

OVERVIEW

We are one of the leading menswear enterprises and brands operators in the PRC owning and managing two brands, *V.E. DELURE* and *TESTANTIN*, covering the middle-upper to high-end segments of the menswear market. According to the Frost & Sullivan Report, our *V.E. DELURE* brand was ranked among the top three brands in terms of retail revenue for each of the two years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 within the high-end business formal and casual menswear market in the PRC with a corresponding market share of 3.8% in 2008 and 2009 and 4.2% for the six months ended 30 June 2010, respectively. We launched our *V.E. DELURE* brand in 2000, targeting the high-end business formal and casual menswear market. We launched our *TESTANTIN* brand in 2005, targeting the middle-upper fashion casual menswear market. Our *V.E. DELURE* brand, inspired by French craftsmanship and elegance, offers business formal and casual menswear and accessories targeting affluent and successful men between the ages of 35 to 50 and has a brand theme of "Love." Our *TESTANTIN* brand offers contemporary and chic casual menswear and accessories targeting younger and more fashion conscious men between the ages of 25 to 40 and has a brand theme of "artistic expression and simplicity." According to the Frost & Sullivan Report, the middle-upper fashion casual and high-end business formal and casual menswear market in the aggregate constituted around 7.3% of the entire menswear market in China in the year ended 31 December 2009.

We have established a nationwide retail network in the PRC. According to the Frost & Sullivan Report, our *V.E. DELURE* brand ranked second in terms of the number of retail stores, among the top ten high-end business formal and casual menswear brands ranked by retail revenue in the PRC as at each of 31 December 2008 and 2009 and 30 June 2010. As at 31 December 2007, 2008 and 2009 and 30 June 2010, we had 167, 242, 259 and 268 Retail Stores, respectively, of which 120 sold products under the *V.E. DELURE* brand and 47 sold products under the *TESTANTIN* brand in 2007, 184 sold products under the *V.E. DELURE* brand and 58 sold products under the *TESTANTIN* brand in 2008, 197 sold products under the *V.E. DELURE* brand and 62 sold products under the *TESTANTIN* brand in 2009, and 202 sold products under the *V.E. DELURE* brand and 66 sold products under the *TESTANTIN* brand in the six months ended 30 June 2010. As at 31 December 2007, 2008 and 2009 and 30 June 2010, we had 60, 101, 90 and 88 distributors, respectively (out of which 3, 11, 9 and 9 operated both *V.E. DELURE* and *TESTANTIN* Stores, respectively), and 6, 6, 7 and 7 sub-distributors, respectively. The growth in the number of our Retail Stores slowed down in 2009 primarily due to our decision to consolidate our position in 2009 rather than pursue a more active expansion path in light of the global economic crisis. In particular, for our *V.E. DELURE* brand, we focused on increasing self-operated Retail Stores in 2009 as opposed to distributor-operated Stores.

During the Track Record Period, we primarily utilized two distribution channels to manage our self-owned brands: (i) our self-operated Retail Stores; and (ii) Retail Stores operated by distributors and sub-distributors. For self-operated Retail Stores, we source products and sell to end customers. For Retail Stores operated by distributors, we enter into distributorship agreements with distributors, pursuant to which they purchase products from us and then sell to end customers in general. In addition, commencing in 2009, we started to make sales to corporate purchasers that purchased large volume of

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made-to-order products from us. Sales made through this channel continued in the six months ended 30 June 2010. For further information on our distribution channels, please refer to the section headed “Business – Sales and Distribution” in this prospectus.

Regardless of the distribution channel, it is our strategy to locate our Retail Stores in prestigious shopping areas, which are usually located in close proximity to other competing menswear brands. Currently, a significant portion of Retail Stores are located in department stores and shopping malls. Generally speaking, we believe these department stores and shopping malls act as a vetting mechanism and only allow brands that they consider to be well-regarded. Therefore, we believe that the fact that a significant portion of our Retail Stores are located in these shopping areas is a positive reflection of the reputation of our brands and the quality of our products. We strive to have our Retail Stores for each brand designed and decorated to present a consistent and distinctive brand image from the design and color of the Stores to the merchandise display.

As at 30 June 2010, out of our total of 202 *V.E. DELURE* Stores, 71 were operated by us and 131 were operated by our distributors. Out of the 66 *TESTANTIN* Stores, 13 were operated by us, 53 were operated by distributors (eight of which were operated by one distributor through its sub-distributors). As at 30 June 2010, over 80% of the Retail Stores directly operated by us are located in tier one and tier two cities in the PRC, such as Beijing, Shanghai, Tianjin, Changchun, Xi’an, Nanjing, Shenzhen and Guangzhou, and in Hong Kong. In 2008 and 2009 and the six months ended 30 June 2010, sales generated by our self-operated Stores for our *V.E. DELURE* and *TESTANTIN* products accounted for approximately 34.8%, 38.8% and 41.0% of our total sales, respectively. Most of our self-operated Stores are operated under the following type of arrangement. We enter into cooperation agreements or lease agreements with department stores or shopping malls which govern the operations of our self-operated Stores, in particular, the collection of sales proceeds. Generally, the department stores and shopping malls charge a fixed fee or a percentage of the sales turnover of our Stores as commission subject to an agreed monthly or annual minimum commission amount determined based on an agreed minimum sales revenue target of the relevant Store. For further details on the major terms of these cooperation agreements or lease agreements, please refer to the section headed “Business – Sales and Distribution – I. Self-operated Stores” in this prospectus. On the other hand, our distributorship agreements set out terms with respect to geographic exclusivity, duration, product exclusivity, pricing and discount, use of our brand names and store design, among other terms. For further details on the major terms of our distributorship agreements, please refer to the section headed “Business – Sales and Distribution – II. Distribution by distributors/sub-distributors – Major terms of the distributorship agreements” in this prospectus.

To enhance our distribution management ability, as at the Latest Practicable Date, at our request, our relevant distributor has terminated all of its sub-distributorship agreements for our products with its sub-distributors. Instead, those sub-distributors have entered into direct distributorship agreements with us. The Directors have confirmed that we will no longer allow our distributors to appoint sub-distributors going forward.

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The following table sets out a breakdown of our revenue by brand and sales channel (for self-owned brands) for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010:

Revenue	Year ended 31 December						Six months ended 30 June			
	2007	2008		2009		2009	2010			
	(RMB million)	% of total revenue	(RMB million)	% of total revenue	(RMB million)	% of total revenue	(RMB million)	% of total revenue	(RMB million)	% of total revenue
I. By brand										
1. Self-owned brands										
<i>V.E. DELURE</i>										
Self-operated Stores	39.2	20.2	84.5	24.9	137.4	33.6	48.1	35.2	90.8	36.4
Distributors	108.1	55.8	154.9	45.5	157.6	38.5	52.9	38.7	113.3	45.5
Corporate sales	-	-	-	-	6.0	1.5	1.4	1.0	2.1	0.8
Sub-total	147.3	76.0	239.4	70.4	301.0	73.6	102.4	74.9	206.2	82.7
<i>TESTANTIN (Note 1)</i>										
Self-operated Stores	20.6	10.6	33.8	9.9	21.1	5.2	7.6	5.6	11.4	4.6
Distributors	21.6	11.2	41.2	12.1	64.5	15.7	14.0	10.2	19.2	7.7
Sub-total	42.2	21.8	75.0	22.0	85.6	20.9	21.6	15.8	30.6	12.3
Self-owned brands total	189.5	97.8	314.4	92.4	386.6	94.5	124.0	90.7	236.8	95.0
2. Licensed brands (Note 2)										
CARTIER	-	-	8.8	2.6	15.5	3.8	7.1	5.2	10.1	4.1
Harmont & Blaine	4.4	2.2	17.2	5.0	6.9	1.7	5.6	4.1	2.3	0.9
Licensed brands total	4.4	2.2	26.0	7.6	22.4	5.5	12.7	9.3	12.4	5.0
Total	193.9	100.0	340.4	100.0	409.0	100.0	136.7	100.0	249.2	100.0
II. By sales channel (for self-owned brands) (Note 3)										
Self-operated Stores	59.8	30.8	118.3	34.8	158.5	38.8	55.7	40.8	102.2	41.0
Distributors	129.7	67.0	196.1	57.6	222.1	54.2	66.9	48.9	132.5	53.2
Corporate sales	-	-	-	-	6.0	1.5	1.4	1.0	2.1	0.8
Sub-total	189.5	97.8	314.4	92.4	386.6	94.5	124.0	90.7	236.8	95.0

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Notes:

1. The sales of *TESTANTIN* products through *TESTANTIN* self-operated Stores decreased in the year ended 31 December 2009 primarily because we launched a series of promotional events at our *TESTANTIN* self-operated Stores in Hong Kong offering 10% to 60% discounts to customers in 2009 in response to the highly competitive retail market in Hong Kong and the generally difficult economic environment in Hong Kong as a result of the global economic crisis and the closing of two *TESTANTIN* stores in Hong Kong in late 2008. Our sales to *TESTANTIN* distributors increased in the year ended 31 December 2009 mainly because (i) the full year effect of our sales to certain other distributors in 2009 appointed in 2008 that did not operate through Retail Stores; (ii) the full-year effect in 2009 arising from the 15 newly opened *TESTANTIN* Stores operated by the distributors located in the PRC in 2008; and (iii) the number of *TESTANTIN* Stores operated by the distributors located in the PRC increased from 47 as at 31 December 2008 to 51 as at 31 December 2009. The four newly-opened *TESTANTIN* stores in 2009 were opened in the second half of 2009 when the economic conditions after the financial crisis began to improve.
2. From August 2004 to August 2009, we acted as the sole distributor for an Italian menswear brand, Harmont & Blaine, in the PRC. The distributorship agreement for the Harmont & Blaine brand expired in August 2009. According to the distributorship agreement, we had nine months to sell the remaining stocks after the agreement was terminated. Beginning in early 2008, we started to act as an authorized dealer of CARTIER accessories which are sold in two CARTIER Stores, one in Fuzhou and the other in Nanning, both of which are operated by us. In September 2010, we opened our third CARTIER Store in Xiamen.
3. Our customers consisted of end customers and distributor customers. Our end customers include retail customers that purchased products directly from us through our self-operated Stores and corporate customers that purchased large volume made-to-order products directly from us through our corporate sales. Our distributor customers purchased products from us and then sell to the end customers in general.

The following table sets out the gross profit and gross profit margin for our self-owned brands and licensed brands for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	RMB million	GP%	RMB million	GP%	RMB million	GP%	RMB million	GP%	RMB million	GP%
V.E. DELURE										
- self-operated Stores	28.3	72.2	62.1	73.5	101.8	74.1	34.9	72.6	72.7	80.1
- distributors	51.6	47.7	81.6	52.7	85.3	54.1	23.0	43.5	68.8	60.8
- corporate sales	-	-	-	-	3.8	63.5	0.8	55.7	1.7	82.3
Subtotal	<u>79.9</u>	<u>54.3</u>	<u>143.7</u>	<u>60.1</u>	<u>190.9</u>	<u>63.4</u>	<u>58.7</u>	<u>57.3</u>	<u>143.2</u>	<u>69.5</u>
TESTANTIN										
- self-operated Stores	14.6	70.9	24.4	72.2	13.8	65.0	4.8	63.3	8.8	76.6
- distributors/ sub-distributors	<u>9.8</u>	<u>45.0</u>	<u>22.5</u>	<u>54.6</u>	<u>34.4</u>	<u>53.3</u>	<u>6.6</u>	<u>47.2</u>	<u>10.7</u>	<u>55.6</u>
Subtotal	<u>24.4</u>	<u>57.7</u>	<u>46.9</u>	<u>62.5</u>	<u>48.2</u>	<u>56.2</u>	<u>11.4</u>	<u>52.8</u>	<u>19.5</u>	<u>63.5</u>
CARTIER	-	-	3.4	38.9	5.8	37.4	2.3	32.0	3.2	32.1
Harmont & Blaine	<u>1.4</u>	<u>32.5</u>	<u>9.3</u>	<u>54.1</u>	<u>3.0</u>	<u>44.1</u>	<u>2.0</u>	<u>35.4</u>	<u>1.0</u>	<u>44.5</u>
Total	<u><u>105.7</u></u>	<u><u>54.5</u></u>	<u><u>203.3</u></u>	<u><u>59.7</u></u>	<u><u>247.9</u></u>	<u><u>60.6</u></u>	<u><u>74.4</u></u>	<u><u>54.4</u></u>	<u><u>166.9</u></u>	<u><u>67.0</u></u>

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For details of an analysis of revenue and gross profit margin by brands, sales channels and geographical region, please refer to the section headed “Financial Information” in this prospectus.

Our primary focus is on managing our brands and distribution network through our branding, research, design and distribution capabilities. We enjoy the benefits of an asset-light business model as we outsource the production of most of our apparel and accessory products to Independent Third Party outsourced manufacturers. Our production facilities in Huadu District, Guangzhou in Guangdong Province primarily engage in sampling, packaging and post-finished processing of the apparel produced by our outsourced manufacturers and manufacturing a small portion of our own apparel. We have a stringent quality control system to ensure high product quality.

The apparel products that bear the *V.E. DELURE* and *TESTANTIN* labels are principally designed by our in-house design team located in Guangzhou. Designs are always developed consistently with our designated brand strategy and theme as set out in the “Branding Strategy” section below.

Our design team keeps abreast of the latest trends and developments in new designs and types of fabric, primarily through attending fashion shows and trade exhibitions in the PRC, Italy and France, and through other means such as studying domestic and international fashion magazines. Our design team also works closely with our sales and marketing team to understand the latest market needs and tastes.

Our key revenue and earnings drivers during the Track Record Period included: economic growth in the PRC, urbanization in the PRC, pricing of our products and cost control measures, size of our retail network, our ability to differentiate us from our competitors, our ability to continuously maintain and enhance brand recognition and awareness, business performance of shopping malls, department stores and distributors and our working relationship with them, cost of raw materials, seasonality and weather, purchase costs of outsourced products and external production arrangements and taxation. Our Directors have confirmed that given that the Group is principally focusing on its business in the PRC market, save and except for the general market environment which affects consumers’ confidence, the recent economic conditions in Hong Kong and abroad have not had a material adverse effect on our assets, business or financial position.

Beginning in early 2008, we started to act as an authorized dealer of CARTIER accessories in designated CARTIER Stores in the PRC. Each CARTIER agreement entered into with Richemont governs one of our Stores selling CARTIER accessories. The agreements do not give us exclusive licensing or distribution rights within any geographical area and we are not required to pay any royalty or minimum guaranteed fee. We purchase the accessory products directly from Richemont at the prices determined by a price list that is in force at the time of delivery and we sell the products at the recommended retail prices determined by Richemont. Certain CARTIER accessories are covered under the CARTIER international warranty. The CARTIER Stores that we operate follow the shop design directives issued by Richemont. Among other terms, we are also required to devote sufficient display area to CARTIER accessories, ensure that sales of CARTIER accessories are to end-customers and submit to regular monitoring by

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Richemont. The distribution agreements can be terminated by Richemont if we fail to meet our obligations under the agreements. For further details of the material terms of these distributorship agreements, please refer to the section headed, “Business – Branding Strategy – II. Licensed Brands – CARTIER” in this prospectus.

In May 2010, we entered into several agreements with Admiralfly, a special purpose vehicle set up and wholly-owned by New Horizon for the purpose of investing in the Company, New Horizon is a limited liability partnership established and registered in the Cayman Islands, focusing on equity investment in China. For further details, please refer to the section headed “Financial Investor” in this prospectus.

COMPETITIVE STRENGTHS

We believe that our success to date is attributable to the following principal competitive strengths:

A leading PRC menswear brand operator with two proprietary brands targeting different customer bases in the middle-upper to high-end market segments

Our dual brands cater to consumers with different needs, tastes and consumption patterns and cover two fast growing segments in the PRC menswear market, the high-end business formal and casual menswear market through our *V.E. DELURE* brand, and the middle-upper fashion casual menswear market through our *TESTANTIN* brand.

