

## INDUSTRY OVERVIEW

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### ABOUT THIS SECTION

#### **Report Commissioned From Frost & Sullivan**

We commissioned Frost & Sullivan to conduct an analysis of, and to report on, the menswear market in the PRC for the period from 2006 to 2013. The Frost & Sullivan Report was prepared by Frost & Sullivan independent of our influence. Frost & Sullivan charged us a fee of RMB520,000, which the Directors consider to reflect market rates.

Founded in 1961, Frost & Sullivan has over 38 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Based in the United States, it has been covering the Chinese market from its offices in China since the 1990's.

## INDUSTRY OVERVIEW

The Frost & Sullivan Report includes information on the Chinese menswear market, the Chinese business formal and casual menswear market, the Chinese causal menswear market and other economic data. The market research process for this study was undertaken through detailed primary research which involved discussing the status of the industry with leading industry participants and industry experts. Primary research involved interviewing 100 leading industry participants from menswear brand companies and menswear retailers as well as industry experts. Secondary research involved reviewing company reports, independent research reports and data obtained from Frost & Sullivan's own research database. Projected total market sizes in the PRC were obtained from historical data analysis plotted against macroeconomic data, as well as specific related industry drivers such as increasing disposable income, wider geographic coverage of the menswear stores, increasing acceptance of commercial and modern social etiquettes, emerging of a wealthy customer group, and training franchisees by menswear companies, obtained through interviews with industry experts and participants.

### **Forward looking statement**

This section contains "forward-looking statements." "Forward-looking statements" describe future expectations, plans, results or strategies and are generally preceded by words such as "may," "future," "plan" or "planned," "will" or "could," "would," "should," "estimates" or "estimated," "expected," "anticipates," "draft," "eventually" or "projected." You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or results to differ materially from those projected in the forward-looking statements, including the risks that actual results may differ materially from those projected in the forward-looking statements as a result of various factors, including, without limitations, those factors set forth in the section headed "Risk Factors" in this prospectus, and other unanticipated circumstances. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as at the date of their publication in the Frost & Sullivan report and we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of their publication.

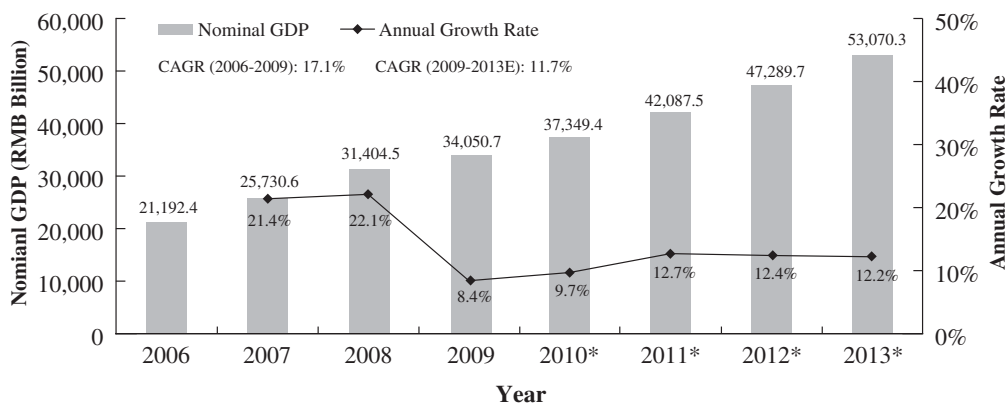
### **RAPID ECONOMIC GROWTH IN THE PRC**

#### **China's Nominal GDP Growth**

Due to quickly advancing economic reform, China's nominal GDP has experienced rapid growth at a CAGR of 17.1% from 2006 to 2009. China's nominal GDP grew from RMB21,192.4 billion in 2006 to RMB34,050.7 billion in 2009. Although the Chinese economy was temporarily affected by the global financial crisis, it has shown signs of revival. According to the International Monetary Fund, China's economy is likely to rebound in 2010. The CAGR from 2009 to 2013 is expected to reach 11.7%, and China's nominal GDP is expected to be RMB53,070.3 billion by 2013.

## INDUSTRY OVERVIEW

### Nominal GDP (China), 2006-2013



Note: All data are rounded.

