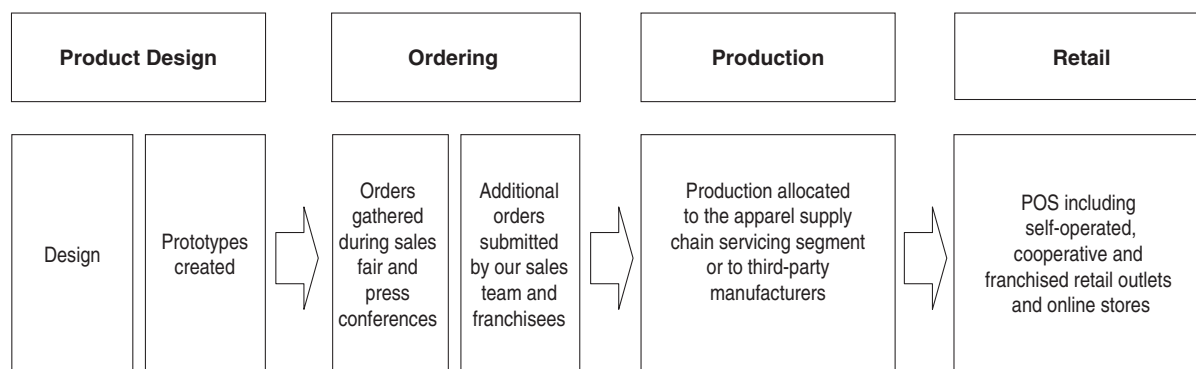
management operations and increase production costs” and “Risk Factors — Risks relating to our business — We may not be able to maintain our gross profit margin and growth in profit for the year in the future” in this prospectus.

During the Track Record Period, the correlation between the monthly purchase price of our major woven fabric and knitted fabric and the monthly price of China Cotton Index 328 was approximately 0.31 and 0.67, respectively, representing theoretically an increase of HK\$0.31 and HK\$0.67, respectively, in the cost of our woven fabric and knitted fabric for every dollar increase in cotton price. The correlation of woven fabric to cotton prices is relatively lower as woven fabric could be mixed with non-cotton materials, such as polyester and nylon whilst the correlation between knitted fabric is relatively higher because the knitted fabric that we need generally contains more cotton.

APPAREL RETAIL SEGMENT

Our Business Model

The following diagram illustrates our business model for the apparel retail segment:



Products

We offer a wide range of men’s and women’s apparel products including sweaters, blouses, downcoats, coats, jackets, skirts, dresses, trousers and t-shirts and accessory products including ties, scarves, footwear, bags, handbags, purses, hats and belts under our in-house apparel retail brands, namely, the *Unisex Brands* and the *Republic Brands*, as well as our Licensed Brands. Our *Unisex Brands* generally target both male and female consumers from 25 to 35 years of age who appreciate fashion with contemporary, trendy and stylish designs, whereas our *Republic Brands* target the younger population who seeks value for money products, frequently shops online and appreciates fashion with young, hip and casual designs. For details of our Licensed Brands, please refer to the section below. Our apparel and accessory products include both casual-wear and business-casual wear, and most of our products are capable of being mixed and matched in a variety of contexts. Each year, we provide our consumers a spring/summer collection and an autumn/winter collection of our branded apparel products.

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Our revenue derived from the apparel retail segment amounted to approximately HK\$31.1 million, HK\$44.1 million, HK\$49.5 million and HK\$26.9 million for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively, representing approximately 3.8%, 4.0%, 4.2% and 6.0% of our total revenue during the Track Record Period, respectively. Details of our in-house apparel retail brands are set out below:

Unisex Brands

Brands:	Unisex (优捷思) and UNX by Unisex
Establishment:	Since August 2004
Style:	Smart-casual and business-casual wear that possess contemporary, trendy and stylish elements
Target market:	Male and female consumers from 25 to 35 years of age who believe fashion can promote self-confidence and self-esteem of one-self
Sales network:	POS across the PRC and online stores

Concession Stores



Free-standing Stores



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Major products and general retail price range:

Approximately RMB490 to RMB4,890 for jackets, RMB270 to RMB1,690 for tops, RMB300 to RMB790 for bottoms and RMB100 to RMB1,490 for accessories



Republic Brands

Brands: Republic Hero (瑞派克羅) and Republic Queen (瑞派昆兒)

Establishment: Since October 2011

Style: Casual wear that possess young, hip and casual elements

Target market: The mass younger population who seeks value for money products and frequently shops online

Sales network: Online stores operating via www.tmall.com (<http://republichero.tmall.com> and <http://republicqueen.tmall.com>)

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Major products and
general retail
price range:

Approximately RMB200 to RMB900 for jackets, RMB50 to RMB600
for tops, RMB50 to RMB400 for bottoms and RMB30 to RMB700 for
accessories



Licensed Brands

In addition to our in-house apparel retail brands, we were granted the non-exclusive right to (i) manufacture, market and sell men's and women's garment products for an international fashion brand in the PRC; and (ii) market and sell men's and women's garment products for two other international fashion brands in the PRC as at the Latest Practicable Date. Apparel products of these three Licensed Brands and our *Unisex* Brands will be sold at our Unisex Life Outlets. Characteristics of these brands are:

- Licensed Brand A offers mainly visual aggressive line of graphic T-shirts and vintage denim washes and cuts which target men and women aged 18 to 35 who enjoy both Italian and Japanese fashion.
- Licensed Brand B is a Los Angeles brand which offers urban lifestyle streetwear line for both men and women.
- Licensed Brand C targets men and women aged 18 to 45 with a Californian carefree, laid-back spirit and enjoy the lifestyle of the "Modern Nomad".

We will continue to identify or select new brands to enhance our licensed brand portfolio and strive to ensure that the Licensed Brands are in-line with the ever-changing market trends.

During the Track Record Period, in addition to the above Licensed Brands A, B and C, we have been granted the non-exclusive right to manufacture, market and sell men's and women's garment products for another international fashion brand in the PRC (the "**Terminated Brand**"). The Terminated Brand is a Los Angeles jeans brand which targets men and women aged 18 or above and offers jeans that are trendy, sexy and comfortable. Pursuant to the distributorship agreement for the Terminated Brand, we were granted such right to manufacture, market and sell its men's and women's garment products for a period of five years from 4 January 2012. However, such right has been terminated by the respective licensor subsequent to the Track Record Period, which to the best knowledge, information and belief of the Directors, was mainly due to the change of ownership of the Terminated Brand. We have not generated any revenue from the manufacture, market and sales of products of the Terminated Brand during the Track Record Period. Neither the licensor or we are entitled to any early termination compensation under such distributorship agreement. The Directors confirm that we are not in any disagreement or dispute with the owner or licensor of the Terminated Brand, and that there are no outstanding debts between the licensor and us under the distributorship agreement in respect of the Terminated Brand. During the subsistence of this distribution right, we have created preliminary designs and prototypes for the licensor of the Terminated Brand, which the Directors confirm that we have incurred immaterial costs, which mainly related to costs incurred for product design and producing prototypes, and thus the termination does not have any material adverse effect on our financial position.

For each distributorship agreement to be entered into with each licensor of the targeted licensed brands, we will negotiate the terms of the agreement with the licensor based on arm's length commercial negotiations. As at the Latest Practicable Date, we have entered into two non-exclusive distributorship agreements for the three Licensed Brands and we set out below the major terms of the two distributorship agreements.

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Distributorship agreement for Licensed Brand A and the Terminated Brand

Licence rights:	To manufacture, market and sell men's and women's garment products for two international fashion brands
Region covered:	The PRC
Exclusivity of licence rights:	No
Current term:	For a period of five years from 4 January 2012, and shall be automatically renewed for another five years provided that all terms and conditions in the distributorship agreement is fulfilled
Distribution fee:	We are required to pay 7% of the retail sales value and 13% of the wholesales value to the licensor as distribution fee, which is to be paid on a quarterly basis within 30 days from the quarter end date
Our rights and responsibilities:	<p>To develop additional styles, other than the styles created by the licensor, for sales in the PRC and such additional styles shall be submitted to the licensor for approval prior to production</p> <p>To produce the styles created and/or approved by the licensor provided that (a) the production facilities nominated by us are capable of producing products that meet internationally acceptable standard and quality of similar branded products, (b) all main labels, hand tags and security labels shall be sourced and purchased from designated trim suppliers appointed by the licensor, and (c) all pre-production samples and shipment samples, together with production plan with information of style and production quantity of each style, should be submitted to the licensor for approval</p> <p>To submit monthly sales reports to the licensor which include information on sales amount, quantity and styles of each POS and the licensor shall be granted full access rights to the POS system and/or accounting system to enable the licensor to perform full audit to the reported sales</p> <p>To submit a retail business plan which includes the number of POS, size and location of each POS and the proposed retail price of the products for the licensor's approval</p> <p>To use our best efforts to promote the sale of products in the PRC, and advertising programmes for each year shall be discussed in advance</p>
Licensor's rights and responsibilities:	<p>To allow us to use their available designs and collections for men's and women's garment products for the licensed brand</p> <p>To discuss with us advertising programmes for each year in advance</p>
Termination arrangement:	The licensor or us may terminate the agreement by providing a three-month written notice to the other party

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Subsequent to the Track Record Period, the right under the Terminated Brand was terminated by the licensor. As at the Latest Practicable Date, we have not commenced the design and manufacture of apparel products for Licensed Brand A according to the distributorship agreement above.

Distributorship agreement for Licensed Brands B and C

Licence rights:	To market and sell men's and women's garment products for two international fashion brands
Region covered:	The PRC
Exclusivity of licence rights:	No
Current term:	For a period of five years from 4 January 2012, and shall be automatically renewed for another five years provided that all terms and conditions in the distributorship agreement is fulfilled
Distribution fee:	No distribution fee has been provided in the distributorship agreement as the Directors confirm that the only amount we need to pay the licensor is the purchase cost of garment products
Our rights and responsibilities:	<p>To submit a retail business plan which includes the number of POS, size and location of each POS and the proposed retail price of the products for the licensor's approval</p> <p>To use our best efforts to promote the sale of products in the PRC, and advertising programmes for each year shall be discussed in advance</p>
Licensor's rights and responsibilities:	To discuss with us advertising programmes for each year in advance
Termination arrangement:	The licensor or us may terminate the agreement by providing a three-month written notice to the other party

Other Brands

We may also conduct trials for potential licensed brands that we may want to negotiate licensing agreements with by purchasing a small quantity of apparel products for those brands from the brand owner or licensor and sell those products in our Unisex Life Outlets under the permission of the brand owner or licensor for a limited period of time. As at the Latest Practicable Date, we have one trial brand with apparel products being sold in our Unisex Life Outlets.

Product design

The apparel and accessory products offered by our *Unisex* Brands and our *Republic* Brands are designed and sourced by our design and development team under the apparel retail segment, which comprised of five personnel, of which three of the members have over ten years of experience in the fashion industry as at the Latest Practicable Date. It is led by our creative director, Mr. Arthur Lam, a well-known designer in Hong Kong. Mr. Arthur Lam has over ten years of experience in the fashion industry and has been recognised for his work in the fashion design field, where he has been awarded the "Winner for the Top Ten Outstanding Designers

Awards 2011” in the Hong Kong Art and Design Festival. He is a member of the Hong Kong Fashion Designers Association and has also served as an external examiner for the Higher Diploma in Fashion Design and Product Development at the Hong Kong Design Institute in 2011 and judge in the Hong Kong Young Fashion Designers’ Contest 2008 organised by the HKTDC.