We have operated *V.E. DELURE*, a leading brand in the high-end menswear market, for about 10 years. According to the Frost & Sullivan Report, our brand *V.E. DELURE* generated a retail revenue of RMB502.3 million for the year ended 31 December 2009, representing a 3.8% share of the high-end business formal and casual menswear market in the PRC in 2009, ranking us third behind competitors that had market shares of 5.3% and 4.6%. For the six months ended 30 June 2010, our *V.E. DELURE* brand generated retail revenue of RMB312.0 million, increasing our market share to 4.2% in the segment. Our *V.E. DELURE* brand offers business formal and casual menswear and accessories targeting affluent and successful men between the ages of 35 to 50 with a brand theme of “Love.”

Building on our success with *V.E. DELURE*, we created *TESTANTIN*, targeting a younger and more fashion conscious age group of the middle-upper menswear market segment, in 2005. *TESTANTIN* offers contemporary and chic casual menswear and accessories targeting men between the ages of 25 to 40 with a brand theme of “artistic expression and simplicity.” Although still at a relatively early stage of development, sales of *TESTANTIN* products experienced a revenue growth of 14.1% in 2009 compared to 2008. In addition, revenue from sales of our *TESTANTIN* products increased from approximately RMB21.6 million for the six months ended 30 June 2009 to approximately RMB30.6 million for the six months ended 30 June 2010, representing an increase of 41.7%. We believe our *TESTANTIN* brand has a large growth potential in the fast growing PRC middle-upper fashion casual menswear market.

We believe our dual-brand portfolio, our broad range of products, our experience in operating PRC menswear brands and our sales and marketing plans position us well to capitalize on the different growth characteristics of the market segments we target which may experience different growth rates at different points of the economic cycle.

Effective branding and marketing strategy

We believe that an effective branding and marketing strategy is crucial to the success in our target menswear market as it can differentiate us from our competitors and create recognition of the values of our brands and products. We have a dedicated marketing team that is responsible for the marketing and promotional activities of *V.E. DELURE* and *TESTANTIN*.

We have marketed our *V.E. DELURE* products under the general theme of “Love”, which we believe exemplifies our core values and design inspiration. During the Track Record Period, we implemented various marketing strategies that integrated the theme of “Love” such as (i) “Love of Success and Champions” and (ii) “Love and Compassion”.

For the “Love of Success and Champions” marketing strategy, we sponsored various events related to affluent and successful persons in China. For example, we are the sponsor of formal attire for the PRC national table tennis team since 2006. To further enhance our brand awareness, we also entered into an arrangement with The Management Center of Table Tennis and Badminton in February 2010 to sponsor the PRC national badminton team for their formal attire for a term of five years from January 2010 to December 2015. We sponsored the “Table Tennis and China” cultural exhibition in 2008. We believe that the involvement of the PRC national table tennis and badminton teams in our marketing campaigns is a highly effective method to increase our brand awareness, given the popularity of such sports in the PRC and the leading results and rankings that the table tennis and badminton players have achieved in the world. We believe that these players are highly regarded among the PRC community and our sponsorship of their teams is consistent with our theme of “Love of Success and Champions”. We also believe our ability to secure such sponsorships differentiates us from our competitors and is evidence of our brand and product recognition. Between 2006-2009 (except for 2008), we sponsored the “Top 10 Most Influential Persons in China” (中國精英年鑒(年度十大精英男性)頒獎典禮) organized by “Magazine” (名牌雜誌). We also sponsored the prize-giving ceremony “中國時尚先生頒獎典禮” in 2007 and the “Top 10 Economic Celebrity in Guangdong” in 2008.

For the “Love and Compassion” marketing strategy, we make donations and sponsor charity events from time to time to fulfill our corporate social responsibility. In 2008, we made donations to build a primary school named “Dream Island DELURE Charity School” in Guilin, Guangxi Province and we also donated both cash and materials to support students with economic difficulties in certain cities of Guangxi Province to continue their studies. In addition, we organized and sponsored a series of fund raising events, namely “迪萊愛心火炬傳遞”, jointly with the PRC national table tennis team and selected shopping malls, in 2009. During the Track Record Period, donations were made to more than 30 primary schools in Guangdong, Guangxi, Chongqing, Hebei, Suzhou, Qingdao and Xiamen. We also made donations to help the needy, such as the victims in the Sichuan earthquake and snowstorm in the PRC.

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We believe our sponsorship of the PRC national table tennis team events in shopping malls and department stores has assisted us in securing prime locations in many established and well known department stores.

In addition to the above marketing campaigns, we also participate in fashion shows with heightened media coverage that can raise awareness of our brands among the fashion industry. We also place prominent advertisements in middle-upper to high-end menswear and fashion magazines in China to maintain high visibility in the market.

Furthermore, we have a VIP membership program in place to encourage customer spending and develop customer loyalty. We believe customer loyalty is important in the upmarket fashion industry. As an incentive, VIP members are generally entitled to a discount up to 15% from the normal sales prices. Marketing information and fashion catalogues are regularly communicated and/or mailed to VIP members to keep them informed of the latest seasonal collections and VIP members are invited to our promotional events. We also have a membership points program pursuant to which our VIP members can earn membership points for every RMB of purchase at our *V. E. DELURE* self-operated Stores and redeem such points for certain gifts. VIP members at some Stores are also provided with personal services such as a dedicated VIP area for tea and beverage consumption. Selected gifts are presented to VIP members on their birthdays.

A nation-wide retail network occupying prime locations and with ample room for growth

We have established a large retail network in China's menswear industry with 268 Retail Stores, including both self-operated and distributor-operated Stores for our *V.E. DELURE* and *TESTANTIN* brands in Hong Kong and 144 cities in 28 provinces/municipals/autonomous regions of the PRC as at 30 June 2010. According to Frost & Sullivan, our *V.E. DELURE* brand ranked second in terms of the number of retail stores among the top ten high-end business formal and casual menswear brands by retail revenue in the PRC as at each of 31 December 2008 and 2009 and 30 June 2010. We have expanded our retail network substantially from 167 Retail Stores as at 31 December 2007 (39 of which were self-operated Stores) to 259 Retail Stores on 31 December 2009 (70 of which were self-operated Stores), and further to 268 Retail Stores as at 30 June 2010 (84 of which were self-operated Stores).

According to the Frost & Sullivan Report, the retail revenue of high-end business formal and casual menswear in the PRC is expected to grow from RMB13.1 billion in 2009 to RMB25.0 billion in 2013, representing a CAGR of 17.5%. According to the Frost & Sullivan Report, in the year ended 31 December 2009 and for the six months ended 30 June 2010, our brand *V.E. DELURE* had a market share of 3.8% and 4.2%, respectively, of the high-end business formal and casual menswear market in the PRC based on retail revenue. According to the Frost & Sullivan Report, no one brand owner or operator had a dominant share of the high-end business formal and casual menswear market. The top two ranked brands had market shares of 5.3% and 4.6% in the year ended 31 December 2009 and 5.9% and 5.2% for the six months ended 30 June 2010, respectively, according to the same report by Frost & Sullivan. Therefore, notwithstanding having the second largest number of retail stores in the market, according to the Frost & Sullivan Report, we believe there is ample room for growth in the number of stores within our current geographic coverage.

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The middle-upper fashion casual menswear market segment that our *TESTANTIN* brand targets has a historical retail revenue CAGR for the period of 2006-2009 and an expected CAGR for the period of 2009-2013E of 14.3% and 16.5%, respectively, which is higher than the CAGRs of both the “High-end to Luxury” and “Middle to Low End” fashion casual menswear market segments, based on the Frost & Sullivan Report. According to the Frost & Sullivan Report, the retail revenue of this market segment is projected to grow from RMB8.7 billion in 2009 to RMB16.1 billion in 2013. In light of the early development stage of our *TESTANTIN* brand and the industry dynamics of this segment, we believe that there is ample room for growth for our *TESTANTIN* brand.

We believe that the high market recognition and brand differentiation created through years of our brand building activities, in particular in relation to *V.E. DELURE*, has accelerated the acceptance of our brand by, and created strong relationships with, our distributors, shopping malls and department stores. Our relationships with our business partners as mentioned above have been further strengthened by (a) consistent high ranking in terms of revenue within shopping malls and department stores, in relation to our *V.E. DELURE* brand, (b) our management’s historical dealings with many of our distributors, department stores and shopping malls as a result of their experience in the distribution of international brands such as two well-known French apparel/accessories brands, and (c) our ability and initiative in sponsoring the national PRC table tennis team events at shopping malls and department stores, which have been well received by such participating shopping malls and department stores. We believe our strong relationship with distributors, shopping malls and department stores is critical in forming our solid foundation and giving us a competitive advantage to (i) capture strong industry growth by rapidly expanding the network coverage of our brands, and (ii) secure prime locations in many established and well known department stores and shopping malls in which we strategically locate some of our Stores.

We believe we can leverage our strong and long history of relationships with our distributors, department stores and shopping malls to promote the growth of our junior brand, *TESTANTIN*, and other brands we may choose to acquire, to penetrate new geographic areas or increase their existing presence at a more rapid pace than otherwise would be possible by our competitors and to be strategically positioned at locations compatible with our brand strategy.

A business model that strategically combines self-operated Retail Stores and distributor networks

We strategically use a combination of self-operated Retail Stores as well as a third party distributor model to varying degrees to cater to the different stages of development and the different target markets for each of our brands.

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We have been gradually increasing the proportion of our self-operated Retail Stores for our *V.E. DELURE* brand which is positioned in the high-end PRC menswear market with significant brand equity established through years of brand building. Self-operated Stores enable us to create direct contact with our targeted customers, thereby allowing us to optimize our marketing efforts directly to our customers and to directly instill in our customers the brand image and atmosphere that we create and express. We can also ensure the consistent provision of high quality services to our customers and obtain first hand feedback from them which provides us with useful information for our future product designs.

It has been our strategy to establish our *V.E. DELURE* self-operated Retail Stores mainly in tier one, tier two and tier three cities. We believe tier one and tier two cities are perceived to be at the forefront of design and fashion which have the ability to influence design and fashion in tier three and tier four cities. To more effectively roll-out our sales and marketing campaigns on a national level, it is critical that our self-operated Stores are located at prime locations in tier one and tier two cities to capture pedestrian traffic of the affluent shoppers with high consumption abilities. In this regard, during the Track Record Period, we were able to strategically secure retail locations for our *V.E. DELURE* self-operated Stores in established and well known department stores and shopping malls such as the Beijing Yansha Youyi Shopping City Limited, Tianjin Friendship Shopping Center, Charter Shopping Center, Xi'an Centuryginwa, Harbin Songlei, Nanjing Golden Eagle Department Store, Beijing Le Tian Intime Department Store Limited, Nanning Dream Island Shopping Center, Guangzhou Department Store, Nanning Dream Island Shopping Center Gucheng Branch, Nanning Dream Island Shopping Center Crystal City Branch, Beijing Yansha Youyi Shopping City Jinyuan Branch, Guangzhou Tianhe City Department Store, Guiyang Guomao Plaza and Wenzhou Times Square Shopping Center. Generally speaking, we believe these department stores act as a vetting mechanism and only allow brands that they consider to be well-regarded. Therefore, we believe the fact that our *V.E. DELURE* self-operated Stores are located in these shopping areas is a positive reflection of our reputation and the quality of our products.

For the Track Record Period, self-operated Stores for our *V.E. DELURE* brand grew from 27 for the year ended 31 December 2007 to 71 to the six months ended 30 June 2010. Further, our *V.E. DELURE* brand's revenue from self-operated Retail Stores as a percentage of our total revenue of our *V.E. DELURE* brand grew from 26.6% in the year ended 31 December 2007 to 44.0% in the six months ended 30 June 2010, respectively.

The use of third party distributors allows us to expand our retail network rapidly with lower capital expenditure requirements as compared to self-operated Stores. We have been using this distribution channel for both of our brands with a stronger emphasis on *TESTANTIN* given its early phase of development and therefore the need and desire to reach out to a large customer base and to increase brand awareness in a relatively short period of time. For the Track Record Period, our Retail Stores operated by our distributors under our *TESTANTIN* brand grew from 35 for the year ended 31 December 2007 to 53 for the six months ended 30 June 2010. For the same period, our Retail Stores operated by our distributors under our *V.E. DELURE* brand grew from 93 to 131.

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We carefully exercise management and influence over our distributors' retail operations to avoid brand image erosion or "de-equitization." We believe we have stringent measures in place to manage our distributors and provide appropriate training to our distributors and their employees. See the section headed "Sales and Distribution — Distribution by distributors/sub-distributors" in this prospectus for further information.

High growth momentum and attractive margins

We achieved significant growth both in terms of revenues and operating profit (profit before tax, finance costs and other expenses) over the past three years. Our revenue for the three years ended 31 December 2007 (which included only seven months' of revenue of two of our subsidiaries), 2008 and 2009 and the six months ended 30 June 2010, were RMB193.9 million, RMB340.4 million, RMB409.0 million and RMB249.2 million, respectively, while operating profit (profits before interest, tax and other expenses) for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, were RMB50.5 million, RMB86.9 million, RMB140.0 million and RMB90.9 million, respectively. For a more detailed explanation of revenue recorded in 2007 (which included only seven months' of revenue of two of our subsidiaries) compared to 2008 and our financial information, please refer to the section headed "Financial Information" in this prospectus.

Due to a number of factors, including but not limited to economies of scale, our pricing strategy and cost control measures, our asset-light business model, our effective and cost-efficient branding and our marketing strategy, we have been able to achieve attractive operating profit margins over the years. Our gross margins amounted to about 54.5%, 59.7%, 60.6% and 67.0%, while operating profit margin amounted to about 26.0%, 25.5%, 34.2% and 36.5% for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

High quality products and stringent quality control

We believe that high product quality is another key factor to success in high-end menswear branding. For instance, for some of our *V.E. DELURE* menswear products, we source fabric from certain reputable overseas suppliers such as Lanificio F.lli Cerruti dal 1881, Ermenegildo Zegna, Loro Piana and another well-known Italian menswear fabric supplier. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our purchase of fabric from these four suppliers represented 7.8%, 11.8%, 9.7% and 20.4%, respectively, of our total purchase of fabric. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the fabric we sourced from overseas suppliers represented 34.2%, 32.5%, 19.2% and 39.9%, respectively, of our total purchase of fabric. We have a stringent quality control policy, which includes quality inspection of our products at different stages of production, including the pre-stage, middle and post-stage. In particular, for each type of fabric we receive, we send it to a quality inspection institute, National Textile and Garment Quality Supervision Testing Center (Guangzhou) (國家紡織品服裝產品質量監督檢驗中心(廣州)), for components and safety testing and to ensure our products fulfill a high quality requirement. National Textile and Garment Quality Supervision Testing Center (Guangzhou) was established in October 2002 by Guangzhou Fibre Product Testing

Institute (廣州市纖維產品檢測院) (a quasi-governmental organization) and is recognized as one of the top fibre product testing laboratories in China. On 18 November 2009, National Textile and Garment Quality Supervision Testing Center (Guangzhou) obtained the Metrology Accreditation Certificate (Certificate no.: 2009002181Z) and Authorization Certificate (Certificate no.:(2009)國認監認字(240)) which were both issued by the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會). The Certification and Accreditation Administration of the PRC is the authority under the State Council that is responsible for the assessment and accreditation of the testing capacity of laboratories and institutions in China. We also have a policy of performing a final inspection of all of our finished products (including both products manufactured by us and products purchased from outsourced manufacturers) before such products are sold to distributors or delivered to self-operated Stores.