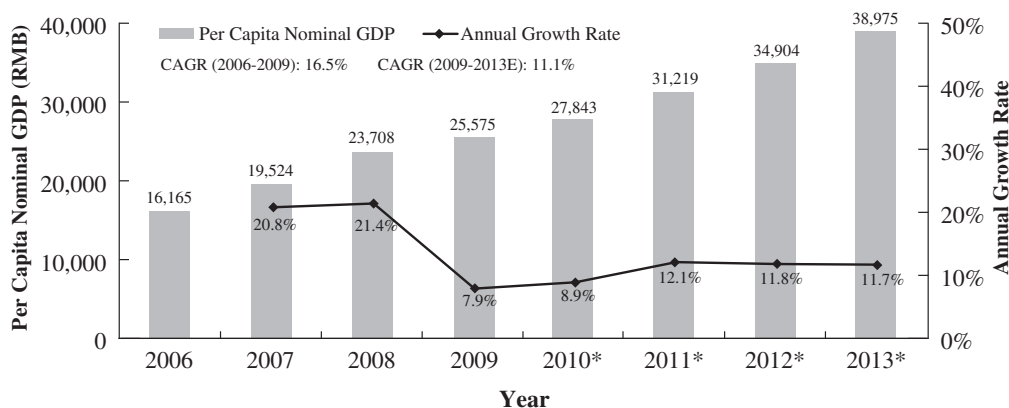
Source:

1. Historical data: National Bureau of Statistics of China
2. Projected data: International Monetary Fund, April 2010

\* Forecast Numbers

In the 1980s, the PRC made a blueprint to build a moderately-prosperous nation by the beginning of the 21st century, which depicted a moderately-developed modern society with overall improvement in the economy and people's standard of living. In 2009, China's per capita GDP was RMB25,575, up by approximately 58.2% from RMB16,165.0 in 2006. Although the growth rate has dropped in 2009 due to the global financial crisis, China's per capita nominal GDP is expected to sustain moderate growth and reach RMB38,975 by 2013, fueled by increasing domestic investment and consumption.

### Per Capita Nominal GDP (China), 2006-2013



Note: All data are rounded.

Source:

1. Historical data: National Bureau of Statistics of China
2. Projected data: International Monetary Fund, April 2010

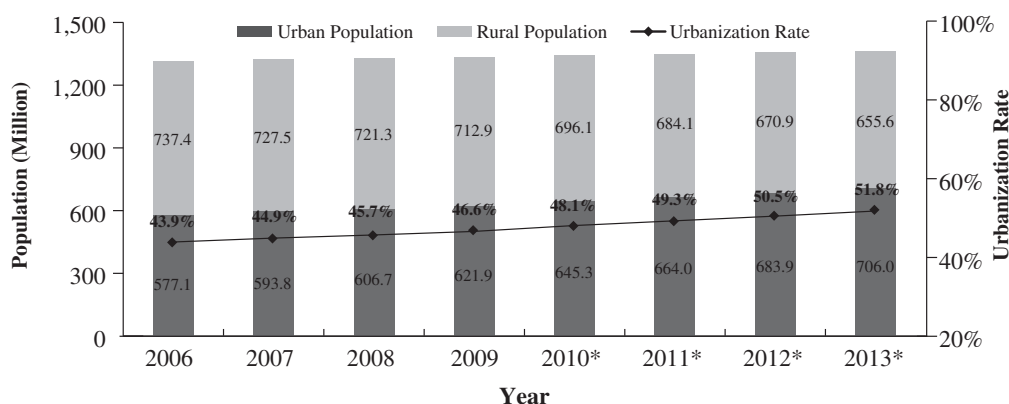
\* Forecast Numbers

## INDUSTRY OVERVIEW

### China's Urban Population and Urbanization Growth

Accelerating urbanization is one of the important features of China's modernization. Three decades have passed since China carried out its economic and social reform, which has resulted in an increasing number of cities and an increase in China's urban population, as defined by the National Bureau of Statistics of China. The urbanization rate in the PRC has gradually increased during the past several years. China's urban population has risen since the 1990s. From 2006 to 2009, the level of urbanization in China increased from 43.9% to 46.6%. In the forecast period during 2010 and 2013, China's urban population is estimated to further increase from 645.3 million in 2010 to 706.0 million in 2013. The urbanization rate is forecast to reach around 51.8% by 2013.

**Urban Population and Urbanization (China), 2006-2013**



Note: All data are rounded.

Source:

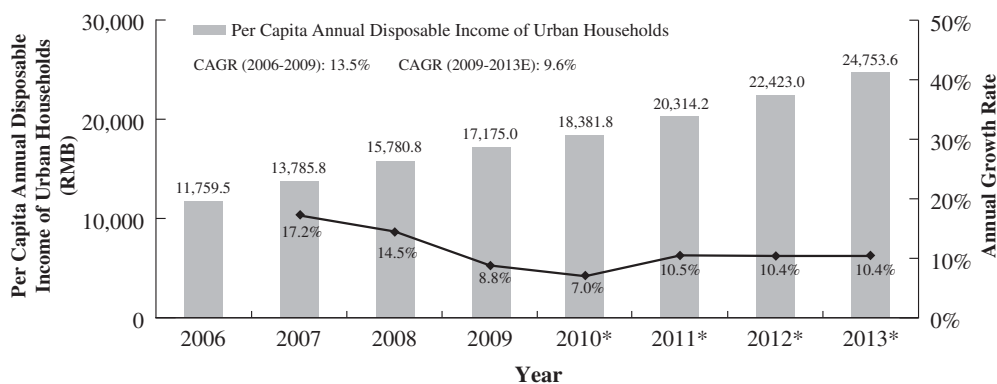
1. Historical data: National Bureau of Statistics of China
2. Projected data: International Monetary Fund, April 2010, Frost & Sullivan