Our sales network

Our sales network covered 47 cities in 19 provinces, autonomous regions and municipalities in the PRC and comprised a total of 87 Unisex Outlets and three Unisex Life Outlets, including 29 self-operated, 39 cooperative and 22 franchised retail outlets, as at the Latest Practicable Date. In 2012, we set up a total of 47 new Unisex Outlets and three Unisex Life Outlets and further expanded into southwest China such as Chongqing, Sichuan, Guizhou and Yunnan and south China such as Shenzhen. During 2012, we closed 41 Unisex Outlets mainly due to changes in retail environment in the area which our POS were located.

It is our strategy to locate our retail outlets in more prestigious shopping areas and across first, second and third-tier cities, where the spending power of consumers is greater in the PRC. Currently, our principal sales channel is selling through our Concession Stores in department stores. However, as more shopping centres open in major cities across the PRC, we are gradually increasing our presence in upscale shopping centres by opening more Free-standing Stores. We believe that a developing trend in the PRC is the shift of shopping patterns to shopping centres situated in more prestigious locations.

The following map and table illustrate the geographical distribution of the POS in our sales network in the PRC as at the Latest Practicable Date:



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Region	Number of self-operated retail outlets					Number of cooperative retail outlets					Number of franchised retail outlets				
	As at					As at					As at				
	31 December		30 June		From 1 July 2012 up to the Latest Practicable Date	31 December		30 June		From 1 July 2012 up to the Latest Practicable Date	31 December		30 June		From 1 July 2012 up to the Latest Practicable Date
	2009	2010	2011	2012		2009	2010	2011	2012		2009	2010	2011	2012	
East China ⁽¹⁾	21	23	21	21	17	19	19	11	11	10	17	15	21	20	15
South China ⁽²⁾	—	—	—	4	7	—	2	3	4	7	11	8	5	3	2
Southwest China ⁽³⁾	—	—	—	5	3	—	—	—	3	4	—	—	—	—	2
Northeast China ⁽⁴⁾	—	1	1	1	—	6	6	8	7	9	—	—	—	—	—
North China ⁽⁵⁾	—	—	—	—	2	8	14	7	7	8	2	3	3	3	3
Northwest China ⁽⁶⁾	—	—	—	—	—	1	1	1	1	1	2	1	—	—	—
Total	21	24	22	31	29	34	42	30	33	39	32	27	29	26	22

Notes:

- (1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
- (2) South China includes Hubei, Hunan, Henan and Guangdong.
- (3) Southwest China includes Sichuan, Guizhou, Yunnan and Chongqing.
- (4) Northeast China represents Heilongjiang and Liaoning.
- (5) North China includes Hebei, Shanxi, Inner Mongolia and Tianjin.
- (6) Northwest China includes Ningxia and Qinghai.

The following table sets out the breakdown of our revenue derived from our apparel retail segment by different sales channel:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000 (unaudited)	% of revenue	HK\$'000	% of revenue
Self-operated retail outlets	19,033	61.1	24,478	55.6	22,578	45.6	11,446	50.0	15,628	58.1
Cooperative retail outlets	7,826	25.1	11,382	25.8	14,129	28.5	6,570	28.7	6,967	25.9
Franchised retail outlets	4,288	13.8	7,751	17.6	10,167	20.5	3,613	15.8	2,812	10.5
Online stores ⁽¹⁾	—	—	456	1.0	2,656	5.4	1,243	5.5	1,483	5.5
Total revenue derived from our apparel retail segment	31,147	100.0	44,067	100.0	49,530	100.0	22,872	100.0	26,890	100.0

Note:

- (1) Refers to sales of products through internet platforms operated by Independent Third Parties, which either (i) do not exclusively sell our products, such as <http://unx2004.taobao.com> and <http://vipshop.com/sh.html>; or (ii) exclusively sell our products under our Republic Brands via www.tmall.com.

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The following table sets out the number of our self-operated, cooperative and franchised Concession Stores and Free-standing Stores and their respective movements, including additions and closure of retail outlets, during the Track Record Period and as at the Latest Practicable Date:

	Year ended 31 December									Six months ended 30 June			From 1 July 2012 up to the Latest Practicable Date		
	2009			2010			2011			2012					
	Additions during the year	Closure during the year	Total as at year-end	Additions during the year	Closure during the year	Total as at year-end	Additions during the year	Closure during the year	Total as at year-end	Additions during the period	Closure during the period	Total as at period-end	Additions during the period	Closure during the period	Total as at period-end
Self-operated retail outlets															
— Concession Stores	5	—	15	4	2	17	5	7	15	10	2	23	6	7	22
— Free-standing Stores	2	—	6	1	—	7	1	1	7	2	1	8	—	1	7
Sub-total	7	—	21	5	2	24	6	8	22	12	3	31	6	8	29
Cooperative retail outlets															
— Concession Stores	18	4	30	14	7	37	5	14	28	7	5	30	11	4	37
— Free-standing Stores	3	1	4	3	2	5	1	4	2	1	—	3	—	1	2
Sub-total	21	5	34	17	9	42	6	18	30	8	5	33	11	5	39
Franchised retail outlets															
— Concession Stores	27	2	30	11	15	26	15	15	26	5	6	25	7	11	21
— Free-Standing Stores	2	1	2	—	1	1	2	—	3	—	2	1	1	1	1
Sub-total	29	3	32	11	16	27	17	15	29	5	8	26	8	12	22
Total	57	8	87	33	27	93	29	41	81	25	16	90	25	25	90

Notes:

- (1) The number of addition and closure of stores during the Track Record Period also included the conversion of stores from one type to another. During the years ended 31 December 2009 and 2010, two and four franchised retail outlets have been converted to cooperative retail outlets, respectively. Furthermore, five cooperative retail outlets have been converted to franchised retail outlets during the year ended 31 December 2010. During the year ended 31 December 2011, one cooperative retail outlet have been converted to franchised retail outlet. During the six months ended 30 June 2012, three cooperative retail outlets have been converted to self-operated retail outlets.

During the years ended 31 December 2009, 2010 and 2011, the six months ended 30 June 2012 and from 1 July 2012 up to the Latest Practicable Date, 7, 5, 6, 12 and 6 self-operated retail outlets were set up, and 0, 2, 8, 3 and 8 self-operated retail outlets were closed-down, respectively. The addition of self-operated retail outlets was due to the expansion of our sales network. On the other hand, closures of our self-operated retail outlets were mainly due to external factors such as increased rental costs and unsatisfactory locations offered by department stores when they adjust locations of different brands. In addition, we seek to reduce the number of self-operated retail outlets that have generated sales performances that we consider are undesirable due to, among other factors, unsatisfactory customer traffic flow in the department stores or shopping malls where our self-operated retail outlets are located. The Directors confirm that we have recovered the start-up costs, including costs of purchasing products, staff costs, renovation expenses and costs of purchasing furniture and fixtures for majority of our self-operated retail outlets upon their closures.

During the years ended 31 December 2009, 2010 and 2011, the six months ended 30 June 2012 and from 1 July 2012 up to the Latest Practicable Date, 21, 17, 6, 8 and 11 cooperative retail outlets were set up, and 5, 9, 18, 5 and 5 cooperative retail outlets were closed-down, respectively. On the other hand, 29, 11, 17, 5 and 8 franchised retail outlets were set up during

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the years ended 31 December 2009, 2010 and 2011, the six months ended 30 June 2012 and from 1 July 2012 up to the Latest Practicable Date, and 3, 16, 15, 8 and 12 franchised retail outlets were closed-down, respectively. During the same period, we engaged 9, 1, 4, 1 and 3 new franchisees, while 2, 4, 5, 1 and 2 franchisees closed all their Unisex Outlets, respectively. The additions of our cooperative and franchised retail outlets, especially in the years ended 31 December 2009 and 2010, was due to our focus on expanding our sales network through the setting up of cooperative and franchised retail outlets. On the other hand, the closures of our cooperative and franchised retail outlets were mainly due to external factors such as unsatisfactory locations offered by department stores when they adjust locations of different brands, changes in the retail environment in the area surrounding our POS as well as terminations of cooperative and franchise agreements as discussed below. In addition, some POS were closed and re-opened in the vicinity where our cooperative partners or our franchisees and us considered more appropriate. The Directors confirm that we have recovered the start-up cost, including costs of purchasing products and costs of purchasing furniture and fixtures, for majority of our cooperative and franchised retail outlets upon their closures.

The following table sets out the number of our cooperative partners and franchisees and its respective movements, including additions and terminations, during the Track Record Period and as at the Latest Practicable Date:

	Year ended 31 December						Six months ended 30 June						From 1 July 2012		
	2009			2010			2011			2012			up to the Latest Practicable Date		
	Additions during the year	Terminations during the year	Total as at year-end	Additions during the year	Terminations during the year	Total as at year-end	Additions during the year	Terminations during the year	Total as at year-end	Additions during the period	Terminations during the period	Total as at period-end	Additions during the period	Terminations during the period	Total as at period-end
Cooperative partners	3	1	11	1	1	11	—	1	10	4	—	14	1	—	15
Franchisees	9	2	13	1	4	10	4	5	9	1	1	9	3	2	10

The decrease in the number of cooperative partners during the year ended 31 December 2011 and the decrease in the number of franchisees during the years ended 31 December 2010 and 2011 was mainly because certain cooperative partners and franchisees decided not to renew their agreements with us due to the increased rental costs, while certain other of the then franchisees increased their number of retail outlets through entering into cooperative arrangement with us.

Despite the number of POS we closed during the Track Record Period and up to the Latest Practicable Date, the Directors are of the opinion that our apparel retail segment will grow steadily in the future. Our retail operations department holds weekly and monthly meetings to discuss the performance of each of our POS and develop sales strategies. Furthermore, we continuously communicate with sales staff at the self-operated retail outlets, cooperative partners and franchisees and members of our retail operations department regularly visit each POS in person to obtain the latest information of each POS and understand the operating environment of its surrounding area. Based on experience accumulated from these measures, we have been able to fine-tune our retail management policies. Furthermore, we have recruited and appointed two personnel, each having over five years of experience in operation and development within the apparel retail industry, since 2011 to manage and oversee our expansion plans. In addition, we have continued to conduct assessments on the location and surrounding retail environment before a POS is opened. Hence, the average life of self-operated retail outlets that were closed during the Track Record Period and up to the Latest Practicable Date increased from approximately 20 months for the year ended 31 December 2010 to approximately 33 months for the period from 1 January 2012 up to the Latest Practicable Date, and the average life of cooperative retail outlets that were closed during the Track Record Period and up to the Latest Practicable Date increased from approximately 17 months for the year ended 31 December 2009 to approximately 35 months for the period from 1 January 2012 up to the Latest Practicable Date. Furthermore, we have been able to achieve a slight growth or

maintain the average sales per retail outlet for our self-operated retail outlets and cooperative retail outlets during the Track Record Period. The Directors are of the opinion that closures of POS are common in the apparel retail industry, which depend on the performance of each individual POS in order to optimise its network coverage and profitability. As such, with the slowdown of economic growth in the PRC, the Directors believe that it is an appropriate time to find suitable locations at a more reasonable price to open new retail outlets.

Self-operated retail outlets

We operate some of our retail outlets directly and they are either Concession Stores or Free-standing Stores. It is our policy to set up retail outlets that are self-operated in first-tier cities such as Beijing, Shanghai and Guangzhou as these are key cities with national importance and high population. Our self-operated retail outlets, like the franchised and cooperative retail outlets, are operated under our *Unisex* brand or Unisex Life brand with a uniform store appearance and exclusively sell our *Unisex* Brands apparel and accessory products, or apparel products under our Licensed Brands. Annual and monthly sales targets are set for each self-operated retail outlet, and we hold monthly meetings to discuss and assess sales performance of each self-operated retail outlet.