Management's experience in managing middle-upper to high-end menswear brands

Our management has accumulated extensive experience in managing and distributing high-end international brands in China. Before starting our business, the Chan Brothers were engaged in the sales and distribution of two well-known French apparel/accessories brands, in the PRC. We are also currently the authorized dealer for CARTIER's accessories in Nanning, Guangxi Province and Fuzhou and Xiamen, both in Fujian Province. Led by our executive Directors and management team, who have accumulated years of extensive experience and knowledge in managing and distributing high-end international brands in the local PRC markets, we believe that we will continue to develop and enhance our capability in high-end brand management and distribution. We can also leverage management's long term relationships with department stores, shopping malls and distributors to implement our strategy to expand our retail network.

STRATEGIES

Our aim is to become the leading brand operator in the middle-upper to high-end menswear market segments in China.

Expanding our retail network and sales channels

According to the Frost & Sullivan Report, the retail revenue of the high-end business formal and casual menswear market, which our *V.E. DELURE* brand targets, and the middle-upper end fashion casual menswear market, which our *TESTANTIN* brand targets, is projected to grow at a CAGR of 17.5% and 16.5%, respectively, from 2009 to 2013, reaching a projected revenue of RMB25.0 billion and RMB16.1 billion, respectively, in 2013. Based on such projection, we believe there are significant opportunities for growth of both the *V.E. DELURE* and *TESTANTIN* brands, especially in tier two and tier three cities. We intend to leverage our extensive expertise in the retailing of menswear brands and our strong relationships with distributors, department stores and shopping malls to continue to expand our retail network to capitalize on future growth opportunities. Going forward, we also plan to encourage our distributors to operate both *V. E. DELURE* and *TESTANTIN* Stores at the same time.

BUSINESS

Based on the current economic environment and our expected financial position, we plan to add about 63 Retail Stores (comprising about 39 *V.E. DELURE* Retail Stores and 24 *TESTANTIN* Retail Stores) and 172 Retail Stores (comprising 86 *V.E. DELURE* Retail Stores and 86 *TESTANTIN* Retail Stores) in 2010 and 2011, respectively, including Retail Stores operated by us and our distributors. Our adherence to the above retail store expansion plan will be subject to, among other things, economic conditions of the PRC and specific regions in which we plan to locate our Stores, availability of appropriate locations compatible to our branding and expansion strategy, selection of appropriate distributors, finalization of the terms with our landlords and/or distributors and our business and financial circumstances at the relevant point of time.

(i) *V.E. DELURE*

Due to our efforts in expanding the number of our *V.E. DELURE* Stores during the Track Record Period, we have Stores mainly located in tier one, two and three cities or strategic locations in the PRC, such as Beijing, Shanghai, Tianjin, Changchun, Xi'an, Nanjing, Shenzhen and Guangzhou, and in Hong Kong. We intend to continue to increase the number of *V.E. DELURE* Retail Stores in these cities and other strategic locations, to capture pedestrian traffic of affluent shoppers with high consumption abilities. We plan to increase the proportion of our self-operated Retail Stores as opposed to Stores operated by our distributors as we expand our network in tier one and tier two cities. We intend to establish flagship Stores in prime locations in Beijing, Shanghai and Guangzhou. We believe the establishment of flagship Stores in Beijing, Shanghai and Guangzhou will further enhance our images as a leading menswear retailer in the high-end market. We will also expand our *V.E. DELURE* Retail Stores in tier three cities, principally through distributors, if we find locations that (i) we expect to draw customers with spending power who are consistent with our target clientele and (ii) are compatible and consistent with the brand image.

(ii) *TESTANTIN*

The development of our *TESTANTIN* brand is in a relatively early stage with the brand being launched in 2005. For the six months ended 30 June 2010, revenue derived from the *TESTANTIN* brand was approximately 12.3% of our total revenue with 66 Retail Stores as at 30 June 2010. During the Track Record Period, our *TESTANTIN* branded Stores were generally located in tier two and tier three cities. We believe that there is ample room for growth in China's middle-upper menswear market. We intend to raise public awareness of the brand by expanding the distribution network of the *TESTANTIN* brand and by leveraging the relationship built from our experience managing our *V.E. DELURE* brand. Currently, we have more Stores operated by distributors than self-operated Stores for our *TESTANTIN* brand. As our *TESTANTIN* brand is in a relatively early stage of development and we rely to a larger extent on our distributors to quickly establish a network and penetrate into tier two and tier three cities, going forward, we will continue to focus on expanding our store coverage through our distribution networks but at the same time we expect to increase the number of our self-operated Stores to be located at certain strategic prime locations. The proportion of self-operated Retail Stores to Retail Stores operated by our distributors for our *TESTANTIN* brand is still expected to be smaller than the same ratio for our *V.E. DELURE* brand in the future. In addition to the

presence in tier two and tier three cities, we plan to penetrate and increase the presence of our *TESTANTIN* brand in tier four cities. We expect that the *TESTANTIN* brand will be one of the key drivers of our growth and that revenue from the *TESTANTIN* brand will significantly increase in the future.

Increasing same store sales growth

We plan to increase our same store sales growth through implementing the following strategies:

(i) Expanding product and service offerings and design capabilities

We currently offer a variety of goods under the *V.E. DELURE* and *TESTANTIN* brands, covering apparel such as suits, jackets, pants, overcoats, shirts, polo-shirts, leather goods such as brief-cases, wallets and shoes, and accessories such as ties, cuff-links and pens. We believe that there is significant room for growth in our leather goods and accessory product categories and plan to expand the styles of, and to allocate more store space for, these product categories.

We plan to enhance our design capabilities by adding more in-house design staff and engaging international design consultants to help us expand our portfolio of products.

We also provide tailor-made services in a few of the *V.E. DELURE* Stores. In order to further enhance the image and prestige of certain Stores, we plan to introduce tailor-made services to more *V.E. DELURE* Stores by the end of 2011.

(ii) Enhancing brand equity of our proprietary brands

Currently, Retail Stores operated by us and our distributors strive to have consistent store design, color scheme, display and packaging in order to portray a consistent brand image to customers. In order to further enhance our brand awareness and attract customers, we plan (a) to introduce more innovative interior design concepts, displays and visual effects to create a more distinctive and high-end or middle-upper, as applicable, brand image, (b) to continue our sponsorship of national sports teams, charities and notable events, such as promotional activities with the PRC national table tennis team in shopping malls and charitable banquets, (c) to expand our advertising plan to include different forms of media, such as magazines, newspapers, outdoor media channels (such as placing billboards along highways) and public areas with high traffic (such as airports), (d) engage celebrity spokesperson and (e) to increase the number of fashion shows in which we participate.

We also plan to enhance our brand loyalty by focusing on and expanding our VIP membership program. To do this we intend to introduce VIP corners in more locations, to provide a more spacious and comfortable area with wine and snacks for frequent customers with high consumption abilities, in order to capture the affluent customers in China. We plan to use our flagship Store in the Nanning Dream Island Shopping Center to launch new branding and marketing strategies. In addition, we plan to further enhance the quality of our VIP services, including, but not limited to supplying designated VIP-only products and souvenirs, establishing a unique VIP code and serving beverages in the to-be-established VIP corners at Stores. We plan to upgrade our ERP, so that customers' spending can be automatically recorded, spending patterns can be easily categorized and analyzed, and marketing and cross-selling efforts and services can be designed to be more effective, focused and personalized in order to reflect the privileged VIP status of our VIP customers. We believe this will help us retain long-term customers and attract more high spending customers with high consumption abilities.

Enriching our portfolio of brands

We currently operate two self-developed menswear brands, namely *V.E. DELURE* and *TESTANTIN*, and act as an authorized dealer of CARTIER's accessories in designated CARTIER Stores in the PRC. We believe we have accumulated extensive expertise in the retailing of branded apparels in the PRC and have established a valuable network with distributors, department stores and shopping malls. We intend to increase the brands that we can offer through these channels by utilizing our experience. We had a successful experience in introducing *TESTANTIN* and we are confident we can be as successful in introducing other brands.

We plan to further develop our portfolio of brands through strategic investments or acquisitions in, or entering into licensing or distributorship arrangements with, Chinese or overseas high-end brands, which our management believes have potential to succeed in China. We expect to give priority to brands that complement our existing two proprietary menswear brands. We believe that by leveraging our experience and network in China, a strategic investment in brands, domestic or international, on a selective basis, would allow us to expand our brand portfolio quickly, to create business and cost synergies between the brands, and ultimately increase our revenues and net profit.

Enhancing our ERP system and administrative support

As our business continues to grow, we plan to invest in enhancing our ERP and management information system in order to achieve better inventory control with our distributors. Currently, our POS system only allows our management to centrally monitor sales activity and inventory levels at our self-operated Retail Stores on a timely basis from our office headquarters. The system at each of our self-operated Stores is interconnected while our distributors' systems are not interconnected with our central system. By upgrading such system and by creating a direct interface between the individual systems at each of the Stores operated by our distributors, we will be able to obtain timely operating data of our distributor-operated Stores, thereby allowing central management to further improve inventory and financial management capabilities. We expect this upgrade will be completed within three years, at which point our POS system will be directly linked to all the Stores operated by our distributors. Also, we plan to invest in expanding our logistics, warehousing, administrative and accounting functions appropriately to support our growth going forward.

Increasing our corporate sales

We have provided large-volume made-to-order services to certain entities for their employees since 2009. Sales made through this channel amounted to RMB6.0 million for the year ended 31 December 2009 and RMB2.1 million for the six months ended 30 June 2010. Under this model, we intend to target large corporate clients, banks and government bodies that fit our branding theme and offer their executives and managers a personalized service. Going forward, we intend to increase sales to these entities and we believe the provision of such service will serve as a cost effective channel to rapidly increase our brand awareness and equity among executives and managers of reputable corporations and entities.

BRANDING STRATEGY

We are principally engaged in the sale of high-end menswear and accessories under our *V.E. DELURE* brand and middle-upper menswear and accessories under our *TESTANTIN* brand in the PRC. We also operated Retail Stores in the PRC under licensed brands *CARTIER* and *Harmont & Blaine* during the Track Record Period. The table below sets out our brand portfolio:

I. Self-Owned Brands

Name of brand	Brand description	Number of Retail Stores as at 30 June 2010
<p><i>V.E. DELURE</i> V.E. DELURE</p>	<p>History: Established in 2000</p> <p>Products range: Primarily business formal and casual menswear and accessories, including ready-to-wear, made-to-order and accessories, including suits, shirts, pants, jackets, polo-shirts, overcoats, shoes, ties, belts, wallets and other accessories</p> <p>Brand theme: Love</p> <p>Target customers: Affluent and successful men in the 35 – 50 age group</p>	<p>Number of Retail Stores: 202</p> <p>(i) 71 Stores operated by us directly</p> <p>(ii) 131 Stores operated by 63 distributors</p>



BUSINESS

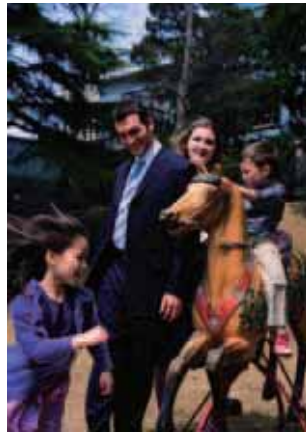
Name of brand	Brand description	Number of Retail Stores as at 30 June 2010
<i>TESTANTIN</i> T estantin	<p>History: Established in 2005</p> <p>Product range: Primarily contemporary and chic casual menswear and accessories, including jeans, polo-shirts, jackets, pants, sweaters, shoes, belts and wallets and other accessories</p> <p>Brand theme: Artistic expression and simplicity</p> <p>Target customers: Young and fashion conscious men in the 25 – 40 age group</p>	<p>Number of Retail Stores: 66</p> <p>(i) 13 Stores operated by us directly</p> <p>(ii) 53 Stores operated by 34 distributors (of which eight Stores were operated by one distributor through seven sub-distributors)</p>



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Brand name "V.E. DELURE"

Our *V.E. DELURE* brand was inspired by French craftsmanship and elegance. *V.E. DELURE* stands for "You are smart" in French (where V.E is the abbreviation for "Vous etes" in French, which means "you are" in English) and symbolizes the image and achievement of our target customers, and that of affluent and successful gentlemen. It also means to represent that such individual, in addition to his successful career, who is able to express his love and care for people. In order to convey this brand image in our products, we have adopted the slogan "Classic because of love" (因為愛，所以更經典) to personify the "LOVE" message and the color of purple blue which represents "Love" in our product design and marketing strategies.



Brand name "TESTANTIN"

The brand concept of our *TESTANTIN* brand represents artistic, casual and fashionable ideals. The *TESTANTIN* name and logo were designed to express artistic charm, and a contemporary and casual living style.



Despite the brand diversification, our *V.E. DELURE* and *TESTANTIN* brands both share the common characteristic of high quality and are positioned to target customers who prefer and appreciate products of good quality and design. The Directors believe that the two labels target customers in different age groups, and of different economic and social status.

The Directors also believe that the two labels complement each other and allow us to capture a wide range of customer groups and achieve greater market penetration in the middle-upper to high-end menswear market than would be possible with either brand on its own.

II. Licensed Brands

CARTIER

Beginning in early 2008, we became an authorized dealer of *CARTIER*'s accessories in designated *CARTIER* Stores in the PRC. We, through Guangzhou Changzhuxing, have entered into distributorship agreements ("*CARTIER* Agreements") with Richemont, whereby Richemont as an authorized distributor of *CARTIER*'S accessories has granted us the right to distribute *CARTIER* accessory products. The *CARTIER* Agreements are renewable annually after expiry on 31 December of each year. In addition to our three *CARTIER* stores, there are other authorized dealer(s) in the PRC unrelated to us that are authorized to sell *CARTIER* accessory products.

The major terms of the *CARTIER* Agreements are as follows:-

- a. We are granted the right to sell *CARTIER* accessory products through our three *CARTIER* stores in Nanning, Guangxi Province, and Fuzhou, Xiamen, Fujian Province. We purchase *CARTIER* accessory products directly from Richemont and sell the products through our self-operated *CARTIER* stores. The *CARTIER* stores that we operate follow the shop design directives issued by Richemont and the *CARTIER* accessory products are sold pursuant to the price lists in force at the date of delivery of the *CARTIER* accessory products by Richemont.
- b. We agree only to sell *CARTIER* accessory products that are in a perfect state of presentation and working order.
- c. We agree to devote sufficient area to display *CARTIER* accessory products and to use all the display cases and other retail outlet advertising items supplied by Richemont for the sole purpose of displaying the *CARTIER* accessory products exclusively within the *CARTIER* stores.
- d. We do not possess any right of any nature whatsoever with respect to the *CARTIER* trademarks, models, patents, copyrights, distinctive signs or rights of any nature.