\* Forecast Numbers

In 2009, the per capita annual disposable income of urban households was RMB17,175.0, up by 46.1% from 2006, with the CAGR being 13.5%. During the global financial crisis, China's economic growth slowed down in 2009, yet the growth rate of per capita disposable income is expected to rise again in 2010 due to the effectiveness of China's economic stimulus package. By 2013, the per capita annual disposable income of urban households in China is expected to reach RMB24,753.6, with a CAGR of 9.6% during 2009 and 2013.

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### Per Capita Annual Disposable Income of Urban Households (China), 2006-2013



Note: All data are rounded.

Source:

1. Historical data: National Bureau of Statistics of China
  2. Projected data: Frost & Sullivan
- \* Forecast Numbers by Frost & Sullivan

## THE PRC MENSWEAR MARKET

### Overview of Menswear Market in the PRC

The Chinese menswear market has grown steadily in recent years, and it is in the middle of the growth stage. There are nearly eight hundred menswear brands in China, including around six hundred Chinese domestic brands and two hundred foreign brands. The market concentration is very low at this stage, which leads to intense rivalry. There is no obvious market leader in terms of market share in menswear market in China. In 2009, the Chinese menswear market hit the total retail revenue of RMB300.3 billion, with a CAGR of 15.8% from 2009 to 2013.

Key barriers of entry in menswear market in China include economies of scale, brand development, channel construction, and capital requirements. With the intense competition and rising cost in recent years, economies of scale in menswear industry gives larger companies cost advantages and allows them to strengthen leading position in the competition. At the same time, it requires long term and solid experience to build up a well-known brand and mature sales network for a menswear supplier. Additionally, capital investment is largely important for the network development. For new entrants, it is hard to succeed in these aspects in a short time period.

The major threats and challenges to the industry are competition from new entrants, rising production cost, as well as increasing and upgraded consumer needs. Firstly, new entrants to Chinese menswear market are likely to raise the level of competition, and grasp the market share of current market participants. Secondly, Chinese menswear industry faces the ever-rising cost of energy, transportation, raw materials and labor. The rising cost of menswear reinforce the importance of economies of scale. Lastly, menswear consumers are increasingly paying more attention to the menswear style and quality, which requires design and quality upgrade, and more capital investment from menswear suppliers in China.

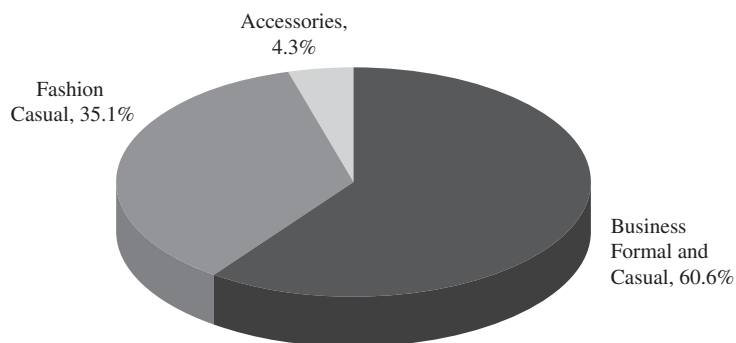
## INDUSTRY OVERVIEW

The PRC menswear market, which can be segmented into three product types, namely: (i) business formal and casual menswear, (ii) fashion casual menswear and (iii) accessories, has expanded rapidly in recent years. Business formal menswear refers to adult menswear appropriate for formal occasions, such as business suits, shirts and trousers, etc., while business casual menswear refers to adult menswear appropriate for casual occasions when dealing with business affairs, such as casual suits, shirts, jackets, trousers, etc. Business formal and casual menswear is the collection of both business formal and business casual menswear.

Fashion casual menswear represents adult menswear appropriate for casual and non-formal occasions, such as when participating in recreational activities, social, or leisure activities, such as casual coats, sweaters, etc.