As at the Latest Practicable Date, we had 29 self-operated retail outlets in the PRC, representing approximately 32.3% of our total number of retail outlets in the PRC. The 29 self-operated retail outlets include 22 Concession Stores and seven Free-standing Stores. The majority of our self-operated retail outlets are located in prime commercial areas in Shanghai and Jiangsu province, which we lease from department stores and shopping malls directly for a term ranging from two to four years. We bear all operational costs for our self-operated retail outlets and recognise our sales when our products are sold to our retail customers. Hence, we expect the breakeven and investment payback period for opening a self-operated retail outlet to be normally within one year (for Concession Stores) and between 12 to 18 months (for Free-standing Stores). The longer breakeven and investment payback period for Free-standing Stores is mainly because we need to incur additional expenses in renovating structural furnishings such as ceilings and floorings of Free-standing Stores, whereas for Concession Stores, we only incur renovation expenses for the walls around our POS as structural furnishings are already available at the premises of the department stores. Revenue derived from our self-operated retail outlets are approximately HK\$19.0 million, HK\$24.5 million, HK\$22.6 million and HK\$15.6 million, respectively, accounting for approximately 61.1%, 55.6%, 45.6% and 58.1% of our total revenue from the apparel retail segment for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

Cooperative retail outlets

We enter into cooperative management agreement with third-party retail outlet operators which the Group considers are experienced to operate some of our retail outlets. It is our policy to expand our retail network through cooperative arrangement in second-tier cities where there are some well established apparel retail business operators. In order to prevent local competition between various retail outlets, in particular between self-operated, cooperative and franchised retail outlets, we have implemented policies that each of the cooperative partners may only open outlets in locations specified in its cooperation agreement, respective, and are not allowed to open any outlets in locations that are reserved for ourselves, or locations allocated to other cooperative partners and franchisees. As at the Latest Practicable Date, there were 39 cooperative retail outlets in the PRC, representing approximately 43.3% of our total number of retail outlets in the PRC. The 39 cooperative retail outlets include 37 Concession Stores and two Free-standing Stores. We engage these third-party operators because we believe that we could leverage on their experience, extensive connections in regional markets and more established relationships with respective local department stores and shopping malls

where we target to set up our retail outlets. Pursuant to our contractual arrangements, these third-party operators are typically responsible for securing us Concession Stores in local department stores or shopping malls or the leases of Free-standing Stores, and bear the store rental costs, store renovation costs and staff costs and are responsible for the day-to-day operations after the retail outlets are operational. Hence, we expect the breakeven and investment payback period for opening a cooperative retail outlet to be normally within six months. Annual and monthly sales targets are set for each cooperative retail outlet, and we hold monthly meetings with our cooperative partners to discuss and assess the sales performance of each cooperative retail outlet. The executive Directors confirm that we did not experience any material disputes with our cooperative partners during the Track Record Period.

We have the full ownership over the title of the products in the cooperative retail outlets and revenue generated from the sales in these retail outlets are recognised when our products are sold to our retail customers, of which we pay 35% to 65% of the monthly sales amount to third-party operators as their retail commissions. Sales derived from our cooperative retail outlets, net of retail commissions paid to third-party operators, were approximately HK\$7.8 million, HK\$11.4 million, HK\$14.1 million and HK\$7.0 million, respectively, accounting for approximately 25.1%, 25.8%, 28.5% and 25.9% of our total revenue from the apparel retail segment for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. As at the Latest Practicable Date, all third-party operators were Independent Third Parties. We strongly believe that by cooperating with the third-party operators, our apparel retail business will be able to penetrate into new markets and enhance nationwide recognitions of our in-house brands.

Cooperation agreement

As at the Latest Practicable Date, we have entered into 15 cooperation agreements, the salient terms of which are as follows:

- Territory:

Cooperative partners are only allowed to open retail outlets in the region/location specified in the agreement. No addition, termination or relocation of retail outlets can be carried out without our prior written consent.

- Brands and products:

Cooperative partners are only permitted to sell products under the *Unisex* Brands supplied by us in their retail outlets.

- Initial payment of lump sum surety:

All cooperative partners are required to pay us an initial lump sum surety of RMB50,000 to RMB120,000, depending on the size of the retail outlet, before opening a retail outlet to sell products under the *Unisex* Brands.

- Terms of sales:

Cooperative partners are required to remit to us 35% to 65% of the monthly sales amount, depending on the shop's turnover, the average discount rate offered by the shop and the operation cost of the shop. For discount stores or during promotional activities held by department stores and shopping malls, cooperative partners are required to remit to us 60% to 65%, depending on the actual sales amount.

- Logistics and delivery:

All damages caused during the delivery shall be borne by the cooperative partners.

- Stock loss arrangement:

Our cooperative partners and us will conduct inventory count every month and our cooperative partners are responsible for any stock losses.

- Publicity:

Cooperative partners are required to participate or contribute in all promotional or marketing activities offered and organised by us. We will provide all marketing materials, such as posters and shopping bags. Cooperative partners are not allowed to organise or participate in any marketing activities or promote our products without our prior written consent.

- Payments:

Cooperative partners are required to settle the monthly sales amount within the following month by bank transfer.

- Sub-franchising:

Cooperative partners are not allowed to transfer the operation of their retail outlets to any third party without our prior written consent.

- Confidentiality:

All information regarding our sales budget, product technology, marketing strategy, promotional arrangement, operational arrangement, consumer information, as well as terms and conditions stated in the cooperation agreement are required to be kept confidential at all times.

- Terms and termination:

We generally enter into cooperation agreements for terms of two to four years. We are entitled to terminate the agreements with our cooperative partners in the event of non-compliance with our cooperation policy as stated in the agreement. These matters may include (i) delay in settling payments to us, (ii) intentional or unintentional damages brought to us by our cooperative partners, (iii) selling our products outside of the agreed sales channels or sales regions and (iv) failure to meet satisfactory sales targets.

Further, under each of the cooperation agreement, there is no term setting out the number of retail outlets to be opened or maximum number of retail outlets could be opened by the cooperative partners.

Franchised retail outlets

As at the Latest Practicable Date, our apparel and accessory products were sold in 22 franchised retail outlets in the PRC, representing approximately 24.4% of our total number of retail outlets in the PRC. The 24 franchised retail outlets include 22 Concession Stores and two Free-standing Stores. We normally expand our retail network in second or third-tier cities through the franchising arrangement, of which apparel retail operators in second-tier cities that the Group considers are not as strong and experienced to qualify for being our cooperative partners selected as our franchisees. The majority of these franchised retail outlets are located in prime commercial locations in cities where we consider there is strong demand for trendy men's and women's apparel and accessory products. In order to prevent local competition between various retail outlets, in particular between self-operated, cooperative and franchised retail outlets, we have implemented policies that each of the franchisees may only open outlets in locations specified in its franchise agreement, respectively, and are not allowed to open any outlets in locations that are reserved for ourselves, or locations allocated to other franchisees and cooperative partners. We recognise sales when our products are delivered to our franchisees and titles have been passed to them. Sales derived from our franchisees were approximately HK\$4.3 million, HK\$7.8 million, HK\$10.2 million and HK\$2.8 million, respectively, accounting for approximately 13.8%, 17.6%, 20.5% and 10.5% of our total revenue from the apparel retail segment for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. The decrease in proportion of revenue derived from franchised retail outlets during the six months ended 30 June 2012 was mainly due to the decrease in number of new franchised retail outlets from 27 for the year ended 31 December 2011 to five for the six months ended 30 June 2012, as franchisees usually purchase more products upon the set up of a new franchised retail outlet to sufficiently stock up their outlets and their subsequent purchase orders would generally be less as such orders are usually to replenish products sold or to purchase new products.

While we do not offer any sales return option to our franchisees, it is our policy to sell our products to our franchisees with a right to exchange the purchased products within a prescribed percentage. As at the end of each financial reporting period, we have provided for a certain amount of goods estimated to be exchanged by our franchisees, which is calculated based on our accumulated experience, to offset against our revenue. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the amount of provision for goods exchange amounted to approximately HK\$0.7 million, HK\$0.8 million, HK\$0.2 million and HK\$0.3 million, respectively.

Our franchisees operate franchised retail outlets which exclusively sell our apparel and accessory products. Under our franchise business model, we enter into franchise agreements with our franchisees and sell our products to them on a wholesale basis. They select and order items during our seasonal sales fair and press conference and are responsible for the sales of such products delivered to them to the retail consumers in their franchised retail outlets. They are also responsible for the store rental costs, store renovation costs, staff costs and the day-to-day operations of the retail outlets. Hence, we expect the breakeven and investment payback period for us when a franchisee opens a retail outlet to be normally within six months. We have established relationships with our franchisees and have cooperated with some of them for three years or more. During the Track Record Period, we did not experience any material disputes with our franchisees. As at the Latest Practicable Date, all of our franchisees are Independent Third Parties.

Selection of our franchisees

We adopt strict selection procedures and criteria when selecting our franchisees. We require our prospective franchisee candidates to possess relevant managerial and retail industry experience, knowledge in our products as well as the local casual-wear market, strong operating

capabilities in franchising and brand management, sufficient assets and ability to locate prime location for the retail outlets. We also analyse each franchisee candidate's market reputation, sales platform and networking capabilities in their regions in relation to their prior or existing retail experience. After we have entered into a franchise agreement with our franchisees, we assist in evaluating the locations of their retail outlets. All of our franchisees are required to adopt the standardised retail outlet interior design and layout in their retail outlets that we provide and have our *Unisex* brand trademark displayed in their retail outlets.

Our franchisees are required to follow our unified national sales and pricing policy. Training and guidance to our franchisees are provided, which cover various aspects including our brand culture, store operational concepts, basic product information, display and sales techniques, customer service skills and after-sales service. In order to ensure the orderly operation of the franchised retail outlets and their compliance with our policies, our personnel from our sales team will conduct regular on-site inspections on store appearance, product displays and consumer services at every single franchised retail outlet across the PRC annually. In the event that any of our franchisees fail to adopt our sales policies, we will stop supplying products to them until such problem or failure has been rectified. We have the right to terminate the franchise agreements with franchisees who do not rectify non-compliance within a reasonable period of time. The Directors confirm that we had not experienced any material instances of non-compliances with our retail policies by our franchisees.

Franchise agreement

As at the Latest Practicable Date, we have entered into ten franchise agreements, the salient terms of which are as follows:

- Territory:

Franchisees are only allowed to open retail outlets in the region/location specified in the agreement. No addition, closing or relocation of retail outlets can be carried out without our prior written consent.

- Brands and products:

Franchisees are only permitted to sell products under the *Unisex* Brands supplied by us in their retail outlets.

- Payment of lump sum surety:

Franchisees are required to pay us an initial lump sum surety of RMB10,000 before opening a retail outlet to sell products under the *Unisex* Brands except for franchises which the Directors consider are sizable and credible.

- Initial orders and minimum purchase targets:

Some franchisees are required to meet minimum purchase targets ranging from RMB350,000 to RMB400,000 each year, of which we offer incentives if the minimum purchase target is met. The minimum purchase target and incentives granted are determined based on negotiations with the franchisees.

- Terms of purchase:

Our apparel and accessory products are sold at 35% to 40% of the suggested retail price to our franchisees, depending on the growth potential of the franchisee. Franchisees who manage retail outlets for the whole province are generally offered to purchase our products at 35% of the suggested retail price.

- Logistics and delivery:

Once the agreed amount of payment has been received from a franchisee, we will engage logistic providers to deliver our products to the designated location specified by the franchisee within three days. Delivery costs, as well as all damages caused during the delivery, shall be borne by the franchisee.

- Publicity:

Franchisees are required to participate or contribute in all promotional or marketing activities offered and organised by us. We will provide all marketing materials, such as posters and shopping bags. Franchisees are not allowed to organise or participate in any marketing activities or promote our products without our prior written consent.