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- e. CARTIER shall be entitled to issue and modify on a regular basis recommended retail prices for its products.
- f. Certain CARTIER accessory products delivered to us are guaranteed pursuant to CARTIER's international warranty.
- g. The CARTIER Agreements shall expire on 31 December of each year and shall then be renewed for contractual periods of one year each unless notice of termination has been sent by either party to the CARTIER Agreement at least three (3) months prior to the expiry of the CARTIER Agreements or any subsequent contractual period.
- h. There is no royalty fee nor guaranteed fee payable by us to Richemont under the CARTIER Agreements.
- i. The CARTIER Agreements may be terminated with immediate effect by Richemont in any of the following circumstances:-
 - (i) if we resell CARTIER accessory products with modification to their appearance or original make up of any kind or delete the CARTIER trademarks, numbered sequences or other means of identification;
 - (ii) if we do not resell the CARTIER accessory products to final customers;
 - (iii) if payment made by us does not fulfill the conditions of payment in accordance with the "General Conditions of Sale" provided by Richemont;
 - (iv) if we are unable to keep, at all times, and in appropriate condition, sufficient and representative stock of CARTIER accessory products or we are unable to acquire and offer for sale, at such time as Richemont shall request, all and any new references of the CARTIER accessory products which Richemont may decide to launch on the market;
 - (v) if we display or sell products which constitute a counterfeit or imitation of the CARTIER trademarks and/or CARTIER accessory products and/or any other products bearing the trademarks, as well as any other product likely to create confusion with CARTIER accessory products and/or any products bearing the CARTIER trademarks;

BUSINESS

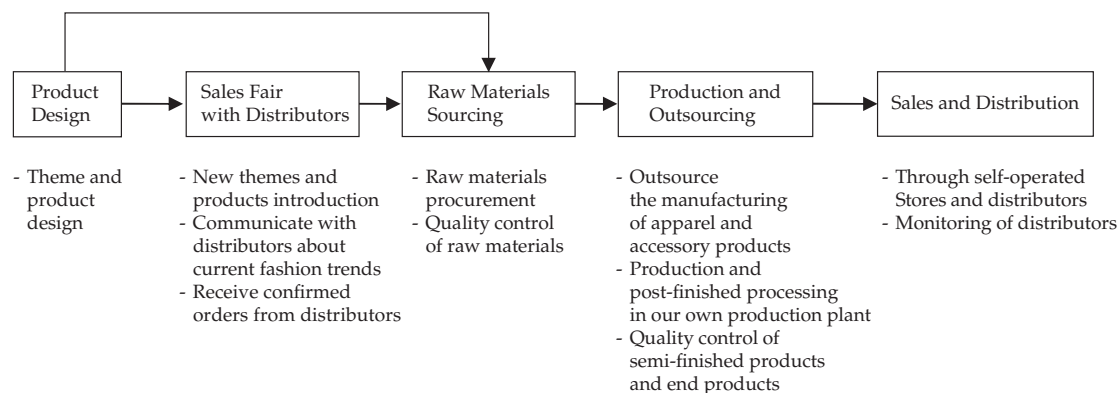
- (vi) if, for any reason whatsoever, Mr. Chen Minwen ceases to assume the effective and uninterrupted management of the CARTIER Stores;
- (vii) in the event either party to the CARTIER Agreements undergoes insolvency, bankruptcy, liquidation, creditor's arrangement or in the event of any circumstance of fact or law likely to place either party's assets under judicial control; and
- (viii) if either party to the CARTIER Agreements breaches any of the provision of the CARTIER Agreements or the "General Conditions of Sale" provided by Richemont and such alleged breach is not cured within thirty (30) days from the date of notice from the other party.

Harmont & Blaine

From August 2004 to August 2009, we were the exclusive distributor of Harmont & Blaine, an Italian menswear fashion brand, in the PRC. We entered into a distributorship agreement with the authorized distributor of Harmont & Blaine, whereby we were granted the exclusive right to sell Harmont & Blaine menswear products in the PRC. We operated the "Harmont & Blaine" Stores in cities including Guangzhou, Shenzhen and Hangzhou. Our distributorship agreement with Harmont & Blaine expired in August 2009 and our cooperation with Harmont & Blaine was terminated. The Directors believe that the revenue from sales of Harmont & Blaine menswear products represented an insignificant contribution to our total revenue, in that it amounted to about 2.2%, 5.0%, 1.7% and 0.9% of our total revenue for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

BUSINESS MODEL FOR THE SELF-OWNED BRANDS

The following diagram illustrates our business model for our self-owned brands:



DESIGN

The apparel products that bear the *V.E. DELURE* and *TESTANTIN* labels are principally designed by our in-house design team located in Guangzhou. As at the Latest Practicable Date, we had seven members and seven members in our design teams for *V.E. DELURE* brand and *TESTANTIN* brand, respectively, and all lead designers had over four years of relevant experience in fashion design. Designs are developed consistently with the designated brand strategy and theme as set out in the “Self-Owned Brands” section above.

Our design team keeps abreast of the latest trends and developments in new designs and types of fabric, primarily through attending fashion shows and trade exhibitions in the PRC, Italy and France, and through other means, such as studying local and international fashion magazines. Our design team also works closely with our sales and marketing team to understand the latest market needs and tastes. Our design team generally undertakes the following functions:

(1) Design development process

At the initial stage of the design process, our in-house design team will observe, understand and filter internal and external factors including our brand strategy and market position, culture, environmental issues and fashion trends. Our design team will visit the Retail Stores of our brands to talk with the Store managers and review the sales data, in order to understand the sales performance of particular products of our brands and competing brands and identify any design themes with high customer recognition. After that, our design team will begin to consider the filtered information and our designers will develop ideas that form the basis of the creation of upcoming collections. After this stage, our designers will begin to work on developing the new collections together with our sales and marketing team. Our sales and marketing team provide input in order to ensure that the new collection will better cater to the needs and preferences of our target customers.

(2) Sampling process

After the design development process where the prototypes of each design are created, the accepted designs are sampled.

(3) Selection process

Once the sampling process is completed, the design samples will be reviewed by our sales and marketing team and our management team. Based on their knowledge of the preferences of the target customers and sales trends in the fashion market, they will select those design samples that they believe will be most attractive to our target customers. Final samples approved by our management will then be launched and marketed at sales fairs held by us.

SEASONAL SALES FAIRS

We generally hold seasonal sales fairs, at which our new apparel samples are showcased. Distributors can evaluate our samples, share knowledge and experiences and place orders for our new products. During the sales fairs, our sales and marketing team will introduce the theme of the new collections and provide distributors with ideas about the current and future trends of the clothing industry. We generally organize sales fairs twice a year, namely in March and August, which is about four to six months before the new products for the fall/winter and spring/summer seasons is launched, respectively. We believe that by holding such sales fairs, we can respond to the ever-changing trends and demands of the menswear industry.

Purchase orders from our distributors are generally required to be confirmed during sales fair. After our distributors submit their purchase orders during sales fair, we will start analyzing and determining the production schedule and scale for each product in the coming season.

RAW MATERIALS SOURCING

The principal raw materials used in our products are fabrics and leather materials. Other product parts include buttons, zippers, cuff links, packing materials, brand labels, hanging tags and other accessories. All our raw materials suppliers are Independent Third Parties. During the Track Record Period, we sourced all the leather materials from the PRC. We currently source fabric mainly from the PRC and also from some overseas countries, including Japan, Korea and Italy. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the fabric we sourced from overseas suppliers represented 34.2%, 32.5%, 19.2% and 39.9%, respectively, of our total purchase of fabric. We source top quality fabric from certain reputable overseas suppliers such as Lanificio F.lli Cerruti dal 1881, Ermenegildo Zegna, Loro Piana and another well-known Italian menswear fabric suppliers. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our purchase of fabric from these four supplies represented 7.8%, 11.8%, 9.7% and 20.4%, respectively, of our total purchase of fabric. We source product parts from local and regional suppliers.

We usually do not enter into long-term contracts with our suppliers, with each contract governing only one specific transaction. Each supplier is subject to an annual evaluation of product quality and timely delivery. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our top five raw material suppliers collectively accounted for about 20.7%, 25.1%, 41.2% and 33.4% of our total purchase of raw materials, respectively. Our top five raw materials suppliers supplied us with fabrics and leather materials. The duration of our relationship with these suppliers ranges from less than one year to six years. Our largest raw material supplier accounted for about 5.7%, 7.7%, 16.3% and 14.5% of the total purchase of raw materials for the same periods, respectively. Each of our five largest raw material suppliers are Independent Third Parties and none of the Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interest in any of these five largest raw material suppliers during the Track Record Period.

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We employ strict criteria in inspecting raw materials before they are accepted for use. Raw materials and product parts must meet our internal quality control standards and, in particular, our principle raw material and fabric materials must also pass certain national health and safety standards issued by the General Administration of Quality Supervision and Inspection.

We have not encountered any material disruptions to our business as a result of a shortage of raw materials. We have not experienced and do not envision that we will experience any material difficulties in sourcing raw materials for our suppliers. According to the Frost & Sullivan Report, the market price of leather materials is likely to remain stable between 2010 and 2012 due to the improvements in animal husbandry in China. Our fabrics are mainly made from cotton and wool. According to Frost & Sullivan Report, the market price of cotton is expected to grow at 5% to 10% annually between 2010 and 2012, while that of wool is expected to increase by 10% to 15% annually between 2010 and 2012, mainly due to economic growth and a domestic supply shortage in the PRC. The price of raw materials may experience fluctuations that are beyond our control. Depending on the price fluctuations of raw materials, we may need to adjust the selling price of our products. However, there is no assurance that we can pass increases in raw materials costs onto our customers in a timely manner or at all, which could result in an adverse impact on our profit margins. For details of the risks associated with the price of raw materials, please refer to “Risk Factors – Risks Relating to Our Business – Fluctuations in the price, availability and quality of raw materials could cause production delays and increase production costs” in this prospectus.

PRODUCTION AND OUTSOURCING

Production

We have a production plant located in Huadu District, Guangzhou in Guangdong Province, with a gross floor area of about 4,000 sq.m., mainly serving the functions of sampling, packaging and post-finished processing of the apparel produced by outsourced manufacturers, such as molding, ironing, adding buttons and other components and branding tags. The Directors confirmed that during the Track Record Period, there were no incidents of violation of any safety requirements at our production plant.

We also manufacture a small portion of our apparel such as jackets, T-shirts, suits and trousers, for both the *V.E. DELURE* and *TESTANTIN* brands, in our production plant. For most of our apparel and accessory products, we outsource the entire production process to Independent Third-Party outsourced manufacturers. We believe that this combination of in-house and outsourced production enables us to control production costs more effectively and to react more rapidly to consumer demand, which is favorable to our business development and expansion. Quality is one of our top priorities, and our quality control team monitors each stage of the procurement and production process. To ensure that our products meet our quality standards, we also work closely and communicate regularly with our outsourced manufacturers. Please also refer to the paragraph headed “Quality Control” in this section. Our production team also works closely with our sourcing team to ensure the timely and adequate supply of raw materials for production of products.

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In addition, our production team works closely with our sales and marketing team and our sourcing team in setting up a comprehensive outsourcing, production and budget plan after each seasonal sales fair. This allows us to source adequate quantities of raw materials from suppliers for in-house production, to prioritize our production schedule and to outsource production to the appropriate third party manufacturers in order to reduce production lead time and to improve our overall efficiency.

Outsourcing

For most of our apparel and accessory products, we outsource the entire production process to Independent Third-Party manufacturers that are corporations engaged in clothing and accessories production and assembly on an original equipment manufacturing basis. Most of these outsourced manufacturers are located in the PRC. During the Track Record Period, there were no labor strikes or disputes, with respect to our outsourced manufacturers that had a material effect on us.

For the production of certain products such as suits, we are responsible for purchasing raw materials and arranging delivery times with suppliers. We schedule the entire production plan and sign contracts with Independent Third-Party manufacturers. The raw materials are then processed according to our requirements and made into end products. For the production of certain products such as T-shirts, we generally outsource the whole process, that is, from the purchase of raw materials to manufacturing of the end products, to Independent Third-Party manufacturers. The turn-around time from order to delivery of the accessory products is generally about two months, and that of clothing products generally ranges from about three to four months, depending on the type of accessories and clothing products ordered. We will perform the packaging and post-finished processing for all of the end products from outsourced manufacturers, including molding, ironing, adding buttons and other components and branding tags, at our own production facilities before the finished product is delivered.

We minimize the risk of being subject to claims and we ensure quality control of our finished products manufactured by outsourced manufacturers by doing an appraisal every fall/winter and spring/summer season. Our outsourced manufacturers will be graded on a scale ranging from A to C. We will communicate with the grade B outsourced manufacturers and request quality improvements. We will terminate our business relationship with grade C outsourced manufacturers. During the production process, we will send quality control teams to each outsourced manufacturer's production facilities to carry out regular inspections. Our policy is to fully inspect the completed finished products upon receipt from the outsourced manufacturers.

Our agreements with our outsourced manufacturers also stipulate that outsourced manufacturers cannot produce or otherwise duplicate our products, samples, logos or trademarks without our consent. Should any of our outsourced manufacturers breach its agreement, it will be liable to us for damages.

BUSINESS

Through these outsourcing arrangements, we are able to focus our resources on product design and brand management, to leverage the expertise and resources of outsourced manufacturers and to optimize our production schedule, especially during peak production seasons. In order to maintain our flexibility, we do not sign any exclusive outsourcing agreements with any of our outsourced manufacturers. We do not enter into fixed term supply agreements with our outsourced manufacturers. We enter into agreements with outsourced manufacturers on an individual transaction basis, which sets out terms such as product details, agreed price, purchase quantity and delivery terms. Our outsourced manufacturers generally request advanced deposits of up to 30% of the contract price. For the remaining portion of the contract price, depending on the policy of the outsourced manufacturers, we generally pay the outsourced manufacturers in full either upon receipt of the products or within one to two months after receipt of the products. We have the right to inspect the quality of the products. If any issue on product quality arises, we may return the products to our outsourced manufacturers for exchange or repair in accordance with the terms of the respective supply agreements with our outsourced manufacturers. Our outsourced manufacturers generally bear the delivery cost of the products. We have not encountered any material disruption to our business as a result of failure to obtain outsourced products. We have not experienced and do not envision that we will experience any material difficulties in obtaining the required outsourced products.

The length of our relationships with our top five and top ten outsourced manufacturers for the year ended 31 December 2009 ranged from less than one year to four years. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, purchases from our top five outsourced manufacturers accounted for about 33.9%, 32.0%, 41.9% and 39.5% of our total purchase of outsourced products, respectively. Purchases from our largest outsourced manufacturer accounted for about 16.3%, 9.5%, 16.2% and 13.0% of our total purchase of outsourced products for the same periods, respectively. The Directors confirm that all of our outsourced manufacturers are Independent Third Parties and none of the Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interests in any of these five largest outsourced manufacturers throughout the Track Record Period.

QUALITY CONTROL

We believe that our commitment to quality control is one of the principal factors contributing to our brand value and success. Accordingly, we have established a strict quality control system and a high quality standard. As at the Latest Practicable Date, we had a team of 14 staff members in our quality control department. Our outsourced manufacturers typically fulfill orders from us and our quality control staff checks the quality of goods at the various stages described below once orders are confirmed. Our quality control staff are able to carry out checking for each order because we do not purchase goods from all our suppliers at the same time. Each season, depending on the type of clothing to be produced, we will only order from an appropriate number of suppliers and conduct quality checks on such suppliers. During the Track Record Period,

we did not experience any material recalls of our products by our customers for any quality issues. Our quality control team carries out the following quality control checks:

- **Quality control of suppliers**

We inspect raw materials and components before they are accepted for production use. Raw materials and ancillary component suppliers must pass our internal quality control standards as well as the relevant national health, safety and environmental standards. For each type of fabric we receive, we send it to the National Textile and Garment Quality Supervising Testing Center (Guangzhou) for components and safety testing.

- **Quality control during the production process**

We carry out inspections and examinations on semi-finished products during the production process to ensure satisfactory product quality. We also send quality control staff to our outsourced manufacturers' production facilities to conduct on-site quality control checks at least on a once-per-order basis. If any semi-finished products are identified as defective, the production process is suspended immediately until the quality problems are appropriately resolved to meet the required standards.

- **Quality control of finished products**

We have a policy of performing a final inspection of all of our finished products (including both products manufactured by us and products purchased from outsourced manufacturers) before such products are sold to distributors or delivered to self-operated Stores. We also require our outsourced manufacturers to provide quality certification of products supplied to us from an Institute of Textile Fiber Testing (紡織纖維檢驗機構) in Beijing, Shanghai or Guangzhou.