Accessories of menswear usually include leather belts, neckties, and other accessories. According to Frost & Sullivan, total retail revenue for the menswear market has grown from RMB205.7 billion in 2006 to RMB300.3 billion in 2009, at a CAGR of 13.4%. The business formal and casual menswear market achieved a retail revenue of RMB182.0 billion in 2009, accounting for 60.6% of the total menswear market in the PRC. Fashion casual menswear recorded a retail revenue of RMB105.4 billion in 2009, or 35.1% of the total market. Accessories accounted for the remaining 4.3% of market share, or a retail revenue of around RMB12.9 billion in 2009.

**Menswear Market: Retail Revenue Breakdown by Product Type (China), 2009**  
*Total: RMB300.3 Billion*

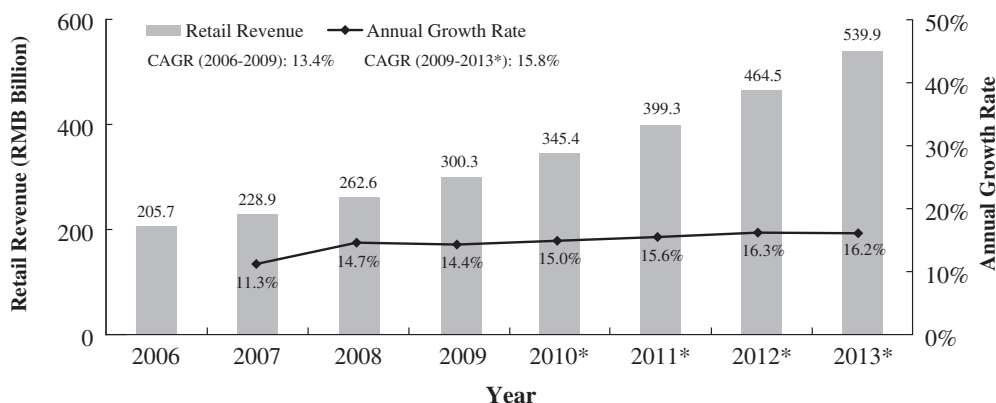


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

Retail sales of menswear in the PRC are expected to increase further in the forecast period. In 2013, the retail revenue of the Chinese menswear market is expected to reach RMB539.9 billion, at a CAGR of 15.8% from 2009 to 2013, according to Frost & Sullivan.

### Menswear Market: Total Retail Revenue and Forecast (China), 2006-2013



Note: All data are rounded. The base year is 2009.

Source: Frost & Sullivan

\* Forecast Numbers by Frost & Sullivan

### Key Drivers of the PRC's Menswear Market

#### (i) Increasing Purchasing Power

The increase of the disposable income of residents has led to the increase of purchasing power in China. As a major part of the clothing industry, the menswear industry is closely related to consumer purchasing power in China. Higher purchasing power is expected to expand the scope of choice for the customers, who are able to buy suits of better design and quality.

#### (ii) Rising Brand Awareness of Consumers

As the living standards of customers in the urban areas became much better than before, male customers are becoming increasingly aware of the value of menswear products. Male customers pay more attention to the design and quality of different brands than in the past.

#### (iii) Upgrade of Menswear Design and Quality

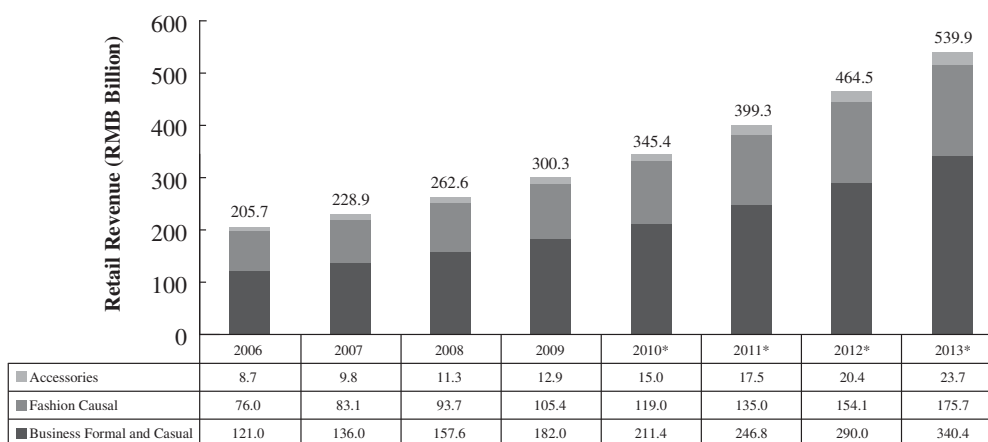
Along with rising customer awareness, the design and quality upgrade of high-end menswear have taken place. Design reflects the brand value of a menswear product and quality is the key to ensure customer satisfaction. Both are essential to ensure the market development of high-end menswear. This factor is expected to have a medium impact on the market size of menswear market in China in the next five years.