- Payments:

Franchisees are required to settle the full purchase amount within three days after making the purchase order. We are entitled to transfer ordered goods to other franchisees or make other arrangements to the goods if payments are not received on time.

- Exchange of products:

Franchisees are entitled to exchange defective products within 30 days after delivery. Franchisees are also allowed to exchange between 10% to 15% of the products in their first year of operation, negotiated on a case-by-case basis. The policy on exchange of products is determined based on whether the retail outlet is located in a new market or a market with high growth potential. All costs and expenses associated with the exchange of products shall be borne by the franchisee.

- Sub-franchising:

Franchisees are not allowed to transfer the operation of their retail outlets to any third party without our prior written consent.

- Confidentiality:

All information regarding our sales budget, product technology, marketing strategy, promotional arrangement, operational arrangement, consumer information, as well as terms and conditions stated in the franchise agreement are required to be kept confidential at all times.

- Terms and termination:

We generally enter into franchise agreements for terms of two years. We are entitled to terminate the agreements with our franchisees in the event of non-compliance with our franchise policy as stated in the agreement. These matters may include (i) delay in settling

payments to us, (ii) intentional or unintentional damages brought to us by our franchisees, (iii) selling our products outside of the agreed sales channels or sales regions and (iv) failure to meet satisfactory sales targets.

Further, under each of the franchisee agreement, there is no term setting out the number of retail outlets to be opened or maximum number of retail outlets could be opened by the franchisees.

Online sales

Since 2010, we engaged Independent Third Party online sales agents to sell our out-of-season apparel and accessory products on a non-exclusive basis on online stores, such as www.vipshop.net (唯品網) and www.taobao.com (淘寶網). These products are usually sold through online sales agents to end-consumers at 50% to 90% discount. Once we receive an initial lump sum surety from these online sales agents, they act as consignees of our products and have the right to return all unsold items to us at the end of the cooperation period. In addition, we maintain online sales platforms from time to time to sell our *Unisex Brand* products.

With the anticipation of further growth of internet users in China and the increasing purchasing power of PRC consumers, we established and launched our new in-house brand, the *Republic Brands*, in October 2011, and has begun to offer such products on our two internet stores operating via www.tmall.com in December 2011, namely <http://republichero.tmall.com> and <http://republicqueen.tmall.com>. Tmall.com is an Independent Third Party sales platform which does not exclusively sell our products. Online stores were set up by us to display and sell our products. Sales proceeds from our online stores are transferred to us from Alipay (a platform providing escrow service for online payment) after delivery of our products to the customers and upon the customers' confirmation of receipt of such products or if the customers neither confirm nor apply for refund within a prescribed period.

Our online sales amounted to approximately HK\$0.5 million, HK\$2.7 million and HK\$1.5 million for the years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, respectively. As advised by our PRC legal advisor, Jingtian & Gongcheng, our online sales business complies with the relevant PRC rules and regulations and we are not required to obtain any approvals or licences for this business as it is conducted through a third-party internet trading platform.

Procurement

Orders for producing our retail apparel and accessory products are allocated to and produced by third-party manufacturers that we have carefully selected. We also make use of the platform of our apparel supply chain servicing segment to produce apparel products.

Orders gathered during sales fairs and press conferences will be passed to our third-party manufacturers or our own production facilities. For the remaining demand of the season, franchisees will monitor their actual sales performance of the products before submitting supplemental purchase orders. For our self-operated and cooperative retail outlets, our sales team will monitor each product's sales performance through our ERP system and place extra orders internally. By adopting the pre-ordering and re-ordering scheme, we believe we are able to manage our production schedule more effectively and minimise production surplus or unpopular products while allowing us to respond quickly to meet consumers' demand.

We adopt similar selection criteria for our third-party manufacturers under the apparel retail segment and those under the apparel supply chain servicing segment. For further details of our selection criteria, please refer to the paragraph headed “Apparel Supply Chain Servicing Segment — Production management — Third-party manufacturers” in this section of the prospectus.

Retail operations and management

Our retail operations department is responsible for the day to day operations of the apparel retail segment. Their main duties include the selection of suitable locations where our POS are to be situated, provision of training sessions to all retail personnel, conducting regular checks on our POS and interviews with our consumers, formulation of pricing strategies, as well as cash and inventory management. As at the Latest Practicable Date, our retail operations department comprised of 127 personnel and is led by Mr. Wong Yung and Mr. Lam Chi Sum who possess over 20 years of experience in the apparel retail industry. Most of our senior members of the retail operations department possess over five years of experience in the apparel retail industry.

Interior design of retail outlets

All of our POS are characterised by a distinctive store identity under our *Unisex* brand or Unisex Life brand and use black and white as the major colour and wood as the major theme. All interior design and layout of the POS are created by our interior design team and are also based on our internal guidelines which stipulate that all retail outlets should present a consistent visual image, particularly through the design and colour of the shop fronts, product displays, price tags, cashier counters and staff uniforms. As at the Latest Practicable Date, our interior design team is comprised of two personnel and led by Mr. Arthur Lam.

Location

One of the major factors attributable to the success of the operation of retail outlets is location. Hence, before a POS is opened, we strictly assess its location and surrounding retail environment, including attributes such as competitiveness, growth potential and market acceptability. All our POS are typically located in first, second and third-tier cities where the spending power of consumers is greater as compared to cities of lower tiers in the PRC. There is no difference in the selection criteria in determining the location within the first, second and third-tier cities to open self-operated, cooperative and franchised retail outlets, and we normally choose to locate our POS in prestigious department retail outlets or shopping malls where more fashion and trendy brands are located as well as on streets with high levels of pedestrian traffic flow. We conduct research to determine areas that are more popular amongst the younger generation in the society (i.e. 25 to 35 years of age) and cooperate with third-party operators with extensive regional experience and networks in order to secure more premier sites in the city for our POS. Some of the factors we consider when determining the location of a new POS are as follows:

- large and trendy department stores or shopping malls in the prime commercial district, which target consumers with high spending power;
- high pedestrian flow compared to other apparel retail business areas;
- convenient access and parking;
- size of store: from 50 to 100 sq. m. for Concession Stores and 100 to 400 sq. m. for Free-standing Stores; and

- adequate and reliable supply of electricity.

Consumer service

In order to ensure the continuing growth in our market share and business in the apparel retail market, all of our staff are trained to offer quality consumer services so that our retail customers will enjoy their shopping experience with us. We provide training to all newly recruited retail personnel in all of our POS on knowledge of our products, sales techniques, servicing techniques and etiquettes, store operational knowledge and fire and safety measures. Our training department also regularly holds training sessions to all retail personnel on information about new products sales technique development, product display, servicing techniques and promotional schemes. In addition, the retail operations department of our apparel retail business conducts regular checks on our POS and interviews with our consumers to make sure the consumer service we provide are up to standard. Furthermore, our sales department operates a consumer service hotline and email to establish a communication channel between our consumers and us. We also offer exchange or refund for all items purchased at the POS within one month from the date of purchase.

Pricing strategy

We formulate detailed pricing guidelines, which standardise the retail prices for all of our products nationwide in the PRC. In determining our standardised retail prices, we take into consideration factors such as production costs and the expected gross profit margin. While the pricing strategy on our products is relatively stable, in order to effectively maintain our price competitiveness and sales volume, our promotional activities are being reviewed and adjusted regularly based on: (i) market response to existing individual products and their recommended retail price; (ii) level of sales inventory of different products; (iii) the expected profit margin on individual products; and (iv) the anticipated economic environment, market trends, consumer's taste and preference and expected demand from consumers. In order to unify our product specifications and standards, all of our POS adopt the same retail price for each individual product. We believe that by maintaining a uniform pricing policy, the interests of our franchisees could be protected and unhealthy competition with and among our franchisees could be avoided. We will also periodically offer discounts and promotional schemes at the POS.

Cash and financial management

All of our POS have installed the ERP system, which our sales team could monitor from time to time detailed reports of sales revenues with breakdown of products sold of each POS. This system enables us to constantly monitor the performance of each POS in order to estimate subsequent sales and levels of inventory that are required.

Sales at our self-operated Free-standing Stores are paid for at the time of purchase by cash or credit card. We have adopted strict internal control procedures for handling cash at all of our self-operated Free-standing Stores, including the following:

- daily reconciliation of sales amount recorded by the ERP system to cash received and debit or credit card statements;
- all cash receipts are required to be locked in a safe at day end and deposited into a designated bank account on the following day; and

- our finance department will double check the amount of cash deposited and debit or credit card statements against the sales amount recorded in the ERP system to ensure sales recorded and cash transmitted by our self-operated Free-standing Stores are accurate.

Sales proceeds of our Concession Stores are first collected at the sales counters operated by the department stores where such Concession Stores are located. The balance will then be settled between the department stores and us on a monthly basis. Payment is generally remitted to us from the department store after deduction of agreed expenses. As at the Latest Practicable Date, the Directors confirm that we had not experienced any material disputes in collecting the sales proceeds of our Concession Stores from the respective department stores.

Retail inventory management

We have implemented uniform policies to monitor and control the sales performance and inventory levels of all of our POS in order to prevent excessive accumulation of inventories. This policy also applies to our franchised retail outlets even though the risks and rewards of the inventories are already passed to the franchisees when products are sold to them. Our sales team monitors the retail inventory, including inventory level, inventory age and inventory composition, daily. For example, each POS is required to submit a daily sales report, so that we could track their sales performance closely and analyse their inventory flow. This can also help us identify and procure more popular products and make internal adjustments to our inventories by transferring products among our self-operated and cooperative retail outlets. In addition, these measures allow us to gather sufficient information and data regarding the market acceptance of our products so that we can reflect the consumers' preferences on the design of our products in the next season. To further minimise the risk of excessive aged inventory, it is our policy to regularly review the obsolescence of inventory based on the expected future saleability and the age of the inventories. For retail apparel and accessory products with substantial inventory age in our self-operated or cooperative retail outlets, we generally sell them at a discount through participating in promotional sales organised by various department stores, through seasonal sales held in our POS, through transferring them to our three POS in Shanghai which sell products at discounted prices throughout the whole year, or through online platforms. We will also actively encourage our franchisees to organise promotional activities, at the franchisees' own expenses, if we noticed that they have accumulated products with substantial inventory age during our active monitoring of the inventory level and age at our franchised retail outlets. We carry out physical stock counts from time to time to identify obsolete or damaged retail goods. We believe these measures prevent the accumulation of inventory in our POS, especially franchised retail outlets, which may adversely affect the volume of orders placed by our franchisees of our products for upcoming seasons.

As we have the full ownership over the title of the products offered in the self-operated and cooperative retail outlets, we closely monitor the level of inventories through the ERP system installed in each self-operated and cooperative retail outlet. In addition, our sales team conducts monthly physical counts at our self-operated and cooperative retail outlets to ensure that the level of inventories recorded in the ERP system is accurate and any stock losses in our cooperative retail outlets shall be responsible by our cooperative partners.

OUR CUSTOMERS AND SUPPLIERS

Customers

Customers of our apparel supply chain servicing business are mainly owners or agents of global reputable apparel retail brands, which products are sold in a number of countries and are widely-known to the general public such as Giordano, Baleno and Armani Exchange. We do not

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treat owners and agents of global brands as different types of customers and the terms of sales offered to them do not contain material differences. The following table sets out a breakdown of the Group's revenue from the above customers for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Giordano	528,291	616,486	741,479	329,233	313,231
Baleno	61,148	92,379	142,936	25,391	21,250
Agent of Armani Exchange	11,400	10,192	12,806	3,801	9,703

We had a customer base of over 80, 70, 60 and 40 customers under our apparel supply chain servicing business in the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. In order to focus our resources on customers which we consider are more valuable, we have been eliminating relatively small orders or customers that offer relatively less favourable terms. The decrease in customer base was also because production orders received from some customers, such as for the production of uniforms for the customers' corporations, were non-recurrent in nature. In addition, to the best of the Directors' knowledge, some customers shifted their purchase orders to other suppliers that may offer more competitive terms. The Directors confirm that the Group did not encounter any difficulties in maintaining relationships with or securing purchase orders from its customers during the Track Record Period and up to the Latest Practicable Date.