BUSINESS

SALES AND DISTRIBUTION

We have an extensive menswear retail network in the PRC and Hong Kong for our own brands. The following table illustrates the number of Retail Stores of our brands in the PRC and Hong Kong as at each of 31 December 2007, 2008 and 2009 and 30 June 2010, respectively:

Region	Province/ Municipal/ Autonomous Region	V.E. DELURE				TESTANTIN				Total			
		As at				As at				As at			
		31 December		30 June		31 December		30 June		31 December		30 June	
		2007 No. of Stores	2008 No. of Stores	2009 No. of Stores	2010 No. of Stores	2007 No. of Stores	2008 No. of Stores	2009 No. of Stores	2010 No. of Stores	2007 No. of Stores	2008 No. of Stores	2009 No. of Stores	2010 No. of Stores
Central PRC	Henan	1	5	5	6	-	-	-	-	1	5	5	6
	Hubei	3	5	5	6	1	1	3	-	4	6	8	6
	Hunan	3	6	9	10	1	2	1	1	4	8	10	11
	Jiangxi	4	5	5	6	-	-	-	-	4	5	5	6
Eastern PRC	Anhui	4	8	9	9	-	-	-	-	4	8	9	9
	Jiangsu	17	17	20	19	5	4	4	5	22	21	24	24
	Shanghai	3	3	3	3	-	-	-	-	3	3	3	3
North Eastern PRC	Zhejiang	10	11	10	8	8	9	8	10	18	20	18	18
	Heilongjiang	2	5	5	5	-	1	1	-	2	6	6	5
	Jilin	3	6	3	3	-	1	-	-	3	7	3	3
North Western PRC	Liaoning	2	9	10	9	4	6	7	7	6	15	17	16
	Inner Mongolia	1	3	2	1	-	-	1	1	1	3	3	2
	Ningxia	-	-	-	-	1	1	1	1	1	1	1	1
	Qinghai	-	1	1	1	-	-	-	-	-	1	1	1
	Shaanxi	3	5	5	6	2	4	5	5	5	9	10	11
Northern PRC	Xinjiang	8	10	13	13	-	-	-	-	8	10	13	13
	Beijing	6	6	7	7	-	-	-	-	6	6	7	7
	Hebei	4	6	7	7	1	1	1	1	5	7	8	8
	Shandong	14	18	18	20	-	2	2	4	14	20	20	24
	Shanxi	4	3	4	4	-	-	-	-	4	3	4	4
	Tianjin	6	6	5	5	5	5	4	4	11	11	9	9
South Western PRC	Chongqing	5	6	8	8	-	-	-	-	5	6	8	8
	Guizhou	2	2	3	3	-	-	-	-	2	2	3	3
	Sichuan	2	2	-	1	6	6	7	9	8	8	7	10
	Yunnan	2	6	7	7	-	-	-	-	2	6	7	7
Southern PRC	Fujian	2	8	10	10	5	6	6	7	7	14	16	17
	Guangdong	4	13	14	15	4	5	7	8	8	18	21	23
	Guangxi	4	8	8	9	-	2	2	1	4	10	10	10
Hong Kong	Hong Kong	1	1	1	1	4	2	2	2	5	3	3	3
Total		120	184	197	202	47	58	62	66	167	242	259	268

BUSINESS

The following map shows the approximate locations of our Retail Stores in the PRC and Hong Kong as at 30 June 2010.



During the Track Record Period, we primarily utilized two distribution channels: (i) our self-operated Retail Stores; and (ii) Retail Stores operated by distributors and sub-distributors. As at the Latest Practicable Date, we no longer have any sub-distributors. Regardless of the distribution channel, it is our strategy to locate our Retail Stores in more prestigious shopping areas, which are usually located in close proximity to other competing menswear brands. Currently, a significant portion of our Retail Stores are located in established department stores and shopping malls. We strive to have our Retail Stores for each brand designed and decorated to present a consistent and distinctive brand image, from the design and color of the Stores to the merchandise display. In addition to our two primary distribution channels, we also sold a small portion of our products through multi-brand or other distributors during the Track Record Period. These multi-brand or other distributors were Independent Third Parties and private enterprises and individuals in the PRC, and we offered them the same sales terms and conditions as our other distributors. During the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales through these multi-brand or other distributors accounted for 0.3%, 0.6%, 0.6% and 1.1%, respectively, of our revenue from our sales of *V.E. DELURE* branded products and 0.8%, 9.2%, 13.1% and 4.4%, respectively, of our revenue from our sales of *TESTANTIN* branded products. The Directors have confirmed that we plan to gradually convert multi-brand and other distributors into *V.E. DELURE* or *TESTANTIN* branded distributor Stores beginning in 2011.

BUSINESS

We aim to provide high quality customer service and product knowledge training service to our distributors. We send our sales representative office managers to the Retail Stores operated by our distributors to provide training to the Store personnel. From time to time we invite the Store managers to attend in-house training courses. We conduct training sessions at our headquarters approximately twice a year and approximately once per quarter at our regional offices. In addition, operation manual multimedia training materials are also provided to our distributors as a guideline on the operation of their Retail Stores. This training is intended to provide information about our brand history, operations, customer sales techniques and products. This practice is to ensure that the quality of services provided at the Retail Stores operated by our distributors and our self-operated Stores is consistent.

The following tables set forth the movement of the number of Stores of our *V.E. DELURE* and *TESTANTIN* brands, respectively, during the Track Record Period:

V.E. DELURE

	Newly opened (other than those Stores switched from distributors Stores to self-operated Stores)		Switched from distributors Stores to self-operated Stores		Closed (other than those Stores switched from distributors Stores to self-operated Stores)		Total number of Stores at year/period end		
	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Total
Year ended 31 December 2007	2	19	5	(5)	-	-	27	93	120
Year ended 31 December 2008	13	71	3	(3)	(4)	(16)	39	145	184
Year ended 31 December 2009	11	22	14	(14)	(5)	(15)	59	138	197
Six months ended 30 June 2010	6	7	7	(7)	(1)	(7)	71	131	202

TESTANTIN

	Newly opened (other than those Stores switched from distributors Stores to self-operated Stores)		Switched from distributors Stores to self-operated Stores		Closed (other than those Stores switched from distributors Stores to self-operated Stores)		Total number of Stores at year/period end		
	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Total
Year ended 31 December 2007	3	7	-	-	-	-	12	35	47
Year ended 31 December 2008	1	15	-	-	(2)	(3)	11	47	58
Year ended 31 December 2009	1	10	-	-	(1)	(6)	11	51	62
Six months ended 30 June 2010	5	7	-	-	(3)	(5)	13	53	66

BUSINESS

The following table sets forth the movement of the total number of Stores for both our proprietary brands during the Track Record Period:

V.E. DELURE AND TESTANTIN

	Newly opened (other than those Stores switched from distributors Stores to self-operated Stores)		Switched from distributors Stores to self-operated Stores		Closed (other than those Stores switched from distributors Stores to self-operated Stores)		Total number of Stores at year/period end		
	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Self- operated	Distributors	Total
Year ended 31 December 2007	5	26	5	(5)	-	-	39	128	167
Year ended 31 December 2008	14	86	3	(3)	(6)	(19)	50	192	242
Year ended 31 December 2009	12	32	14	(14)	(6)	(21)	70	189	259
Six months ended 30 June 2010	11	14	7	(7)	(4)	(12)	84	184	268

The following table sets forth the movement of distributors of our *V.E. DELURE* and *TESTANTIN* brands that are appointed and terminated during the Track Record Period:

	<i>V.E. DELURE</i>			<i>TESTANTIN</i>			Number of distributors operating both <i>V.E.</i> <i>DELURE</i> and <i>TESTANTIN</i> Stores	Total number of distributors at year/ period end
	Newly appointed	Terminated	Total number at year/ period end	Newly appointed	Terminated	Total number at year/ period end		
Year ended 31 December 2007	6	(1)	39	7	-	24	3	60
Year ended 31 December 2008	47	(8)	78	14	(4)	34	11	101
Year ended 31 December 2009	13	(25)	66	9	(10)	33	9	90
Six months ended 30 June 2010	4	(7)	63	5	(4)	34	9	88

BUSINESS

The following tables set out the breakdown of our retail network by geographic region, distribution channel and our self-owned brands as at each of 31 December 2007, 2008 and 2009 and 30 June 2010, respectively:

V.E. DELURE:

Region	As at 31 December									As at 30 June		
	2007			2008			2009			2010		
	Self-operated Stores	Stores operated by distributors	No. of distributors	Self-operated Stores	Stores operated by distributors	No. of distributors	Self-operated Stores	Stores operated by distributors	No. of distributors	Self-operated Stores	Stores operated by distributors	No. of distributors
Central PRC	-	11	4	4	17	8	4	20	7	5	23	7
Eastern PRC	5	29	13	4	35	18	7	35	14	7	32	11
North Eastern PRC	1	6	4	3	17	13	7	11	9	7	10	9
North Western PRC	-	12	3	-	19	7	4	17	5	5	16	4
Northern PRC	12	22	9	12	27	14	12	29	16	12	31	17
South Western PRC	-	11	4	-	16	6	9	9	2	16	3	3
Southern PRC	8	2	2	15	14	12	15	17	13	18	16	12
PRC sub-total	26	93	39	38	145	78	58	138	66	70	131	63
Hong Kong	1	-	-	1	-	-	1	-	-	1	-	-
Total	27	93	39	39	145	78	59	138	66	71	131	63

TESTANTIN:

Region	As at 31 December									As at 30 June		
	2007			2008			2009			2010		
	Self-operated Stores	Stores operated by distributors	No. of distributors and (Sub-distributors)	Self-operated Stores	Stores operated by distributors	No. of distributors and (Sub-distributors)	Self-operated Stores	Stores operated by distributors	No. of distributors and (Sub-distributors)	Self-operated Stores	Stores operated by distributors	No. of distributors and (Sub-distributors)
Central PRC	-	2	2(-)	-	3	3(-)	-	4	2(-)	-	1	1(-)
Eastern PRC	-	13	10(-)	-	13	10(-)	-	12	9(-)	2	13	9(-)
North Eastern PRC	-	4	2(-)	-	8	6(-)	-	8	5(-)	-	7	4(-)
North Western PRC	-	3	2(-)	-	5	2(-)	-	7	3(-)	-	7	3(-)
Northern PRC	5	1	1(-)	5	3	3(-)	4	3	3(-)	4	5	4(-)
South Western PRC	-	6	1(6)	-	6	1(6)	-	7	1(7)	1	8	1(7)
Southern PRC	3	6	6(-)	4	9	9(-)	5	10	10(-)	4	12	12(-)
PRC sub-total	8	35	24(6)	9	47	34(6)	9	51	33(7)	11	53	34(7)
Hong Kong	4	-	-	2	-	-	2	-	-	2	-	-
Total	12	35	24(6)	11	47	34(6)	11	51	33(7)	13	53	34(7)

For purposes of this prospectus:

Central PRC represents Henan, Hubei, Hunan, Jiangxi
 Eastern PRC represents Anhui, Jiangsu, Shanghai and Zhejiang
 North Eastern PRC represents Heilongjiang, Jilin and Liaoning
 North Western PRC represents Inner Mongolia, Ningxia, Qinghai, Shaanxi and Xinjiang
 Northern PRC represents Beijing, Hebei, Shandong, Shanxi and Tianjin
 South Western PRC represents Guizhou, Sichuan, Yunnan and Chongqing
 Southern PRC represents Fujian, Guangdong and Guangxi

BUSINESS

The following table sets out a breakdown of our revenue in terms of brands and sales channels for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010:

Revenue	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
I. By brands										
1. Self-owned brands										
<i>V.E. DELURE</i>										
Self-operated Stores	39.2	20.2	84.5	24.9	137.4	33.6	48.1	35.2	90.8	36.4
Distributors	108.1	55.8	154.9	45.5	157.6	38.5	52.9	38.7	113.3	45.5
Corporate sales	–	–	–	–	6.0	1.5	1.4	1.0	2.1	0.8
Sub-total	147.3	76.0	239.4	70.4	301.0	73.6	102.4	74.9	206.2	82.7
<i>TESTANTIN (Note 1)</i>										
Self-operated Stores	20.6	10.6	33.8	9.9	21.1	5.2	7.6	5.6	11.4	4.6
Distributors	21.6	11.2	41.2	12.1	64.5	15.7	14.0	10.2	19.2	7.7
Sub-total	42.2	21.8	75.0	22.0	85.6	20.9	21.6	15.8	30.6	12.3
Self-owned brands total	189.5	97.8	314.4	92.4	386.6	94.5	124.0	90.7	236.8	95.0
2. Licensed brands										
<i>(Note 2)</i>										
CARTIER	–	–	8.8	2.6	15.5	3.8	7.1	5.2	10.1	4.1
Harmont & Blaine	4.4	2.2	17.2	5.0	6.9	1.7	5.6	4.1	2.3	0.9
Licensed brands total	4.4	2.2	26.0	7.6	22.4	5.5	12.7	9.3	12.4	5.0
Total	193.9	100.0	340.4	100.0	409.0	100.0	136.7	100.0	249.2	100.0
II. By sales channels										
(for self-owned brands)										
<i>(Note 3)</i>										
Self-operated Stores	59.8	30.8	118.3	34.8	158.5	38.8	55.7	40.8	102.2	41.0
Distributors	129.7	67.0	196.1	57.6	222.1	54.2	66.9	48.9	132.5	53.2
Corporate sales	–	–	–	–	6.0	1.5	1.4	1.0	2.1	0.8
Sub-total	189.5	97.8	314.4	92.4	386.6	94.5	124.0	90.7	236.8	95.0

BUSINESS

Notes:

1. The sales of *TESTANTIN* products through *TESTANTIN* self-operated Stores decreased in the year ended 31 December 2009 primarily because we launched a series of promotional events at our *TESTANTIN* self-operated Stores in Hong Kong offering 10% to 60% discounts to customers in 2009 in response to the highly competitive retail market in Hong Kong and the generally difficult economic environment in Hong Kong as a result of the global economic crisis and the closing of two *TESTANTIN* Stores in Hong Kong in late 2008. Our sales to *TESTANTIN* distributors increased in the year ended 31 December 2009 mainly because (i) the full year effect of our sales to certain other distributors in 2009 appointed in 2008 that did not operate through Retail Stores; (ii) the full-year effect in 2009 arising from the 15 newly opened *TESTANTIN* Stores operated by the distributors located in the PRC in 2008; and (iii) the number of *TESTANTIN* Stores operated by the distributors located in the PRC increased from 47 as at 31 December 2008 to 51 as at 31 December 2009. The four newly-opened *TESTANTIN* Stores in 2009 were opened in the second half of 2009 when the economic conditions after the financial crisis began to improve.
2. From August 2004 to August 2009, we acted as the sole distributor for an Italian menswear brand, Harmont & Blaine, in the PRC. The distributorship agreement for the Harmont & Blaine brand expired in August 2009. According to the distributorship agreement, we had nine months to sell the remaining stocks after the agreement was terminated. Beginning in early 2008, we started to act as an authorized dealer of CARTIER accessories sold in two CARTIER Stores, one in Fuzhou and the other in Nanning, both of which are operated by us. In September 2010, we opened our third CARTIER Store in Xiamen.
3. Our customers consisted of end customers and distributor customers. Our end customers include retail customers that purchased products directly from us through our self-operated Stores and corporate customers that purchased large volume made-to-order products directly from us through our corporate sales. Our distributor customers purchased products from us and then sell to the end customers in general.