## INDUSTRY OVERVIEW

### Menswear Market Breakdown by Product Type

According to Frost & Sullivan, business formal and casual menswear has been the largest product category during the past years, and is expected to remain the major product group in the Chinese menswear market in the forecast period. In 2009, about 60.6% of the retail revenue was derived from business formal and casual menswear, 35.1% by fashion casual wear, and the remaining 4.3% by accessories. From 2009 to 2013, the market of business formal and casual menswear is expected to grow at a CAGR of 16.9%, and that of fashion casual menswear at 13.6%. In 2013, business formal and casual menswear is expected to reach retail revenue of RMB340.4 billion, and fashion casual menswear is expected to reach retail revenue of RMB175.7 billion in the PRC.

**Menswear Market Breakdown by Product Type (China), 2006-2013**



*Note: All data are rounded. The base year is 2009.*

*Source: Frost & Sullivan*

*\* Forecast Numbers by Frost & Sullivan*

## BUSINESS FORMAL AND CASUAL MENSWEAR SEGMENT

### Segment Overview

Frost & Sullivan uses the retail price of a suit (including coat and trousers) as the yardstick to segment Chinese business formal and casual menswear by tier. Generally speaking, the retail price of a suit from luxury brands is mainly above RMB15,000. High-end brands usually set retail price ranging from RMB5,000 to RMB15,000 per suit, while middle to low-end brands provide suits with a retail price less than RMB5,000 each.

As China has no official sub-categorizations of menswear market, the sub-categorizations of business formal and casual menswear and fashion casual menswear market by retail prices of a suit and a set of clothes for spring and autumn respectively are not an official definition in China. Frost & Sullivan does these sub-categorizations based on its experience and industry knowledge in Chinese menswear market, and considers them to be commonly accepted by the industry. Frost & Sullivan has also consulted these sub-categorizations with many leading industry participants from menswear brand companies and menswear retailers as well as industry experts.



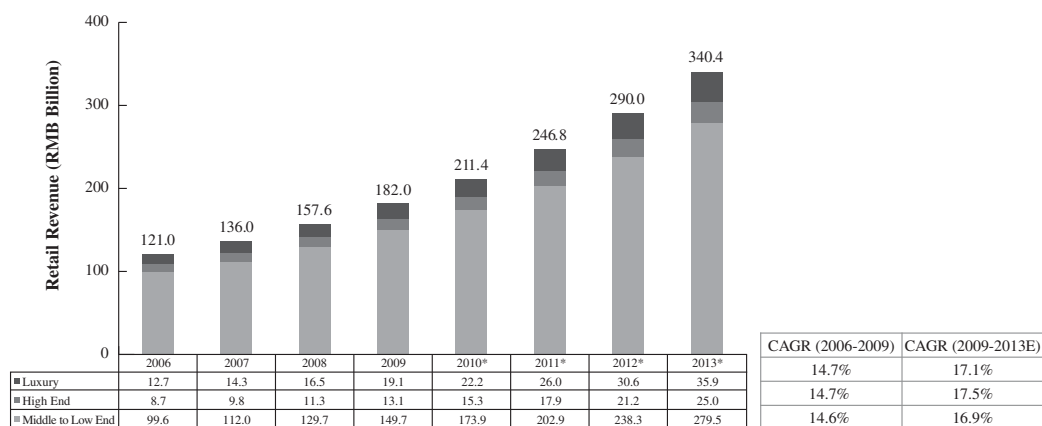
## INDUSTRY OVERVIEW

According to Frost & Sullivan, the business formal and casual menswear segment historically was the largest segment in the Chinese menswear market, generating a retail revenue of RMB182.0 billion, or 60.6% of the total menswear market in the PRC in 2009.

In the business formal and casual menswear market segment, luxury, high-end and middle to low-end business formal and casual menswear market accounted for 6.4%, 4.4% and 49.9% of the total menswear retail revenue, respectively. Although the middle to low-end business formal and casual menswear segment still dominates the market, the market share of high-end business formal and casual menswear has grown considerably in recent years.

As more and more consumers prefer menswear with good quality and image, the market of high-end business formal and casual menswear in the PRC is expected to continue to grow during the forecast period. By 2013, the retail revenue of high-end business formal and casual menswear in the PRC is expected to be RMB25.0 billion, representing a CAGR of 17.5% from 2009 to 2013, according to Frost & Sullivan.