The woven wear and cut-and-sewn knitwear products produced under our apparel supply chain servicing segment are primarily sold in the PRC and Hong Kong as well as a minimal amount sold in other countries around the world. Our customers under the apparel supply chain servicing business are mainly apparel retailers focusing on the Asian market, in particular the PRC. As our apparel retail business grows, these customers may consider our apparel retail business poses threats to their business. As a result, these customers, in particular Giordano, may reduce or discontinue their purchase orders with us. For further details, please refer to the section headed "Risk Factors — Risks relating to our business — Our apparel retail business may adversely impact our relationships with customers of our apparel supply chain servicing business, in particular Giordano" in this prospectus.

However, the Directors believe our plan to expand the apparel retail segment would not affect the relationship with customers under our apparel supply chain servicing business, in particular Giordano, due to such potential competition, which the Directors consider to be minimal, on the following basis:

- (i) our apparel retail business and apparel supply chain servicing business are managed by two separate teams independently and we maintain different product design and development teams for each of these segments. Further, we have a set of strict internal guidelines that governs the management of confidential information, such as product designs, samples, prototypes and raw materials used. Such internal guidelines are circulated internally and externally to our third-party manufacturers. With the separate management and the guideline in the management of confidential information, it will provide our customers reassurance that the information obtained from them will not be used to compete with their business by us or by our other customers. Further, it ensured us that the style of apparel products designed and developed by us for our customers under the apparel supply chain servicing segment would not be the same as from those offered under the apparel retail segment. The Directors consider that such guideline not only effectively manages and prevents the

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leakage of information between the apparel supply chain servicing segment and the apparel retail segment, but also prevents the leakage of information between customers of our apparel supply chain servicing business which may also be competitors of each other; and

- (ii) we have been developing our apparel retail segment since 2004 and we continue to maintain long term and stable relationship with our customers under the apparel supply chain servicing segment throughout the years, including Giordano, our largest customer during the Track Record Period. Further, the Directors believe its customers have not regarded our apparel retail business segment as competing with their retail business, which is evident from the growth of our apparel supply chain servicing segment during the Track Record Period, where our revenue from the segment increased from HK\$799.1 million for the year ended 31 December 2009 to approximately HK\$1,118.4 million for the year ended 31 December 2011.

All these measures and attributes allow us to reduce the risk of engaging in competition with our customers under the apparel supply chain servicing segment, in particular Giordano, and assisted us in establishing and maintaining long-term relationships with them.

In addition, the Directors believe that the market demand of apparel products in China is huge and there are numerous apparel retailers in the PRC market without a dominant market player, hence there is still room for our apparel retail business to grow and the chances of competing with customers under our apparel supply chain servicing business is minimal. The Directors confirm that the sales terms with customers under the apparel supply chain servicing segment do not restrict us from engaging in apparel retail business. During the Track Record Period and up to the Latest Practicable Date, we believe that customers of our apparel supply chain servicing business are aware of our apparel retail business but the Directors confirm that we have not received any complaints from our customers regarding potential competition or leak of information of product designs.

Notwithstanding the above, we strive to broaden our customer base under the apparel supply chain servicing business by continuing our effort in developing new customers and strengthening our business relationship with existing customers by focusing on our strengths in product design and development, such as quick response to market trends, and offering production management services that are competitive in price and value-for-money with a view to diversify our risk of concentration in a number of customers.

One of our top five customers during the Track Record Period is Giordano, who is the holding company of Obvious Success, our corporate Shareholder. The Directors confirm that all of our top five customers during the Track Record Period are Independent Third Parties. On the other hand, customers of our apparel retail business are referring to the retail consumers of our self-operated and cooperative retail outlets and our franchisees. As at 31 December 2009, 2010 and 2011 and 30 June 2012, we had 13, 10, 9 and 9 franchisees, respectively.

We grant customers of our apparel supply chain servicing business a credit period of 30 to 90 days and they are generally required to settle their trade balances with us by bank transfer or by cheque. When determining the granting of credit period to new customers, we will take into account profile of such new customers such as its brand awareness, scale of operation from public sources, where available, and market intelligence. For some of the overseas customers, we will also obtain insurance from the Hong Kong Export Credit Insurance Corporation to mitigate potential credit risk. Under the apparel retail segment, consumers who purchase from our self-operated retail outlets are required to pay at the time of purchase by cash or credit card.

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On the other hand, our cooperative partners are required to settle their payments through bank transfer on a monthly basis. For our franchisees, they are required to settle the full purchase amount within three days after making the purchase order.

Our sales to the top five customers of the Group accounted for approximately 81.9%, 82.6%, 84.5% and 86.3% of our total revenue, and the largest customer of the Group, Giordano, accounted for approximately 63.6%, 55.9%, 63.5% and 70.1% of our total revenue for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. None of the Directors, their associates, or any Shareholders, who, to the knowledge of the Directors, owns more than 5% of our issued share capital (without taking into account of any exercise of the Over-allotment Option), had any interest in any of our top five customers, during the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012.

Suppliers

Suppliers of the Group include suppliers of raw materials as well as third-party manufacturers which manufacture finished or semi-finished apparel products. We have cooperated with the majority of our key suppliers for over three years. During the Track Record Period, we engaged over 300 raw material suppliers and approximately 100 third-party manufacturers. According to the purchase agreements with our suppliers and manufacturers, we generally settle the trade payables with them by telegraphic transfer or by cheque(s), whereas small quantity orders from suppliers/manufacturers will be settled by cash or cheque. In addition, we generally enjoy a credit term of up to 90 days to settle payment.

The five largest suppliers of the Group, which comprise raw material suppliers and third-party manufacturers, accounted for approximately 26.9%, 24.8%, 26.7% and 32.5% of our total purchases for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. The largest supplier of the Group, who is a third-party manufacturer for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2012 and a raw material supplier for the year ended 31 December 2011, accounted for 6.9%, 7.3%, 6.4% and 7.9% of our total purchases for the above respective periods, respectively. None of the Directors, their associates, or any shareholders who, to the knowledge of the Directors owns more than 5% of our issued share capital (without taking into account any exercise of the Over-allotment Option), had any interest in any of our top five suppliers and manufacturers, during the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

OUR RELATIONSHIP WITH GIORDANO

Giordano was our largest customer during the Track Record Period and accounted for approximately 63.6%, 55.9%, 63.5% and 70.1% of our total revenue for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively. Although our sales to Giordano for the six months ended 30 June 2012 decreased to approximately HK\$313.2 million compared to that of approximately HK\$329.2 million for the six months ended 30 June 2011, the proportion of our revenue derived from Giordano increased during the six months ended 30 June 2012 as we have not accepted certain sales orders from a number of customers which we considered not commercially viable according to the terms offered or sales orders from customers with long overdue records, of which we believe were isolated cases given the large amount of orders we received from our customers each year during the Track Record Period.

We believe that Giordano is one of the most recognised established casual wear retailers in the Asia Pacific region. Based on the audited financial statements of Giordano for the year ended 31 December 2011, the turnover and gross profit of Giordano for the year amounted to approximately HK\$5,614 million and HK\$3,283 million, respectively. For the six months ended 30 June 2012, the unaudited turnover and gross profit of Giordano were approximately HK\$2,698 million and HK\$1,566 million, respectively. For the three months ended 30 September 2012, the unaudited turnover and gross profit of Giordano were approximately HK\$1,270 million and HK\$733 million, respectively. Given our long-term relationship with Giordano, we believe that our production know-how, quality and cost of our products have met the requirements of Giordano and its customers, therefore, favour both parties to continue the course of dealings.

Background of Giordano

Giordano was established in 1981 and has been listed on the Stock Exchange since 1991. Its current principal place of business is situated in Hong Kong. According to Giordano's official website and its announcement of interim results for the six months ended 30 June 2012, Giordano had over 2,700 retail outlets in 40 territories worldwide, such as the PRC, Hong Kong, Singapore, South Korea, Australia and the Middle East as at June 2012, and employs over 8,000 staff.

History with Giordano

Building on the extensive experience and reputation of the Huang Brothers' in the apparel supply chain servicing industry, our relationship with Giordano started in 2004 when Giordano invested in Higrowth through Master Trend, and we have maintained long-term business relationships with Giordano since then. Save and except for ongoing business relationship between Giordano and us, as well as the fact that Giordano is the holding company of Obvious Success, our corporate Shareholder, Giordano has no past or present relationship with the Group, the Controlling Shareholders, the Directors and their respective associates.

Contractual arrangements with Giordano

As we believe it is common in the apparel supply chain servicing industry, we have not entered into any long-term sales contract with Giordano. Instead, we have entered into a manufacturing licence agreement with Giordano pursuant to which we are appointed as an authorised non-exclusive manufacturer of products bearing trademarks owned by Giordano. Under the manufacturing licence agreement, Giordano places individual purchase orders to us. The Directors believe that such arrangement offers us flexibility in our operations to cater for the dynamic changes in the apparel supply chain servicing industry. The following sets out the major terms of the manufacturing licence agreement entered into with Giordano:

- We are granted a licence to manufacture goods for trademarks provided by Giordano in any premises for any period in any manner as specified in purchase orders placed by Giordano in accordance with the designs, drawings, specifications, samples and/or technical descriptions furnished or approved by Giordano;
- Goods produced in accordance with designs furnished by Giordano must not be produced, in whole or in part, under any other brand name, label, trademark, designation or symbol;
- Any of Giordano's designs, drawings, specifications, samples, technical descriptions or other documents or information are not allowed to be furnished to any third parties without obtaining Giordano's written consent;

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- All products and production processes must comply with the quality requirements specified by Giordano;
- No subcontracting of the production process is allowed without Giordano's prior written consent;
- The manufacturing licence agreement may be terminated if either Giordano or us fails to perform any of the terms, conditions, agreements or covenants in the agreement for a period of 30 days after written notice is served on the defaulting party requiring compliance. Either Giordano or us may also terminate the manufacturing licence agreement without cause by giving the other party two months' written notice; and
- Unless it is solely caused by the negligence of Giordano, we are required to hold Giordano harmless from, and to fully indemnify Giordano against, any and all liabilities and to assume all responsibility and expenses in the event of complaints, claims or legal actions against Giordano resulting from or arising out of the purchase, sale and/or use of products provided by us.

Under the above manufacturing licence agreement, we are not under any obligation to provide Giordano with any operational information of the Group. As such, the Directors believe that Giordano would not have obtained information of the Group, such as costs and sales prices, which are not available to other customers of our apparel supply chain servicing business. Furthermore, even though Giordano is the holding company of Obvious Success, our corporate Shareholder, we only provide audited financial reports annually to Giordano, which does not include operational information. Hence, the Directors confirm that Giordano has not exercised any influence or restriction on the operations of our apparel supply chain servicing business and as a result, transactions with Giordano are accounted for under a normal customer-supplier relationship and the Directors consider this treatment is appropriate based on the current arrangement with Giordano.

During the Track Record Period, we have obtained prior written consents from Giordano for subcontracting the apparel production process to third-party manufacturers. The Directors confirm that we had not incurred any liability or assumed any expenses arising from complaints, claims or legal actions against Giordano resulting from the products we provided to them during the Track Record Period and up to the Latest Practicable Date.