The following tables set out our revenue breakdown by geographical region and brand during the Track Record Period:

<i>V.E. DELURE</i>	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	<i>(RMB</i> <i>million)</i>	%	<i>(RMB</i> <i>million)</i>	%	<i>(RMB</i> <i>million)</i>	%	<i>(RMB</i> <i>million)</i>	%	<i>(RMB</i> <i>million)</i>	%
Region										
Central PRC	8.2	5.6	20.8	8.7	22.9	7.6	7.8	7.6	26.0	12.6
Eastern PRC	31.3	21.2	47.7	19.9	59.6	19.8	22.1	21.6	33.5	16.2
North Eastern PRC	9.9	6.7	17.1	7.2	28.0	9.3	9.1	8.9	15.8	7.7
North Western PRC	9.0	6.1	17.3	7.2	20.5	6.8	6.8	6.6	15.6	7.6
Northern PRC	30.9	21.0	65.4	27.3	69.9	23.2	27.2	26.6	48.9	23.7
South Western PRC	8.1	5.5	9.4	3.9	17.2	5.7	5.4	5.3	14.5	7.0
Southern PRC	43.5	29.6	53.8	22.5	77.3	25.7	20.9	20.4	50.1	24.3
PRC sub-total	140.9	95.7	231.6	96.7	295.4	98.1	99.3	97.0	204.4	99.1
Hong Kong	6.4	4.3	7.8	3.3	5.6	1.9	3.1	3.0	1.8	0.9
Total	147.3	100.0	239.4	100.0	301.0	100.0	102.4	100.0	206.2	100.0

BUSINESS

TESTANTIN	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
Region										
Central PRC	0.9	2.1	2.3	3.1	4.0	4.7	1.8	8.3	0.1	0.3
Eastern PRC	7.2	17.1	11.8	15.7	16.5	19.3	3.2	14.8	5.1	16.7
North Eastern PRC	1.1	2.6	5.6	7.5	8.9	10.4	1.7	7.9	1.5	4.9
North Western PRC	1.3	3.1	2.4	3.2	6.4	7.5	0.8	3.7	0.8	2.6
Northern PRC	2.8	6.6	7.0	9.3	6.6	7.7	2.4	11.1	3.5	11.4
South Western PRC	1.7	4.0	4.4	5.8	8.0	9.3	2.8	13.0	6.3	20.6
Southern PRC	9.7	23.0	22.1	29.5	24.9	29.1	5.0	23.1	6.5	21.3
PRC sub-total	24.7	58.5	55.6	74.1	75.3	88.0	17.7	81.9	23.8	77.8
Hong Kong	17.5	41.5	19.4	25.9	10.3	12.0	3.9	18.1	6.8	22.2
Total	42.2	100.0	75.0	100.0	85.6	100.0	21.6	100.0	30.6	100.0

We primarily operate Retail Stores in the PRC in two ways: our self-operated Stores, and Stores operated by our distributors or sub-distributors.

I. Self-operated Stores

As at 31 December 2007, 2008 and 2009 and 30 June 2010, we operated 39, 50, 70 and 84 Retail Stores of our owned brands, respectively. The term of our lease agreements or cooperation agreements for these Retail Stores generally ranges from six to twelve months depending on the policies of the department stores and shopping malls from which we lease. As at 30 June 2010, over 70% of the lease agreements or cooperation agreements for our self-operated Retail Stores had a term of no more than one year. As at 30 June 2010, over 80% of our self-operated Retail Stores are located in Hong Kong and tier one and tier two cities in the PRC, such as Beijing, Shanghai, Tianjin, Changchun, Xi'an, Nanjing, Shenzhen and Guangzhou. It is our strategy to directly manage our Stores in key targeted markets in which high purchasing power exists. We believe that our strategy of establishing self-operated Stores in strategic prime locations is critical to increasing our brand equity and reinforcing our image by the following means:

- total control over our Store setting and direct contact with customers allows us to optimize our marketing efforts directly to customers as well as directly instill in our customers our brand image and atmosphere which we create and express through our self-operated Stores; and
- our self-operated Stores also enable us to provide a consistent and high standard of service to our customers and obtain direct feedback from them which is a useful information source for our product design of the next collection.

BUSINESS

In identifying the target markets in which to locate our Stores, we consider factors including profit and growth potential, cities' location and profile, and our local knowledge, experience and competitive advantages. The Directors also believe that having self-operated Retail Stores can serve the purpose of brand promotion and attract potential distributors to carry our products in order to establish our distributorship network.

Most of our self-operated Stores are operated under the following type of arrangement. We enter into cooperation agreements or lease agreements with department stores or shopping malls which govern the operation of our self-operated Stores, in particular, the collection of sales proceeds. Generally, the department stores and shopping malls charge a fixed fee or a percentage of the sales turnover of our Stores as commission income subject to an agreed monthly or annual minimum commission amount determined based on an agreed minimum turnover target of the relevant Stores. The rental expense for our self-operated Stores is generally a fixed amount or a variable rent based on the turnover of the self-operated stores with or without a minimum fixed portion. For Stores with variable rent with a minimum fixed portion, if turnover falls below a predetermined threshold, the Store will pay a minimum fixed fee. If the turnover of the Store stays above such threshold, rental payment of the Store will be a percentage of the turnover. For Stores with variable rent and no minimum fixed portion, there is no predetermined threshold and therefore the Group has no committed rental payment. For such Stores, the variable rental payment will be a percentage of the turnover and such percentage of turnover generally ranges from approximately 13% to 30% of average turnover of the relevant Store as at 30 June 2010. For Stores with fixed rent, rental payments do not vary with turnover and are based on an agreed amount. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the amount of rental fees paid to department stores and shopping malls by our self-operated Stores were approximately RMB26.3 million, RMB43.1 million, RMB49.9 million and RMB34.4 million, respectively. Sales proceeds are usually first collected by department stores or shopping malls and are typically paid to us within one to three months after deducting monthly rental expense or a commission from the sales of the self-operated Store and any other relevant operating fees. The department stores and shopping malls are not entitled to unilaterally terminate the leases or cooperation agreements unless we breach our contractual obligations.

We believe that our brand image can be most effectively enhanced from tier one and tier two cities where we focus our marketing of the *V.E. DELURE* brand because of the association of such cities with the forefront of design and fashion, and the ability of such cities to influence design and fashion in tier three and tier four cities. To more effectively roll-out our sales and marketing campaigns on a national level, it is critical that our self-operated Stores are located at prime locations in tier one and tier two cities to capture pedestrian traffic of affluent shoppers with high consumption abilities. In connection with this, during the Track Record Period, we were able to secure retail locations for our *V.E. DELURE* self-operated Stores in established department stores such as the Beijing Yansha Youyi Shopping City Limited, Tianjin Friendship Shopping Center, Charter Shopping Center, Xi'an

Centuryginwa, Nanjing Golden Eagle Department Store, Harbin Songlei, Beijing Le Tian Intime Department Store Limited, Nanning Dream Island Shopping Center, Guangzhou Department Store, Nanning Dream Island Shopping Center Gucheng Branch, Nanning Dream Island Shopping Center Crystal City Branch, Beijing Yansha Youyi Shopping City Jinyuan Branch, Guangzhou Tianhe City Department Store, Guiyang Guomao Plaza and Wenzhou Times Square Shopping Center. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales generated from our *V.E. DELURE* self-operated Stores in the above-mentioned established department stores amounted to RMB14.4 million, RMB32.9 million, RMB47.1 million and RMB35.3 million, respectively, representing 36.7%, 39.0%, 34.3% and 38.8% of our revenue derived from our *V.E. DELURE* self-operated Stores, respectively.

As at 30 June 2010, we have set up 6 sales representative offices in Beijing, Shanghai, Tianjin, Wuhan, Nanning and Changchun, responsible for carrying out local supervision of our self-operated Retail Stores, general administrative and marketing work and reporting directly to the sales and marketing team in our headquarters. Sales representative offices are also responsible for identifying any potential business and market opportunities for the development of new Stores within these regions. Through regular market studies, sales representative offices will identify the appropriate prime locations with high consumer traffic for new Store openings, which are expected to generate substantial sales volume. Proposals for new Store openings in selected locations will be submitted to headquarters for final review and approval.

During the Track Record Period, sales for the vast majority of our self-operated Stores were made by concessionary sales of products at department stores and shopping malls which means sales proceeds are first collected by department stores or shopping malls and are paid to us after deducting applicable monthly rental fees, commissions and/or other operating fees. The remaining self-operated Stores of our *V.E. DELURE* brand sold products to, and collected payments directly from, our customers. We had one such *V.E. DELURE* brand store in Guangzhou in 2008 and one such *V.E. DELURE* brand Store in each of Guangzhou and Shanghai during 2009 and the six months ended 30 June 2010. Revenue generated from such Stores was about, RMB1.1 million, RMB5.1 million and RMB3.4 million for the two years ended 31 December 2008, 2009 and six months ended 30 June 2010, respectively.

II. Distribution by distributors/sub-distributors

We distribute our products through our distributors, and accordingly, they are our customers. All of our distributors and sub-distributors are either corporations or individuals that are Independent Third Parties with relevant retail and management experience in the PRC. We do not have any ownership interests and management position in our distributors and their sub-distributors. As at 31

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December 2007, 2008 and 2009 and 30 June 2010, we had 60, 101, 90 and 88 distributors respectively (of which 3, 11, 9 and 9 operated both *V.E. DELURE* and *TESTANTIN* Stores, respectively), and 6, 6, 7 and 7 sub-distributors, respectively. Of our 88 distributors as at 30 June 2010, over 40% had business relationships with us for more than two years and approximately 45% are individuals. The Directors are of the view that it is not uncommon in the industry to have distributors which are individuals. As at 30 June 2010, our distributors and sub-distributors operated a total of 184 Retail Stores covering 121 cities and 23 provinces/municipal/autonomous regions of the PRC. As at the Latest Practicable Date, at our request, our relevant distributors have terminated all their sub-distributorship agreements for our products with their sub-distributors. Those sub-distributors have entered into direct distributorship agreements with us.

Under the distributorship business model, when selecting distributors, we take into account a number of factors, including their geographical location, retail and management experiences, financial resources (including a minimum liquidity requirement) and capacity for developing retail networks. We will generally conduct extensive due diligence before engaging new distributors such as making inquiries with shopping malls and department stores regarding the competence of such distributors. We are able to achieve growth by leveraging the resources of our distributors, our expertise in retail distribution and retail management and the local relationships of our distributors in certain markets where we believe the distributors have better competitive advantages. Our top five distributors accounted for about 12.3%, 12.2%, 11.3% and 16.2%, respectively, of our total sales for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. The number of Stores operated by our top five distributors was 30, 28, 34 (seven stores of which are operated by one distributor through sub-distributors) and 35 (eight Stores of which are operated by one distributor through sub-distributors), respectively, as at 31 December 2007, 2008 and 2009 and 30 June 2010. Sales from our largest distributor accounted for about 3.4%, 3.3%, 3.7% and 4.7%, respectively, of our total sales for the three years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010, respectively. This distribution business model also enables us to better manage our growth of business and allows us to expand our retail network rapidly with lower capital expenditure compared with opening self-operated Stores. It also allows us to focus on designing and developing new products, and to allocate more of our resources to product design and brand management. The Directors confirmed that none of the Directors, or their respective associates, or any Shareholder holding more than 5% of the issued Shares had any interests in any of these five largest distributors throughout the Track Record Period. During the Track Record Period, there were no material disputes between us and our distributors.

As at 30 June 2010, we had eight Stores in the Sichuan Province (excluding Chengdu) operated by our sub-distributors. As at the Latest Practicable Date, we no longer have any sub-distributors as we entered into distributorship agreements directly with such sub-distributors, making them our direct distributors.

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In order to prevent competition and cannibalization at our retail level, we generally conduct an evaluation on the population size of the region, living standards and spending power of the residents in such region before permitting our distributors to open new Stores in our existing markets. In addition, to avoid overlapping of distributors and the risk of competition between our distributors for each brand within our distribution network, only one sole distributor is assigned to a particular region and each distributor is only permitted to sell our products inside its defined geographical area. Given the growing market for menswear in the PRC, the Directors believe that there is potential for a significant expansion of business within our distribution areas. As such, the Directors believe that there is currently no over-concentration of Retail Stores within our distribution network.

Management of distributors

In our distribution business model, our distributors are principally responsible for selecting and ordering products and overseeing the operation of Retail Stores. With respect to the distributorship agreements entered into for the years ended 31 December 2007, 2008 and 2009, total committed purchase amounts from our distributors amounted to approximately RMB108 million, RMB167 million and RMB148 million, respectively and the Directors confirmed that about 87% and 90% of our distributors were able to meet their committed purchase amounts in respect of their distributorship agreements entered into for the years ended 31 December 2007 and 2008, respectively. As at the Latest Practicable Date, over 90% had met their committed purchase amount in respect of their distributorship agreements entered into for the year ended 31 December 2009. We have terminated the distributorship agreement with some of our distributors based on our assessment of their performance.

Our sales team is responsible for monitoring our distributors' performance. We make clear to our distributors that we are responsible for co-ordinating marketing and promotional activities to ensure brand image consistency. We also provide in-store marketing support such as the provision of display items. All the distributors' Stores will bear the same decor and setting to create a consistent brand image. In some instances, we will sponsor the decoration and fittings of certain distributors' Stores.

Our sales team communicates with our distributors to monitor and analyze the sales performance and market status of our Retail Stores and to assess whether adjustments to their current operation strategies, such as promotional activities, advertising plans or product mix, need to be made. We generally require our distributors to report sales status and inventory levels to us on a weekly or monthly basis. We also discuss the sales status and inventory status of the Retail Stores operated by our distributors. We oversee the accuracy of such sales status by analyzing the historical sales and inventory levels at each Retail Store operated by our respective distributors and checking the pattern of the actual orders placed with us. We believe the amount of orders placed by our distributors corresponds to the actual sales and inventory status of our distributors. By reviewing sales and the inventory data and making reference to the orders placed by our distributors, the

Directors believe that our distributors have not accumulated stock in an amount which exceeds their actual sales operation. In some cases, in order to enhance optimal product mix of each Retail Store, we will communicate with our distributors and review sales data. After such communications and reviews, we will decide in our sole discretion whether to arrange to relocate underperforming products from one distributor to another distributor if our sales team believes that such products may better suit the local fashion trend in another geographic location.

Our sales team carries out periodic and ad hoc inspections to ensure the quality of services among Retail Stores operated by our distributors and those managed by us are consistent. We identify and inform distributors of any non-conforming individual Retail Stores and direct them to rectify the problem within a certain period of time.

In addition, we have a dedicated group of staff consisting of twelve members located in our regional offices that supervises the overall performance of our distributors and evaluates our distributors once every quarter.

Major terms of the distributorship agreements

We enter into distributorship agreements directly with our distributors for the sale of our products. We review the performance of our distributors on an annual basis and decide whether or not to renew such agreements. In general, key terms of our agreements and practices with our distributors are summarized as follows:

- Geographic exclusivity and duration – Our distributors have the exclusive right to sell our products as specified in their respective distributorship agreements with us within their defined geographic area and during the subsistence of the distributorship agreements. Our distributors are not permitted to sell our products outside their defined geographic area.
- Product exclusivity – Distributors of our Retail Stores are required to sell only our products at their Retail Stores for our *V.E. DELURE* and *TESTANTIN* brands and are not permitted to sell other products that compete or is likely to compete with our products at such Retail Stores.
- Minimum purchase targets – Our distributors are required to meet minimum annual purchase targets, which generally range from RMB0.3 million to RMB6.5 million per year. The minimum annual purchase targets depend on the respective size of each distributor and made with reference to their respective sales performances in the previous year. Generally, our distributors place most of their orders at our sales fairs, with the remaining replenishment orders being subsequent orders. Our distributors who place their orders during our sales fairs will usually obtain a discount, which generally range from 60% to 70% off the suggested retail price, for purchases made during our sales fairs.