### Business Formal and Casual Menswear Market Breakdown by Tier (China), 2006-2013



Source: Frost & Sullivan

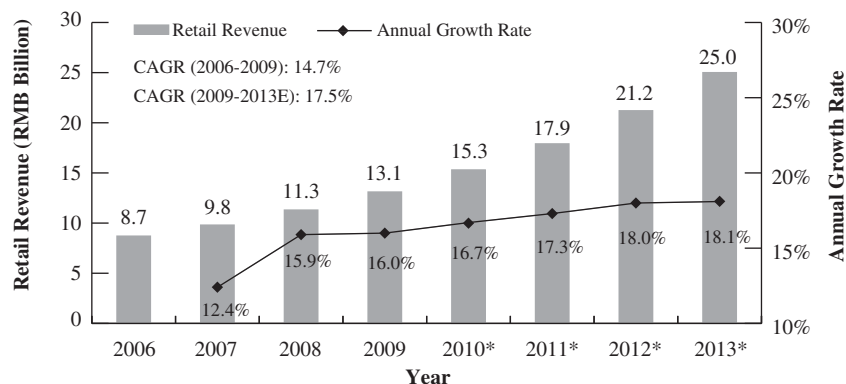
\* Forecast Numbers by Frost & Sullivan

### High-end Business Formal and Casual Menswear Market

In 2006, the total retail revenue of high-end business formal and casual menswear in the PRC was RMB8.7 billion, while in 2009, the revenue rose to RMB13.1 billion, representing a CAGR of 14.7% from 2006 to 2009. Due to strong market demand, the total retail revenue of high-end business formal and casual menswear is expected to keep rising. By 2013, the retail revenue of high-end menswear in the PRC is expected to be RMB25.0 billion, representing a CAGR of 17.5% from 2009 to 2013, according to Frost & Sullivan.

## INDUSTRY OVERVIEW

### High-end Business Formal and Casual Menswear Market: Retail Revenue and Forecast (China), 2006-2013



Source: Frost & Sullivan

\* Forecast Numbers by Frost & Sullivan

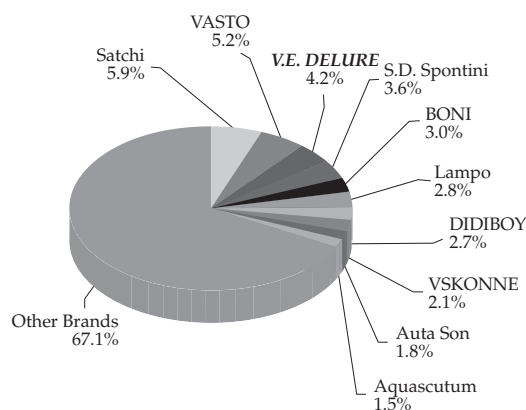
Within the high-end business formal and casual menswear market in the PRC in the six months ended 30 June 2010, according to Frost & Sullivan, our brand *V.E. DELURE* ranked third in terms of retail revenue, at approximately RMB312.0 million and captured approximately 4.2% of the market share. According to Frost & Sullivan, *V.E. DELURE* ranked second in terms of number of stores in the Chinese high-end business formal and casual menswear market, with 201 stores (excluding our *V.E. DELURE* Store in Hong Kong). As different menswear operators have different business model (i.e. through wholesale or retail or mixture of both), Frost & Sullivan considers the use of retail revenue (sales amount based on sale to ultimate customers) to be a more consistent and comparable benchmark. (Note that such retail revenue is different from our revenue reported in the Accountants' Report as set out in Appendix I because our revenue includes the amount of wholesale sales at our self-operated Stores to our distributors, while the retail revenue should include the amount of retail sales from *V.E. DELURE* Stores (self-operated and through distributors to ultimate customers.)

	Retail revenue for the six months ended 30 June 2010			Number of Retail Stores as at 30 June 2010		
	Total retail revenue in the market (RMB' million)	Our retail revenue (RMB' million)	Our market share	Our ranking	Our number	Our ranking
<i>V.E. DELURE</i>	7,345.1	312.0	4.2%	3rd	201	2nd

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The table and pie chart below set forth the market share by retail revenue of the leading brands in the high-end business formal and casual menswear market in the PRC in the six months ended 30 June 2010. The top brands, such as Satchi, VASTO, V.E. DELURE, BONI, and S.D. Spontini, have been leading the market in the six months ended 30 June 2010. Top ten participants have taken an individual market share ranging from 1.5% to 5.9% by retail revenue in the six months ended 30 June 2010.