Furthermore, we have also entered into a non-legally binding memorandum of cooperation in the end of 2011 pursuant to which Giordano will, in its best commercial effort, appoint us as the manufacturer and supplier of their products and the total purchase amount will be at least HK\$500 million each year. Such memorandum of cooperation is valid until 31 December 2016 and will be automatically renewed unless both parties agree to terminate it in writing.

Valued business partner and mutual reliance

We are a supplier to Giordano instead of a subcontractor and we have the right to independently select third-party manufacturers as approved by Giordano and negotiate the purchase price from such third-party manufacturers without influenced by Giordano. Throughout our business relationship with Giordano, we believe that the continuous support and contribution we provided to Giordano enabled us to become one of its valued business partners, hence a mutual reliance in terms of sales and cost effectiveness has been developed.

According to the audited financial statements of Giordano for the years ended 31 December 2009, 2010 and 2011 and the unaudited interim results for the six months ended 30 June 2012, Giordano's cost of sales amounted to approximately HK\$2,058 million, HK\$2,000

million, HK\$2,331 million and HK\$1,132 million, respectively. During the same periods, approximately HK\$528 million, HK\$616 million and HK\$741 million and HK\$313 million of the Group's revenue was attributed to Giordano. Based on these financial figures as a point of reference only, we believe that we are one of the key apparel supply chain services providers to Giordano. However, it should be noted that the breakdown of Giordano's cost of sales is not publicly available and its total purchases of apparel products is unknown. As such, the above figures are for illustration purposes only and should not be unduly relied upon.

Furthermore, we have been selected by Giordano as an authorised supplier to access their in-house purchase order information systems, so that we can perform frequent and proactive inventory monitoring of their sales and inventory information in each country where they have sales operations. As a result, we could efficiently and accurately prioritise the production schedule of items that have been agreed or labelled as popular by Giordano, without otherwise the need to first liaise with them, and proceed production once obtaining confirmation from them. During the Track Record Period, we have not suffered any losses as a result of rejection of our products by Giordano.

QUALITY CONTROL

We believe that our commitment to quality control is one of the principal factors contributing to our success and have established a strict quality control system and a set of in-house quality standards. Speedy Dongguan has obtained the WRAP and BSCI quality management certifications for the provision of services in respect of apparel products and we have an in-house factory compliance personnel to closely supervise all details that we are to comply with in our Dongguan plant for maintaining the WRAP and BSCI certifications.

Our quality control process starts early in the design and development stage when we consider the functionality and quality of materials to be used for manufacturing. Raw materials that we purchased are checked by members of our quality control and assurance departments by performing standard tests on areas such as pH value, fibre strength and dimensional stability to washing and at the same time sent to independent external laboratories to perform more extensive fabric testing in accordance to applicable national and overseas standards such as the Standard for Fibre Content in Textile Products (紡織品纖維含量標識), and test reports will be sent to us within three to seven days once all tests have been performed. Once the final designs and detailed specifications are ready, our third-party manufacturers or us will first produce pre-production samples which will be reviewed by members of our product design and development and quality assurance departments before mass production and may be subject to modifications, if necessary. Tests on the pre-production samples include material composition, formaldehyde content, pH value, odour, colour fastness and resistance to pilling. Mass production by our external manufacturers will only commence upon our approval.

During the production process, we arrange for members of our quality control and assurance departments to conduct on-site inspections of all semi-finished products at all production stages in our third-party manufacturers' factories. After the production process, we will again conduct quality inspections against the finished products manufactured by our third-party manufacturers to assess the quality and functionality before they are delivered to our branded customers' designated warehouses or retail outlets or our POS. Samples of finished products will again be sent to independent external laboratories to perform an extensive final fabric testing. For defective products, members of our quality control and assurance departments will arrange with the relevant third-party manufacturer for repair or return, and any repaired product will be inspected again through the above process.

Our quality control and assurance departments of our apparel supply chain servicing segment and apparel retail segment consist of 35 and two employees, respectively as at the Latest Practicable Date. Members of our quality control and assurance departments possess extensive industry knowledge, with an average of over nine years of industry experience. Meetings are held to ensure that our quality control and assurance procedures comply with in-house standards. The Directors confirm that there were no material product recalls, major complaints against our products, or any material amount of sales return during the Track Record Period and as at the Latest Practicable Date.

MARKETING AND PROMOTION

Apparel supply chain servicing segment

We began to provide apparel supply chain services for a number of owners or agents of global brands since 2004 and have established a long-term relationship with a majority of our customers since then due to reliable services that we offer and high quality products delivered. Our product design and development teams are responsible for the daily communication and liaison with our customers for exploring opportunities for new orders or follow-up with existing orders, therefore, we do not actively market the apparel supply chain services that we provide. However, as we plan to stably increase the customer base of our apparel supply chain servicing business, we are actively exploring opportunities to work with more global brand owners by attending national and international conferences and trade fairs and advertise on the HKTDC website.

Apparel retail segment

Our marketing team under our apparel retail segment is responsible for establishing our overall marketing strategies, organising promotional events as well as press conferences and handles our national promotional activities, including billboard advertisements, sponsorship of attire at entertainment shows and designing and distributing seasonal product brochures and catalogues. Our marketing team also oversees the regional promotional activities run by our franchisees to ensure that they are in line with our in-house regular promotion guidelines. Our promotional expenses accounted for approximately 14.5%, 12.6%, 9.2% and 8.2% of our selling expenses for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

We organised national advertising and promotional campaigns through a variety of media channels, including those detailed below:

- Sales fair and press conference: we organise two sales fairs and press conferences annually which we aim to introduce our new collection and designs for the coming season to our franchisees and our cooperative partners, as well as sales personnel of our self-operated retail outlets, leasing representatives of department stores and/or shopping malls that we may or have already set up retail outlets with and agents of global and local brands. Sales fairs and press conferences will normally be organised approximately six months ahead of the launch of the coming season's products to showcase the new collection of our apparel retail products. Normally one sales fair is held in October or November for the next spring and summer collection, and the other in April or May for the coming autumn and winter collection. At the sales fairs and press conferences, our sales team will explain the coming season's theme and style in detail and collect initial orders from our franchisees detailing the styles and quantity of the products they requested.

- Event/seasonal promotions, giveaways and discounts: from time to time, we participate in and sponsor promotional events organised within the department stores and/or shopping malls where our retail outlets are located. Such promotions generally entail price reduction on selected items or giving out souvenirs on purchase of selected items and are typically held on anniversaries and holidays. On the other hand, discounts are also being offered on selected products for promotional periods which usually take place at the end of each season.
- VIP membership programme: we have implemented a VIP membership programme since October 2008 and it aims to identify new consumers and solidify our relationship with existing consumers, enhance loyalty of existing members, encourage existing members to purchase a wider range of our products and thereby increase the average spending of each member. A consumer who spends a certain amount on purchases over a certain specified period will be offered a VIP membership. VIP membership enables our consumers to enjoy a special discount of 20% off when they purchase our products. As at 30 June 2012, we had over 11,100 VIP members.
- Commercial media: we use visual advertisements which are generally placed on billboards located in popular shopping malls and outside prestigious department stores. These advertisements can promote our products and brand image. We also sponsor entertainment shows and provide attire for their master of ceremony. In addition, we issue brochures for our newly launched products and give away to our consumers within some of our retail outlets. We utilise our website <http://www.unx-unisex.com> to introduce to the public our brand and our apparel products, as well as promotional information. Our website also provides visitor with an introduction to our brand and details relating to our POS including location and opening hours and our promotional items.

INVENTORY CONTROL

The apparel and accessory market exhibits seasonality and is subject to dynamic changes in trends and consumers' preferences. Our inventory policy is to maintain low levels of inventory while assisting part of the customers of our apparel supply chain servicing segment as well as all of our POS to maintain sufficient levels of sellable products. We utilise an ERP system which provides our management with real time information regarding our inventory, including inventory history, stock maintenance, transfer and receipt of products, sales invoicing and recording for their continuous tracking purpose. All of our POS are equipped with the ERP system to monitor the sales and inventory level of our apparel and accessories products. We believe our ERP system facilitates our efficient and effective response to inventory needs and allows us to make appropriate adjustments to stock volumes.

The balance of our inventory as at 31 December 2009, 2010 and 2011 and 30 June 2012 accounted for approximately 15.4%, 20.9%, 15.9% and 21.8% of our total current assets, respectively, while our inventory turnover days were 31 days, 26 days, 30 days and 35 days, respectively. We record a provision against certain inventories if the market conditions are less favourable than those projected by the management and our inventories remain unsold for a longer period than we anticipated. The provisions are generally made if the estimate of the net realisable value is below the corresponding costs of such inventories. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, the provision for impairment of inventories amounted to HK\$3.0 million, HK\$3.8 million, HK\$3.0 million and HK\$4.0 million, respectively.

LOGISTICS

Raw materials that we purchase from our raw material suppliers are generally delivered directly to our Dongguan plant and Huizhou plant at the cost of our suppliers. Finished products produced by us or our third-party manufacturers will be packed according to our customers' specifications and are delivered directly to designated warehouses and retail outlets of our customers or our POS in the PRC. Costs for delivering finished products produced by us or our third-party manufacturers are borne by us, or are included in the purchase price of finished products from our third-party manufacturers. On the other hand, our franchisees are responsible for bearing the costs for delivering finished products to our franchised retail outlets. Certain packaging materials, such as plastic bags and paper boxes, were supplied by our connected person during the Track Record Period but were discontinued in January 2012. The Directors confirm that we did not experience any material loss in the delivery of our products during the Track Record Period.

INFORMATION SYSTEM

We believe that our information technology systems play an important role in our operations. We have successfully implemented an enterprise resource planning, or ERP, system which integrates the functions of merchandising, stock replenishment, inventory distribution and sales, to support our operations and administrations. Our ERP system supports various functional units, including marketing, finance, production, procurement and human resources. All of our POS are equipped with the ERP system, which enables our sales team to analyse and record sales details and to track inventory on a timely basis.

The other key system is the POS system, it is used in our apparel retail business to record the data related to consumptions conducted by consumers and consumption history and pattern of consumers. It also records the participation of each consumer in our promotional activities and benefits enjoyed by the consumer. We also use this system to analyse our consumers based on gender, location and preferences.

We are constantly upgrading our information systems, which we believe will enhance our operations and increase our sales.

COMPETITION

Competitive environment

According to the commissioned report from Ipsos Hong Kong Limited as further disclosed in the section headed "Industry Overview" in this prospectus, the apparel manufacturing industry in the PRC is highly fragmented, with more than 11,168 garment manufacturers with annual production value of over RMB20 million by the end of 2011. However, there were only 427 apparel supply chain services provider as at 31 December 2011. Although there has been an increase in number of apparel manufacturers engaging in apparel supply chain servicing business over the past five years hence competing with the Group, the Directors believe that with our established and solid relationships with owners and agents of global brands and third-party manufacturers as well as our strong product design, research and development capabilities and quick response to market trends, we are able to compete favourably with our competitors and maintain our well-established position as an apparel supply chain services provider in the PRC.