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- ▶ Pricing and discount – Our distributors are required to follow our uniform suggested retail price for selling our products. We maintain standard pricing policies with our distributors in the PRC. Retail promotional activities such as clearance sales must be approved by us before launching such programs.
- ▶ Use of brand names – We authorize our distributors to use our brand names in relation to their distribution of our products in their defined geographic area.
- ▶ Store size – Our distributorship agreements do not expressly stipulate any requirement on store size for our *V.E. DELURE* distributors. The size of our *TESTANTIN* distributor’s Retail Stores is expected to be at least 40 sq. m., depending on the location of their Retail Stores. We have no specific requirement on the number of stores to be opened by our distributors annually. Our distributors have to obtain our consent on store location prior to the opening of their Retail Stores.
- ▶ Renovation subsidies – We may provide subsidies to our distributors on a case by case basis.
- ▶ Others – We generally do not have a profit and cost sharing arrangement with our distributors. However, our distributors are required to share our cost for the marketing material for certain special promotional activities and gift for standard marketing activities.
- ▶ Payment, credit terms and delivery – We normally require full payment from our distributors before delivery. Our distributorship agreements with distributors provide that upon placing of an order at a sales fair, our distributors must pay a deposit of 30% of the total purchase amount and the remaining balance has to be settled by them before the delivery of our products. In practice, for certain distributors with long business relationships and satisfactory credit history, we may grant them a credit period ranging generally between 30 to 90 days for the remaining balance. Please refer to the section titled “Business – Cash and Credit Control” in this prospectus for further details.

For delivery of our products in Guangzhou, we bear the delivery cost, while for delivery of our products outside Guangzhou, our distributors are responsible for the cost of delivery. Our distributors are responsible for the cost of insurance.

- ▶ Store design – Our distributors are required to adhere to our designated store renovation and design standards.

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- Sales report – Our distributors are required to provide us with the operating statistics of their Retail Stores, such as sales reports and inventory reports upon our request.
- Return and exchange of goods – Defective goods can be returned to us, if our distributors report the defects formally to us within five days after the receipt of our products or such other period as we would otherwise agree.

Distributors are also allowed to exchange certain apparel products purchased in the same current season from us for other products, subject to the maximum rate of exchange. Distributors are not allowed to exchange leather goods and accessories. *V.E. DELURE* distributors are allowed a maximum rate of exchange of 10% of the purchase amount or as agreed by us, within 60 days after the delivery of the products. *TESTANTIN* distributors are allowed a maximum rate of exchange of 20% of the purchase amount, within 60 days after delivery of the products. The exchange does not include any buyback of our goods or any amount to be deducted from or offset by the payment made or payable by the distributors.

- Right of termination – We reserve the right to terminate our distributorship agreement if our distributors, among other things, (i) fail to meet the purchase target; (ii) sell our products outside of the defined geographic area; (iii) fail to comply with our pricing and discount guidelines; or (iv) fail to adhere to our designated store renovation and design standard. Should any of our distributors deviate from these terms with respect to the actions of the sub-distributors, we may have cause to terminate its agreements with any such distributors.

We commenced offering our distributors wholesale rebates in 2009. The amount of rebates were generally determined based on the purchase amount of each distributor and on a sliding scale ranging from 7.9% to 21.1% of the wholesale selling price for our *TESTANTIN* brand products and 3.0% to 20.0% of the wholesale selling price for our *V.E. DELURE* brand products, respectively. For the year ended 31 December 2009, the aggregate amount of rebates offered to our distributors was RMB4.3 million, representing 1.1% of our total revenue generated from sales to distributors for the same year. For the six months ended 30 June 2010, the aggregate amount of rebates offered to our distributors was RMB2.9 million, representing approximately 1.2% of our total revenue generated from sales to distributors for the same period. We have never paid the sales rebate in cash, and instead, all rebates for each distributor were deducted from the sales price of their next purchase order. Sales rebates are deducted from our gross revenues in our consolidated income statement.

Based on the fact that our distributors and we are independent entities and our distributorship agreements expressly stipulates that our distributors shall be responsible for their own liabilities and indebtedness in relation to the distribution of our products within their defined geographic area, the PRC Legal Advisor is of the view that any non-compliance with relevant laws and regulations by our distributors will not result in any liability to us.

Under the relevant PRC laws, where product liability arose from the Group's fault, the Group shall be responsible for the product liability claim, and where the product liability arose from the distributors' fault or other third parties' fault, distributors or other third parties shall ultimately be responsible for the product liability claim.

During the Track Record Period, we had a few sub-distributors selling our products. We did not have direct contractual relationships with those sub-distributors and we relied on our distributors to oversee the sub-distributors. Should any of our distributors deviate from these terms with respect to the actions of the sub-distributors, we would have cause to terminate such distributorship agreements with any such distributors. Under the distributorship agreements we entered into with our distributors, our distributors are not permitted to transfer, rent or lend the licensing certificate and any related documentation regarding our products to any third parties within their defined geographic area. Our distributorship agreements and our internal policy generally prohibit the introduction of sub-distributors. But for Sichuan Province (other than Chengdu), considering the particular circumstance in Sichuan Province, where the distributor before signing distributorship agreements with us already had business connections with the sub-distributors and for ease of central management of distributorship arrangement in the region, we agreed with the applicable distributor to allow for the introduction of these sub-distributors in Sichuan Province (other than Chengdu) to distribute our *TESTANTIN* branded products. In order to ensure that the sub-distributors in Sichuan are in compliance with our standard pricing policies, we required our distributors to include our standard pricing policies in its sub-distributorship agreements. In order to enhance our distribution management ability, as at the Latest Practicable Date, at our request, our relevant distributor have terminated all its then existing sub-distributorship agreements of our *TESTANTIN* brand with its sub-distributors. These sub-distributors have entered into direct distributorship agreement with us. The Directors confirmed that we will no longer allow our distributors to appoint sub-distributors going forward.

III. Corporate sales

We have engaged in high volume corporate sales including made-to-order services. We utilize multiple channels to generate corporate sales, including initiating contacts with potential corporate customers to propose offers of bulk purchases, leveraging our distributors' existing relationships with large corporations, and promoting our brand awareness through the sponsorship of sports and charity events to attract new corporate customers. Sales made through this channel amounted to approximately RMB6.0 million and RMB2.1 million for the

year ended 31 December 2009 and the six months ended 30 June 2010, respectively. Under this model, we intend to target large corporate clients, banks and government bodies that fit with our branding theme and offer their executives and managers a personalized service. Going forward, we intend to increase further the sales to these entities and we believe the provision of such services will serve as a cost effective channel to rapidly increase our brand awareness and equity among executives and managers of reputable corporations and entities.

MARKETING AND PROMOTION

We have a dedicated marketing team that is responsible for conducting and coordinating the marketing and promotional activities of *V.E. DELURE* and *TESTANTIN*. As at 30 June 2010, our marketing team consisted of four staff members who worked closely with the design teams when initiating and executing marketing themes. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, amounts incurred for sponsorship and charity events by us amounted to about RMB0.5 million, RMB2.6 million, RMB1.4 million and RMB1.9 million, respectively. The key marketing and promotional activities that we carry out for the brands consist of the following:

Team and event sponsorships

We currently sponsor the PRC's table tennis and badminton national teams by providing formal attire for major sporting events. We are the sponsor of formal attire for the PRC national table tennis team since 2006. In addition, The Management Center of Table Tennis and Badminton has authorized us to be the "Exclusive and Designated Sponsor of Formal Attire" (禮儀服飾唯一指定贊助商) and "Professional Image Consultant in Formal Attire (禮儀服飾專業形象顧問)" of the PRC national table tennis team for a term of five years from 2010 to 2015 to provide formal attire for team members of the table tennis national team. We also entered into an arrangement with The Management Center of Table Tennis and Badminton in February 2010 to sponsor the formal attire for the PRC national badminton team for a term of five years from January 2010 to December 2015. Under the sponsorship agreements with The Management Center of Table Tennis and Badminton, we are authorized to be held out as the exclusive sponsor of the respective PRC national table tennis and PRC national badminton team's formal attire and the team's exclusive image consultant. The team members will wear our attire in important competitions and ceremonial and official events and participate in appropriate promotional events; and will attend as many charity events as possible unless engaged in competition.



In addition, we also sponsor other select events such as activities organized by certain magazines in order to enhance our brand awareness among our customers. For example, we sponsored the event “2007 年中國精英年鑒 (年度十大精英男性) 頒獎典禮” organized by “Mangazine” (名牌雜誌) in December 2007, in which Guangzhou Changyue acted as its exclusive official fashion sponsor to provide tailor-made suits to the winners of the “top ten most influential persons.” We also sponsored the prize-giving ceremony “中國時尚先生頒獎典禮” organized by Esquire (時尚先生) in 2007, in which the *V.E. DELURE* logo appeared on the backdrop and admission tickets of the event. We also hosted the “Table Tennis and China” cultural exhibition in 2008, sponsored the “Top 10 Economic Celebrity in Guangdong” in 2008 and sponsored the filming and promotion activities of Esquire in 2008. We believe that our brand image will benefit from being associated with sponsoring teams and events that portray a healthy and positive image and convey the brand message of “Love of Success and Champions”.

Charity events

We actively sponsored and participated in charity events, which in turn promote our image as a socially responsible corporation and convey the message of “Love and Compassion”.

We made donations to build a primary school named “Dream Island DELURE Charity School” in Guilin, Guangxi Province in December 2008 and also donated both cash and materials to support students with economic difficulties in certain cities of the Guangxi Province to continue their studies. We organized and sponsored a series of fundraising events, namely “熱愛鑄造夢幻經典”, jointly with charitable bodies and reputable shopping malls in cities such as Tianjin, Guangzhou, Wuxi and Qingdao for the poor and needy in 2006. In addition, we organized and sponsored a series of torch relay fundraising events namely “迪萊愛

心火炬轉遞”， jointly with the table tennis national team and well known shopping malls, in 2009. During the Track Record Period, donations were made to more than 30 primary schools in Guangdong, Guangxi, Chongqing, Hebei, Suzhou, Qingdao and Xiamen. We also made donations to help the needy, such as the victims in the Sichuan earthquake, flooding and snowstorm in the PRC. We believe these kinds of charity events can further increase our customers’ recognition of our brand message of “Love and Compassion”.

Product placement and advertising

We advertise selectively in fashion magazines (such as “Modern” (新現代畫報) and “Esquire” (時尚先生)) to raise brand awareness among our target customers. For example, we sponsored Esquire for their photo-shooting of a well-known Chinese NBA basketball player, in which he was dressed in a *V.E. DELURE* brand suit and appeared in the November 2006 edition of Esquire.

Fashion shows

Participating in fashion shows with heightened media coverage can raise awareness of our brands among the fashion industry. During the Track Record Period, fashion shows for the *V.E. DELURE* and *TESTANTIN* brands such as the Beijing China International Clothing & Accessories Fair in 2008 and the Guangxi Nanning charity fashion show organized by us in 2009 were held to display the latest designs and colour themes of the brands. Local celebrities, designers, media and editors of fashion magazines were also invited to generate stronger media coverage.

Customer services

We have a VIP membership program in place to encourage customers spending and develop customer loyalty. The Directors consider customer loyalty to be important in the upmarket fashion industry. In the PRC, *V.E. DELURE* customers that spend at least RMB5,000 in one purchase or at least RMB8,000 over a three month period and *TESTANTIN* customers that spend at least RMB3,000 in one purchase, RMB5,000 over a three-month period or RMB10,000 in one year are eligible to enter into our VIP membership program. As an incentive, VIP members are generally entitled up to a 15% discount from normal sales prices. Marketing information and fashion catalogues are regularly communicated and/or mailed to VIP members to keep them informed of the latest seasonal collections. In addition, VIP members are invited to fashion shows and other events that we sponsor. VIP members at some Stores are also provided with personal services such as a dedicated VIP area for tea and beverage consumption. Gifts are presented to the VIP members on their birthdays. We also invite VIP members to our promotional sales in our selected Retail Stores from time to time. Under the current membership program, our VIP members are entitled to the above-mentioned membership privileges in all Stores of the respective brands of *V.E. DELURE* and *TESTANTIN*, including those operated by us or by any distributors. A membership points program is currently available, pursuant to which our VIP members can earn

membership points on every RMB of purchase at our *V.E. DELURE* self-operated Stores. Our VIP members will be entitled to certain free gifts by redeeming the membership points. Membership points can be accumulated, but any unclaimed membership points by the end of 2010 will be forfeited. As the membership points are only valid during the year of purchase and cannot be carried forward after year-end, the revenue in relation to the VIP program has been realized and the respective costs of the free gifts have been provided as incurred upon redemption in each of the respective years. No provision for deferred revenue is necessary to be made as at each year end of the Track Record Period.

Our sales return policy is in line with the relevant consumer protection laws with respect to return policies on merchandise in the PRC and Hong Kong. Our distributors are required to conduct quality checks upon receipt of our products and may return defective goods to us if notice of complaint about the defects is given within a prescribed period from the receipt of the product. Distributors are deemed to have accepted the goods as satisfactory in the absence of such notice. Where some defects are not obvious, we may, on a case-by-case basis, allow returns of goods from distributors beyond the prescribed notice period. Sales return for cash refunds for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 amounted to nil, nil, RMB28,000 and nil, respectively. Our sales and marketing team is also trained to deal with any complaints that may arise from customers, including the verification of any alleged defects in the merchandise.

Other promotional activities

We conduct other promotional activities from time to time. For instance, we collaborate with department stores and shopping mall owners to participate in certain seasonal promotional campaigns and we share such promotion costs with the distributors and the event organizers.

CASH AND CREDIT CONTROL

In general, sales made for the vast majority of our self-operated Retail Stores are settled by the end customers by cash or credit card to the department stores or shopping malls. Such sales proceeds generated from the self-operated Retail Stores are typically paid to us by the department stores or the shopping malls within one to three months after deducting the monthly rental expenses, concession commissions and/or any other relevant operating expenses. The monthly concessionaire commissions (if applicable) are calculated at an agreed percentage of the monthly sales receipts made by the self-operated Retail Stores. During the Track Record Period, we did not experience any material default in collecting the sales proceeds for our self-operated Retail Stores.

We maintain strict control over our cash management. Daily reports on our bank balance are prepared by our treasury staff and reviewed by our management. Monthly cashflow forecasts are also prepared to facilitate the management of our cashflow.

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For Retail Stores operated by our distributors, the distributorship agreements provide that distributors shall pay a deposit of 30% of the total purchase amount upon the placing of a sales order at a sales fair and the remaining balance usually has to be settled by the distributors before delivery of products. For some distributors with long business relationships and satisfactory credit history, we may consider granting certain credit periods on the remaining balances generally between 30 days to 90 days depending on the circumstances. We do not have direct contractual relationships with the sub-distributors and as such, we do not extend credit terms to the sub-distributors. In determining bad and doubtful debt, our management takes into account the credit history and payment pattern of our distributors as well as their on-going relationships with us. For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we did not make any provisions for bad and doubtful debts.

INVENTORY CONTROL

We recognize that maintaining an appropriate level of raw materials and finished goods inventory is important to our overall operation and profitability. We specify target minimum purchase amounts for each of our distributors. They generally fulfill this requirement through sales orders made in sales fairs and subsequent replenishment orders. This allows us to manage our inventory of raw materials and finished products more efficiently. We can maintain the optimal levels of inventories by making reference to the expected future sales arising from confirmed sales orders by distributors. On the other hand, commonly used raw materials such as suit fabrics in typical colors and accessories such as brand tags are usually stocked at a higher inventory level, in view of the longer usable life span and to enjoy certain discounts from suppliers for large volume purchases.

We also have special offer sales annually to clear unsold aged products that our staff and their families and friends are invited to attend. The Retail Stores also hold, in conjunction with department stores and shopping malls, promotional events for annual stock clearance, store anniversary sales or festival promotional sales as directed by respective department stores and shopping malls. We typically coordinate special offers between our self-operated Stores and the Stores operated by our distributors and sub-distributors.

We monitor our inventory level and inventory age on a regular basis, in order to minimize the risk of building up obsolete inventory. We closely monitor the obsolescence of inventory based on the expected future salability and the age of the inventory. We have implemented a computerized inventory control system to keep track of the inventory level. Physical stock counts will be carried out from time to time to identify the obsolete and slow moving inventories or damaged products. We make specific provisions for obsolete inventories if the carrying amount of these inventories is lower than their net realizable value. We review our inventories on hand every six months and estimate the net realizable value of these inventories based on their categories, year of design, historical discount rates and the saleability assessment and write down the carrying amount of these inventories to their net realizable value.