Rank	Brand	Retail Revenue in 1H 2010 (RMB Million)	Market Share
1	Satchi	432.4	5.9%
2	VASTO	382.7	5.2%
3	V.E. DELURE	312.0	4.2%
4	S.D. Spontini	263.3	3.6%
5	BONI	223.2	3.0%
6	Lampo	208.5	2.8%
7	DIDIBOY	200.0	2.7%
8	VSKONNE	151.2	2.1%
9	Auta Son	135.5	1.8%
10	Aquascutum	110.1	1.5%
	Other Brands	4,926.4	67.1%
	<b>Total</b>	<b>7,345.1</b>	<b>100.0%</b>

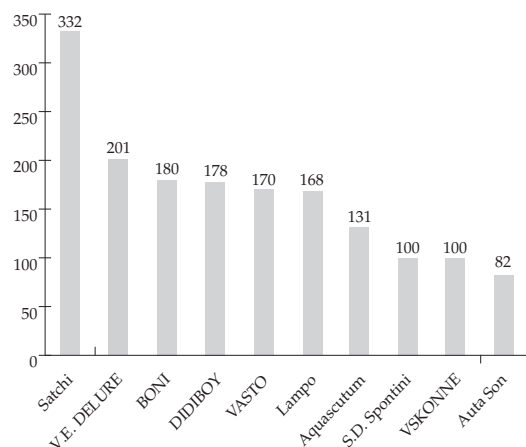


Source: Frost & Sullivan

Notes: Other bands include Sharmoon, Callisto, Frognie Zila, Deicea, Galaxy, etc.

The table and chart below set forth the ranking of major brands in terms of outlet number as at 30 June 2010 in the high-end business formal and casual menswear market in the PRC.

Rank	Brand	Outlet Number (30 June 2010)
1	Satchi	332
2	V.E. DELURE	201
3	BONI	180
4	DIDIBOY	178
5	VASTO	170
6	Lampo	168
7	Aquascutum	131
8	S.D. Spontini	100
8	VSKONNE	100
10	Auta Son	82



Source: Frost & Sullivan

## INDUSTRY OVERVIEW

### Key Drivers of the High-end Business Formal and Casual Market

(i) *Wider geographic coverage of menswear stores*

With increasing urbanization in China, the number of high-end menswear stores is expected to increase. More cities are likely to be covered by the high-end business formal and casual menswear suppliers.

(ii) *Increasing acceptance of commercial and modern social etiquettes*

The wider acceptance of commercial etiquettes is expected to boost customer demand for high-end business formal and casual menswear in China. As different menswear products suit different occasions, the actual demand for business formal and casual menswear is largely dependent on customers' frequency of commercial activities or social occasions.

(iii) *The emergence of a wealthy customer group*

The emergence of a wealthy customer group, which is less price sensitive but cares more about quality, shapes the foundation of the business formal and casual menswear market. This new customer group is generally well educated and has medium or high incomes. They generally buy menswear of higher quality and better design and, therefore, are the key target group of high-end business formal and casual menswear retailers.

(iv) *Training franchisees by menswear companies*

As more training is provided to the franchisees on management and sales skills, which helps to increase the professionalism of franchisees, sales revenue is expected to increase.

### FASHION CASUAL MENSWEAR SEGMENT

#### Segment Overview

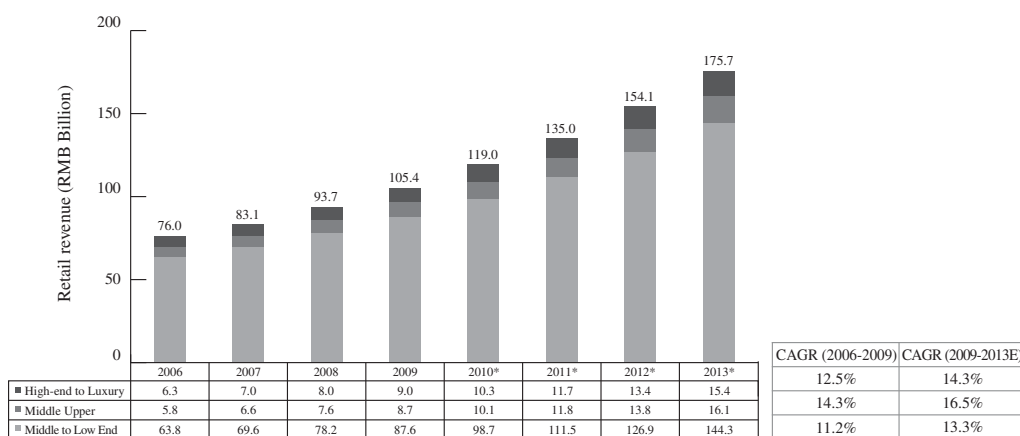
Frost & Sullivan uses the retail price of one set of fashion casual menswear consisting of a jacket and a pair of trousers for spring and autumn as the yardstick to define middle-upper fashion casual menswear in China. According to Frost & Sullivan, fashion casual menswear generated RMB105.4 billion, or 35.1% of the retail revenue of the total menswear market in the PRC in 2009. RMB2,000 to RMB5,000 is the commonly accepted price range of middle-upper fashion casual menswear. Prices above RMB5,000 are generally regarded as the major price range for high-end to luxury fashion casual menswear. Menswear products priced below RMB2,000 are regarded as middle to low-end fashion casual menswear. In 2009, among the fashion casual menswear market, high-end to luxury, middle-upper and middle to low-end fashion casual menswear market accounted for 3.0%, 2.9% and 29.2% of the total menswear retail revenue, respectively. Although middle to low-end fashion casual menswear still dominates the casual menswear market, the market share of middle-upper fashion casual menswear has gradually increased in recent years.