In addition, according to the commissioned report from Ipsos Hong Kong Limited, driven by the continual support from the PRC government to boost local consumption, retail sales value of apparel products in the PRC is expected to grow at a CAGR of approximately 13.7% from 2012

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to 2015 and reach approximately RMB2,120.7 billion by 2015. Along with the expected growth in the apparel retail market in the PRC, the number of apparel retailers and their respective number of branches are expected to reach 617 and 137,421, respectively, by 2012 and will further grow to 766 and 209,000, respectively, by 2015. The PRC market for apparel and accessory products that are of high quality is a highly competitive field comprising both domestic and international brands. Some of our competitors have broader product offerings, such as children's clothing lines or clothing lines targeted at consumers of a wider age group, and have higher price points. In addition, the demand for apparel and accessory products that are stylish and of high quality in the PRC has been growing steadily in recent years in line with its economic growth. We believe that we compete on the basis of brand image, product design and development capabilities, efficient supply chain model, quality, price and our experienced management team. As products under the *Unisex* Brands generally target consumers from 25 to 35 years of age who appreciate fashion with contemporary, trendy and stylish designs and products under our *Republic* Brands generally target the younger population in the PRC who seeks value for money products, frequently shop online and appreciates fashion with young, hip and casual designs, we regard international or domestic casual-wear and business-casual wear brand names as our competitors. In addition, as our Concession Stores and Free-standing Stores are mainly located in prestigious department stores and shopping malls, we treat stores within the same floor or area as our major competitors.

Potential competition with our customers

Customers of our apparel supply chain servicing business are mainly owners or agents of global reputable apparel retail brands, which products they sell in retail outlets in the Asian market. As we are also focusing our growth on the apparel retail segment, we may be placed in direct or indirect competition with these customers of our apparel supply chain servicing business, in particular Giordano. As our apparel retail business grows, these customers may consider that our apparel retail business poses threats to their business, they may reduce or discontinue their purchase orders with us.

EMPLOYEES

Our employees primarily consist of personnel responsible for managing our retail operations and providing production management services within the apparel supply chain servicing segment. Our franchisees are responsible for employing their own sales personnel for their franchised retail outlets and these personnel must comply with the requirements set forth in the relevant franchise agreement. The following table sets out the number of employees by department as at 30 June 2012:

<u>Employee Type</u>	<u>Number of employees</u>
Management	10
Quality Control and Assurance	40
Sales and Marketing	11
Product Design and Development	23
Retail Operations	193
Production Management	221
Logistics	82
Finance and Administration	160
Total	740

We enter into separate labour contracts with each of our employees in accordance with the PRC labour law. As confirmed by the relevant PRC local labour authorities, we have not been subject to any penalties in relation to any violation of PRC labour laws and regulations. During the Track Record Period, we did not fully comply with the relevant PRC laws and regulations in relation to social security fund and housing provident fund contributions. For further details of our non-compliance incidents, please refer to the paragraph headed “Non-compliance incidents — Non-compliance regarding social security fund and housing provident fund contributions” in this section of the prospectus.

We also participate in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance for all our eligible employees in Hong Kong. As required under the ordinance, 5% of our employees’ relevant income per month is contributed to the provident fund, subject to a maximum of HK\$1,250 per employee per month.

LABOUR SAFETY

We are subject to the production safety rules and regulations in the PRC. For further details, please refer to the section headed “Regulations” in this prospectus. We have also established procedures to ensure the safety of our employees. We implement safety guidelines and operating procedures for our production processes, and provide employees with occupational safety education and training to enhance their awareness of safety issues from time to time. The Directors confirm that we have not experienced any material workplace accident during the Track Record Period, and we are in compliance with all the rules and regulations relating to labour safety matters in the PRC.

INTELLECTUAL PROPERTIES

We recognise the importance of protecting and enforcing our intellectual property rights. We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. For details of our intellectual property rights, please refer to the section headed “Further Information about the Business of the Company — 10. Intellectual property rights of the Group” in Appendix IV to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, the Directors confirm that no revenue has been generated from brands or trademarks that may be similar to some well-known brands and are under registration or application by the Group.

It is known to us that subsequent to the registration of our 优捷思 trademark under classes 18 and 25 in February 2008 and our *Unisex* trademark under classes 18 and 25 in May 2009 in the PRC, an independent third party has registered a trademark under class 14 in the PRC in January 2010 which is a combined version of *Unisex* and 优捷思, which is of a different class to what our own trademarks are registered under in the PRC. The registration of the combined version of *Unisex* and 优捷思 by the independent third party under class 14 covers silver crafts, artifacts made from precious metals, agate, accessories made from silver, precious stones, gem (jewellery), artificial diamonds, watches, stopwatches and silver strands. For details of products under classes 18 and 25, please refer to the section headed “Further Information about the Business of the Company — 10. Intellectual property rights of the Group” in Appendix IV to this prospectus. Currently, we do not sell any items which are covered under the registered trademark of this independent third party and we have no intention to sell the same in the near future. As advised by our PRC legal advisor, Jingtian & Gongcheng, as long as our *Unisex* and 优捷思 trademarks are used on the products which fall under classes 18 and 25, such use will unlikely infringe the right of this independent third party for his trademark registered under class 14 in the PRC. Further, in order to protect our intellectual property rights, we have submitted an application to the Trademark Office of The State Administration For Industry and Commerce of

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the PRC (中華人民共和國國家工商行政管理總局商標局) for registration of the *Unisex* trademark and the 优捷思 trademark, respectively, under class 14 in the PRC as separate trademarks.

The Directors confirm that we have obtained all material intellectual property rights for our operations. As at the Latest Practicable Date, we were not aware of any infringement of our intellectual property rights and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. The Directors confirm that we have not infringed any other third parties' intellectual property rights during the Track Record Period that would have a material adverse impact to our operation and financial position. As at the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

We do not own any properties. As at the Latest Practicable Date, seven properties in Hong Kong and the PRC were leased by us for use as corporate headquarters, office premises, staff quarters, industrial and warehouses. We also leased six retail outlets in Shanghai in the PRC from third parties as at the Latest Practicable Date. Our leases range from generally two years to five years. For further details of our leased properties, please refer to the section headed "Further Information about the Business of the Company — 9. Property" in Appendix IV to this prospectus.

During the Track Record Period, we did not fully comply with the relevant PRC laws and regulations in respect of our leased properties. For further details of our non-compliance incidents, please refer to the paragraph headed "Non-compliance incidents — Non-compliance regarding our leased properties" in this section of the prospectus.

ENVIRONMENTAL MATTERS

We are subject to national and local environmental laws and regulations in the PRC on environmental matters, including air pollution, noise emissions and water and waste discharge. For further details, please refer to the section headed "Regulations" in this prospectus.

During the Track Record Period, our Dongguan plant and our Huizhou plant produced woven wear and cut-and-sewn knitwear products, which the executive Directors confirm that such production did not result in the discharge of any industrial waste water or gas or solid waste. Further, we ceased all in-house production since November 2011. We are therefore not subject to any environmental risks and did not incur any expenditure in respect of compliance with applicable environmental protection requirements during the Track Record Period. We do not anticipate that we will incur any such expenditure in the future. The Directors believe that the chances of encountering potential future environmental risks are minimal and therefore do not plan to undertake any additional measures to address the environmental risks.

During the Track Record Period and as at the Latest Practicable Date, we have not been fined for breaching the relevant environmental laws and regulations. The Directors confirm that all the required environmental approvals for production facilities have been obtained by all of our third-party manufacturers and us. We are in compliance with laws and regulations related to environmental protection in the PRC.

INSURANCE

We maintain insurance underwritten by national insurance carriers in Hong Kong and the PRC which covers certain of our fixed assets including six self-operated retail outlets, and the production equipment in our factories, as well as office equipment and inventories, from losses

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arising from fires and explosions, as well as certain foul weather conditions such as storms, tornados and flooding. We have not maintained, and our PRC legal advisors, Jingtian & Gongcheng, have advised that we are not required to maintain, general product liability insurance or third-party liability insurance for all of our POS. We believe that it is not the normal industry practice in China to maintain such insurance, hence our insurance coverage is adequate for our operations. The Directors confirm that as at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to the Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

NON-COMPLIANCE INCIDENTS

Non-compliance with Companies Ordinance

Pursuant to section 111 of the Companies Ordinance, a company incorporated in Hong Kong shall hold its first annual general meeting within 18 months of its incorporation and, thereafter, an annual general meeting in each year with not more than 15 months between two annual general meetings. Pursuant to section 122 of the Companies Ordinance, the directors of a Hong Kong company shall cause its profit and loss account and balance sheet to be made up and laid before its shareholders at each of its annual general meetings and such accounts shall be made up to a date falling not more than 9 months before the date of the meeting.

Non-compliance with sections 111 and 122 of the Companies Ordinance could attract maximum penalties as follows:

Section	Maximum Penalty
Section 111 of the Companies Ordinance	The company and every officer of the company who is in default shall be liable to a fine of HK\$50,000
Section 122 of the Companies Ordinance	The director of the company shall be liable to a fine of HK\$300,000 and 12-month imprisonment

Speedy Garment was incorporated on 18 June 2004. The first annual general meeting of Speedy Garment was not held within 18 months after its incorporation and therefore Speedy Garment failed to comply with the requirement under section 111 of the Companies Ordinance. Furthermore, all the Hong Kong subsidiaries (namely Speedy Garment, Jointex Garment, Goalwill Garment and Shining China) of the Company had inadvertently failed to comply with the regulatory requirements under section 122 of the Company Ordinance.

In relation to the non-compliance under sections 111 and 122 of the Companies Ordinance, applications were made to the Court of First Instance of the High Court of Hong Kong for orders to rectify such non-compliance in February 2012. On 14 March 2012, orders were granted by the High Court of Hong Kong for such applications to rectify the non-compliance of the above.

On the basis that the non-compliance was merely inadvertent and was not willful, the Directors understand and the Hong Kong legal advisors of the Company, Li & Partners, advised that, while the grant of a court order in relation to sections 111 and 122 of the Companies Ordinance may not by itself bar criminal enforcement by the Companies Registry of possible offences arising from past default, the likelihood of its occurrence is not high given that the High

Court of Hong Kong granted orders mentioned above based on its acceptance of the explanations as set out in the affirmations submitted for the court applications of the directors of the Hong Kong subsidiaries.

In addition, all Hong Kong subsidiaries have inadvertently breached the regulatory requirements in Hong Kong: (i) non-compliance relating to filing notices (including notices of change of directors, change of secretary, change of registered office and change of secretary's particulars) with the Registrar of the Companies within the prescribed time limit under sections 92 and 158 of the Companies Ordinance or (ii) non-compliance relating to incorrect information in annual returns under section 107 of the Companies Ordinance. The aggregate amount of the potential fine is estimated to be approximately HK\$1,571,500.

The inadvertent breach of certain sections of Companies Ordinance disclosed above was mainly because the Group companies did not have an internal company secretarial department and qualified company secretary of relevant working experience to deal with company secretarial matters and were not aware of the specific requirements under the Company Ordinance during the material period. Nevertheless, the Group has taken additional measures to improve the corporate governance and internal controls of the Group to ensure compliance with applicable rules and regulations going forward. Please refer to the paragraph headed "Non-compliance incidents — Corporate governance measures to prevent recurrence of non-compliance" in this section of the prospectus.

As at the Latest Practicable Date, there has not been any prosecution initiated against the Group and the then and current directors of the Hong Kong subsidiaries, nor has any of them been subject to any fine relating to the above disclosed non-compliance. The Controlling Shareholders have, pursuant to the Deed of Indemnity, undertaken to fully compensate the Group for any loss arising from such non-compliance. The Directors consider that the non-compliance will not have a material impact on the Group's operation.

The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, the Hong Kong subsidiaries have obtained business registration certificates from the Hong Kong Inland Revenue Department to operate the provision of apparel supply chain services, the textiles trading and investment holding businesses in Hong Kong.

The Directors further confirmed that Speedy Garment and Jointex Garment have obtained the Certificates of Registration as a Textiles Trader issued by the Director-General of the Trade and Industry to Speedy Garment and Jointex Garment from 2008 to 2012 and the Group has obtained all material permits, licences, registration and certificates for conducting its Hong Kong businesses.