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During the Track Record Period, we determined our target level of inventory by taking account of various factors with a general goal of preventing accumulation of obsolete inventory and managing the inventory turnover at a reasonable rate. These factors include: (i) placing orders with our suppliers and outsourced manufacturers after we have received confirmed purchase orders from our customers or based on the demand forecast from our top customers and the anticipated opening time of new Retail Stores; (ii) improving the turnaround time for the replenishment order of best-selling products based on the feedback received from our distributors and the sales records of our self-operated Stores; and (iii) promoting the sales of aged inventories through promotional sales activities, including the regular monthly sales events and the large scale semi-annual clearance sales events. Examples of these sales events are the sales fair organized by our Zhongxing Store in Shenyang from 1 October 2009 to 11 October 2009 offering discounts ranging from 70% to 85%, the sales fair at our Stores on the Beijing Road, Guangzhou in November 2009 offering discounts ranging from 70% to 85%, and the sales fair in the office building where the headquarters of Guangzhou Changyue and Guangzhou Changzhuxing are located from November 2009 to February 2010 offering products to our VIP customers, employees and their family members at a preferential price. In general, for our promotional sales events we offer a discount of at least 15% on our slow-moving or obsolete goods primarily to our VIP customers, employees and their family members in addition to walk-in customers. We have a special inventory inspection team which consists of our senior staff from sales, operations, procurement, and finance departments and it conducts physical stock counts to identify obsolete and slow-moving inventories or damaged products every six months.

MANAGEMENT INFORMATION SYSTEMS

We employ a number of ERP and management information systems to support our business, which mainly consist of a real-time point-of-sale, or POS system, and an accounting system. All our self-operated Retail Stores are equipped with the POS terminal to record and collect sales details and inventory movement on a timely basis. The POS system is linked with the accounting system to provide processed information in the form of daily POS reports (which can be sorted by performance, brand, Store and geographic region) and monthly sales reports (which can be sorted by categories) for each self-operated Retail Store. Such availability of information allows our management to, among other things, track and analyze product margins, consumer preferences and demand, as well as support inventory, sourcing and logistic arrangements.

We plan to invest in enhancing our ERP and management information system in order to achieve better inventory control with our distributors. Our existing system only allows our management to centrally monitor sales activities and inventory levels at our self-operated Retail Stores on a timely basis from our office headquarters. The systems at each of our self-operated Stores are interconnected but our distributors' systems are not interconnected with our central system. Prior to the planned upgrade of the POS system to monitor the sales activities and inventory levels at the Retail Stores operated by our distributors, our sales team will monitor and analyze the sales performance and inventory status of the Retail Stores operated by the distributors through visits to the Retail Stores operated by our distributors or communication with our distributors. In addition, our distributors are required to report sales status and inventory level to us on a regular basis

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upon our request and our sales team will review such data and discuss the sales status and inventory level of the Retail Stores operated by our distributors. By reviewing the sales and inventory data and making reference to the orders placed by our distributors, the Directors believe that they can determine whether our distributors have accumulated stock in an amount which exceeds their actual sales operation. By upgrading such system and creating a direct interface between the individual system at each of the Stores operated by our distributors, we will be able to obtain timely operating data, thereby allowing central management to further improve our capabilities of inventory and financial management. According to our plans, we expect the enhanced ERP and management information system will be fully operational in approximately three years, which will be achieved in three phases. According to our expansion strategy, we expect to have 333 Retail Stores operated by our distributors as at the end of 2011 in 114 cities in the PRC. We estimate that it will take us around 18 months to connect the systems of these Retail Stores to our headquarters given the geographic coverage of our retail network in the PRC. The upgrade of the functions of the system will take us another year, including the connection of the ERP system with our accounting system and procurement system. After such connection is made sales details and inventory movements of the Retail Stores will be processed on a timely basis by the accounting system, and our management can then effectively plan the procurement of raw materials and product parts using such processed information. We will collaborate with our software developer to complete the test of functionality and stability of our upgraded system within half a year after the connection of the POS system and aim to ensure it is fully operational by the end of 2013.

COMPETITION

The competition in the middle-upper to high-end menswear market in the PRC is mainly based on branding, style, outlet coverage, product quality, customer service and the ability to retain repeat customers. There are barriers to entry in the market, which are mainly (i) considerable capital investments for building a strong brand, distribution outlets nationwide, logistic costs, training, and sustaining sufficient cash flow; and (ii) the difficulties in hiring good designers and technicians to ensure product style and quality, and reacting promptly and appropriately to changes in market trends.

We compete in the middle-upper to high-end menswear market in the PRC with an increasing number of local and international players. Our direct competitors for our *V.E. DELURE* include Satchi, VASTO and Aquascutum while for *TESTANTIN*, our competitors include Tommy Hilfiger and ELLE HOMME. The Directors believe that the competition in the PRC will continue in the future. Please refer to “Risk Factors – Risks Relating to the Industry – We face intense competition in the menswear industry in the PRC” in this prospectus for more details. However, by having experience in owning, managing and developing high-end and/or international brands, nationwide retail networks and well-established relationships with high-end and landmark department stores and shopping malls in the PRC, our Directors believe we have a clear competitive advantage over many of our competitors.

INSURANCE

We carry insurance covering risks including loss and theft of, and damage to, our properties (such as our fixed assets and inventories in our warehouses and production plant). We believe that our insurance coverage is in line with industry practice and as at 30 June 2010, we have not made or been the subject of any material insurance claims.

ENVIRONMENTAL PROTECTION AND OTHER REGULATORY COMPLIANCE

We are subject to PRC environmental laws and regulations, which include (the Environmental Protection Law of the PRC), (Law of the PRC on the Prevention and Control of Water Pollution), (Law of the PRC on the Prevention and Control of Atmospheric Pollution), (Law of the PRC on the Prevention and Control of Pollution From Environmental Noise) and (Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

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

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

The PRC Legal Advisor has confirmed that during the Track Record Period, (i) we have fully complied with the relevant environmental rules and regulations and obtained all the required permits and environmental approvals for our production facilities, (ii) no environmental pollution incident was discovered, and (iii) no penalty of any kind was imposed on any of our members.

As we do not produce material quantities of industrial waste in our production and the Directors do not anticipate that our production will produce any material quantities of industrial waste in the future, other than the expenses that will be incurred for compliance

with the current environmental laws and regulations, we have not allocated additional resources to new technology or to conducting research and development to reduce our impact on the environment.

The Directors have confirmed that we comply with the relevant requirements under the PRC laws and regulations for waste water treatment. We do not produce material waste during our production. The Directors believe that our production process does not create polluting substances in any material respect and that our operation is not subject to any future material environmental risk.

INTELLECTUAL PROPERTY RIGHTS

Details of our intellectual property rights are more particularly set out under the section headed "Statutory and General Information – III. Further Information about the Business – 2. Intellectual Property Rights" in Appendix VI to this prospectus.

PROPERTY INTEREST

As at 31 August 2010, we leased four properties with an aggregate floor area of about 8,226 sq.ft. in Hong Kong, in which about 6,476 sq.ft. of the property was used for Retail Store operation and about 1,750 sq.ft. of the property was used for office purposes.

As at 31 August 2010, we also leased or held under agreements 18 properties with an aggregate floor area of about 13,128.17 square metres in PRC, in which about 4,000 square metres of the property was used for production, about 770.18 square metres of the property was used for Retail Store operations, about 2,860 square meters of the property was used as warehouses, and about 5,497.99 square metres of the property was used for office purposes (including sales representative offices).

All the above leases were entered into with lessors who are Independent Third Parties.

As at 31 August 2010, certain building ownership certificates in respect of a total floor area of 7,682.63 sq.m. of our leased properties in the PRC had not yet been provided by the relevant landlords to prove their ownership titles or rights to these properties as required under the relevant PRC laws and regulations. As a result, the validity of the relevant lease agreements is uncertain. Among these properties, we use about 230 sq.m. for Retail Store operations in Nanning, about 4,592.63 sq.m. are as offices and about 2,860 sq.m. as warehouses. The Nanning Store contributed about 0%, 0.5%, 1.3% and 1.8% of our revenue for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. In the event that the title to any of these leased properties is defective, we may be required to cease our occupation and usage of the above properties. However, the PRC Legal Advisor has confirmed that no penalty will be imposed on us for occupying leased properties with defective titles. Should we be required to relocate, we expect that we will be able to find comparable properties to lease at competitive rates and we may seek legal remedies against the counterparties.

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As at 31 August 2010, there were 14 of our leased properties for which the lease agreements had not been registered by the landlords. These lease agreements represented properties with an aggregate total floor area of approximately 4,589.49 sq.m. occupied by us in the PRC. Among these properties, we use about 624.5 sq.m. for Retail Store operations (four Retail Stores), about 1,104.99 sq.m. are used as offices and about 2,860 sq.m. are used as warehouses. We, being the tenants, alone cannot effect registrations without the landlord's cooperation.

According to the relevant PRC laws and regulations, the lack of registration of the above-mentioned lease agreements will not affect the validity or performance of these leases, but the relevant governmental authorities have the right to order the landlord and the tenant to complete the registrations. In addition, according to the relevant administrative regulations issued by the local governments of the respective cities where these leased properties are located, there is no provision in the relevant laws and regulations that subjects us to any penalties for failure to register the lease agreements with respect to seven of these properties, while seven of them may subject us to maximum penalties ranging from RMB500 to RMB30,000 respectively. The PRC Legal Advisor has confirmed that the maximum amount of possible penalties for our 14 lease agreements without registration is about RMB100,000 in aggregate.

Out of the aforementioned properties, as at 31 August 2010, about 540.18 sq.m. were used for retail operations (three Retail Stores), about 905.36 sq.m. were used as offices and about 4,000 sq.m. were used as a workshop, have been provided by the relevant landlords proving their ownership titles or rights to use these properties. According to the PRC Legal Advisor, the relevant lease agreements are enforceable under the relevant PRC laws and regulations and we would be able to enforce our rights to occupy such properties.

Furthermore, there were eight leased properties which we have changed their prescribed use of property as at 31 August 2010. According to the relevant administrative regulations issued by the local governments of the cities where such properties are located, there is no provision in the relevant laws and regulations that subjects us to any penalties for altering their prescribed use of property in respect of five of these properties, while three of these may subject us to maximum penalties ranging from RMB5,000 to RMB50,000. The PRC Legal Advisor has confirmed that the maximum amount of possible penalties for our eight leased properties which we have altered their prescribed use of property is about RMB65,000 in aggregate.

The Directors are of the view that the above properties are not crucial to the our business operations in terms of usage, revenue and profit contributions after taking into account the following facts: (i) with respect to the leased properties which we have not been provided the title ownership certificates, about 230 sq.m. are used for Retail Store space which contributed to less than 2% of our total revenue during the Track Record Period and the rest are used as offices and warehouses which the Directors have assessed the estimated time, costs and loss of profit in the event of forced relocation which the Directors consider immaterial; (ii) with respect to those leased properties used for Retail Stores, warehouses and offices where the applicable lease agreements have not been registered with the relevant PRC authorities, the PRC Legal Advisor has advised that the lack of registration of such lease agreements will not affect the validity and the

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enforceability of these lease agreements under the relevant PRC laws and regulations and the maximum penalties for non-registration of these lease agreements, if imposed on us as the tenant, is about RMB100,000 in the aggregate which we consider immaterial to our results of operations; and (iii) with respect to those certain residential properties that are used for commercial purposes, we use them as offices and they did not contribute to our revenue and profit during the Track Record Period. According to the PRC Legal Advisor, the maximum penalties in this regard will amount to approximately RMB65,000, which we consider immaterial to our results of operations. In the event of forced relocation, the Directors believe that comparable properties permitted to be used as offices can be located at comparable rates within a relatively short period of time.

In the event we are required to relocate from the above-mentioned leased properties, we may incur relevant costs relating to such relocation and experience business interruption. The estimated time for the relocation of any of these leased properties is a period ranging from fifteen to one-hundred days and the estimated cost for the relocation of these leased properties is approximately RMB130,000 in aggregate. Further, the relocation of the Retail Stores in Nanning may incur an estimated loss of profits of approximately RMB1,549,000 if calculated based on the average monthly profit generated by these Retail Stores in 2009. In addition, we may not be able to find suitable alternative premises for our Retail Store operation and our business may be adversely affected if we relocate to a less desirable location.

In order to prevent re-occurrence of similar events in the future, we will adopt the following measures: (i) in respect of properties which comparable substitutes are readily available (e.g., office building, warehouses), we shall lease from individuals or corporations with valid property title certificates; (ii) in respect of properties which comparable substitutes are not readily available (e.g., shops in particular shopping malls/department stores), we will assess the potential exposure to title risk when considering whether to lease properties in reputable shopping malls, which can contribute to higher profit levels for our products; and (iii) we will seek to impose an obligation on the landlord to register the lease agreement whenever the Group enters into any new lease agreement in the future.

LEGAL COMPLIANCE AND PROCEEDINGS

As advised by the PRC Legal Advisor, the Company's PRC subsidiaries, namely Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing are required by relevant PRC regulations to register with the competent housing provident fund management center and make contributions to the housing provident funds for their employees. As mentioned in the PRC legal opinion of the PRC Legal Advisor, Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing did not make such contributions during the Track Record Period. The Directors confirmed that they had not been requested by the local authority to register and contribute to the housing provident fund and repay any outstanding housing provident fund for their employees and none of their employees had requested them to register and contribute to the housing provident fund. The outstanding housing provident fund contribution of Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing up to 31 December 2009 was in aggregate approximately RMB1.63 million. In the event that penalty is imposed on

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Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing, the PRC Legal Advisor has advised that the maximum penalty will be up to RMB150,000 according to the Housing Provident Funds Management Regulations. Up to the Latest Practicable Date, no administrative actions were taken or are pending or threatened by or against Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing by the relevant PRC government authorities in relation to the above. Contributions have been made by the relevant PRC subsidiaries of the Company in compliance with the relevant PRC regulations since March 2010.

Evergreen Guangdong, Guangzhou Changyue and Guangzhou Changzhuxing had not been requested by the local authority to register and contribute to the housing provident fund for their employees or repay any outstanding housing provident fund. Even if the relevant PRC government authority requests repayment of the outstanding housing provident fund contribution and imposes penalty on the relevant PRC subsidiaries of the Company, the Directors are of the view that the amount of such outstanding housing provident fund contribution and penalty is immaterial and would not have any material financial or operational impact on our business.

As at the Latest Practicable Date, we were party to four pending lawsuits, three of which are labor disputes with our employees involving amounts in dispute of approximately RMB895,000 in aggregate, and the fourth is a contract dispute with one of our distributors, involving an amount in dispute of approximately RMB420,000. The Directors are of the view that these four pending lawsuits are not unusual within the industry we operate and further believe that they are immaterial to our results of business operations and financial condition. During the Track Record Period, we paid or provided to our employees the appropriate staff benefits and compensation in accordance with the terms and conditions of applicable employment contracts and our staff policy. The lawsuits with our employees were due to the employees' different understandings and interpretations of their entitlements and amounts due under the applicable contracts. The Reporting Accountants have confirmed that they concur with the Directors' assessment about the adequacy of the provision made for the above-mentioned lawsuits for the six months period ended 30 June 2010.

As at the Latest Practicable Date, except as disclosed above, we were not engaged in, nor a party to, any material arbitration, litigation or administrative proceedings, and the Directors were not aware of any pending or threatened arbitration, litigation or administrative proceedings against us, which could be expected to have a material adverse effect on our business operations or financial positions. The PRC Legal Advisor, has confirmed that we have obtained all licenses, permits and certificates, and we have in all material respects complied with all relevant rules and regulations in the PRC which are necessary to conduct our business operations in the PRC as at the Latest Practicable Date.