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As more Chinese consumers are pursuing a leisure and wealthier lifestyle, more they consumers tend to buy fashion casual menswear of better quality and design. In 2009, the Chinese middle-upper fashion casual market reached RMB8.7 billion in terms of retail revenue, up from RMB5.8 billion in 2006, representing a CAGR of 14.3% from 2006 to 2009.

Along with the increase of the PRC's per capita GDP, Chinese consumers have gained stronger purchasing power. More consumers are able to afford middle-upper fashion casual menswear. The share of the middle-upper fashion casual menswear market is expected to increase from 2010 to 2013. It is also anticipated to be the fastest growing segment in the entire fashion casual menswear category, with an expected CAGR of 16.5% from 2009 to 2013, reaching a retail revenue of RMB16.1 billion in 2013. Based on the above stated price range, our *TESTANTIN* branded products generally fall within the middle-upper market segment.

### Fashion Casual Menswear Market Breakdown by Tier (China), 2006-2013



Source: Frost & Sullivan

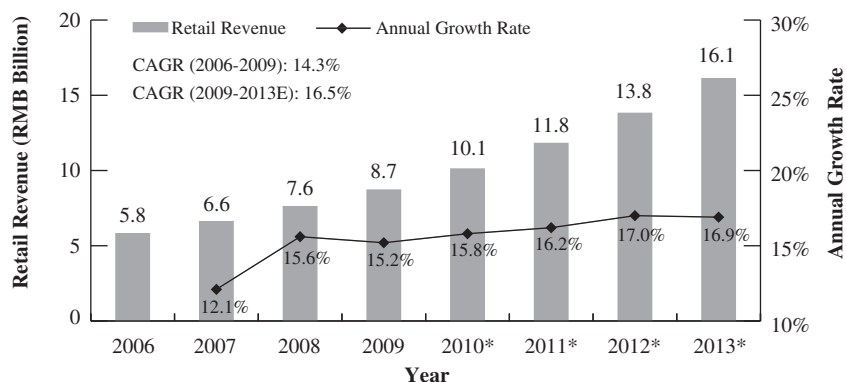
\* Forecast Numbers by Frost & Sullivan

### Middle-upper Fashion Casual Menswear Market

In 2006, the total retail revenue of middle-upper fashion casual menswear in the PRC was RMB5.8 billion, while in 2009, the revenue rose to RMB8.7 billion, representing a CAGR of 14.3% from 2006 to 2009. Due to consumers' anticipated stronger purchasing power and purchasing will, the total retail revenue of middle-upper fashion casual menswear in the PRC is expected to keep rising. By 2013, the retail revenue of middle-upper fashion casual menswear is expected to be RMB16.1 billion, representing a CAGR of 16.5% from 2009 to 2013, according to Frost & Sullivan.

## INDUSTRY OVERVIEW

### Middle-upper Fashion Casual Menswear Market: Retail Revenue and Forecast (China), 2006-2013



Source: Frost & Sullivan

\* Forecast Numbers by Frost & Sullivan

### Key Drivers of the middle-upper Fashion Casual Menswear Market

#### (i) Prevalence of leisure life style

As the result of more public holidays and higher per capita income of consumers, male consumers are exposed to an increasing number of social occasions, and, as a result, they pay more attention to the leisure life style. Fashion casual menswear is one among the many aspects of this brand-new style.

#### (ii) Lifting income level of non-business personnel

The increase in income level of non-business personnel is another important driver for the middle-upper fashion casual menswear market. Some non-business occupations, such as artists, musicians, and designers are enjoying higher income than in the past, with the upgrade of artistic appreciation of consumers. This group of consumers is more inclined to purchase fashion casual menswear, especially middle-upper products.

#### (iii) Increasing channel penetration

More and more newly-added distribution outlets are increasing the accessibility of middle-upper fashion casual menswear, which is likely to further boost sales revenue.

#### (iv) Improving design-level of fashion casual menswear

A quality design-level of fashion casual menswear is essential to the acceptance of middle-upper fashion casual menswear. With recent industry developments, the design level of middle-upper fashion casual menswear manufacturers has progressed considerably.