Non-compliance regarding social security fund and housing provident fund contributions

Social security fund

Under the relevant PRC laws and regulations, we are required to make contributions to mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance. Certain of our PRC subsidiaries (namely, Speedy Dongguan, Koyip Huizhou and Unisex Trading) had not fully made contributions to the mandatory social security funds as (i) we did not possess sufficient knowledge on or did not engage outside counsel to provide professional advices on the requirements under the relevant rules and regulations in the PRC before the preparation for the Listing; and (ii) some of their respective employees at the time had no intention to participate in the scheme as they did not want to bear certain part of the social insurance premium. The Company's PRC legal advisor, Jingtian & Gongcheng, has advised that under the relevant PRC laws and regulations, we may

be ordered by the relevant competent social security bureaus in the PRC to pay a daily penalty of 0.05% on the total outstanding social contribution amount from the date of non-compliance within a prescribed period of time. If we fail to do so, we may be liable to a fine ranging from one to three times of the total outstanding social contribution amount.

However, the Company's PRC legal advisor, Jingtian & Gongcheng, has advised us that the risk of us being penalised or requested to repay historical outstanding social contributions by the relevant competent PRC social security bureaus in this regard is relatively low as (i) we have obtained confirmation letters issued by the relevant competent PRC social security bureaus confirming that our PRC subsidiaries, namely, Speedy Dongguan, Koyip Huizhou and Unisex Trading, have now registered their respective employees under the relevant social security funds, have been able to pass annual inspections conducted by the relevant bureaus and have made full social insurance funds contributions for their employees since registration; and (ii) in interviews conducted by Jingtian & Gongcheng on 8 February and 31 October 2012 respectively with the Secretary for the Dongguan Social Security Bureau Changan Branch* (東莞市社會保障局長安分局局長), the competent PRC social security bureau of Speedy Dongguan, it has been confirmed that there has not been any previous case where any company that is now in full compliance with social security contributions is being investigated and penalised for its historical non-compliance.

Housing provident fund

Under the relevant PRC laws and regulations, we are required to register with the relevant authorities and maintain relevant accounts with designated banks for making contributions to the housing provident fund for our employees. Certain of our PRC subsidiaries (namely, Speedy Dongguan, Koyip Huizhou, Unisex Trading and Shanghai Shining) had failed to withhold and make certain housing provident fund contributions into the designated bank accounts for the benefits of our employees. This was due to (i) we did not possess sufficient knowledge on or did not engage outside counsel to provide professional advices on the requirements under the relevant PRC laws and regulation before the preparation for the Listing; and (ii) some of their respective employees at the time had no intention to participate in the scheme as they do not want to bear certain part of the housing provident fund contribution. The Company's PRC legal advisor, Jingtian & Gongcheng, has advised that under the relevant PRC laws and regulations, the relevant authorities may order us to settle the outstanding contributions within a prescribed period and impose a fine on us ranging from RMB10,000 to RMB50,000 for failing to make contributions to the housing provident fund.

However, as advised by Jingtian & Gongcheng, our risk in being penalised by the relevant PRC local housing fund administration bureaus in this regard is relatively low as (i) we have obtained the confirmation letters issued by the relevant competent PRC local housing fund administration bureaus confirming our PRC subsidiaries have now registered their employees under the relevant housing provident funds, made the required housing provident fund contributions since registration and have not been subject to any penalty in this regard; (ii) in an interview conducted by Jingtian & Gongcheng on 9 February 2012 with an officer at the Dongguan Housing Fund Administration Centre* (東莞市住房公積金管理中心), the competent PRC local housing fund administration bureau of Speedy Dongguan, the officer has confirmed that Speedy Dongguan does not have any dispute with the centre and the centre has not received any complaints from any employees of Speedy Dongguan; and (iii) in an interview conducted by Jingtian & Gongcheng on 8 February 2012 with an officer at the Management Department of Shanghai Xuhui Provident Fund Management Centre* (上海市公積金管理中心徐匯區管理部), the competent PRC local housing fund administration bureau of Shanghai Shining, it is not mandatory for a company to make housing provident fund contributions for its rural workers (農業戶口職工).

Confirmation and Undertaking by the Directors

The Directors confirm that, since November 2011, we have made all required contributions to the mandatory social security funds and housing provident funds for employees of our PRC subsidiaries. As at 30 June 2012, the total outstanding contributions to mandatory social security funds and housing provident fund as a result of the above non-compliances amounted to approximately HK\$4.7 million, which had been fully provided for in the financial statements as set out in the Accountant's Report in Appendix I to this prospectus. The Directors are of the view that such provision is adequate given that (i) we have obtained confirmation letters issued from the relevant competent PRC social security bureaus confirming that we have been able to pass annual inspections conducted by the relevant bureaus; (ii) we have obtained confirmation letters issued from the relevant competent PRC local housing fund administration bureaus confirming that we have not been subject to any penalty regarding our housing provident fund contributions; and (iii) our PRC legal advisors, Jingtian & Gongcheng is of the opinion that the risk of us being penalised by the relevant competent PRC social security bureaus and PRC local housing fund administration bureaus is relatively low.

The Executive Directors undertake that we will pay the outstanding contributions in accordance with the applicable PRC laws and regulations as soon as possible as and when requested by the relevant social security bureaus or local housing fund administration bureaus. As at the Latest Practicable Date, the Directors confirm that we have not received any notice from the relevant social security bureaus or local housing fund administration bureaus regarding any non-compliance with the social security fund and housing provident fund contributions nor regarding the relevant outstanding contributions. Each of the Controlling Shareholders has also agreed to indemnify us against all claims demands, cost, expenses, fines, actions and liabilities which may arise from or in connection with our non-compliance of the mandatory social security funds and housing provident fund contributions in the PRC to the extent not covered by the provision made in the financial statements of the Group.

Non-compliance regarding our leased properties

In relation to two of the properties leased by us as our Free-standing Stores situated in Shanghai, the lessors have not obtained the relevant building ownership certificates. According to our PRC legal advisor, Jingtian & Gongcheng, we may be required to cease the occupation and usage of such properties, in which case we will have to relocate to other premises. For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, these two Free-Standing Stores generated approximately nil, nil, HK\$0.3 million and HK\$0.5 million of revenue, respectively. In the event that we are required to cease the occupation of these two properties, the Directors estimate that the total estimated relocation cost, renovation cost and loss of revenue will be approximately RMB3.4 million and it would require approximately six months to complete such relocation. The Directors believe that such relocation would not impose any material interruption to our operations.

In addition, the lease agreements of properties numbered 1, 2, 3, 5 and 6 as mentioned in the section headed "Further Information about the Business of the Company — 9. Property" in Appendix IV to this prospectus in the PRC have not been registered as required under the relevant PRC laws and regulations as the relevant lessors of these properties refused to cooperate with us to have the lease agreements registered. These properties are used by the Group as office premises as well as self-operated Free-standing Stores, which the Directors are of the view that they are not individually or collectively crucial to our operations given that they do not contain any production facility and only represent one of our offices and four of our 96 POS as at the Latest Practicable Date. In addition, the Directors believe that given the abundant amount of available properties in the PRC, we will be able to find suitable alternative properties easily in the event that we need to relocate. Our PRC legal advisor, Jingtian & Gongcheng,

advised that we may be required by the relevant PRC authorities to apply for such registration within a stipulated time and if we fail to do so, we may be liable to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease. However, as a lessee, we will not be able to register these unregistered lease agreements without the cooperation of the reverent lessor. As our PRC legal advisor is of the opinion that these lease agreements remain enforceable against the relevant lessors, the Directors estimate that the maximum amount of liability exposure that we may be subject to is in aggregate approximately RMB50,000, which represents the maximum amount of penalties that we may be liable to the relevant PRC authorities.

Going forward, we will continue to liaise with the relevant lessors to complete the registration of the above leases. We have also implemented certain internal control policies to prevent non-compliance of our leased properties in the future, please refer to the paragraph headed “Non-compliance incidents — Corporate governance measures to prevent recurrence of non-compliance” in this section of the prospectus.

Non-compliance regarding fund advances to our related parties

During the Track Record Period, we made fund advances to our related parties for their operational needs and such advances were interest free, unsecured, have no fixed payment terms and were fully settled as at 31 December 2011. Our PRC legal advisor, Jingtian & Gongcheng, advises that pursuant to the General Lending Provisions (貸款通則), when an entity engages in lending which is not in compliance with the General Lending Provisions, it may be subject to a fine of between one to five times of the gains received as a result of such lending. Our PRC legal advisor, Jingtian & Gongcheng, further advises that our advances to related parties did not comply with the General Lending Provisions, but we will not be subject to any penalty as the advances were interest free and fully settled as at 31 December 2011.

Corporate governance measures to prevent recurrence of non-compliance

Regarding the non-compliance with the Company Ordinance, the Group has taken the following measures to prevent future occurrence and improve our corporate governance to ensure compliance with various applicable rules and regulations going forward:

- (a) The Directors have attended training sessions conducted by the Company's Hong Kong legal advisors, Li & Partners, on the on-going obligations and duties of directors of a publicly listed company.
- (b) The Company has appointed Mr. Wong Ting Kon, who has expertise in accounting and financial management, as an independent non-executive Director. The Company has also appointed Mr. Law Chi Yung, who has experience in financial and accounting matters as the company secretary and chief financial officer. The Directors believe that the Company will be able to draw on their experience with respect to compliance with applicable regulatory and financial reporting requirements. Please see the section headed “Directors and Senior Management” in this prospectus for detailed information of Mr. Wong Ting Kon and Mr. Law Chi Yung.
- (c) The Company has appointed a compliance advisor to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules.
- (d) The Company would seek external legal advice on the relevant PRC laws and regulations to prevent any recurrence of any similar events.

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- (e) The executive Directors have attended a training course conducted by the Company's PRC legal advisor, Jingtian & Gongcheng, regarding relevant PRC laws and regulations.
- (f) The Company would arrange training courses each year on regulatory requirements relating to directors' duties of a publicly listed company to all Directors and senior management members.

Furthermore, the Group has implemented the following internal control policies in order to prevent any non-compliance of laws, rules and regulations in the future:

- (a) Regarding the settlement of social security fund and housing provident fund contributions, the Company has designated a personnel from the finance and accounting department to be responsible for the calculation, reporting and payment of mandatory social security funds and housing provident fund contributions of the Group. Such calculation is reviewed by the finance team as well as our chief financial officer before any payment is being processed. Moreover, we will, when necessary, seek professional advice from, and keep close communication with, PRC legal advisor that we appoint from time to time to keep abreast of relevant laws and regulations in the PRC.
- (b) Regarding the Group's leased properties, the Company has adopted a policy to ensure all necessary title documents from our prospective landlord in respect of the leased property to be obtained before the signing of any lease agreement. One of the managers of the retail operations department of the Group, who previously studied law, is responsible for ensuring such policy is strictly adhered to prior to signing of any lease agreement. Furthermore, this manager is responsible for ensuring that going forward, all lease agreements have to contain a clause that stipulates that the registration of the lease agreement is pursued by the landlord shortly after the signing of the lease agreement.
- (c) Regarding contracts or agreements to be entered into by the Group, we will, when necessary, seek professional advice from, and keep close communication with, PRC legal advisor that we appoint from time to time to keep us abreast of relevant laws and regulations in the PRC.
- (d) An audit committee has been established to review the internal control systems and procedures for compliance with the requirements of the Listing Rules.

The Directors are of the view that the above steps will effectively help establish a proper internal control system and maintain good corporate governance practices to prevent future non-compliance with PRC laws and regulations by the Group. Each of the Controlling Shareholders has also agreed to indemnify us against all claims demands, cost, expenses, fines, actions and liabilities which may arise from or in connection with our non-compliance incidents in the PRC.